Company Name: Spartan Motors, Inc. (SPAR)
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<<Analyst, Sidoti & Company, LLC>>

Good morning. This is a presentation by Spartan Motors. The presentation is 25 minutes. So the company will take some questions during the presentation of 25 minutes. And if you have more questions, you can follow-up with the company. They have a meeting right after the presentation at 10 o'clock. So if you have more questions, you can follow-up with the company later. The presentation will led by Daryl Adams, the CEO, and Rick Sohm, the CFO.

<<Daryl M. Adams, President, Chief Executive Officer & Director>>

Thanks, Jay. I don't know if the webcast, I'm going to use the microphone. I'm sorry, I prefer to be away from the podium, if you accept that plus this screen is little small, so let me get my glasses. My name is Daryl Adams, President and CEO of Spartan Motors, as Jay said and we have Rick Sohm here, he is going to walk through the financial piece. So I'm going to walk through the front-end of the presentation.

Thanks for being here. We appreciate your interest in Spartan Motors. As every public company we have to put up our forward-looking statement. So Spartan Motors was founded by four gentlemen back in 1975. Last year was our 40th anniversary and along the way, we've made some acquisitions that grew the company. And about one year ago, is when I became President and CEO.

So we are built-up of three divisions. We have our delivery and service division here about $227 million in sales, we have Emergency Response at $187 million and then we have our Motorhome Chassis, call that specialty vehicle at $135 million. Utilimaster is built-up of about 50% of the FedEx/UPS trucks you see in the market today are built by Utilimaster. Good brand, good product. We also have large orders with Cintas, good customer, Aramark, Bimbo Bakery and a number of others. So good brands that we supply there.

Emergency Response, again that's our turnaround, the other two are profitable. So we are focused on the turnaround of the ER business. And then Specialty Chassis, we're on the large motorhomes, $400,000 in our Class A motorhomes. You'll see some information later on about what's happened in that business as well.

So I'm going to talk about 2016 focal points. When I took over CEO in 2015, trying to get everybody aligned. I developed the focal points for 2015. Slight change for 2016 not much, I'll point them out for you. So first one is obviously turnaround Emergency Response, that's our main focus. Second one is improve operational discipline and performance.

So this one was split into two. We added from number three I moved lean up into the second bullet point. Improve operational discipline and performance. The company was not running operationally well. So that's been a lot of our focus. The second one – sorry, number three is increased level of accountability. That's something that through 2015, my first year, so I was missing in the whole organization. So we made that one of our focal points and obviously ability to execute our 2016 plan is pretty important for the entire team.

Fourth focal point is improve quality and reduce warranty expenses if you read anything about our history. We've had some warranty issues. Obviously quality is those cost money. People say quality is free. It's not, it is expensive. So we're working on that. And then you'll see later on, number five is strengthening the team. I view this as ongoing project. So all five of these are going to remain our focal points because I think they can all be used every year. First one might be that we're going to look at all business units, not just ER has improvement.

Next slide, you can see here our DSV backlog is increasing. And the revenues are moving up. We're positioned well, capitalized on the last mile. That's becoming a very interesting topic for fleet service or delivery in the service vehicles. The up-fit business is interesting as well with the Eurovan's coming into the market now. We're positioned well down in Saltillo we have a location there, where we take the ProMaster. And bring them in up-fit the inside of them based on vocational needs.

And we're going to be looking for a different facility in Kansas City as well for the Transit Van with Ford. We received new reach orders and this is clarifying that for the year, we're going to have 1,200. Typically that's been up and down. But we're excited about this order for this year. We're just in a footprint, so Spartan purchased Utilimaster back in 2009. 2013 we moved part of the company up into Bristol. We still have some of it down at Wakarusa. So right now, we're going to consolidate into Bristol and close that Wakarusa facility. And we see our customer base expanding and revenue improving.

So we talk about ER. So ER is the turnaround, that scale is only four million in difference between the two numbers. We're okay with that. In the turnaround mode, we don't want to continue to increase sales we're going to level that out so we can focus on fixing the operations, fixing the structural piece of the business upfront ordering. So that's our main focus. Along the way though, we have picked up some orders. The Philadelphia order is pretty nice, it's multi-year. Toronto was also nice to pickup that piece of the business. We are emphasizing on the custom aerials and pumpers. In the past, we believe that the orders have not been focused on profitability.

So if you heard the last conference call we talked about turning away some orders. So that's probably a first at Spartan. And that's going to continue that we're not going to take unprofitable orders, which is going to help the last bullet point. If we talk about the Motorhome specialty vehicles – sorry, about that, it keeps moving.

Exciting news here, we've been named the sole source through our largest customer. And that was done. Rick and I were down at their plant in January, we saw over the last competitor slide. The Chassis moved through their facility. So now every vehicle they build is on a Spartan Chassis.

We just announced earlier this week that we have gained some new business with Isuzu, their F-Series, as contract assembly. We've been doing the end gas with them for a number of years. When GM closed Janesville we picked up that work. So due to our performance, as Isuzu rewarded us with another program which is the F-Series.

They typically start out with lower volume and then ramp it up as they get into the market. We believe we're positioned well, this is a Class 6 truck and with the driver shortage in the Class 8. We believe that the lower class vehicles are going to take down some of that, also with CDL licensing changes that are out there. Some of the states that have approved Marijuana, it is very difficult to get a CDL license. So that we believe the Class 6 is going to help out and fulfill that void.

And we do have the ILAVs, so we're building some ILAV for BAE, I think there's 29 of them, is that correct? So we're building those right now, and they're hoping that they're going to continue to get those orders from the government in future years and we'll be their assembler.

Now, I'm going to turn it over to Rick Sohm.

<<Frederick J. Sohm, Chief Financial Officer>>

Thank you, Daryl. What I'm going to do is cover some slides that we had from our earnings call back in February. Daryl mentioned 2015 was a year of transition, right. So we've turned over 80% of his direct reports. We're in the first year of what we would call a multi-year turnaround.

So what we do have is a couple of businesses that are performing well. Not well enough. That's our DSV business and our specially vehicle, they're both profitable. But we think they can increase in profitability. And as Daryl mentioned, we're turning around the ER business.

But as you can see, we grew revenue about 9%, largely from our delivery service vehicle business, and our specialty vehicle business. We reported an operating loss of $12.5 million in the year, largely driven by about $17 million in what I would call one-time and non-recurring charges and we'll go through that in a second.

But what I focus on, and what Daryl and I are focusing on every day, if we look at it on an adjusted basis, we reported operating income of $4.5 million, up from $1.3 million in the prior year. So the underlying business is improving, there were a number of legacy issues that we had to get behind us, including the tax item, where we bought deferred, we took evaluation allowance against our deferred tax assets and that resulted for the year in an operating loss and an EPS loss of $0.50 per share.

And the next slide here you see some of those one-time adjustment. So if you look at the full year, you see the adjusted $4.5 million, we had an asset impairment in our ER business and both the valuation allowance and the asset impairment were driven by the fact that historically the ER business has reported a loss. So some of this are accounting requirements, the asset impairment is probably permanent. As ER return to profitability, we would expect over time that we would take off the valuation allowance but again that non-cash charge. Earlier in the year, the company had reached a settlement with NHTSA that was a charge of a couple million dollars.

We booked $3 million of restructuring expense to right-size the ER business. We close down Ocala and had some – that was a facility in Florida so had some transactional costs there. And then you look at the warranty expense, here we talked about several of these bigger items on our calls, campaign calls in ER and our motorhome business for steering gear brackets. Splay Rail assemblies in ER. And one of the things we spend the last three or four months doing was getting a handle around some of the historical warranty issues that we had and made some what we believe our adjustments to get the warranty approvals to the proper levels and if you ask me, do we think we have that behind us? Yes, we think we largely have these issues contained.

Despite the struggles on the P&L, we did make some good progress on our balance sheet. We have a real strong balance sheet. We closed the year at $33 million in cash, about $5 million in debt that dates back to our acquisition of Utilimaster in 2009.

So what drove the cash improvement in the fourth quarter, we moved cash $12 million and it's a focus on working capital both inventory and accounts receivable. So I think a more dedicated focus on it that $60 million in inventory that was our lowest ending inventory in five years. So we think there's further room to pull cash out of the balance sheet with some better management working capital.

And then if you look at our outlook. We've given guidance that will continue to grow will be, here we go, all right back to revenue. We will be in a range of $560 million to $580 million. We've said publicly that we're not looking to grow the ER business. We're looking to turn it around. We don't need to be the biggest fire truck producer in the industry, we want to be one of its more profitable producers.

So we expect to return to profitability, operating in a range of $3 million to $5 million. That includes $1 million to $1.5 million in some of the additional restructuring actions we're going to take at ER. If you look at the tax line, because of the valuation allowance, we don't expect to have a federal income tax liability, so have some local state tax numbers there.

EPS in a range of $0.05 to $0.10, we expect to generate some operating cash flow. And we remind people that we still have some outstanding authorization buyback about 600,000 shares. And we believe at these levels that's an attractive opportunity.

So I'll turn it back over to Daryl and he'll kind of give you his summary and closing remarks.

<<Daryl M. Adams, President, Chief Executive Officer & Director>>

Thanks, Rick. So progress update, make sure the slide doesn't move on us. So we have the right management team in place, in one year we've replaced 80% of the management team, 10 years probably around six, seven months. So they're starting to get their feet under them. Cultural change driving accountability something that was missing as part in the past. So that's our focus is changing the culture and hold the people accountable.

Quality initiatives that's given I mean there is room, if you look at our history to improve on quality and something that was also missing that I'm used to from the automotive industry is you need a production system some qualitative production system, work on our Spartan production system. We have not had one in the past. We developed in 2015 we're rolling that out in early first quarter of 2016. And also driving lean initiatives throughout the organization, last year we focused on the ER business this year we're focused on the entire company.

So why consider Spartan's investment, three big bullet points here, new management team focused on the turnaround, well-positioned for profitable growth and our financial performance is improving and we have a very strong balance sheet.

That's our presentation. We're going to take some questions. We couldn't have answered everything. Thank you.

Q&A

<Q>: How much is lost and what are the actual steps to really turn it around? Is there a way that you can monitor those?

<A – Daryl M. Adams>: Let me answer the second question first and I'll let Rick answer the first question. So from a turnaround you're going to see each quarter you are going to see improvement in the ER business. Right it's not a silver bullet or flipping the switch to improve it, it's a blocking and tackling putting fundamentals in place. And then working the fundamentals, we have a lot of change on the overhead side that we're taking. So you see should see at every quarter. And it's not going to be perfectly linear there might be lumpiness in it, but we will see improvement. Do you want to answer the first question, Rick.

<A – Frederick J. Sohm>: Yes, on an operating basis our ER business reported losses on $24 million in 2015 and if you look at some of those one-timers of warranty expenses in ER the asset impairment was in our ER business this defined part of that ER and to Daryl point we will we should improve sequentially quarter-over-quarter and if you look at our return to profitability we're saying that run rate basis the business seems to return to profitability in the second half of 2017.

<Q>: What do you think is a sustainable level in terms of margin? If you felt like you did ok [indiscernable18:08]

<A – Daryl M. Adams>: Rick, answer that as well.

<A – Frederick J. Sohm>: Yes, what we – yes, what we have said publicly is that in this multi-year turnaround we would expect to see operating income at kind of 6% kind of range, we're not very capital intensive, I think this year we'll have $7 million or $8 million worth of depreciation and amortization. So you can do the adjustment up to EBITDA. But that's what I'd call kind of a mid-range expectation in terms of the operating income.

<Q>: I think your amortization represents regard to CapEx as well?

<A – Frederick J. Sohm>: Yes. Not a very capital intensive business and if you look at some of the areas where we're growing, the contract manufacturing relationship with Isuzu it's truly contract manufacturing. So we have a new facility to build, but that's going to be under $7 million not a lot of equipment, van up-fit business that we do down in Kansas City and Saltillo, Mexico even less capital requirements and tools, air tools. So that's a good expectation.

<Q>: You speak to which you answered just the warranty expenses?

<A – Frederick J. Sohm>: Sure, absolutely. So we've hired a new director, director of quality when I got on board, company didn't have one at that time. So since then we've hired a number of warranty reduction engineers as we're calling them. So they have expertise in warranty. So we're looking at all of our warranty claims, scrubbing the bill of materials making sure that they have the DFMA. If they have FDA, we're verifying the FDA so we're going through and scrubbing all the current bill of materials we have to make sure that if there's a product out there, we're going to try to be proactive and put it behind us. Any other questions? Yes, sir.

<Q>: On what basis did RV customer [Indiscernible 20:14]?

<A – Frederick J. Sohm>: Good question, it's not on price. So it's not on service, quality, delivery and long-term robustness of our products. So that's one we have another customer that only builds on our chassis. Because when the motorhome rolls off at the end of the line, he has no adjustments to make because it's a very robust and well designed motorhome chassis.

<Q>: Not on price, it's not on prices?

<A – Frederick J. Sohm>: No, my point is not on prices, we are not the lowest price supplier. But we don't feel we need to if you have a good product and a product that has a good service, good customer service and long-term durability.

<Q>: you make this to carry inventory?

<A – Frederick J. Sohm>: No, no need we build as required. Yes, ma'am.

<Q>: [Question Inaudible]

<A – Frederick J. Sohm>: Yes, that's we just got the five minutes time. So if any other questions need to hurry up. This won't take five minutes but it's very interesting, we continue to monitor that on a daily basis, right, different updates. We're excited about the last mile as we calling it. Google's talking about trying to do their own, they are running some space on some large airplanes and ships. So we're monitoring what they're doing, what Amazon and all the others, there is a lot of start-ups in that area and that's where we think the van up-fit will be a advantageous to us.

<A – Daryl M. Adams>: I think if you look at our product portfolio, I think we feel we're perfectly positioned. Now, if drones were replacing parts, I don't know if I can predict that—maybe we'll start building drones but I think our existing product portfolio and offerings are perfectly positioned right now.

<A – Frederick J. Sohm>: Anything else, yes, sir.

<Q>: I just want to hit on the balancing slide, do you guys have that news?

<A – Daryl M. Adams>: Rick.

<A – Frederick J. Sohm>: Yes, we have a product replacement around $5 million on the balance sheet we put on when we acquire Utilimaster back in 2009.

<Q>: About 5 million bucks?

<A – Frederick J. Sohm>: Yes, including the [indiscernible] (0:22:39) sure, but there is some pretty onerous, prepayments that we kind of just let it ride. But that matures it's under this year.

<Q>: [Question Inaudible]

<A – Frederick J. Sohm>: Below book value, yes, that's how we think of it and in the near-term we said we're focusing on getting our foundation in place. Right, so in terms of organic growth we think kind of mid single-digits over the next few years. And then based on the strength of the balance sheet some of the earnings, improvement we expect to see then, we've start to look inorganic type opportunities.

<Q>: Again, I'm an outsider here, just trying to look at this for the first time. It looks very good for an investor who might care about that, who might see some kind of sustainable level of margin. I don't get 10 cents EBS as the end game, I guess.

<A – Frederick J. Sohm>: Yes, that's right. I joined the company at the end of September and I joined to be honest based on Daryl and the story he had in a company and what I call, the low hanging fruit, the opportunities that we can get by just putting simple and standard business practices in place.

<Q>: There is just one factor that would be a catalyst for future earnings, going beyond 2016, what would that be?

<A – Frederick J. Sohm>: Continued improvement in our ER business. Right, some of the growth we're seeing in DSV in this last mile on the EuroVan up-fit business. Those are some of the…

<Q>: Cost side or is on revenue side?

<A – Frederick J. Sohm>: In those – in the up-fit is revenue and margin. Right, DSV while we say we're profitable Daryl and I are not happy with the level of profitability. So we're implementing manufacturing lean and branding where we build our fire trucks, and then Bristol where we build the walk-in vans and we believe there is millions of dollars still on the table in operational efficiencies.

<A – Daryl M. Adams>: So is that the last question do you think?

<Unidentified Analyst>: You still have one more minute.

<<Daryl M. Adams, President, Chief Executive Officer & Director>>

Anybody else, a quick one. All right, thank you very much for your time, appreciate it. Thank you, good day.

<<Analyst, Sidoti & Company, LLC>>

Thanks a lot.

<<Daryl M. Adams, President, Chief Executive Officer & Director>>

Thank you.