SPAR - Q4 2018 Spartan Motors Earnings Conference Call
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Analysts:
Matt Koranda, Roth Capital Partners
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Steve O'Hara, Sidoti & Company

Presentation

Operator: Good morning everyone, and welcome to the Spartan Motors, Inc., Fourth Quarter 2018 Earnings Conference Call. All participants today will be in a listen-only mode. [Operator Instructions] Please note that today's event is being recorded.

And with that, I'd like to turn the conference over to Juris Pagrabs. Please go ahead.

Juris Pagrabs: Thank you, Brian. Good morning everyone, and welcome to the Spartan Motors 2018 fourth quarter earnings call. Joining me today in the call are Daryl Adams, our President and Chief Executive Officer; and Rick Sohm, our Chief Financial Officer. In today's call we've included a presentation deck, which will be filed with the SEC and will also be made available on our website at spartanmotors.com. You may download the deck from the Investor Relations section of our website to follow along with our presentation during the call.

Before we start today's call, please turn to Slide 2 of the presentation for our Safe Harbor statement. You should be aware that certain statements made during today's conference call, which may include Management's current outlook, viewpoint, predictions and projections regarding Spartan Motors and its operations, may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. I caution you that, as with any prediction or projection, there are a number of factors that could cause Spartan's actual results to differ materially from projections. All known risks that Management believes could materially affect the results are identified in our forms 10-K and 10-Q, to be filed with the SEC. However, there may be other risks that we cannot anticipate.

Please turn to Slide 3. As of January 1, 2018, the Company adopted the new revenue recognition standard, ASC 606, using the modified retrospective transition method. The adoption reduced Q4 net income by $0.9 million. Reported consolidated sales and cost of products sold were lower by $7.2 million and $6 million, respectively. The adoption reduced reported consolidated backlog by $25 million, reducing both FVS and ER reported backlogs by $7.3 million and $17.7 million, respectively. For more details regarding revenue recognition and its impact on the Company's financial results, see the Company's annual report on Form 10-K for the year ended December 31, 2018.

On the call today, Daryl will provide an overview of our year and a business update, and then Rick will provide a more detailed review of the fourth quarter results and our outlook for 2019 before proceeding to the Q&A portion of the call.

At this time, I'm pleased to turn the call over to Daryl for his opening remarks, which begin on Slide 4.

Daryl Adams: Thank you, Juris. Good morning, everyone. Thank you for joining us as we discuss our fourth quarter and full year 2018 results. Despite the considerable challenges we faced and that impacted our entire industry, our team came together to face these issues head on. As a result, we exceeded our top line and bottom line internal forecasts for the fourth quarter.

Our net revenue grew 15% to $816 million for the year, driven by strong growth in our FVS and SCV segments, partially offset by a decline in our ER segment. Included in the prior-year sales is $23.2 million of revenue that resulted from the timing of revenue related to the Smeal acquisition. Excluding these sales, our consolidated revenue was up 19% over the prior year. Our strong top-line results benefited from increased volume relating to USPS truck bodies, which included $65 million of pass-through chassis sales; Reach vehicles; improved production volume in our vehicle upfit centers, primarily relating to a large e-commerce order; and strong luxury motor coach chassis sales. Gross profit margin decreased 60 basis points, 12% of sales from 12.6% of sales, which includes significant material cost headwinds of approximately $8.3 million fueled by tariff-driven increases and commodity and component costs.

While we've taken pricing actions in each of our business segments when available, in an effort to offset these costs, we are seeing first component price increases from major suppliers and expect some of these material cost headwinds to continue into 2019. Adjusted net income of $17 million in 2018 was up 14% from 2017, and despite the headwinds we faced, 2018 marks the best year of profitability for Spartan Motors since 2008. Additionally, we achieved adjusted EBITDA of $31.8 million, or 3.9% of sales, marking a 1.4% improvement over our 2017 results, and a 215% increase since 2014. Excluding impact of the USPS chassis pass-through sales, adjusted EBITDA as a percentage of sales would have been 4.2%, or 30 basis points higher.

I am pleased with how quickly the team responded to the near-term challenges we encountered in 2018, including tariff-driven increases in commodity and component costs, chassis and driver shortages, supplier component delays, higher freight costs, plant disruptions and labor shortages by implementing a number of proactive steps and cost reduction actions to help mitigate these headwinds. These efforts are reflected in our fourth quarter results. More importantly, I am pleased that our underlying business and operational fundamentals in each of our segments remains strong and our order activity remains robust in all segments.

Consolidated backlog, excluding the multiyear USPS truck body order, is up 12% to $359.2 million. And if you normalize this amount to exclude the impact of adopting revenue recognition, consolidated backlog is actually up 20% to $384.2 million. This increase is driven by strong order flow from all three segments, which Rick will cover later in his comments.

Now please turn to Slide 5, and I'll provide an update on a few notable business highlights and developments, beginning with our recent acquisition of Strobes-R-Us. On December 17, we announced the acquisition of Strobes-R-Us, a Florida-based provider of upfit services, whose customers include several high-profile federal agencies as well as local and state governments. This acquisition will enable Spartan Motors to increase our product offering while further expanding our manufacturing footprint into the southeastern United States, and we anticipate the acquisition to be accretive in 2019 earnings. As part of the acquisition, we acquired their upfit facility and interactive product showroom in Pompano Beach, Florida. They're well known for innovative solutions and for providing high-quality installations, outstanding customer service and fast turnaround times. We are pleased to welcome the Strobes-R-Us team to the Spartan Motors family.

Now, please turn to Slide 6 and I'll continue with FVS. Our FVS segment continues its strong performance, driven by the continued growth in last mile delivery and e-commerce. Backlog, excluding the USPS truck body order and adjusting for revenue recognition, is up 109%, evidence that our one-stop shop strategy and our customer work-driven sales approach is gaining momentum in the last mile delivery space.

Highlights for FVS this quarter include: we are approaching 6,000 units shipped to a leading global e-commerce customer, we've shipped for than 1,000 FedEx ground units, and for the first time Canada Post has started ordering van upfits to keep up with last mile delivery demand. As a result of our work-driven design sales approach, we have signed six new special service vehicle customers for high-content vehicles in various classes, which permanently serve the utility industry. Last mile delivery, including refrigeration, continues to expand and represents a significant growth opportunity for Spartan.

As we indicated in the past, we've been working closely with some of the largest and most innovative parcel and grocery delivery companies to provide them with solution-based vehicles and upfit products, including new refrigeration capabilities and electric-powered chasses. Our engineering team has been hard at work with the development of a new refrigerated last mile grocery delivery vehicle, and we were awarded a patent for our keyless entry system and have received a patent pending designation for our roller shelving design, which makes package delivery more efficient for our customers.

Last quarter, Amazon and Mercedes announced a 20,000-unit order for the Sprinter cargo van. And as we've indicated last quarter, we are currently operating a ship-through facility located in Ladson, South Carolina, for the Mercedes Sprinter, upfitting units for an e-commerce customer. We continue to receive orders, but it's unclear how many units from that initial announcement we will be awarded. We are also upfitting the Dodge Promaster platform for the same e-commerce customer at our ship-through facility located in Saltillo, Mexico. We expect our relationship with the e-commerce customers to continue to develop and grow, including expansion into additional vehicle classes, which is exciting as we continue to work and develop platforms to suit their needs.

The Ephrata team, which is focusing on the USPS truck body order, has shipped over 900 units for the year, exceeding our original plan. As we indicated last quarter, responding to our customer environmental sustainability initiatives continues to be a major focus for our investments in electrification. EV chassis development, in partnership with other customers and suppliers, will continue to receive attention in 2019 and beyond to give Spartan first-to-market electric vehicle production capabilities across vehicle Classes 1 through 6, and in some instance Class 7.

Please turn to Slide 7, and I'll continue with Emergency Response. Our ER business saw another successful year of profitability. Despite the industry-wide headwinds impacting the second half of the year, I am pleased with the progress to improve financial results over the past few years, including successful navigation through the acquisition disruption. However, we have a lot of work ahead of us to ensure operational effectiveness in the ER segment.

In January, we announced that Todd Fierro was appointed president of ER. Todd is a seasoned manufacturing executive, which includes Fortune 500 company experience at Oshkosh and Ford. We look forward to his extensive experience in manufacturing operations, including product development, sales and distribution, to help drive and approve Emergency Response's long-term profitability.

In December, we announced a large 13-unit custom fire apparatus order to be delivered to a metropolitan fire department in Texas. This order includes nine custom-built engines and four aerials. I am pleased with the efforts of our new ER sales team as we gain traction and begin ramping up our backlog. Excluding the impact of revenue recognition, ER segment backlog at the end of Q4 increased 18% sequentially over Q3, while the industry has seen a decline in sales. When compared to our 9.5% increase to the corresponding period ending Q4 2017, it confirms that our ER sales team is doing a nice job.

Please turn to Slide 8, and I'll continue with the Specialty Chassis and Vehicle segment. Our SCV business unit performance has accelerated growth this year through our continued investment in technological innovations to increase a leading position in our core luxury motor coach chassis market. We committed to push innovative technologies into the luxury coach market with the introduction of industry-leading features that end users consistently demand.

We're proud to announce that we finished this year with a 30% increase in motor home chassis shipments compared to the broader Class A diesel industry, which was down over the same period. This solid year-over-year increase underscores Spartan's ability to produce high-quality. innovative products at our customers' demand. The solid momentum in SCV segment continues to grow in both the over- and under-400 horsepower segment, as we finished the year with a market share of 26% in the premium diesel category, an increase of 2 points from last year. The 2014 Spartan market share has grown 44% in this category.

I'm pleased to report that our K1 360 chassis continues to be well received. As a reminder, our SCV team recently responded to a customer request to enter into the sub-400 horsepower diesel chassis market, and we delivered. The K1 360 chassis was successfully rolled out on the Entegra Reatta in the spring of 2018. And based on this initial success, we added new platforms, including Jayco Embark, as well as a new customer, NeXus RV. These recent developments represent the fourth new motor home model launch this year and second new customer in addition to Jayco.

With that, I will turn the call over to Rick to discuss Spartan's financial results for the fourth quarter as well as our outlook for 2019.

Rick Sohm: Thank you, Daryl. Please turn to Page 10. As Daryl mentioned, the underlying fundamentals of our Company remain strong. The performance of each of our business segments reflect the hard work and dedication of our entire team to overcome the industry-wide headwinds we faced in 2018. Due to the effort, I'm pleased to report our fourth quarter results exceeded our expectations.

Revenue for the fourth quarter grew by 29% to $233 million, from $181.1 million. Revenue growth was primarily due to higher volume relating to USPS truck body, which included $34 million of pass-through revenue, cargo van upfit and Reach, which was partially offset by lower ER revenue. Gross margin was lower by 350 bps to 10.1% of sales, from 13.6%, primarily driven by higher tariff-related input costs, chassis availability and material lead time. And earnings per share for the quarter were down $0.02 to $0.05 per share.

If you turn to Page 11, I'll cover adjusted profitability. Fourth quarter adjusted EBITDA declined 28% to $6.7 million, from $9.3 million. Adjusted EBITDA margins declined approximately 220 bps to 2.9% of sales, from 5.1% a year ago. Excluding the impact of the truck body pass-through revenue, adjusted EBITDA margin would have been 3.4%, or 50 bps higher. The decline was again driven by the same factors I mentioned earlier. Adjusted net income declined 11% to $3.4 million, from $3.9 million in the prior year. Adjusted EPS declined to $0.10 per share, from $0.11 per share in the prior year.

Our backlog at year-end remained strong and ended at $473 million, compared to $535.1 million in the prior year. We had $214 million of USPS truck body in the backlog a year ago, compared to $114 million at the end of Q4. The backlog at the end of Q4 reflected a customer change order that effectively reduced the backlog by $17 million. Excluding the truck body order and the impact of revenue recognition, backlog grew by 20%, reflecting across-the-board improvement.

Now we'll take a look at results by operating segment, starting with Fleet on Page 12. Fleet reported revenue of $131 million, compared to $65 million in the prior year, a growth rate of 102%. The revenue growth reflects higher volume related to USPS truck body, which included $34 million of pass-through revenue, cargo van upfit and Reach vehicle revenue.

Adjusted EBITDA grew by $0.7 million to $6.5 million, from $5.8 million a year ago, largely due to higher volume and partially offset by unfavorable mix and higher tariff-driven commodity and component cost. Adjusted EBITDA declined 400 bps to 4.9% of sales, from 8.9% a year ago. Excluding the impact of truck body pass-through revenue, adjusted EBITDA margin would have been 6.7%, or 180 bps higher for the quarter.

Backlog remains strong at $218.8 million, compared to $267.7 million in the prior year. Excluding the multiyear USPS truck body order, backlog totaled $105 million, up 96% compared to $53.7 million a year ago. If you also exclude the $7.3 million impact for revenue recognition, backlog was up 109%.

Moving on to Page 13 and the ER segment, fourth quarter 2018 revenue declined $16.9 million to $59 million, from $75.9 million last year, primarily due to lower volume, reflecting an industry-wide sales decline, our acquisition disruption and unfavorable mix, partially offset for higher pricing in 2018. The adoption of revenue recognition decreased reported ER revenue by $5.2 million.

Adjusted EBITDA for ER declined $3.7 million to a loss of $1 million, or 1.7% of sales, from a gaining of $2.7 million, or 3.5%, in the prior year. The decline in adjusted EBITDA is a result of lower volume, higher tariff-driven commodity and component costs, partially offset by higher pricing. Our ER backlog was $216.5 million, compared to $233.6 million in the prior year, which reflects the $17.7 million reduction from adopting the new revenue recognition standard.

Turning to Page 14 I'll talk about SCV. Revenues grew 12% to $45.8 million, from $41.1 million, primarily due to contract manufacturing and luxury motor coach volume. Adjusted EBITDA grew by $0.7 million to $5.3 million, from $4.6 million a year ago, primarily due to increased volume and improved mix. Adjusted EBITDA margin improved by 40 bps to 11.6% of sales, from 11.2% a year ago. Backlog at the end of the quarter grew 11.4% to $37.7 million, compared to $33.8 million a year ago, reflecting continued strength in luxury motor coach volume.

Turning to our balance sheet on Page 15, total liquidity at the end of the year was $113.8 million, reflecting $27.4 million in cash and $86.4 million of borrowing capacity, which is sufficient to support our long-term growth plan and our capital allocation strategy, including the recent share buyback.

As we announced in December, we entered into a 10b5-1 trading plan and began buying back our shares at predetermined terms and limits as part of our prior board authorization to repurchase up to 1 million shares. Through yesterday, we have purchased 191,000 shares for $1.4 million, or an average price of $7.55. The buyback reflects our ongoing commitment to deploy capital in a manner that provides the best shareholder return.

And finally, in accordance with revenue recognition, we have a contract asset value of $36 million on the balance sheet representing revenue, and the resulting profit recognized on in-process product, but not yet invoiced to the customer.

Turning to Page 16, and I'll cover the outlook for 2019. While the team did a good job of working to quickly mitigate the industry headwinds that occurred in 2018, we are aware that a few of these industry challenges will continue into 2019, including higher tariff-driven commodity and component costs and chassis availability. We remain cautiously optimistic about our ability to mitigate most of those challenges and prove the profitability of all three of our business segments, as we remain encouraged by the strength of our backlog and underlying business fundamentals.

Looking ahead, we expect 2019 to be a strong year, with revenue growing in the high single digits and adjusting the overall EBITDA and adjusted EPS growth to accelerate. We expect revenue to be in the range of $865 million to $905 million, net income of $19.5 million to $22.6 million and adjusted EBITDA in the range of $37.1 million to $41.1 million. We'll have an effective tax rate of approximately 23%. We'll have EPS in the range of $0.56 to $0.64 a share, and adjusted EPS of $0.57 to $0.65 a share.

I would now like to turn it back over to Daryl for his closing remarks.

Daryl Adams: Thanks, Rick. Please turn to Slide 17. In summary, I want to emphasize that the underlying fundamentals for our three business segments remain strong. Despite a difficult and challenging 2018, the hard work of the Spartan team for the past four years implementing operational organizational improvements has increased our adjusted EBITDA more than threefold. As we respond to these dynamic market conditions and invest proactively to anticipate and meet these evolving market needs, we will do so in a way that enhances shareholder value.

We remain focused on executing our overall strategic plan, including our capital allocation strategy, which reflects funding our growth initiatives, including acquisitions and creating shareholder value. Our leadership and every team member at Spartan Motors are aligned with the long-term goals of our shareholders, and we seek to serve our customers and ultimately drive long-term returns to the owners of our Company.

Operator, we are now ready to take some questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions) Our first question will be from Matt Koranda with Roth Capital Partners. Please go ahead.

Matt Koranda: Just want to start out on the Fleet vehicles segment. So, in terms of backlog, it looks like implied order flow in Q4 was actually pretty strong in what is usually kind of a seasonally weaker quarter for you guys in terms of orders. Can you talk about some of the factors that drove that? And is Mercedes Sprinter driving some of that strength? Just a little color there would be helpful. And also, did the Strobes acquisition contribute in any way to the FVS backlog?

Daryl Adams: Yes, good morning, Matt. Good question, and I'll hopefully answer it. If not, please continue to ask. I think it goes back to what we've been talking about, in that segment you're going to have the replacement vehicles for our standard customers. You have a couple new customers coming into the market, and with that and the e-commerce business continuing to improve its driving that increase. I think we talked on this last quarter, or maybe before, that these customers that typically would want to have all their units to them by Halloween are now taking them throughout the year because they're seeing the demand increase.

So again, with our strategy of one-stop shop, Classes 1 through 6, we touch all the vehicles. Some of our competitors are only in the higher class. We believe that we're still well positioned, and I think what we've been saying over the last couple years is starting to pay off, and the team's doing a really good job on talking to not only the big e-commerce, but even the smaller ones and some of the smaller grocers. And one last one, Strobes is not significant in Q4, but we expect to see the benefit throughout the year this year.

Matt Koranda: Great. Maybe just one more on that front. I don't think you've had a public venue yet to talk about the strategic rationale for the Strobes acquisition. I mean, could you talk a little bit about where you saw opportunity with that? To what extent does it help you in terms of your footprint and capacity to deliver on some of the other Fleet vehicle products that you're bootstrapping at the moment?

Daryl Adams: Sure. I think if we go back and listen to some of the calls or even the meetings, our strategic plan suggests that we should be closer to the coast. We spend a lot of money on freight. We've missed out on some orders because of our location in Indiana, and we took advantage of the USPS order and moved it out to Ephrata, and we're starting to see some order flow come through. We said we're going to start putting sales guys in Q4 and Q1. We're starting to see some activity in Pennsylvania, which is going to help with the growth and strategic plan. Ladson, we're there for the Sprinter.

And then we had a void when you look at where these trucks are purchased, and some of the heat maps, if you will, from different data suppliers says that Florida's a pretty big market, and we weren't in there. Trying to move trucks or units from Pennsylvania or Indiana was a long distance and we'd not be competitive. So that helps us there. It also moves us into a new market that we've not been in, and we like the strategy that these guys have for their upfits.

And I think the last thing is we can move our van upfit into their location as well as the products that they were upfitting, and we could offer our customers both. So, I think if we go back, our goal is not to move walk-in vans out of Indiana, but our goal is to move upfit, truck body, and now this vehicle upfit that Strobes has into the, if you call them, coastal locations so that we can level out any seasonality or larger flow of orders in and out, so it's going to fill out. And we've talked about moving west now somewhere in Texas and then continue to move to the West Coast, whether it's Arizona or into California.

Matt Koranda: Okay, very helpful, Daryl. Thanks for that detail. Wanted to touch on the 2019 outlook for a moment. I know you guys mentioned that you are factoring in some sustained headwinds that are industry-wide in terms of chassis availability. Just wanted to get your view on what Spartan can do to manage through some of the longer lead times and availability issues that are out there in the industry, and to what extent do you guys control your own destiny on that front. And I guess if there's any way of quantifying the headwind that you've built into 2019, that would be helpful.

Rick Sohm: Yes, Matt, Rick here. I think if we look back at the end of 2018, we continue to see price increases from the supply base. And as you know, ER takes a long time to get that revenue back to offset it. I think we have less of an impact in Fleet, but prices increased, as we saw at the end of the year. We aren't going to be able to mitigate that for five to six months.

And then I think the other thing we talk about is chassis availability. We continue to be impacted, but at a much lower rate, by the impact of chassis delays, primarily in our Fleet business. So, the chassis delay, we have a hard time mitigating that. We'll have a bit of a lag in the revenue to offset the commodity increase, but we're working on that. And right now, we're talking about what we're aware of today. Yes, I don't think we can be confident that a chassis shortage won't continue longer or that the price increases are done coming.

Matt Koranda: Got it. That's helpful, Rick. Thank you for that. And then it sounds like maybe you're incorporating some price cost headwind maybe into the first half of the year, before we start to maybe see a little bit more relief on that front in the back half. I don't want to put words in your mouth, but is that the rough-cut way to think about how things progress through the year, in terms of you guys taking price and offsetting some of the component and commodity inflation?

Rick Sohn: Yes, I think for Fleet and for our motor home business, that's a good way to look at it, the first half of the year impact. Our ability to react to a price increase at the end of the year in ER is more difficult. That could be an impact for ER for the entire year.

Matt Koranda: Okay, got it.

Daryl Adams: Hey, Matt, can I add, as a reminder, I talked about it in my first piece here today, is that we're taking pricing at all three of the segments where we can. There was some discussion, I believe, on the last call that people added surcharges in, and we do have contractual obligations, but where we can add surcharges, we're adding surcharges in as the material continues to move around. So, we're not standing still. And I think, from what Rick said, it is a little bit more controllable at some divisions than others. But it's our focus every day, and we're going to continue what we did in 2018, and we believe we have a pretty good strategy.

Matt Koranda: Okay, and last one from me, I guess, is a follow up to that. Where are you guys seeing the most input cost pressure, I guess, on the component side? I mean, it'd be helpful to get a little color on where that's still coming through relatively strong, to the extent you can provide any detail.

Rick Sohm: I think, Matt, if you look at the raw commodity or the manufactured parts that we buy in aluminum, obviously the biggest impact is in Fleet. If you talk about component cost, like an engine, an axle and other manufactured components, that would probably hit ER and Specialty much harder.

Operator: Next question will be from Steve Dyer with Craig-Hallum. Please go ahead.

Steve Dyer: Couple things just on FVS, your large e-commerce customer. It sounds like in the prepared remarks you have seen subsequent orders to the first 20,000 and maybe getting into some other vehicle classes as well. Is that incremental to the first agreement or the first order, or was that always the plan?

Daryl Adams: I just want to clarify, Steve. If you go back to my section, that was an announcement by Mercedes and Amazon. So far, we've done, I think, over 6000 units, and we're not sure how much of that 20,000 Spartan's going to get. As I said in previous calls, I spent some time in purchasing, and if I was Amazon, I would not single source this. So, the 20,000 is not what we've received. We've done over 6000. We continue to get some orders, and I do believe that they're going to dual source some of the product. I believe we're in a good spot to get our fair share or even more, but I wouldn't put the number at 20,000.

Steve Dyer: Understood. I guess better said, your portion of that, do you feel like that is continuing to increase? I mean, orders are coming in, it wasn't just sort of a one-and-done at the beginning?

Daryl Adams: Yes and I didn't answer the second part of your question. Those are the Eurovans, and we're also talking with that same customer about some walk-in van units and even some truck body units. So that goes back to our strategy of having a one-stop shop for customers where they can come to Spartan or Utilimaster and get Classes 1 through 6, and that excited them because they still only want to deal with one company, not a whole bunch. And those talks are continuing, and we're optimistic that we'll have some orders in the future.

Steve Dyer: Got it. And then the USPS deal in Ephrata, it sounds like you're about 35%, 40% of the way through that. I guess a question around that would be is there additional opportunity with this customer for something similar, or are you seeing something to fill that space when this is done in five or six quarters?

Daryl Adams: Right. Good memory. We have a carry-on order, a tag-on order, opportunity for a few hundred units and we're in talks with them right now on. They're discussing when they need them, and how they need them and if they need them. But we're also, as we've mentioned in the past, got boots on the ground in Q4 and in Q1. Initial feedback we're receiving from the customers and the dealers is positive. We actually had an order earlier this year that we received to start filling that up.

So, it's early, but we're not going to replace the sales. We just need to replace the EBITDA, because we were prime when we were paying for that chassis. We talk about it a lot if you separate the chassis from our numbers, so we had to replace the EBITDA, and we're optimistic about the orders we're seeing and the conversations we're having that when we come to late Q3, early Q4, we're going to have some trucks filling up the EBITDA. If we don't get the carry-on order, the carry-on order will continue, and we could lower the units. So, I think I've said that plant is built to do 12 a day, and right now we're at 8 a day. That's why we designed it, so that we can bridge that and not have that clip at the end of the order.

Steve Dyer: Got it, that's helpful. Last one for me and then I will jump back in the queue. On the ER side of the business, profitable there again. Seem to be bucking the trend of the industry. I haven't heard much recently about the 360-day truck. That was something you guys talked a lot about, which I guess I'm just curious to see, is that still an initiative? Is that a big driver behind the profitability in that segment, or where do we stand with that?

Daryl Adams: Yes, so you just gave my operational guys a lot of leeway, because we call it a 180-day truck, not a 360.

Steve Dyer: Oh, got you, okay.

Daryl Adams: So, I'm not going to let them off the hook. We're still building them. I think once we got into a year of producing that and talking about it, we just rolled it right into our standard units. And it's still a good seller for us. I think we have eight of them coming out in the first half of the year, so it's maybe even the first quarter. I forget. We're building demos because dealers want to have them, so that's still a product line. But you've got to understand that we added the LT. When we bought Smeal, we had the Ephrata facility, which was the old American LaFrance Ladder Tower unit, and we spent some money getting those all PE certified, professional engineering certified, because they hadn't built in over 10 years. So those are coming in as well into the order bank, so the product diversification that we've added with the S180 and the Smeal Ladder Tower products out of Ephrata is helping with the order.

And I think if we go back to our increase, we had some of that acquisition disruption we talked about with our dealers and our sales people both on Spartan's side and Smeal's side. That is settling down, and we're seeing it in the order intake. Q4 was really good for us, and we're seeing orders above our plan already in the first few months of this year. And it's exciting when the industry's got a bit of a decline and we're, as you said, bucking that trend. So that's exciting for us and for the team, because they were under a lot of pressure on how come our units were going down, but the backlog's now moving up, and we're optimistic that it's going to continue and that this will continue to help improve the bottom line of ER.

Operator: [Operator Instructions] The next question will be from Steve O'Hara with Sidoti & Company. Please go ahead.

Steve O'Hara: Just on the revenue guidance for 2019, I think you had said the US Postal Service contract is $114 million in the backlog right now. I think that was all supposed to be completed by the end of 2019. So, I mean, I guess I'm wondering is there something else that's declining? I mean, it would seem like revenue should be a little bit higher in 2019. Are we expecting continued softness in the ER segment? And then maybe if you could just, if you covered it I apologize, but in terms of the EBITDA for Emergency Response, maybe what the trajectory looks like there for 2019.

Rick Sohm: Yes, no problem Steve. You're right on the USPS, the impact, or the remaining portion of the $114 million should be completed in 2019. Yes, I think from an overall perspective, Daryl mentioned the momentum in ER continuing. I think in early January and February, we saw some of that growth rate increase similar to what we saw in the fourth quarter. So, I think we'll continue to see ER grow, but overall buy in for the year will be higher, but not significantly higher.

Daryl Adams: And Steve, I think to add to the USPS question that you had, I think you asked what's going to fill that when it leaves. And we talked about it. We were going to put boots on the ground in Q4, Q1 of this year. They're in place. We're starting to see some good feedback from the dealers and the customers. We're starting to see some orders come in. And our goal, we can't ramp it up too quick because we have to finish the order, but we're going to replace only the EBITDA because of the $85,000 chassis pass-through that we talked about through the entire script, that is not going to be possible, but we get paid on EBITDA, shareholders like EBITDA, and we like profitable growth. So, the focus is to eliminate that clip or wind that down as we're winding up other orders. And we are seeing some good feedback, so we're excited about it.

Operator: At this time, this will conclude today's question-and-answer session. I'd like to turn the conference back over to Juris Pagrabs for any closing remarks.

Juris Pagrabs: Okay. Thanks, everyone, for joining us. We look forward to seeing most of you or some of you at the ROTH conference in a couple weeks, and then I think we have another one at the end of the month in New York City with Sidoti. So, we look forward to seeing you, and have a great day. Thanks.

Operator: We want to thank everyone for attending today's presentation. At this time, you may now disconnect your lines.