[SHYF] - The Shyft Group
First Quarter 2021 Earnings Results
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Matt Koranda; Roth Capital
Mike Shlisky; Collier Securities
Felix Boeschen; Raymond James

Presentation

Operator: Good day, ladies and gentlemen. And welcome to the Shyft Group's First Quarter 2021 Earnings Results. [Operator Instructions]

At this time, it is my pleasure to turn the floor over to your host, Juris Pagrabs. Sir, the floor is yours.

Juris Pagrabs: Thank you, Dagma. And good morning, everyone, and welcome to The Shyft Group's First Quarter 2021 earnings call. Joining me on the call today are Daryl Adams, our President and Chief Executive Officer; and Jon Douyard, our Chief Financial Officer.

For today's call, we've included a presentation deck, which has been filed with the SEC; is also available on our website at theshyftgroup.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 The Shyft Group 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 The Shyft Group'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 filed with the SEC. However, there may be other risks that we cannot anticipate.

On the call today, we will provide a segment update before moving on to a more detailed review of the results and our outlook for the remainder of 2021. We will then open the line for Q&A.

I would also like to remind everyone that with the divestiture of the emergency response business last year on February 1, the revenues and expenses associated with the ER business as well as the actual liabilities have been reclassified as discontinued operations for all periods presented. With this reclassification, the results discussed today will refer to continuing operations unless otherwise noted.

At this time, I'm pleased to turn the call over Daryl for his comments beginning on Slide 3.6

Daryl Adams: Thank you, Juris. Good morning, everyone. Thank you for joining us [for] the first quarter 2021 results.

Our performance in the first quarter continues to demonstrate the success of our business strategy, which encompasses growth and higher-margin product offerings within our core markets, increasing market share within our expanding geographic footprint, and ongoing productivity improvements within our operations.

As you see on slide 4. The strategy, coupled with our commitment to invest in innovative products designed to meet customer needs, results in our backlog increasing over 90% to a record $667 million for the quarter. We are excited with this level of our backlog and our strong start to the year, as we achieved first quarter revenues of $198 million and adjusted EBITDA of $19.2 million.

Please turn to Slide 5, where I'll provide a segment update. I'd like to start by sharing what we are experiencing with respect to the supply chain uncertainty and chassis availability due to the semiconductor shortage. During the first quarter, we saw little impact on our operations. However, based on our feedback from OEMs and suppliers, test deliveries will be impacted at some level for the next several quarters. We will continue to monitor the situation and adapt accordingly, although with our higher-than-expected backlog, we remain confident we will deliver on our origination guidance for 2021.

Starting with Fleet Vehicles and Services. We continue to make progress in a variety of areas. From an operations perspective, our ongoing focus and investment in manufacturing capability continues to have an impact as we set a new record in production at the Bristol facility. The Velocity launch is progressing well. We are slightly ahead of our ramp curve and have started hiring our second shift to accomplish the next phase of the ramp curve. We are extremely happy with the quality of the product at this early stage of the launch and look forward to seeing the Velocity product on the road.

Underscoring our flexible manufacturing strategy, we successfully completed the initial build of 500 truck bodies at our Kansas City facility. On developing and introducing purpose-built vehicles to meet our customers' wide range in need continues to boost our backlog.

We have talked in the past about the Velocity M3, and I'm happy to report that we secured an initial order for more than 350 units. We continue to make progress on the Velocity R2 product and are preparing a demo vehicle for testing with a major customer this month.

Moving to our Specialty Vehicles segment. We generated significant growth in sales and adjusted EBITDA as our efforts continue to produce positive results. Our motorhome market share during the quarter increased to 30.5%. That's up over 4 points since 2018 and reflects the strength of our product offerings and our brand among motorhome buyers.

As part of this effort to drive sales and market share growth, we are introducing nine new technologies on our upcoming '22 and '23 model year chassis. Across our service body business, we have had several positive developments in the quarter that exemplify our strategy and ability to create value from acquisitions. Our Royal Truck Body team achieved record revenue in March while also doubling its backlog year-over-year. Our recently expanded service body upfit center in Charlotte, Michigan was granted GM ship-thru status, which will benefit both Royal and DuraMag as we move forward.

As relates to innovation. Royal has expanded its service body offering to include an [E-coded] steel body that meets or exceeds our competitors' corrosion-resistant levels, now enabling broader market use in northern states where harsher weather conditions exist. And at DuraMag, we continue to make manufacturing improvements and are on track to deliver on our integration plan.

With that, I'll turn it over to Jon to discuss Shyft's financial results for the first quarter in more detail as well as provide an update on our 2021 outlook, beginning at Slide 6.

Jon Douyard: Thank you, Daryl. And good morning, everyone. Please turn to Slide 7, and I'll provide an overview of our financial results for the first quarter.

As Daryl indicated, the Shyft Group had a solid start to the year, achieving double-digit revenue growth and seeing significant order volume that has taken our backlog to a record high. This start positions us well despite the current uncertainty in the broader supply chain.

Revenue for the first quarter was $197.9 million, up 11.8% from the year-ago quarter. Income from continuing operations was $11.5 million compared to $11.7 million a year ago. Note that prior year results included a $2.6 million favorable tax item related to the CARES Act, which was partially offset by restructuring costs. Taking these prior year adjustments into consideration, adjusted net income increased 12% to $12.8 million from $11.4 million in the prior year. Diluted earnings per share from continuing operations was $0.32 per share compared to $0.33 per share in the first quarter of 2020. Adjusted EPS increased 13% to $0.36 per share from $0.32 per share a year ago.

First quarter 2021 adjusted EBITDA from continuing operations increased to $19.2 million from $18.4 million; while, as a percent of sales, adjusted EBITDA from continuing operations declined to 9.7% compared to 10.4% of sales in the same period last year.

Let me now take you through the results by operating segment, beginning with Fleet Vehicles and Services on Slide 8.

Our FVS business had a solid first quarter, working diligently to prepare for the anticipated production ramp in the coming months while securing significant orders. The business delivered revenue of $131.7 million compared to [$135.7] million a year ago. The decline was primarily due to lower cargo van upfit and field services volume, which was partially offset by increased walk-in van sales year-over-year.

FVS adjusted EBITDA was $18.2 million versus $21.7 million a year ago. Adjusted EBITDA margin was 13.8% of sales, which includes the impact of preproduction costs related to the Velocity launch, lower sales volumes and product mix, which collectively more than offset productivity gains.

Led by our innovative new product offerings, including the Velocity M3, we saw significant order growth that resulted in FVS backlog of $589.6 million, record high. FVS backlog was up 38% sequentially and up a remarkable 95% compared to prior year. While last-mile delivery remains strong and contributes to a significant portion of the backlog, we are encouraged to see increased order activity from other vocations, such as laundry and linen, which were slower through most of 2020.

Please turn to Slide 9 for the Specialty Vehicles segment overview. The momentum that Specialty Vehicles had in the second half of last year carried over to 2021 as the business delivered strong revenue growth in motorhome and service bodies. Sales were $66.2 million, an increase of $24.9 million or 60.5%, driven by a 56% increase in luxury motor coach chassis volume and 109% increase in service body revenue, which is inclusive of the DuraMag acquisition. On an organic basis, SV grew 41% in the quarter.

Adjusted EBITDA was $7 million or 10.6% of sales compared to $3.7 million or 9% of sales in the same period last year, which was primarily driven by higher sales volumes and productivity gains partially offset by mix. This was the third consecutive quarter of double-digit adjusted EBITDA, reflecting the benefits of our manufacturing initiatives and our acquisition strategy.

SV backlog was up 81% to $76.9 million, which included 39% growth in motorhome chassis backlog and a $20.6 million increase in our service body backlog, again demonstrating our ability to create value and execute on commercial synergies in our acquisitions.

Please turn to the liquidity and outlook update on Slide 10. We saw significant year-over-year improvement in our working capital management in the quarter, picking up where our team left off in 2020. While seasonally negative, cash flow from operating activities increased 92% year-over-year. At the end of Q1, we had total liquidity of $136 million, including $10 million of cash on hand; and $126 million in borrowing availability.

Our current leverage ratio stands at 0.6x adjusted EBITDA, which provides us with ample liquidity to fund our operations and to continue to invest in our growth strategy. We also returned $4.2 million to shareholders in the quarter in the form of the regular dividend and the repurchase of 100,000 shares at an average price of $33.45 per share.

CapEx for the quarter was approximately $6 million and included investment in Velocity production equipment and fabrication equipment at a number of facilities, which we are using to drive throughput and operational efficiencies across our company. As noted in our prior earnings call, we expect CapEx for the full year to be in the range of $20 million to $25 million.

Overall, we are pleased with the start to the year and the continued strength of our operations. As widely noted across the industry, there is a high level of uncertainty in the supply chain currently, and we will continue to closely monitor the chassis constraints and other supply dynamics. That said, given the continued strong demand and the high volume of Q1 orders now in backlog, we believe we are well positioned for the year and are confident in our ability to offset the anticipated chassis shortfall and ultimately deliver on our initial guidance.

Based on this current view, we are pleased to reaffirm our 2021 guidance as follows. Revenue in the range of $850 million to $900 million, adjusted EBITDA of $95 million to $105 million and adjusted EPS of $1.65 to $1.85 per share.

Now I'll turn the call back to Daryl for closing remarks.

Daryl Adams: Thank you, Jon. Please turn to Slide 11, where I'll provide closing remarks for the Shyft Group.

Our results for the first quarter demonstrate the success of our business strategy, the strength of our end markets and the tremendous efforts of the entire Shyft team. We plan to continue investing in our future growth, both organically and through acquisitions. These investments will be centered on new products and technologies to meet customer demand with a particular focus on new platforms, including EV.

At the Shyft Group, we understand and appreciate the need for a greener tomorrow. As we gather customer insights, listen to their needs and their requests of us, and also evaluate the broad set of market offerings, we feel that we are capable to be a major contributor in this transition. Leveraging our decades of chassis development and build experience, we have begun investing in the development of a purpose-built chassis solution that will efficiently aid in the customer's transition to an EV future. We will provide further details on this endeavor in the coming months.

In summary. We are off to a strong start in 2021 with all business units performing well and positioned to support the anticipated ramp up in our business for the remainder of the year.

With that, operator, we are now ready for the Q&A portion of the call.

Questions and Answers

Operator: [Operator Instructions] Our first question comes from Steve Dyer, with Craig-Hallum.

Steve Dyer: You talked a little bit about supply chain. Is it primarily chassis, or is it more widespread than that? And I guess along those lines, just looking at your backlog, I think my takeaway is there was probably fairly significant upside to your guidance as the year goes along, if you can get all those as you'd like. Is that fair to say?

Daryl Adams: Yes, Steve, it is. I mean, with today's vehicles, semiconductors seem to be practically in every electronic product that's out there. It's mainly in the chassis, but we're managing through the supply base. But we just want to identify it. But to your point, with the build in backlog, and if we can get chassis, we have a excellent opportunity to beat the guidance.

Steve Dyer: Is it similar to a couple years ago? I mean, seems like we've been talking about chassis for a couple years now, as you guys probably are tired to talking about it. I mean, is it like a couple years ago, where it's literally you get a bunch of them, and you crank up the plant for a quarter, and then you don't get any for a month? I mean, is it kind of hand-to-mouth like that?

Daryl Adams: Not right now. But we assume that it will get to that point. And yes, back in '18 when we had the chassis issue, as you remember, that's why we developed the Velocity. So we developed the Velocity on three other OEM platforms, and now the chip issue is affecting those as well. So we continue to chase it. And I think that's -- I don't think it's going to stop. I mean, as we get into the EV piece of this, it's going to continue to take additional semiconductors and other electronic items. So I think it's just for the industry needs to catch up to the demand. And once they do that, I think it'll be fine.

Steve Dyer: Do you have a good enough sense as to where the bulk of the impact is going to be? I mean, should we be sort of bracing for a tougher Q2 and then things ease as the year goes on? Or is it just too unknown right now?

Jon Douyard: I mean, I think if you listen to what the OEMs have been saying, I think 2Q, from a production standpoint, is the trough for them. I would say, as we get through April -- and really into maybe later in the second quarter -- we have a supply of chassis on hand and in flow to support Q2. And so it'll really be maybe more of a second half dynamic for us. But I think that said, we're still in a position here to ramp significantly in the second quarter with the work done by the team from [inaudible] perspective.

And so I think there's certainly some impact and, frankly, a ton of uncertainty as you look in the back of the year. But we feel very comfortable with where we are from a guidance perspective and how it'll play out.

Steve Dyer: Last one for me, and I'll turn it over. Wondering what you're seeing in the labor front. Hearing a lot about not only shortages of bodies but also price pressures. How are you guys managing in your locations?

Daryl Adams: Steve, I think the two biggest locations and Bristol and Charlotte. We mentioned on the previous call that we made some adjustments to the pay in retention items in Bristol; we continue to monitor that. But right now, we're not seeing it. We're seeing a good flow. And in Charlotte, we're ramping up. And due to the chassis shortage, we're not going to accelerate as fast. But we were finding employees there as well.

So I think Bristol will continue to have struggles due to the motorhome growth. But in Charlotte -- and we're managing through it. And in Charlotte, we feel comfortable about hitting the number of people we need for the ramp up on Velocity, once the chassis continue to flow.

Operator: Our next question comes from Matt Koranda, with Roth Capital.

Matt Koranda: Just wanted to talk FVS and the order environment that we're seeing, obviously running at a very high plateau, it looks like, implied in your numbers versus the fourth quarter. But wanted to see if you could maybe just touch on sort of the mix of the order book in Q1 that was Velocity versus legacy product.

And then, just for the rest of the year, is there going to be seasonality to the bookings cadence for the rest of the year? Any slowdown expected relative to these very high levels? Or are we just sort of running all out still on the bookings front?

Daryl Adams: Yes. So I think, Matt, as we look at it, again, really strong volume in the first quarter. And that's continued into April as well. Velocity is a significant part of that. I think if you look at what we previously announced in terms of a 3,000-unit order, our backlog levels are approximately double that at this point. And so Velocity -- we feel very good about how Velocity is positioned in the market and the need that it fits from a customer perspective.

I think that said, we continue to see all aspects of the business from walk-in van, truck body -- I noted the fact that we're starting to see some laundry and linen as well as some, I'll call it, more retail type customers pick up from an ordering perspective as well. So it's a little bit broader than it was maybe in the fourth quarter but still pretty positive for us.

And I think maybe to your question on the seasonality piece, I would expect at some point, particularly given our customer ordering patterns historically, that we'll see a slowdown here in Q3 more as they prepare for their 2022 purchases, given the fact that we're essentially sold out on the FVS side of the business, plus or minus, given how the semiconductor issue plays out.

Matt Koranda: And then, I wanted to ask more specifically on the chassis supply issue -- obviously, Velocity was sort of started up in the wake of some of the old legacy chassis issues that you had several years ago. Just wanted to see if you could break down or maybe qualitatively talk about the flow of chassis on the legacy product versus Velocity, and how we should be thinking about your ability to fulfill Velocity versus legacy product as we move through the year here?

Daryl Adams: Yes, I think, Matt, most of the -- the Velocity F products, which are built on the Transit, as we were having some issues, we still continued to run the R to, which were the vehicles getting sent out for a demo unit. But that plant down in [Sol Tio] is still operating. So we're still doing upfit there.

Unfortunately, in Kansas City, where the Transit is, we have the Velocity chassis out of there. And then our upfit in Kansas City is having some chassis issues. But we are -- as well as Detroit custom chassis. But we are seeing chassis flow from Freightliner. And we're a little curious to why Freightliner and Stellantis can still continue to build, and Ford and GM are struggling.

So I think it's a timing issue with these guys and maybe some of their plants. Some of them came out of that Texas issue with the frost, when they had to shut down. They're trying to catch up. So I do think it'll work itself out.

But yes, we thought we had the answer when we had chassis issues in '18 with these three new products. And Mercedes is still shipping, too. M3 is coming onboard, which is positive. So maybe longer term, having the five or six chassis will level us out if anybody has a problem. But right now, they're trying to build up the Velocity on the Transit. And they're struggling to get us chassis.

Matt Koranda: And then, last one for me --

Jon Douyard: And I think, Matt --

Matt Koranda: Sorry, go ahead?

Jon Douyard: Sorry, Matt. That's just not an issue with us, that's an industry issue which is affecting anybody that's trying to get chassis. So it's nothing in particular to us; it's across the board with all the upfitters and builders today.

Matt Koranda: And then, just last one, on FVS backlog. I guess, did I hear you correctly in saying that you're probably sold out on FVS slots through the end of the year? Just wanted to see how quickly we think we can deliver on that backlog. And obviously, it's a high-quality problem to have, having a really high backlog. But at what point does that high backlog start to deter orders? Is there any concern around sort of how that plays out?

Jon Douyard: Yes, I would say at this point it has not deterred orders. I think it kind of gets to Steve's question earlier. I think our backlog puts us in a position to certainly be at the high end or potentially above guidance. And so it's really a question of flow. But it's been nice to see sort of continued demand here. We've seen little to no cancelations from customers, given the fact that they haven't been able to get chassis. And so we're viewing this more from a timing perspective but feel very comfortable with where we are from a 2021 standpoint.

Operator: Our next question comes from Mike Shlisky, with Collier Securities.

Mike Shlisky: I just wanted to confirm, in the first quarter here, the backlog that you have is all demand-based backlog. You didn't have any or very few issues with getting chassis in shipping during the first quarter itself. So all the backlog is positive business, not negative shortages, correct?

Jon Douyard: That's correct, Mike. And even through April, To Daryl's point, we've seen limited impact to our operations.

Mike Shlisky: And just to follow up on Matt's question, do you have enough orders on the chassis from your Stellantises or your Daimlers if you still have issues with Ford and GM in the back half of the year? Is that how you plan to kind of navigate if and when things do get a little bit tight for you on certain grounds; just build whatever you can get? And there's enough in that backlog to meet that full year guidance at the current time?

Daryl Adams: Yes, Mike, it'd be nice if our customers would let us do that. But they order the brand of vehicles they want. So they're willing to wait for the chassis. So the people that did order the Stellantis vehicles will be getting them, Mercedes will be getting them. I'm sure Ford -- when they start back up later this month, or even if it moves in early June -- they're going to ramp up pretty quick and get the supply flowing again.

So no, we can't just switch over; the customers wouldn't appreciate that. So we just have to stick with the orders and the specs that they put in the PO.

Mike Shlisky: I guess the kind of question was more, can you just shift around what gets built? Knowing that's the right -- they're not going to change their brand, but they can pull forward and pull back dates as you get the chassis? Or are you [set] on certain dates with certain customers?

Daryl Adams: I guess I don't totally understand your question. So if we were -- the plant in Sol Tio, we can't really receive more chassis, because we do have the orders that we put in with Stellantis to give us the quantity we have. Right now, the supply is so tight they wouldn't be able to increase that volume, if that's what you're asking, so we can move it to another plant and build ahead. That would not be able to happen.

Mike Shlisky: I'll follow up with that question separately.

Let me just move on quickly to some of your expansion plans, if there are any? I did see that you did get a local or state subsidy in Pennsylvania, for example, to build a new facility there. I wasn't sure how hot you're running in Pennsylvania right now, or if any other states might be candidates to give you some kind of tax break or subsidy to build some more capacity going forward?

Jon Douyard: I think in terms of Pennsylvania, we've been operating there for a number of years now. Certainly the East Coast and the Northeast market is essential for us from a truck body perspective.

As you look at what we're trying to do out there, our search continues for a facility. But really trying to develop the model plant where we can build the Velocity, do upfit, mount service bodies, [inaudible] as well. And so we're really looking to expand the operations there and across the product portfolio. I would say as you look at 2021, I think you'll see limited impact from that, and potentially some investment later in the year. But that's kind of where we are.

Mike Shlisky: And my last topic here is on your EV strategy. Interesting to hear you've got some kind of platform in development. Is your plan to kind of develop one EV platform for Classes 2 through 6 that has kind of modular capabilities as far as battery or length, or stuff like that? And/or is it going to be an outsource platform, where someone's going to be giving you kind of like with [Motive]? They'll be sending you the skateboard, and you'll be doing your usual body build work on top of it? Just what's the sense of what you're planning there as far as having your own EVs?

Daryl Adams: You almost had me, Mike, I was going to give you the answer. But we're going to hold off on that until probably our Analyst Day to share some more details.

Operator: Our next question comes from Felix Boeschen with Raymond James.

Felix Boeschen: I was hoping we could touch on EBITDA margins real quick, and specifically in the Fleet Vehicles segment. I think obviously down slightly year-over-year. But you did mention that the Velocity preproduction costs were weighing on that in the quarter. Is there any way that you could quantify how much of a drag that was to margins?

Jon Douyard: It was about -- if you look at the FVS business, it was about 2 points.

Felix Boeschen: And then, I'm really trying to think through some of the bigger-picture margin puts and takes within that segment. Obviously, preproduction ramped. It sounds like chassis supply wasn't as much of an issue in 1Q. But I imagine premium freight and other supply chain headwinds were maybe in there anyway. I guess bigger-picture question, Jon, I'm just trying to parse through some of the puts and takes, and how you think about the margin profile of that segment longer term?

Jon Douyard: Yes. I think historically, we've talked about that business being in the 15% to 17% range from an EBITDA perspective. I think we're certainly comfortable with that. I think as you look at the quarter, we had the preproduction costs, which I think is understandable given the ramp here and we expect in the second quarter some of the inflation dynamics that Daryl alluded to really on the labor side of things. And some rate changes we did to secure labor and employment there is also a headwind in the quarter. And then, we were also impacted year-over-year by some of the mix dynamics, particularly with upfit as well as our field -- we had a large field services order last year that did not repeat this year. And so those are two of our higher-margin product lines or product offerings. And so we had some natural mix headwinds this year. And so I think that 15% to 17% range is still a good number for us.

Felix Boeschen: And then just my last one. I'm curious if we could touch on the M3 a little bit? I know you mentioned, I think, the 150 order already in 1Q. Can you maybe broadly talk about how that product has been received in the market?

And then, just on the production ramp there, it sounds like chassis not as much of an issue right now. But if you could just touch on how you think -- how quickly you can ramp through the year on that product specifically?

Daryl Adams: Yes, Felix, this is Daryl, I'll take it.

So we have -- not every customer likes the Mercedes M3 just as a chassis. I think there's a cost to it. It's a little bit more costly than, let's say, a Dodge RAM ProMaster, even a Transit. So [inaudible] customers that like it. In order to fulfill their need, we need to build on all of them, just like we do on the Freightliner or a Ford custom chassis today. So in particular, there's only a couple that like it.

So we like the 350 order, it's a nice order for the year. And we expect to be hearing back from them, I think, probably later this year for 2022. But the beautiful thing is, with the Velocity, whatever chassis it is can go down the exact same line that we have in Charlotte. So it just goes back to the success of our design, the talent of the engineers, and our flexible manufacturing process, where we want to be able to build multiple products in the same facility. So we don't get -- we can level out the order flow or the build [inaudible] orders and not shut the plant down.

So we're happy with that order. And obviously, that vehicle just came out. The Ford was first, F was first, and then Mercedes and R is coming. So we're happy with what we see.

Operator: That was our final question. I'll turn the call back over to Juris for closing remarks.

Juris Pagrabs: Thank you, Dagma.

Please turn to Slide 13 for some additional information. Many of you on today's call should've received an email to save the date for the upcoming virtual Analyst Investor Day next month, on Tuesday, June 8th. At the virtual event, we plan to share our long-term strategic outlook and financial goals. If you would like to attend, we encourage you to register at our website. We'll be providing additional details on the event in the coming weeks and [inaudible] participation.

Also in early June, you'll have an opportunity to meet with us virtually at the upcoming Craig-Hallum conference.

With that, I'd like to thank you for participating in today's call. And have a great day. Thank you.

Operator: Thank you. This concludes today's conference call. We thank you for your participation. You may disconnect your lines at this time.