

Company Name: Spartan Motors Inc (SPAR)  
Event: BB&T Transportation Services Conference  
Date: February 10, 2016

<<Rhem Wood, Analyst, BB&T Capital Markets>>

We're ready to go, right? Okay. Next presentation Spartan Motors, and presenting will be Daryl Adams, CEO.

<<Daryl Adams, Chief Executive Officer and Director>>

Thanks, Rhem. Good afternoon everyone. Hope so far your day has been good. I'm going to start with this one – here we go. Thank you. I'm going to start off the presentation, and then we have Rick Sohm, our new CFO who will get up and take part of it in the second half. This is coming up on my one year anniversary. So I wanted to talk a little bit about the turnaround that we put in place, talk about some of the businesses that have not been put together in the past, operate as separate units, we want to integrate those and have one system throughout the company.

And of course, those who heard out a little bit earlier, we want to turn this company around to make it profitable. And to do that, I've created the five focal points about a year ago and we've talked about it on each quarter. And I'm going to go through and let you know what we're doing toward each of those and some of the successes we've had.

So, first one was, we want to make sure we turn around our Emergency Response business. So we've hired a new leader, John Slawson. John has been on with the company since about November. We're seeing great things from him, he's the industry expert, understands the business, came from – he has spent some time at Pierce. So he understands the ER business and we can handle the operational side for him. Other things we've done so far in Emergency Response is that we have taken action to reduce our cost structure. We've taken some headcount out, changed some of the pricing models, we are working on commissions that our salesmen get and we're reducing those. So we are moving fast on the ER business. And we see good things coming down the road.

One thing that's important is we are changing our go-to-market strategy. We're simplifying our product line. In the past, we would accept every order, custom and it just gets, to be absolute 29,000 options that people can pick from. We're reducing that. It's interesting we talked to John Slawson, when he came on board. That's what two of our biggest competitors are doing Pierce and E1. So we're pretty comfortable with that model. And don't think we're going to lose anything, actually we think we'll become more profitable with that.

This is the big one we focused on in 2015, which is our operational discipline. We've put in lean principles started at the ER business and now we're rolling them through to our DSV business and into our Specialty Chassis and Vehicle business as well. Shows you up here, year-to-date – well not year-to-date, sorry 2015, we added 129 Lean/Kaizen events throughout the company, which we intend to increase that this year because we got started in 2015 with the entire program. So we think, we would be significantly higher this year with those and they are showing good results, sustainability and we're continuing to keep the benefits that we see. I'm not going to talk on all of these, but the one that might be an important also is that, we are continuing to optimize our manufacturing footprint. Bristol plant down at Indiana, which is part of our Utilimaster division. We had a – and when we moved into that building in 2013, we didn't get it all in, there was a part still down at Wakarusa. So this year, we're moving that part into consolidate and get everything under one building, and that obviously will reduce our cost structure as well.

Sorry about that – the Spartan Production System, I mentioned three business units; none of them were running as one unit. They were doing whatever they wanted. So 2015, we spent time putting together the Spartan Production System, as well as our quality system and we are implementing that this year, so that

everyone will have the same metrics. We all be working to the same production type measurables on the shop floor, and how the floor in the manufacturing systems are going to be put in place. Increase of accountability, this is a new one we added in 2016. This is something that lacked in the company. Now that we have the entire new team we'll see that in a minute; 50% of our leadership team is changed out since 2015 and 80% of our leadership team has changed. So, we are changing the culture and we have a culture of accountability now that we're putting in the company.

Reduce quality and warranty; those of you that read the preannouncement this morning. We had some warranty issues that came up late in the year. The key bold point here will be this, Bill of Material, BOM Scrub. So we're not going wait forward and be reactive. We're becoming proactive line and we started this in late November, early December. And we're going through every Bill of Material we have, checking all the parts, making sure we have all the PPAPs, making sure they have done the FEA analysis, if they did is it good.

And I think the most important one is that, in the past Spartan Engineering would build the design to 100% of the spec, so just need the spec. My experience on automotive is usually about 120, due to our irregularity of our products, we moved it up to 150% starting in December. We think that's going to really takeaway the warranty issues going forward. It's not going to stop any of the legacy issues that we've incurred over the last year, but it will help us moving forward with new designs.

So I talked about the team. This is the number five – this is the fifth one; strengthen the team. New CFO Rick Sohm will be talking here shortly. New Emergency Response President; Specialty Vehicle President is new as well. And if we keep going down the page here, Corporate VP of HR is new, Tom and I started in the same time in late 2014; new Director of Engineering, new Director of Manufacturing, new Director of Quality. So it's a turnaround. We're changing the culture. It can't be a couple of people. We've changed out majority of the team, and team is set and we're ready to go forward in 2016.

And with that, I'll turn it over to Rick Sohm.

<<Frederick Sohm, Chief Financial Officer and Treasurer>>

Thank you, Daryl. Good afternoon, my name is Rick Sohm. Joined the company in late September, so part of the new management team here with Daryl. If you've read our announcement earlier today, we preannounced our fourth quarter 2015 results. For the quarter, we expect to report revenue of approximately \$140 million, which is up from our guidance we issued on our November conference call in a range of \$130 million to \$135 million. We have projected operating loss of approximately \$10 million, up from our guidance of an operating loss of \$3 million. The loss was driven by operating and non-recurring items – non-recurring warranty accruals of approximately \$6.3 million, and approximately \$0.5 million charge to the wind down of our joint venture with our Gimaex Partners. The warranty accruals were divided between both specific campaign costs, as well as increases to our general warranty reserves.

We spoke of our ER related splay rail issue during our third quarter call. We've put a capstone on what we expect that to cost, it's approximately \$3 million in our ER business. And we've increased our general warranty reserves, as a result of comprehensive review of our recent and past claims history.

So while we're disappointed with the results for the fourth quarter; they were largely driven by higher warranty costs, as we dealt with some of these legacy issues. And we now believe that these items are largely behind us. We're exiting 2015 with higher cash levels, as we look at it sequentially quarter-over-quarter. We're managing our working capital better and when we report our earnings, I think we'll see a much stronger balance sheet as we exit the year. And I think we feel that we're well positioned to continue the turnaround plan in 2016 and capitalize on some of the growth opportunities we're starting to see in our business.

And Daryl had touched upon the fact that the company has been focused historically on growth for growth sake. What we're emphasizing to the team now is focusing on profitable growth, and we're seeing those opportunities across our portfolio of businesses. So our DSV business unit makes our walk-in vans and

working for new products like Van Upfits. Exited 2015 with a record backlog. And as we look out into January and early parts of the first quarter, we see strong order intake across the entire DSV product line. On ER, Daryl talked about us taking price increases across that portfolio, but what we're seeing now is with the strong demand we're not losing business. We're maintaining our current backlog and while we don't expect that backlog to grow significantly, we are focused on building trucks that are profitable.

And a couple of examples here of additional business we have one, we have our Conquest opportunity with the city of Philadelphia, a two year contract that could result in as many as 20 additional units. We also have an order for 14 units for exports in 2016. And historically, these vehicles have been nicely profitable for us.

And finally, our Specialty Vehicle business grew nicely in 2015. We expect to see that growth continuing going forward. And recently, we've been awarded the sole chassis supplier to a major customer in our motorhome business. And we are expanding relationships with other contract manufacturers and motorhome manufacturers that are part of our customer portfolio currently.

So while 2015 has been a difficult year both operationally and dealing with some of our legacy warranty issues, we believe the turnaround efforts in 2015 are beginning to take root and should allow us to move forward towards return to profitability that will be driven by our focus on the five focal points that Daryl talked about to improve operational performance. And we look forward to providing you with some of our initial guidance for 2016, when we report our fourth quarter and full year earnings on February 25.

Thank you, and we'll now take any questions.

#### Q&A

<Q – Rhem Wood>: Okay. It's working, yes, okay. I'll kick it off. So in your ER business, you obviously had some warranty issues you've closed down Gimaex, but you said you're largely through it, but now you're taking additional warranty accruals. I assume some more this is going to hit going forward. Can you just give us some color like what do you think is going to hit, when it's going to hit?

<A – Frederick Sohm>: No, I think my point Rhem was, is with the charges we've taken here in the fourth quarter, we believe that these are largely behind us.

<Q – Rhem Wood>: Then the accruals aren't they for something going forward?

<A – Frederick Sohm>: No, no. The accruals – I mean what we'll see is the cash impact over time. The accruals are behind us we believe.

<Q – Rhem Wood>: Okay. And then, can you talk about your ER product line, I mean, how do you – where do you see holes, how do you think it compares to the other group and what could you add at this point?

<A – Frederick Sohm>: Do you want to take that?

<A – Daryl Adams>: Thanks, Rhem. Now, okay. So, we're – we believe we're pretty positioned well for the ER product line. We knew the pumpers, we have small brush trucks, we have the aerials. We're working with a company to build our large rescue units when we get them. But they're not that – that's too much demand on those that's why we're not putting our effort into that right now to build those types of trucks. But the rest of them are good right now with where we're right on our product line. What we are doing is reducing the complexity and we're seeing really positive results from our customers, it's easier to order. They don't have to pick as much, so we've started what we call our Spartan preferred truck baseline.

And the trucks we had in the past where you couldn't even use them. We take the 80% of the trucks that we've built in the past and we've build the preferred model. And we're starting there. So if the people work up they will be able to change, but we would have a feed to it because they're moving from it, we lose our

leverage on purchasing, we lose leverage on our manufacturing efficiencies. So that's where we're starting with the pumper type of fire truck.

<Q – Rhem Wood>: Okay. And then, you know, we've heard from some of these panels a lot about last mile delivery. It seems to be a strong area in the economy. I assume that that end market is strong. Maybe can you just talk about that end market? And then how again your products are positioned there I think you've done stuff – some stuff before, but yes – how is it competing with the sprinter and everything else that's out there?

<A – Daryl Adams>: Good question. So we're seeing is Rick talked about good backlog in the DSV division. And walk-in vans are strong, our Upfit of the Euro vans if you will down in Saltillo and Kansas City. They fulfill that market. The market that we just recently announced, recently last year NTA is the Transit velocity. So we took a trans event, we're putting box on the back, it's called our velocity truck. It can carry as much as the walk-in van just not the GVW, so it can handle the volume. So a lot of the packages aren't is heavy in the past, it need to go like a [indiscernible] or Bimbo Bakeries they don't need the GVW, so we feel that truck is going to fit well. We're still waiting for Ford to launch their chassis. We've got a couple of prototypes and we're thinking that's going to start probably in Q2 or Q3 this year.

<A – Frederick Sohm>: And I would just add to that that the walk-in van market, we see a nice opportunity there. The business is expanding rapidly for us. The customer adoption has been good. And the upfit or value added piece that we do for these trucks is nicely accretive to the operating earnings of the business.

<Q – Unidentified Analyst>: Can you quantify, how you think that that market is going to go because one of the things I heard recently was that drivers, obviously in the vans don't need a CDL and with the driver shortage and the changing way freights haul, this will just become increasingly important. Have you guys quantified these markets in the growth opportunities there?

<A – Daryl Adams>: No, because it's hard to a state by state and trying to figure out what companies are going to make that change. It's hard to predict, which one is going to go. Now I can tell you we're working with beverage company right now, instead of having the big semi-trucks with the big trail on their back full of beverages they go around all the parties. We've already converted them into a few of our walk-in vans they have a sample and we're trying them, and we actually build the racks that will hold the beverages on the truck as well. So we're already into that market. We can't put a number on it because each company will have to transfer as they decide, they don't want class A drivers. But we think there is upside. There are some other laws that are changing as well.

<A – Frederick Sohm>: Yes, go ahead.

<Q – Unidentified Analyst>: [Question Inaudible].

<A - Frederick Sohm>: Okay. If it's a Ford chassis, GM chassis to take it and get a service. If it's one of our warranties, they would take it in or they would call us and we have a system with, we give them I guess \$1,500 allowance to take it to a dealer and automatically get it fixed. If it's bigger, then we would get involved and handle it for them. So we do the same thing on fire truck, they go to one of our dealers and then take care of their warranty.

<Q – Rhem Wood>: And then I got what – on your backlog, can you talk about, you said at the end of the year the record backlog, can you talk about each of the different segments how far the backlog specifically goes out for each of those?

<A - Frederick Sohm>: Yes. So I think we've probably spent a lot of time talking about our ER backlog. And that backlog can be more than a year and some of our competitors are even beyond that. So long backlogs and not always something we feel is beneficial. As we've taken pricing actions with a year backlog, it takes some time to see that materialize with our DSV and SV backlogs they are significantly shorter and measured in a number of months as opposed to quarters.

<Q – Rhem Wood>: Like a couple months or...

<A - Frederick Sohm>: DSV has a little longer backlog and they can be out three or four months,SV little shorter backlog than that, Rhem.

<Q – Rhem Wood>: Okay. And then with ER backlog going – can you just talk about capacity with all the different segments where you are there?

<A - Frederick Sohm>: Yes. And I think in terms of fire trucks capacity we were focused on profitable build and not grow for growth sake. We're making some investments on the Charlotte campus in Michigan that will give us greater flexibility to build the full apparatus, not only in Brandon, South Dakota, but in Charlotte, Michigan. Our DSV business unit has at times gone to second shifts or partial second shifts to deal with some of this backlog. Daryl talked about launching lean initiatives down at Bristol. They've been ongoing in ER, but we think that will help us with our throughput. And right now in specialty vehicles, there is two pieces of the business. Yes, there is a motor home chassis business and there is also contract manufacturing that we do with the Isuzu and may be that doesn't get as much attention, but it's a nice piece of business for us. We see opportunities there for other contract manufacturing work going forward. The motor home business right now, it's running strong, but no capacity issues there.

<Q – Rhem Wood>: Okay. And as you work through some of this older backlog and focus on profitability, I mean just where do you see these margins going over time and how long it will take to get there. I know probably assumes and steady improvement, but I mean what is the goal to get to at this point. Because I think they used to talk I mean was it 17 or 11 or 4 something I mean can you get there. Is that, yes, 17, 11, 6 can you still get there.

<A - Frederick Sohm>: Yes. I think we can make money in the ER business and Daryl's talked in a bigger picture of a multi-year turnaround, but we believe we can be profitable in ER. I don't know that we see profitability returning to the segment on a run rate basis until sometime in 2017, but we expect significant improvement in 2016. And by 2017, we'll work through the backlog we have now, we'll take more pricing opportunities as appropriate and should see a return to profitability in the ER business like I said on a run rate basis at some point later in 2017.

<Q – Rhem Wood>: Okay. But on a consolidated basis, are you talking about 1% to 2% EBIT margins by 2017 or you...

<A - Frederick Sohm>: I think what we said in terms of a total company margin basis – an operating income basis of 6% over multiple year turnaround period.

<Q – Rhem Wood>: Okay. Any other questions, yes.

<Q – Unidentified Analyst>: [Question Inaudible].

<A - Frederick Sohm>: Go ahead, Daryl.

<A - Daryl Adams>: The benefit of having John Slawson on Board, he's networked into that industry. We're hearing that other competitors are taking price increases and we've already talked about it. Obviously, aluminum prices do start going back up, we're going to have to start in surcharge as well, so we're going to manage a much better than the company has in the past.

<Q – Unidentified Analyst>: [Question Inaudible].

<A – Frederick Sohm>: We think it's a very good business. Okay, you know part of that Isuzu business is the reach unit, okay, which is FedEx and FedEx has some really good numbers right. So we have a quantity in our plan for 2016. We think that's going to be a good number for us. So there's a good relationship. And obviously, as Isuzu continues to grow in North America for contract or something, we feel we're going to be there for the people that come to.

<Q – Unidentified Analyst>: [Question Inaudible].

<A – Frederick Sohm>: Absolutely. There is two ways to go. First, I tell you that John Slawson came from Horton Ambulance and also from Pierce. So he has Ambulance background. We think there's opportunity down the road if we decide to get in to that would be used in the current Euro vans. Less money to get into it and then maybe second step would be to the custom size that will go with some EMS unit at a fire station. But it– to me it makes sense really from the vertically integrated to get product line that we could sell to everybody. So that's, obviously get the interest turnaround, so making profit. And then we'll look at some of those things.

<Q – Unidentified Analyst>: [Question Inaudible].

<A – Frederick Sohm>: Yes, out there somewhere.

<Q – Rhem Wood>: What about acquisitions? Where would you look – would you think about doing something like that and win? Or will you just focus on the operational turnaround that you've got planned for now?

<A – Frederick Sohm>: Well, most of our focus is on the – obviously the turnaround, make sure it's profitable. But you cannot talk about the future. So we've had some strategy meetings internally with small groups and we're trying to figure out when would be the right time and we always come back to – we need to start making money first, get a couple of years under our belt and show the market that it is not a fluke. So we're talking some acquisition could be 2018 or 2019 same time as been Ambulance type of a thing, but it's going to be a few years.

<A – Daryl Adams>: I think one of the things, if you look at the ER business right it's a fragmented industry in which we play in. And our chassis business is 650 units a year. We only use about 200 to 250 of those units internally to build the full apparatus. So those other chassis units go out to smaller manufacturer. So, we have fragmented industry, small chassis customers and in some cases we may be their only chassis supplier. So there's opportunities we think longer term for some consolidation in the industry and that only helps improve I think the longer term profit outlook.

<Q – Rhem Wood>: And then, the other one I had just, you guys had some success exporting some of these fire trucks to South America and other places. I mean, where does that stand? Will you continue to do that, you expect follow-on orders? Did you have any order up there?

<A – Frederick Sohm>: Pardon.

<Q – Rhem Wood>: Was there a European or South America...

<A – Frederick Sohm>: Yes. So we have some export right there in 2016 around the 14 units that are booked for 2016. So they buy differently, they buy in large quantity, just not, it's mostly government purchased not city purchased. So it takes longer to get through the government down there, but we've had success and we continue to operating down there and trying to sell trucks.

<Q – Rhem Wood>: So you feel like you're gaining some traction to that?

<A – Daryl Adams>: Yes, yes. And they're nice units for us because of those lovely orders we can put them together and get some manufacturing efficiencies as we run through our system.

<Q – Rhem Wood>: Okay. Any others? Okay. Thank you very much. Thank you.

<A – Frederick Sohm>: Thank you.

<A – Daryl Adams>: Thanks, Rhem.

<Q – Rhem Wood>: Thanks.