The Shyft Group

First Quarter 2024 Earnings Call

April 25, 2024, at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Randy Wilson – *Vice President, Investor Relations & Treasury*

John Dunn – *President & Chief Executive Officer*

Jonathan Douyard – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to The Shyft Group's First Quarter 2024 Conference Call and Webcast. All participants will be in a listen-only mode until the question-and-answer session of the conference call. As a reminder, this call is being recorded.

I would now like to introduce Randy Wilson, Vice President of Investor Relations and Treasury for The Shyft Group. Please go ahead.

Randy Wilson
Good morning and thank you for joining us. Today, you will hear from John Dunn, President and Chief Executive Officer and Jon Douyard, Chief Financial Officer. Their prepared remarks will be followed by a question-and-answer session.

Before we begin, please turn to Slide 2 of the presentation for our Safe Harbor statement. Today's conference call contains forward-looking statements, which are subject to risks that could cause actual results to be materially different from those expressed or implied. Primary risks that management believes could materially affect our results are identified in our Forms 10-K and 10-Q filed with the SEC.

We will be discussing non-GAAP information and performance measures, which we believe are useful in evaluating the company's operating performance. Reconciliations for these non-GAAP measures can be found in the conference call materials.

We will begin with a business overview from our CEO, John Dunn, followed by John Douyard's review of first-quarter performance and our 2024 outlook. We will then open the line for Q&A.

Please turn to Slide 3, and I'll turn it over to John Dunn, who will begin today's prepared remarks.

John Dunn
Thank you, Randy and good morning. I would like to welcome everyone to our earnings call and appreciate your interest in The Shyft Group. Through the first quarter, our team delivered results better than our outlook provided in February. Key financial highlights include our Specialty Vehicle team continued to perform well with another solid quarter that resulted in a high-teens margin.

In addition, we saw early signs of commercial progress as the FVS team delivered the highest order level in nearly two years, resulting in their first sequential backlog increase since early 2022. While parcel order activity remained soft, as capex decisions continued to be delayed by fleet operators, our FVS sales team responded by focusing on other vocations and Q1 order performance was highlighted by solid activity with utilities and food and beverage customers.

As we look at the parcel market, we're confident in our leadership position and remain closely aligned with our customers. Although we remain cautious about the timing of the parcel market recovery, we believe our business is well-positioned to deliver for our customers as it returns. Overall, I want to emphasize that Shyft team members are acting with urgency to drive improved results and return the company to historical profitability over time.

Please turn to Slide 4 and I'll expand on the operational framework progress. Although we spoke only two months ago, we continue to chart a pathway to realize the full potential of our business. Back in February, I introduced an operating framework that serves as the foundation to drive sustainable financial growth and shareholder value. It includes a relentless focus on building high-performing teams, delivering operational excellence and keeping our customers at the center of everything we do.

The team is driving improved performance by focusing on operational rigor, financial growth and meeting the needs of our customers. We are equipping our business leaders with the appropriate tools and support for success. Senior management has conducted site visits to key facilities engaging with local teams to eliminate performance obstacles.

Our One Shyft mindset is driving us to break down silos and increase coordination across the company. An example of this is in procurement, where we recently completed our first cross-company initiative to leverage total business spending for a product category. Our actions led to consolidation of suppliers, allowing us to strengthen our relationships, while also positioning us to realize cost savings.

Now turning to customer centricity. In March, our commercial and senior leadership teams met with key customers at the NTEA Work Show. We saw excellent customer engagement and elevated interest in all our product offerings, which reinforced that our core businesses have leading positions in their respective end markets. It also highlighted our strong collaborative relationships with customers and industry partners, which positions us to effectively respond to their needs and provide innovative solutions.

To emphasize recent examples, we announced the first order for a driver rapid cooling system with a key fleet customer, reflecting our ability to deliver customer-focused innovation. Additionally, we were designated a Ford Pro Upfitter, highlighting our operational capability and leadership in the upfit market, which will present expanded growth opportunities for Shyft.

In summary, we are increasing collaboration across the company as we act with a One Shyft mindset to accelerate decision-making, relentlessly focus on our customers and increase the pace of operational and financial improvement. The Shyft team continues to prioritize these efforts to drive long-term performance.

Now let's turn to Slide 5 and I will provide an update around the status of the Blue Arc EV program. As discussed on our last call, we focused our team's efforts on bringing the Class 3 and Class 4 Blue Arc EV walk-in van to market later this year. I'm pleased to say that the Blue Arc's progress remains in line with these expectations. There is ongoing customer interest in the vehicle and commercial conversations are progressing, evidenced by the high level of customer interest at NTEA.

From a development standpoint, the Blue Arc vehicle validation and testing continues and performance with the battery from Our Next Energy is meeting expectations. The Blue Arc team is preparing for production in late 2024. We will continue to keep you informed of commercial and product developments.

I will now turn it over to Jon for a detailed review of our financial results and 2024 outlook.

Jonathan Douyard
Thanks, John. Please turn to Slide 7. Overall, we delivered financial results for the quarter that were above our prior expectations. With the backdrop of softer FVS demand, our team did a nice job focusing on improving performance and we saw benefits from overall cost management, deferral of Blue Arc spending and delivery of incremental sales volume that was initially planned for the second quarter.

Sales for the first quarter were $197.9 million, down 18.7%, from $243.4 million in the prior-year quarter. Net loss was $4.7 million or $0.14 per share compared to net income of $1.7 million or $0.05 per share in the previous year. Please note that these results include a $1.85 million charge for the expected settlement of the EPA vehicle labeling matter, which we initially disclosed in 2020. The settlement is not final, but we believe we are nearing resolution and do not expect the outcome to be materially different than the accrual taken in the quarter.

In the first quarter, adjusted EBITDA was $6.1 million or 3.1% of sales, down from $10.8 million or 4.4% of sales in the first quarter of 2023. These results include EV program spend of $5.5 million, down from $8.5 million in the prior year as we focus our spending on bringing the Class 4 vehicle to market. Excluding these expenses, adjusted EBITDA was 5.9% of sales. Adjusted net loss for the quarter was $1.4 million, while adjusted EPS decreased to a loss of $0.04 per share.

Please turn to Slide 8 and I'll provide an update on our segment's performance. In the first quarter, FVS achieved sales of $107.8 million, down 32.4%, compared to $159.4 million a year ago, reflecting ongoing softness in the parcel end markets as customers continue to delay capital expenditure. Adjusted EBITDA for the quarter was $0.9 million versus $12.5 million a year ago, with the decline in profitability driven by the impact of lower sales volume as well as a negative product mix. Adjusted EBITDA margin was 0.9% of sales compared to 7.8% in the first quarter last year. The quarter end backlog for FVS was $356.1 million, up 10% versus the fourth quarter of 2023.

Turning to SV, the business delivered another solid quarter with both top line growth and strong margin performance. Sales of $90.1 million were up 3.4% compared to last year, with growth in service bodies and motorhomes. Adjusted EBITDA was $17 million or 18.8% of sales compared to $13.9 million or 15.9% of sales in the same period last year. SV backlog of $83.3 million is roughly flat versus the end of the year.

Please turn to Slide 9 for a discussion on the full year. We are affirming our 2024 outlook with sales in the range of $850 million to $900 million and adjusted EBITDA of $40 million to $50 million. While our team did deliver improved profit performance versus initial expectations to start the year, we remain cautious on near-term parcel order activity. We are confident in the long-term growth of the parcel market, but there continues to be uncertainty on the timing of market recovery.

Given our visibility, we are focused on continuing the commercial momentum from the first quarter and driving efficiency across the organization. On cash flow, we remain on track to deliver our prior free cash flow guidance of $25 million to $35 million and expect improvement as the year progresses.

In closing, we are pleased with our start to the year. Our team is focused on commercial and operational execution to deliver our full year outlook, while we also look to position the company for improved performance in 2025.

With that, I will turn it back over to John Dunn.

John Dunn
Thank you, Jon. Turning to Slide 10, I want to conclude today's prepared remarks by first extending my appreciation to the Shyft team as we continue our improvement journey. At the start of the call, I highlighted our commitment to enhancing shareholder value and returning Shyft to historic profitability by implementing our operational framework. The team is taking concrete steps to achieve this through operational excellence and a One Shyft mindset, all of which is focused on customer satisfaction and long-term growth. The dedication of our team is clear, and we are making progress. Together, we are acting with urgency to drive the enhanced performance.

Thank you again for your trust and engagement. I'm confident in the direction of the company and look forward to sharing future updates with you.

We are now ready to take your questions. Operator, please open the line.

QUESTIONS AND ANSWERS

Operator
Thank you very much. We will begin the question-and-answer session. To ask a question you may press star than one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw, please press star then two.

At this time, we will start with a question from Matt Koranda from Roth MKM. Matt, please go ahead.

Matt Koranda
Hi, guys. Good morning. I wanted to start off with the backlog and FVS guidance. The sequential increase is encouraging, and I guess, the implied order flow looks relatively healthy relative to kind of what you've been experiencing for the last several quarters. I noticed you mentioned in at least the release that doesn't sound like it's necessarily coming from parcel fleet customers. So, I just wanted to see if you could talk about where is the strength in order flow coming from for FVS?

Then what's your expectation for fleet customers for the remainder of this year in terms of just the cadence of order flow? I guess we've noticed that parcel unit growth does look like it's being projected by some of the major fleets. So, what does that mean for order flow from your parcel fleet customers for the rest of this year? If you could sort of expand upon that, that would be great.

Jonathan Douyard
Yes, Matt, thanks for the question. I mean, we're certainly pleased with the performance of the FVS commercial teams this quarter. I think we've talked in the past about how do we expand and diversify that customer base. We're seeing some of the fruits of that here in the quarter. As John mentioned in his prepared remarks, we really saw strength from a utility perspective, as well as in food and beverage, in the quarter.

So, if you look at it, just maybe for some historical perspective, if you go back a couple of years, FVS was 75% parcel, 25% other vocations. What we saw this quarter was an inverse of that from an orders perspective. So, while there was some parcel activity, certainly not to the levels that we saw historically.

As we look at the timing of that, consistent with what we've said in prior discussions, our fleet customers continued to discuss their need for additional vehicles in their fleets. So, we remain close to them, engaged, anticipating the timing of their needs. We would expect to see some pickup in activity here in the second quarter but most likely closer to midyear. So, some of that may be in the third quarter as well.

Matt Koranda
Okay. All right. That's helpful. Thanks, Jon.

Then just on the Blue Arc program, curious if we could maybe shift to that and discuss. When do we expect— I guess, well, one, do we feel like the battery supplier issue is fully sorted at this point? What are the gating items to getting to production? It sounds like we're still targeting production at the end of 2024. So, nothing's changed there. When should we expect to see order flow show up for you guys in the form of purchase orders and firm order flow? Maybe you could just kind of help level-set expectations around the Blue Arc program and the developments there recently.

John Dunn
There's a couple of pieces there. If we start off with the battery, I think what's very important to recognize

is the battery we're using from One Energy meets all the requirements. We're seeing good performance and we're not running into any issues through the development process as we continue to validate that. So, that's a positive sign, as we did shift from another battery supplier several months ago. So, we're on track there.

From an order standpoint, we're having good conversations with our customers. We're close to having some clarity on that order and when exactly those are going to start to come in. We already have announced though that we have some relationships with some key dealers that are looking to pull vehicles. I think the next step here is to get end users locked in. That's really the focus of the team.

Matt Koranda
Okay. Then maybe just gating items to production, Jon Douyard, if you want to cover sort of capital that's put in place for this year to get to production in terms of setup and tooling and whatnot?

Jonathan Douyard
Yes. I mean, I think we did, from an op ex perspective, spent $5.5 million in the quarter, down year-over-year. We guided in our deck; you'll see $20 million to $25 million of spending from Blue Arc. So, we continue to be on that run rate. There will be some incremental capital, but a lot of it is behind us at this point. There is some additional tooling we're putting in the factory, but I wouldn't— you're not going to see a huge sort of step-up as we progress through the year from that perspective.

So, I think as you look at the program overall, final development continues on track, to John's point. Production and setting up a line have been in process, and we'll continue to work and refine that over the next couple of months. We expect to be in production later this year.

Matt Koranda
Okay. Very helpful, guys. I'll take the rest of mine offline. Appreciate it.

John Dunn
Thanks, Matt.

Jonathan Douyard
Thanks, Matt.

Operator
Just as a reminder, again, if you would like to ask a question, press star one.

Our next question comes from Tyler DiMatteo from BTIG. Tyler, please go ahead.

Tyler DiMatteo
Yes. Hi, good morning, everyone. Thanks for taking the time. I wanted to talk a little bit about the infrastructure piece of the business here. Clearly, it's been a really solid contributor. I guess, can we just add a little bit of color in terms of how you're thinking about the strategy for that business in the near term and then what could that look like in the medium term? Obviously, it's been a nice contributor. Just any other color there for the infrastructure piece.

Jonathan Douyard
Sure. What we're seeing is continued demand in that area. Then as we— our next step is to continue expansion throughout and create a national footprint. So, we recently, last year, launched the plant in the Nashville area and we're seeing nice success there as that continues to grow and take orders. We see that as the model as we can continue to grow our business in that area throughout the, let's say, national

footprint.

Tyler DiMatteo
Okay. Great. Then I guess on that footprint piece there, I mean, any other color in terms of your level of comfort with the footprint at large as I look across the different business units, how you're thinking about maybe new expansion opportunities outside of that infrastructure piece? Any other comments there in terms of just how you're thinking about it from a strategy perspective.

John Dunn
We're taking a look at that as a much more holistic view and we're taking a look at where do we have all of our factories for the different divisions. So how do we leverage those existing footprints better? So going forward, we're looking to flex additional products into the footprint we already have. So, it really saves on opening— the cost of opening a new plant to establishing a new location.

We're well-positioned throughout the country, but we can do more with what we already have. That's really the first step. There's also going to be a need for some additional site locations as we continue our expansion plans, but as a first step, taking a much harder look to say how can we share with what we already have between the different businesses.

Tyler DiMatteo
Okay. Great. Very helpful. Thanks, guys. Really appreciate the time. I'll turn it back to the queue.

John Dunn
Thanks, Tyler.

Jonathan Douyard
Thanks, Tyler.

Operator
Our next question comes from Mike Shlisky from D.A. Davidson. Mike, please go ahead.

Linda Umwali
Hi. This is Linda on for Mike. Thank you for letting us ask questions. So, my first question is following up on the battery supplier situation at Blue Arc. How many additional battery suppliers are you working with? What is this company's level of experience delivering batteries to truck makers?

John Dunn
We start with Our Next Energy, which is our key focus right now. We continue to have a great relationship with them. Their product meets all our needs, and we have a high level of confidence of working with them as it goes through the process.

We continue to have discussions with the previous battery supplier, as well. That is an option, if needed. Then we're out there on the market, looking at one to two other battery suppliers, just in case there is that need. As of today, we're really focused on Our Next Energy to be the battery that we go into production with.

Linda Umwali
Great. Thank you for the color. Then my next question is other truck body players have teamed up with third-party power train providers such as FCCC for their EV delivery vans. Has Shyft given this area any thought, especially with the OEMs you already know so well?

Jonathan Douyard
Yes, Linda, I think what I would say there is we do continue to do that. I mean, we've built— if you go back to 2023, we built over 1,000 EV either bodies or van upfits. We continue to have those running through our factories this year. So, we continue to stay close with, I'll call it, the legacy OEM supply base. We've got the optionality from that perspective.

John Dunn
I think that's one of the strengths of having the Utilimaster still out as the units say, we can build on any chassis, and we've proven that. As Jon said, we did over 1,000 vehicles last year and that trend is continuing this year. Then we have Blue Arc as another alternative just to give our customers options.

Linda Umwali
Great. Thank you for that. Then my last question would be, what do we have to see from a macro perspective in order to start seeing a final-mile vehicle demand pick up again?

John Dunn
I think it varies by customer. We're in a situation wherein they publicly announced what's going on but a couple of them are in different places as they evaluate their situation. One is heavily impacted in regard to the previous strike on their ability and interest to further bring investment in. Another one is going through a fresh look on, say, how do they want to do that last-mile delivery and how they want that organization to be. So, as they sort through those pieces, those are two of the big players that are out there that we're in close contact to work through that.

So, it's really for them to work out some of their internal strategies on what they want to do. What we're comfortable with is there is a certain replacement rate that needs to occur, which is just part of the business. When that replacement rate kicks back in, we are in the right position.

Linda Umwali
Got it. Thanks.

John Dunn
Thank you, Linda.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Randy Wilson for some closing remarks. Please go ahead.

Randy Wilson
Thank you, operator. I'd like to thank everyone for joining today's call. The Shyft management team looks forward to connecting with the investment community over the coming months. Thank you for your interest in The Shyft Group. As always, please reach out to us if you have any follow-up questions.

With that, operator, please disconnect the call.

Operator
This concludes the call. Thank you for attending today's presentation. You may now disconnect and have a great rest of your day.