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The Shyft Group

2021 Analyst & Investor Conference Call

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PRESENTATION

Juris Pagrabs

Good morning, everyone, and welcome to the Shyft Group's 2021 Analyst and Investor Conference.

I'm Juris Pagrabs, the Group Treasurer and Head of IR. On behalf of the Management team here in attendance, on behalf of all of us at the Shyft Group, I want to thank you for joining us today. While we have historically hosted these events in-person, in fact, many of you attended our last Analyst day on October 2017, we are pleased to be able to host a virtual event that prioritizes the safety and comfort for all who are interested in participating.

Before we start today's call, you should be aware that certain statements made during today's event, 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 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.

I would like to also remind everyone that with the divestiture of the emergency response business unit on February 1, 2020, the revenues and expenses associated with the ER business, as well as the assets and 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.

With that said, we have an exciting and full meeting ahead which will begin with comments from Daryl Adams, our President and CEO, who will discuss our business model and growth strategy for the road ahead. He will then turn the presentation over to each of our business unit presidents who will provide an in-depth review of their operations.

The business unit reviews will begin with Chad Heminover, President of Fleet Vehicle Services, and then move to Steve Guillaume, President of Specialty Vehicles. Both presenters will walk through their line growth strategies to maximize shareholder value.

Next, we'll take a 15-minute break and then resume with Daryl for some exciting news regarding our EV Strategy. Then we'll turn over the presentation to our CFO, Jon Douyard, for an overview of our financials and long-term targets. The meeting presentation section will conclude with final thoughts from Daryl as he outlines the road ahead.

Finally, we'll dive into the live Q&A and address your questions as a panel.

For today's event, we included a presentation deck which will be filed with the SEC and 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 throughout the event. There are additional resource materials that are available for your use during the break and after the meeting directly through the Q4 events dashboard, including product videos, photos, and more.

At this time, I'm pleased to introduce our President and CEO, Daryl Adams.

Daryl Adams

Thank you, Juris. Good morning, everyone, and thank you for attending this exciting update on the Shyft Group.

I'm thrilled to be in front of you today while we share the strategy behind our growth and demonstrate what's next for Shyft or what we refer to, say, as the road ahead. When I look back to our last analyst day in 2017, which many of you attended, it's incredibly rewarding to know that we have more than delivered on the promises we made based on the business strategy we put in place, and it continues to deliver today.

Although we're not able to meet in person this year, we are pleased to share with you the tremendous progress we've made in establishing our new vision for the Shyft Group, which will help ensure we deliver the road ahead for many years to come. Today's discussion will focus on some alignment actions we've taken to best position the Company to drive the greatest shareholder value going forward.

As most of you know, we have announced our rebranding to the Shyft Group, and this month already marks our one-year anniversary behind the new brand. The name conveys our nimbleness, tenacity, forward momentum, and our laser-focus on purposeful innovation. You'll see this market-driven approach echoed in our strategic outlook as we move towards 2025 and beyond. Perhaps more importantly, the Company's re-branding signaled our portfolio transformation as we divested the low-margin emergency response business to dedicate resources to the exponentially faster-growing, last-mile delivery and infrastructure end markets.

Since we last met, we broadened our focus to enhance our corporate culture in a variety of areas while maintaining our long-standing emphasis on customer-driven, purpose-built innovation. We've widened our view to see continuous improvement as a broader concept than it's lean manufacturing source. We have transformed our operations to industry-leading in quality and efficiency and have achieved operational excellence through lean initiatives and continuous improvement actions.

We have refined our approach to sustainability through our recent environmental, social, and governance initiatives, and consistently seek to do what's right for our team members, our communities, and our shareholders, and our planet. Most importantly, our purpose-built vehicles and up-fit designs are both responsive to our customers' needs and are sourced and manufactured with the same sustainability principles as our guide.

When leveraged as a whole, we believe these steps denote a proper course to drive maximum shareholder value. We see the combined results today in our multiyear double-digit revenue and profitability growth and in our top-quartile stock return.

Our Company Management team are committed to long-term profitable growth which we accomplished through the Shyft growth strategy. Since we embarked on our transformation in 2015, we have seen tremendous growth in our business and we've executed on our strategic plan. As a result, we now have a coast-to-coast operational footprint spanning 16 manufacturing locations in 10 states, in two countries. We have pursued a deliberate and disciplined strategy to expand geographically, first to the East and then to the West and Southwest.

This growth has delivered an expanded product portfolio of well-respected brands across both the fleet and specialty vehicle segments, in addition to our ability to quickly increase capacity where needed, and launch new products much faster than ever before. The example you will see highlighted today is in our recently launched velocity vehicle.

Many of you have requested a more detailed view on our portfolio transformation. Let me spend a bit of time here for those who have asked. With a series of acquisitions over the past three years, the sale of our emergency response business in 2020 and a new Management team in place built specifically around capitalizing on our core strengths and supporting the accelerated growth, we have made significant progress not only toward overall portfolio transformation, but most notably toward putting our growth strategy to work for the benefit of the business and our shareholders.

This approach has allowed us to intentionally focus the business on market segments that are both profitable and have rapidly growing end markets with favorable long-term trends and that are also supported by routine vehicles, replacement cycles, including last-mile delivery and infrastructure. We invested over $100 million and four strategic acquisitions, driving our portfolio transformation, and providing our Company with solid returns, including a production footprint with direct access to 82% of the population. We implemented cost focused operational improvements and initiatives across operations to drive bottom-line results.

We continue to bring customer-centric innovation to these markets, which will in turn create a competitive advantage. Finally, we have assembled a top-tier team of leaders to deliver on our commitment to long-term profitable growth, several of whom you will hear from today.

The results of this transformation have led to a market cap of over $1.4 billion with a share price of $39.52 as of June 1. This represents a total shareholder return of approximately five times higher than our peer group. Additionally, we have grown revenues at a 60% CAGR and profits at an impressive 31% CAGR between 2015 and 2021.

As we look to the future, four strategic objectives will drive long-term shareholder value and help ensure we deliver on the road ahead. They include: organic growth, operational excellence, strategic investment, and innovation. These four strategic objectives will consume much of what we talk about today.

Our organic growth will be driven by new products and strategic innovation, with a focus on customer-centric solutions. We will leverage geographic expansion to drive our organic growth and we will continue to invest in operational excellence across our Company. This will include lean initiatives and discrete events designed to enhance productivity, as well as new efficient capital investment to drive improved operating results. We will continue to take a disciplined approach to strategic acquisitions that may be bolt-on acquisitions or provide us with new product opportunities where we can leverage our existing cost structure.

Finally, we will invest in Shyft innovations, the team through which we will design, engineer, and produce new leading technologies. This dedicated R&D team and spend is specifically designed to propel Shyft into the leading edge of its end markets. Each of these efforts will be funded by our strong cash flow generation and a solid balance sheet.

As you are quite aware, ESG awareness continues to gain momentum in business. The Shyft Group has always made ESG a priority, and during 2020 we took time to consider some of the broader questions of what it means to be a good corporate citizen. This led us to further enhance our comprehensive ESG strategy that has brought our corporate values to bear on our day-to-day operations. We are confident in the goals we've established, but we'll continue to pursue improvements on a day-to-day basis to align our overall growth strategy.

From an environmental perspective, we're taking an active role to ensure the safety of our most valuable asset, our team members, not only in the locations they work, but also where they live. We're carefully considering the impact of our operations on the environment by reducing waste and doing our part to reduce overall greenhouse gas emissions.

Our commitment to diversity and inclusion remains steadfast as we look to further engage our communities and stakeholders to ensure an equal workforce across our campuses. Finally, we're continuing our progress toward achieving leading governance standards as we continue our focus on transparency, accountability, and diversity across The Shyft Group. All of these pieces are essential to achieving our long-term goals for the road ahead.

As I shared with you in October of 2017 at our last Analyst and Investor Day event, our goal is to remain the leading purpose-built vehicle manufacturer. More specifically, the number one or two in every market we serve; this has not changed. Now however, we're even better positioned to strengthen and grow our core business thanks to our focused Management team, ongoing operational improvements, improved product portfolio, customer-driven focus, and our financial strength.

We are confident based on our past performance, our transformed business, our exceptional employees, and our new Management team, along with our industry-leading products, when combined, will achieve our 2025 goals of $1.75 billion in revenue and a 15% Adjusted EBITDA margin. These goals translate to a 19% CAGR in revenues and a 28% CAGR in Adjusted EBITDA through 2025.

As we move through the rest of the day, you will hear presenters across the business who will demonstrate how The Shyft Group will deliver on our 2025 goals and targets while showcasing a demonstrable path forward for our business and for our long-term shareholder value.

For those of you in your offices or at home, we've built in a break time, and look forward to your questions and to your feedback during the Q&A portion of the presentation.

With that, I'd like to turn it over to Chad Heminover, President of Fleet Vehicles & Services, to share the strategy behind how we will achieve our 2025 goal. Chad.

Chad Heminover

Thanks, Daryl.

I'm pleased to join you today and highlight some of the exciting growth opportunities in our Fleet Vehicles & Services business. We'll start with a broad overview of the FVS business, including our record of performance and the broad market drivers supporting our growth.

Despite the upfront challenges from the pandemic, FVS demonstrated robust performance throughout 2020. As detailed on this slide, this past year, we accounted for $490 million in revenues, or about 75% of The Shyft Group's total revenues. We have about $3.2 billion in addressable markets, indicating that we have plenty of room for future growth. The growth of those markets is supplemented by additional drivers, including the parcel delivery boosted by surging e-commerce and emerging replacement cycle, innovation and innovative products and services that make The Shyft Group a one-stop shop for our customers.

Our customers place sizable orders, namely in the second half of the year, leading to record backlog for this segment. It is with this reality as a backdrop that we continue to have great cause for confidence in 2021 and beyond.

As you heard from Daryl, customer-driven innovation is a key factor in our continued success and lends favorably to the advantage we have over our competitors. This success can be attributed to our strong brands, excellent team, and culture of innovation centered around our work-driven design process, which allows us to create highly customized vehicles based on our customer's needs. We're also seeing emerging opportunities with the shift to EVs for commercial use in the coming decade to drive further growth. Growth has been a key in our business results over the past five years, and we have generated a 17% CAGR in revenue and a 30% CAGR in Adjusted EBITDA from 2015 through 2020.

Today, the FVS business encompasses an industry-leading breadth of products to meet customers' demands. These products include a wide range of vehicles across class 1 through 7, addressing a broad range of vocations. Cargo van upfits in class 1 and 2 target a total addressable market of $1.2 billion where we have just a 7% share, providing ample runway for share gains. We were also first and only Company to go to market in class 2 and 3 with our purpose-built velocity vehicle. In walk-in vans and truck bodies, we hold the number two position overall in this $2 billion addressable market. In class 4 and 5 walk-in vans, we hold a 50% share, providing some of the most well recognizable names in parcel delivery with the vans central to their business. In class 6 and 7 truck bodies, the markets are highly fragmented and local and we hold just a 6% share. We see opportunities to leverage our product development and service strengths to increase share over time.

Parcel delivery growth dramatically accelerated in 2020, and we have a clear path towards continued growth through 2025, which will support our strategy of being a leader in last mile delivery vehicles. In parcel delivery, the industry volume is expected to grow between 7% and 10% compounded annually over the next several years, which will drive a need for 200,000 new vehicles over the next five years. Even considering the surge in demand we saw during COVID, that core growth is supplemented by emerging fleet replacement demand, which we expect to reach 100,000 vehicles over the next five years. Combining the market growth with the fleet replacement demand, that is a need for 300,000 new vehicles. The combined delivery fleet of the major carriers is expected to reach 450,000 in 2025, essentially tripling the size of their delivery fleet over the previous 10 years.

Walk-in vans mark a solid opportunity with customers that are leading national fleet operators in some of the largest product segments. Our purpose-built vehicles represent innovative and customer centric solutions for last-mile delivery, which is expected to grow faster than the overall market. Cargo van upfit represents another exciting growth market as we have expanded OEM ship through channels into dealer and direct channels with capabilities to upfit cargo brands from all of North America OEMs. The result of these efforts is our expectation for continued shift in the weight of our revenues towards the parcel delivery end market as we achieve our 2025 growth objectives.

We continue our efforts to diversify our revenue streams with new applications and potential customers. Adding features like refrigeration greatly expands our addressable market with both existing and potential customers. Additional upfit opportunities including cranes, winches, and power systems offer additional upfit growth potential, while our leading shift through capabilities will support upfit on pickup trucks.

Ultimately, we see four key areas that we'll view as enablers of our diversification success. Our national footprint allows us to meet customer needs where they are, while our flexible manufacturing and broad product lines provide exactly what they need. Underlying these enablers is the incredible team we have to drive our operations and results each day.

Let's talk about our approach to innovation and speed to market, which grows directly from our customer focused culture of innovation. We see this as our living, breathing value proposition, which truly differentiates our offering within the broader market. You have heard us talk many times about our work driven design process, which reflects our approach to custom products. This approach is relationship-driven, as we win when we listen to our customers, assess their needs, and work together to drive innovative solutions and provide value.

Within FVS, we differentiate ourselves through our people, our process, and our products to provide a one-stop shop for walk-in vans, truck bodies, and upfits. We leverage our vocation-specific knowledge to the markets we serve, including parcel delivery, food and beverage, linen and laundry, utility, and other markets. The result is greater speed-to-market and a fast, flexible, responsible, and customer-focused approach to our business. Our strength in innovation lies at the core of our Company DNA. We are the innovators and problems solvers within our industry and this strength is key to maintaining and building our longstanding customer relationships, many of which we have maintained from the start in the 1970s. We are at our best when our customers representing some of the biggest brands find themselves facing their biggest problems, opening the door to our innovative strength. This has been at the root of our reputation as a trusted advisor in the custom space to those major fleet brands.

The result of this approach to innovation is speed to the market for a broad range of new products. On average, we can ramp up to full production in just three months which means we can go from a new van body concept to production in just 15 months. This development timeframe is almost unheard of in our business, which is why we have been rewarded by our customers with more than $200 million in new product backlog as of the first quarter.

To further explain our approach to innovation, it really entails a continuous improvement mindset as we are constantly talking with customers, identifying their needs and coming up with solutions. In just the past three years, you can see the range of new products that we brought to customers from a wide range of EV Solutions in the walk-in vans to the new Velocity M3 and F3. You can see the aggressive timeframe we pursue and new product development.

Over the next 18 months, you can expect to see additional introductions as we develop our next-generation bodies for walk-in vans. FVS has developed and implemented an exciting electric vehicle strategy that will guide our efforts and investments in technology to meet the emerging demand. Our flexible approach has broadened our appeal to new and existing customers that desire to move in advance of green mandates or simply to meet the growing desire of customers to transact with environmentally conscious companies.

However, while the demand for EVs is strong, there are still significant barriers to adoption which will limit true widespread deployment until the mid-2020s. As we move past those initial barriers, we expect adoption to accelerate considerably with many experts forecasting overall EV penetration reaching 50% of the market by 2040. That to say, we are committed to our customers and their ongoing innovation and our EV strategy to FVS aligns with the fulfillment of our customers' needs.

As part of our strategy, we will partner with EV chassis suppliers in order to manufacture vehicles to meet customer desire to shift from ICE to EV. As OEMs develop custom solutions and begin converting from ICE to EVs, we'll be there to partner with them and build our bodies on their EV skate boards. We also want to call out that our FVS bodies are completely propulsion agnostic, meaning we can build on a broad base of chassis from traditional ICE, alternative fuels such as CNG or propane, hybrid or EV, which also gives us a competitive advantage within our industry.

While we continue to drive forward our long-term strategy within the EV space, because of our efforts thus far, we have over 2,500 purpose-built alternative fuel vehicles on the road. These efforts demonstrate our commitment to environmentally friendly fleet vehicles, and you can expect to hear more on this front throughout the coming year.

As we have grown our profitability over the past five years, we have done so with a strategic view of achieving margin expansion through operational excellence. It starts with our products, with a focus on purpose-built custom products that meet customers' needs while leveraging our production footprint and enhancing overhead absorption. But we also approach operational excellence with three broad goals in mind.

First, we aim to improve labor efficiency by investing in continuous improvement throughout our operations. These efforts include product innovation to leverage standardization across our product lines, and employing process innovation to enhance overall production efficiency. We've leveraged lean principles to reduce the labor required to produce our vehicles. The result has been an 80-basis point improvement in labor as a percentage of sales from 2015 to 2020.

We are focused on reducing material costs through global sourcing initiatives, but we're also looking beyond to alternative materials and potential for vertical integration to further reduce material costs. As a result of these efforts, we have reduced our material costs as a percentage of sales by 370 basis points since 2015.

Finally, we are leveraging lean initiatives to improve capacity with disciplined capital investment. By employing targeted production automation and flexible manufacturing techniques, we have increased overall production capacity in Bristol by 34% over the past year.

As a case study in continuous improvement, we highlight some of our lean initiatives and their impact as our Kaizen teams engage in a project to improve door production in Bristol. The team reviewed the existing process and by applying core lean principles, they were able to generate increased door production, utilizing less labor, less working capital, and a smaller production footprint, while also reducing the safety burden. These are the types of lean events we're pursuing throughout our operations to generate continuous improvement and better profitability.

As we look to the road ahead, we are resolute in the strategy we have put into place and we'll continue to optimize our goals to ensure success now and into the future. We believe we have a winning formula that starts with having the right team in place to drive results. We will continue to drive organic growth with a focus on parcel delivery while driving new product development with customer-focused innovation. We expect to continue driving growth with the velocity while remaining propulsion agnostic. We will continue our efforts in continuous improvement, leveraging our flexible manufacturing approach. We will also consider vertical integration and automation where they make the most sense and provide the greatest returns.

Finally, when it comes to acquisitions, we will take a disciplined approach and focus on opportunities that bring us clear benefit in terms of new products, new markets, or potential vertical integration. Our commitment to organic growth, operational improvements, and strategic acquisitions paves the way for our FVS business, where you will find a culture centered on customer and driven to deliver the most well-designed, reliable fleet vehicle solutions across the industry.

Thanks to you all again for your time today. I'll be available to answer any of your questions regarding FVS and our growth strategies later on in today's presentation.

I'd now like to introduce Steve Guillaume, the president of our specialty vehicles business unit, who will provide you with an overview of the segment and its aligning strategic priorities.

Steve Guillaume

Thanks, Chad.

It's a pleasure to be in front of you today, and I'm excited to share with you the accomplishments and growth potential in our specialty vehicle business. The specialty vehicle business has a long history within the Shyft Group, one which has become even more dynamic since our last Investor Day in 2017, which I'll expand on over the next few minutes.

But first, a brief overview of our business. The SV Group generated $185 million in sales in 2020, which accounted for about a quarter of the sales of the total Shyft Group. While we have achieved organic growth, we have greatly benefited from several recent acquisitions that have accelerated our growth and enabled us to significantly improve margins.

Over the past five years, we have generated a 7% compound annual growth rate in the top line, and through a lot of hard work and continuous improvement we have grown our Adjusted EBITDA at a 26% compound annual rate over that same timeframe. This is especially significant considering the negative impact of COVID on our business in 2020.

Although these results are impressive, we see even more opportunity for growth in the years ahead. When looking at our $1.7 billion total addressable market, we see significant opportunities for growth, driven by macro tailwinds in infrastructure and infrastructure spending, as well as strong consumer confidence boosting RV demand.

Beyond the macro factors, we control our own destiny with continued investment and innovation that drives higher demand for our products. The specialty vehicles business has been built on a foundation of industry-leading Specialty Brands.

We will start with our RV chassis, which we market under the Spartan brand. We have been building chassis for luxury RVs for over 30 years and are recognized as the premier luxury diesel motorhome chassis with best-in-class technology, making our chassis the foundation for some of the best known luxury class A diesel motorhomes. This is clearly evident in our market share, which we have nearly doubled since 2015. The RV market also presents significant long-term growth opportunities as consumers have flocked to RVs amid the pandemic, to take control of their environments and enjoy clean, socially distanced vacations and recreational activities.

To complement this growth, we have focused on continuous operational improvements, resulting in a 280% improvement in Adjusted EBITDA margins since 2015.

Another important piece of the SV business is the contract manufacturing we provide under the Builtmore brand. This started with our manufacturing of the Isuzu Class III and Class IV and gas truck, which we have since expanded to the production of a Class VI F-Series, a brand-new Class V, and coming in the fall, a new Class VII. We now address the complete line of Class III through VII North American work trucks. We've also leveraged our strong position to launch a modification center on our Charlotte campus to service dealers directly, with the potential of more than a million dollars in revenue with demand growing.

We are currently in process with three new EV contract manufacturing programs that fall within the class III through VI category. These projects would utilize our skilled team of technicians, manufacturing know-how, and quality systems to upfit EV power trains into existing truck platforms.

While we've had fantastic performance with our legacy products across our specialty vehicle service lines, I'm extremely excited about our new introductions to this business segment. We continue to grow our SV business through acquisitions, including our recent purchases of Royal Truck body and DuraMag, to further expand our participation in the light truck market. Royal and DuraMag produce a wide range of vocational-specific service bodies for an array of trades and end-users, from construction to utility work. We also go-to-market with our Magnum brand, offering an extensive line of accessories, including headache racks, which has added to our aftermarket business.

In less than two years since acquiring Royal, and less than a year since acquiring DuraMag, we have seen over 40% growth in our combined annual sales to more than $100 million, and 100% increase in profitability. This growth has been driven by our sales expansion and a significant increase in throughput at our manufacturing locations as we apply lean principles to extract these synergies. Overall, we expect our work to extracting synergies from the DuraMag acquisition to generate more than 25% return on invested capital in the next three years.

We have been very successful in launching and growing our service body business through acquisitions, but we're also driving organic growth through product extensions. Our focused growth strategy has propelled us to the number four position in service bodies, but we see significant upside from here as we focus on both organic and inorganic growth. We have well-recognized brands which we intend to leverage for growth via geographic expansion, product innovation, and strengthening our customer relationships.

In addition to the full line of service bodies we offer, we also have complementary work truck bodies that provide our customers and dealers a full line of truck bodies to meet their needs. These are shown here on the right and include contractor, dump, landscape, and service van. We're also very excited to announce our new XP, extra protection service body, which includes e-coat and internal hinge systems for protection in areas with harsh winter conditions.

When we think about growth, we start with geographic expansion. We aspire to be a nationwide player in service bodies, and we'll achieve this as DuraMag expands westward and Royal expands eastward, expanding into new territories across the U.S. From a product perspective, we intend to continue the cross-pollination of product development between our DuraMag and Royal truck body offerings, to enhance the features and configurations of our customers' products.

In addition, our broad product offering will allow us to meet the requirements of our customers in all geographic areas. We are also growing with our channel partnerships with additional ship through locations. We have increased our chassis pool volume since acquisition by approximately 20%, and we are now rated in the top five in terms of overall OEM chassis-built pools, and we're still growing. We're leveraging our channel and partners, as well as existing Shyft locations, to expand our Company branch locations in new territories in the Midwest and Southeast.

Product innovation is the core competency for the SV business. In service bodies, we're focused on enhanced features and construction that improve both durability and usability among our end customers. For best-in-class tool storage security, we have our five-point fortress locking system, as well as our maglock electronic locking feature. We also focus on applications that prevent corrosion and improve functionality, including the addition of aluminum bodies with the DuraMag acquisition.

We are pleased to be announcing our next-generation aluminum service body this summer, with improvements in many of the areas I have just discussed. In the motorhome chassis, we have a long history of adapting and introducing the best automotive technologies to our chassis products, starting with the first chassis to include independent front suspension. Today we build on that legacy with new safety features under the Spartan Advanced Protection System, which offers integrated collision mitigation, stability control, lane departure warnings, tire pressure monitoring, integrated trailer breaking, and blind spot cameras to enhance motorhome safety.

We have also expanded the product lineup, adding 10 new models over the last few years, including new entry-level diesels at the sub 400 horsepower level to cover the full range of our core market. Within contract manufacturing, we continue to innovate our assembly process to produce multiple new products on existing lines, as well as our flexible process to manage swings in market demand. We also entered the contract manufacturing space for EV, and have a number of new programs in process. All of these innovation efforts continue to pay off with rising market shares across our product spectrum.

Moving from the drivers of top-line growth, we are delivering margin expansion through operational excellence across our manufacturing footprint. This starts with integration of acquisitions like Royal and DuraMag, to the expansion of lean initiatives throughout operations. By implementing lean production practices, including one-piece flow and process flow optimization, we have significantly decreased labor content and enhanced our margins. These efforts have resulted in lower cost of labor per unit, improved facility utilization, and increased capacity for our products, translating into a 160 basis point reduction in overall labor as a percent of sales over a two-year period.

We are also evaluating opportunities to optimize our production footprint to enhance operational effectiveness. We consolidated our motorhome operations to create a smaller footprint, utilizing line side material and sub-assemblies. The end result was increased capacity and a 22% reduction in hours per unit.

Keeping with the capacity theme, we also made improvements in our DuraMag operations, with improved process flow, and have added capital in strategic areas to drive increased output in the same facility footprint. We have had great success to date and have increased our capacity 40% since October. These initiatives will continue as we support our increase in demand and our rising backlog. In addition, we have been able to in source operations through capital purchases, which have increased our production capability and reduced our cost structure.

Another key benefit of these actions is the ability to reduce inventory and working capital requirements, which allows us to invest that cash savings back into the business to help drive future growth.

As I conclude my remarks and summarize the road ahead, I wanted to reinforce that we have a winning formula, supported by a very talented team, that we believe will result in strong top and bottom line growth moving forward.

First, we will deliver organic growth by continuing to innovate for customer value and differentiation, as well as continuing to expand our product offering to deliver a full portfolio of product offerings, and new areas of revenue growth.

Second, is the continuation of our journey for operational improvement. This starts with lean manufacturing techniques deployed throughout our operations. This also includes execution of vertical integration opportunities, and bringing production of components or sub-assemblies in house.

Finally, it means capital enhancements as we look to improve productivity through automation and free up personnel to expand our production capacity. Third, inorganic growth is key, as we look to consolidated fragmented markets through a disciplined acquisition strategy.

We will focus on opportunities that include product portfolio or geographic expansion, and those that bring solid growth potential and are accretive to our earnings. The ultimate goal of these efforts will be to achieve our 2025 growth targets, including EBITDA growing to 15% and revenues growing 100% over the next five years.

That concludes my portion of this presentation. I appreciate your interest learning more about the performance and focus strategy to deliver in specialty vehicles. Thank you again for your time and attention during this segment, and I look forward to your questions in the Q&A portion of the meeting.

We're going to take a 15 minute break now for intermission before turning it back over to Daryl. See you all back here in 15 minutes. Thank you.

Female Speaker

Please welcome back President and CEO, The Shyft Group, Daryl Adams.

Daryl Adams

Welcome back to today's discussion surrounding the road ahead for The Shyft Group.

As we discussed innovation today, we focused on customer-centric innovation, meaning something that is innate to our customer's business or routes, or even their customers driving a need for a capability, or even a full vehicle, that will help alleviate a challenge or help them meet a goal.

Now we're going to turn to the focus on innovation that is instead market focused, specifically electric vehicles. There are many underlying factors that are driving growth in the electric vehicle market. We can clearly see the impact of both governmental regulation and company mandates driving EV adoption.

From a governmental mandate perspective, many states and municipalities are mandating zero emission vehicles for a variety of uses. These mandates create a requirement for adoption. Additionally, underlying demands from stakeholders, including customers, investors, surrounding communities, are also driving companies to minimize their impact on the environment. In response, large fleets, from parcel delivery to retail and logistics companies, have responded to the market by planning deliberate paths to reducing emissions through adoption of zero emission vehicles.

Ultimately, these factors are driving outsized potential growth in commercial EVs over the coming decades. The estimated total addressable North American market in Class 3 to 5 vehicles is more than $16 billion (phon), while it's estimated that over 50% of the global light and medium duty commercial vehicle sales will be EV by 2040. Our customers green mandates are driving the need for EV Solutions. Major fleet operators are embracing a variety of environmental goals that can only be met with a continued adoption of EVs.

From reduced greenhouse gas emissions to reaching carbon neutrality or net zero emissions, one thing is clear, our customers are driving the adoption of EVs within their fleets. More and more, we are seeing how customers are confronted with the emerging emission regulations and are working to help fuel cost in check while routes and end markets volumes continue to expand.

The Shyft Group's expertise in specialty to vehicle of chassis engineering, and manufacturing is second to none. We have been building custom chassis for nearly half a century, creating a foundation of knowledge that we can apply to meeting customer needs in an evolving technological environment. In fact, over the past 17 years, we have put over 2,500 alternative propulsion vehicles on the road. For the past nine years, those alternate vehicles have been large part EV powered chassis. With that level and length of expertise, it's not a wonder why large fleet customers across vocations have tapped the Shyft Group brands to supply them with purpose-built EV powered specialty vehicles.

With a strong history of customer driven purpose-built innovation, we're now launching the next evolution of these efforts: Shyft Innovations. Based on the speed at which technology is advancing in 2020, we established Shyft Innovations, a dedicated team of our most talented engineers reporting directly to me whose job is to have their ears on the ground, listening for the market directives, incorporating customer voices and wish list to leverage our rich history of performance to drive the next generation of purpose-built electric vehicles. With that as a lead in, I'd like to introduce a project the Shyft Innovations team has been hard at work on for the past few months.

(Video Presentation)

We hope you are excited about what you just saw as we are. With this level of market and customer demand as a backdrop, our proven ability to build and innovate the industry's best purpose-built specialty vehicle chassis, we are excited to announce that we're now squarely in the EV chassis market. Our customers asked and we listened. We heard clearly that, across vocations, fleet customers are looking for a purpose-built chassis solution that is robust and meets their performance standards and they want it directly from an OEM. This led us to the design of an all-electric, zero-emission commercial grade vehicle flat modular chassis that is vehicle class and application agnostic.

The platform offers cost effective customization capabilities, a software-enabled platform for easy integration with fleets to further enhance fleet operating efficiency. The chassis will come in two wheel base length options with a 5,000-pound payload in a medium-duty chassis. For fleet operators, the chassis will offer 150 to 175 mile range and a charge time of just two to six hours for a maximum up time. With a 10-year life cycle and exceptional power train warranty, this chassis will provide an ideal EV alternative to core fleet customers.

From a timing perspective, Product Development will span five distinct phases, which will leverage our experienced chassis team, industry leading supply base and improvements component integration to fully develop, test and launch their products by the middle of ‘23.

To give a bit more color, Phase 1 encompasses proof of concept development to assess performance and solicit additional customer feedback. In subsequent phases, that feedback will be incorporated into the full production design which will help ensure our ability to meet demand over the near term while establishing standard procedures in production flow. At the completion of our phased approach, we will be well positioned to quickly and efficiently ramp up production to meet demand.

Following this morning's announcement, I am extremely excited to share the news of our entry into the EV OEM market with all of you, and I'm doubly looking forward to your feedback and questions at the conclusion of today's presentation in the Q&A portion of the meeting.

With that, I'm pleased to now turn it over to Jon Douyard, who will review some of our key financial performance highlights from 2015 to today, and then pave the path to achieving 2025's financial targets and beyond. Jon.

Jon Douyard

Thank you, Daryl.

That presentation is going to be a tough one to follow, but I have to say I continue to be impressed by the level of determination within the Company to do what's right for the customer and our shareholders. I think that this EV initiative is another great example.

Transitioning into the financials, I want to take this time to build off the strategy that the team did a fantastic job laying out today. As I am sure you have taken away, we are optimistic about the future of the Company, and we feel that we have a compelling growth story backed by years of successful execution. With that, let's get into the details.

Taking a look at our recent performance along with our 2021 guidance, the trend is noticeably positive and the results from our overall portfolio transformation are clear. Revenue grew on average of 16% per year and Adjusted EBITDA has been an even steeper increase at 31% per year.

We have seen robust order growth, which has resulted in our now record backlog numbers. We have also seen significant progress on ROIC, which is expected to approach 20% in 2021 based on our guidance.

Ultimately, these results demonstrate our ability to execute efficiently and effectively utilize shareholder capital to drive returns above our peers. As Daryl introduced in his comments, we've outlined a set of ambitious goals for 2025, including the doubling of the Company to $1.75 billion in revenue while expanding Adjusted EBITDA margins to 15%.

Before I get into the details on subsequent slides, I wanted to take the opportunity to summarize the framework. As we think about our growth on the top left, our team has done a tremendous job focusing the Company on higher growth markets, particularly as it relates to parcel delivery. This focus, along with other investments and initiatives, will allow us to deliver above average growth going forward.

As we look at our business and our operations, we will maintain our focus on continuous improvement, leveraging this proven capability to drive efficiency in both our cost structure as well as our cash generation. As a Management team, we are committed to deploying capital in a manner that accelerates our strategy, both through acquisitions and through increased investment in innovation that will fuel our momentum and growth opportunity overtime.

With that summary, let's take a look at each of these areas in more detail and outline our plan for achieving these targets.

As we look at our ability to generate organic growth, it's important to reiterate our baseline. We have set our 2021 sales guidance at $875 million, an increase of 30% year-over-year. Given the strong customer demand and current backlog, we have a high level of confidence on delivering this guidance despite the ongoing issues that are impacting the broader market. By 2025, we expect sales to double, resulting in an annual growth rate of 19% and revenue of $1.75 billion.

As we have transformed the Shyft portfolio, we have focused the Company on higher growth markets. This is most apparent in the parcel delivery space, where Chad did a nice job earlier walking through the underlying drivers. Ultimately, we expect package volume, which is highly correlated to vehicle requirements, to grow 7% to 10% annually through 2025.

In addition, given the age of the fleet, our growth model is also supported by vehicle replacements and when these two drivers are combined, we expect major fleets to require an additional 300,000 vehicles in the coming years and contribute $150 million of incremental revenue in 2025.

Additionally, as Steve laid out today, we're already seeing the benefits of our acquisitions and expect this momentum to continue. As we combine the capabilities of two industry leading brands in Royal Truck body and DuraMag, we expect our service body business to double through realization of commercial synergies, as well as the benefit of a strong U.S. economy and infrastructure investment.

Adding in the exciting investments we are making in EV, as well as other commercial initiatives, we expect average annual organic growth to be 13% over the period. I will talk further about capital allocation later, but with sufficient capital capacity, we plan to deliver $350 million in incremental revenue from new acquisition, which takes us to $1.75 billion in sales, a 19% annual sales growth rate over the period. Given the growth drivers we have outlined, we strongly believe the Shyft Group is well positioned to achieve these targets.

Transitioning to EBITDA margins, we have several levers to pull in achieving our goals. From an operating perspective, Steve and Chad both highlighted the favorable financial results we have experienced recently as a result of our efforts. But more importantly, they spoke to our Company's capabilities that we will continue to leverage going forward. These include our implementation of lean, our flexible manufacturing initiatives to leverage our footprint, and executing on a robust growing pipeline of automation and in sourcing projects, just to name a few. Given the growth in our higher margin businesses, we also expect to see favorable mix going forward and we'll also target pricing in excess of inflation given the strength of our industry leading products.

Additionally, when you look at 2020, particularly with the impact of COVID, our SG&A as a percentage of sales increased post the emergency response divestiture. This was critical investment to build out the leadership team and the processes that will be required to support the expected top line growth that we talked about earlier.

Going forward, while we continue to make investments in our team, the pace will slow and we will gain leverage as we look to double the Company by 2025. We expect these efforts to more than offset the increased R&D in investments in Shyft innovation that will support initiatives such as EV chassis and other next generation technology.

The other area we will look to drive performance is on cash generation. Since 2015, we've seen strong and consistent growth, and we took another solid step forward in 2020 by doubling free cash flow despite a challenging operating environment. Today we are taking steps to ensure that trend continues. We have made strides to reduce finished goods and work in progress inventory within our manufacturing flows, we continue to analyze our customer and supplier agreements while also looking to identify new tools to optimize our cash flow. In addition, we have also reinstated a free cash flow metric in the annual bonus calculations for our segments in 2021.

Our overall arching goal is to sustainably deliver free cash flow in excess of net income. In the short term, this metric will be challenged as we invest in the EV chassis program and we expect to be closer to 80% in 2022 and 2023. Given the timeline that Daryl laid out, we do expect to be back to free cash flow conversion in excess of net income by 2024. Not surprisingly, our ability to convert cash enables us to fund strategic investments going forward. As you can see on the chart, we generated just over $100 million of free cash flow since 2015. As we look forward, our forecasts indicate that we will be able to generate three and a half to four times that amount through 2025. With that backdrop, I'd like to move on to capital allocation.

Given the expected increase in cash flows in the coming years, allocation will be a key accelerator to our overall strategy. As evidenced by Shyft's recent financial performance, the Company has been quite successful in deploying capital and transforming the portfolio. You can see how we have invested on the top left of this chart, which also includes redeploying the proceeds from the emergency response sale. Given the progress we have made, there are several key items that will remain foundational as we move forward. These include maintaining a strong balance sheet, investing in our current operations and organic growth plans, and funding the dividend that we have consistently paid since 1993. From there, we will first look to M&A.

Given the increase in free cash flow, as well as the potential capital available through our lenders and other means, we would expect to deploy a multiple of what we've spent over the last six years on acquisitions, contributing significantly to the performance of the Company through 2025 and beyond. We will continue to be patient and selective on acquisitions. In instances where M&A may not be actionable, we will look to purposefully return capital to shareholders, primarily through repurchase of stock with the same rigor, we approach any other investment such that they provide returns that exceed our targets.

In summary, we believe we can continue to deliver above-average returns through our efficient capital deployment. A great example of this is the DuraMag acquisition, where, as Steve indicated earlier, we expect returns in excess of 25% by Year 3. With that context, I'd like to walk through how we think about M&A more broadly.

Overall, our aim is to continue our strong track record of successful acquisitions that have added over $100 million to the top line and enhanced our overall profitability. There are many factors in M&A, but it is incredibly important for us to ensure that we have the right strategic fit and an ability to create value. Key to any transaction is the long-term attractiveness of the market, both from a product and geographic perspective. We look for companies who have strong brands, management teams, and a history of innovation in their space that collectively provide a competitive advantage. We look for financial profiles that can enhance our margins and ultimately where we see the ability to drive ROIC that is above our cost of capital and has the opportunity to expand our Company returns.

Over the past year, we have enhanced the internal processes to identify, evaluate, and conduct diligence on potential targets. We have also added rigor to the monitoring and management of acquisitions post-closing. We remain disciplined in our approach to acquisitions and are committed to M&A as a major contributor to our growth story.

As I wrap up, it's important to note that over the past six years the Shyft Group has a tremendous track record of execution in delivering for shareholders, as evidenced by the 5x total shareholder return versus our peer group that Daryl referenced earlier.

As we transition to our next growth phase, there are a number of positives that are apparent within our markets and the Company that I would like to reiterate. The transition to higher growth, more attractive markets is paying off. Even with the recent growth that Shyft has experienced, we expect revenues to double again by 2025, supported by our leading position in the parcel delivery markets and newly acquired positions in infrastructure.

Margin expansion continues to be a big part of the story and we have proven the value of our lean approach, flexible manufacturing, and the ability to improve costs and output over time. These capabilities will be critical as we look to achieve 15% Adjusted EBITDA margin going forward. Our balance sheet remains healthy and our ability to generate sustainable cash flow is improving, allowing us to strategically deploy capital to accelerate returns. These investments include not only M&A, but a renewed focus on innovation and technology, particularly in the electric vehicle space.

Combined, we expect these factors to be key contributors to the success of the Company going forward and we are committed to delivering for shareholders in the coming years. Growth, strong profitability, and a determination to drive shareholder value make the Shyft Group a solid investment for years to come.

With that, I will turn the meeting back over to Daryl for closing remarks.

Daryl Adams

Thank you, Jon, Chad, and Steve, and I want to thank each of you for joining us today as we shared our view of the road ahead for the Shyft Group.

Before we begin our Q&A session, I would just like to conclude with reiterating how extremely proud I am of not only our overall performance but of our team. As we look to the road ahead, we start with our goal of being the leading purpose-built vehicle manufacturer. This means being number one or number two player in each of the markets we serve. Looking at that goal, we believe we are well-positioned to strengthen and grow our core business. We have a focused leadership team dedicated to delivering operational excellence and improved product portfolio based on our customer-centric focus.

These efforts are built on a foundation of financial strength that we continue to build on. As we accelerate the road ahead, we will define our success in terms of our 2025 financial goals, including achieving $1.75 million (phon) in sales and Adjusted EBITDA margin of 15%. As we achieve these long-term goals, we expect to also benefit with improved cash flows and increasing ROIC.

There's a clear path of opportunity ahead for the Shyft Group and sustainable value yet to be realized. I'm proud to lead this ever-evolving organization and look forward confidently and with resolute optimism to what the future holds and to delivering on the road ahead for the Shyft Group and its shareholders.

That concludes our prepared remarks and now I'll turn it back over to Juris to walk through the question-and-answer process.

Juris Pagrabs

Thank you, Daryl.

Welcome to the Q&A segment for today's session. Before we begin, let me reintroduce our panel. To my left is Steve Guillaume, President of Specialty Vehicles. Next we have Daryl Adams, CEO. Jon Douyard, CFO, and finally Chad Heminover, President of Fleet Vehicle Services.

With that said, let's take our first question from Mike Shlisky from the Colliers Group. Mike, please go ahead.

Mike Shlisky

Can you hear me okay? First, can we start off with just your broader 2025 outlook here. I know you've got some moving parts, especially the EV launch in 2023, and of course it's hard to time the M&A. But excluding the M&A, do you feel like there's some reasonable linear step function here, could you be halfway to your goals by 2023? (Inaudible) banking on what happens with the EVs in 2024 and 2025.

Juris Pagrabs

Jon, do you want to start that and maybe turn it over to Daryl?

Jon Douyard

Yes, no, I will take that. Mike, good question. I think as we look at the growth profile of the business in a 10% per year with the replacement cycle really kicking in late '22, '23, we will see strong growth there. I think as Steve talked about with some of the commercial initiatives and also the doubling of the service body businesses, that's not going to happen overnight. As we look for the next couple of years, we do expect to see linear growth, and to your point, on top of that, we've got the acquisitions.

Daryl Adams

Along with that linear growth, if we go back to maybe '15 and what we saw with e-commerce in the last few years, if it's not M&A, I still think there's a good chance that we might have—we're still optimistic on what we can do with the top-line growth, but as we've proven, our bottom line is always going to outpace top line, so I think that number still stands.

Juris Pagrabs

Do you have a follow-up, Mike?

Mike Shlisky

Great. Yes, the other question was on the EV strategy and your purpose-built chassis. I'm curious, could you maybe take us through some of the more likely use cases for that chassis once you launch it? Is it going to be a walk in van or more of a smaller cargo van? I know it's Class 3, but it might be larger to fit in your current or upcoming OEM EV relationship, and are you planning to (inaudible) where the other folks won't be electrifying to avoid upsetting your current and future customers or is there a different strategy there to help manage your way through the launch and hopefully the roll-out of that product line?

Juris Pagrabs

Go ahead, Daryl.

Daryl Adams

You want me to take that one?

Juris Pagrabs

Yes, please.

Daryl Adams

Mike, I think there's more than one question in there, but let me try to answer them for you. We specifically went at the Class 3 space, (inaudible) as we feel they are going to continue to electrify that space. We did see a little bit of a void in the Class 3, and that's why we targeted it, and there is some space for us to move up in the Class 4. You hear the word skateboard. This is not a skateboard. This is a purpose-built custom chassis for the Class 3 space that is strong enough to go into Class 4 space to be in our walk-in van, maybe even light truck body, it could be a shuttle bus if you want to get into that space.

You also take the 17 years that we've been building alternative propulsion, the nine years in EV, we feel that we're in the lead, second to none, as I think I mentioned in my presentation, to fit in this space. Plus as we've mentioned on some of the other earnings calls, our customers have been asking for it. We don't like to say no, if you know us very well. We decided it was the right time based on the market we saw and wanted to get into the space and it is going to be Class 3, so we do not isolate our relationships. It's also going to be Shyft Innovation so that Chad and FBS still have the opportunities to build on someone else's chassis. We didn't want to him—we try to thread that needle and we think we did a really good job at it.

Mike Shlisky

Thanks so much, guys. I appreciate it.

Juris Pagrabs

Thanks, Mike.

Daryl Adams

Thanks, Mike.

Juris Pagrabs

Our next question is from Steven Dyer from Craig-Hallum.

Steven Dyer

Good morning. Thanks, everybody. A lot of good information. Thank you for that. A couple of questions for me on your outlook. The first, when you strip out your anticipated contribution from acquisitions, that implies an organic growth rate right in that 9%, 10% range, which is similar to the underlying growth expectation certainly in the FBS industry. Historically, you guys have gained quite a bit of share, I think, in that space. Is there any reason why you'd only continue to grow at the industry growth rate and not gain share?

Daryl Adams

I'll take that, Mike. I think when look at our growth overall, I think to your point, we've seen significant growth here from 15% to 20%. Over that time, we've grown 10% from an organic perspective. I think when we look at the guidance here going forward, we feel we're in the low teens range of gaining share. We're very well-positioned in the partial space. We've got a number of great products with significant opportunity, both on service bodies as well as in Chad's business.

From a portfolio perspective, we feel like we're well-positioned to outpace the market and continue to gain share and that's been our strategy all along, to your point. We'll continue to focus on innovation as well and reinvest in the business to identify new markets. Chad talked about refrigeration or pickup truck upfit and different opportunities there that could really drive, accelerate again, a mid-teens business going forward, which we feel that we're competitively positioned to outpace through the peer set as well and be in the top quartile.

Steven Dyer

Thank you. Then second question for me, just as it relates to acquisitions, you've got $350 million or so penciled in over the next several years, which would be I think an uptick from the pace that you've been on. You talked a lot about potential adjacencies and the two (inaudible) third leg to the stool, so to speaker, or primarily are you focused on the two existing lines of business you have? Thanks.

Juris Pagrabs

You want to take that one too?

Daryl Adams

Yes. Steve, thanks for the question and thanks for your continued interest. I think as we look at it, our market is fragmented, the ones that we typically are involved in today. We continue to look at those from an acquisition standpoint. We do have our pipeline meetings on a weekly basis just to understand what's out in the market. But for sure we are and have been interested in a larger acquisition now that the Company's positioned well. You saw Jon's chart on the free cash flow and what we expect to do there, and the entire business portfolio. That is definitely on our radar.

Steven Dyer

Thank you.

Juris Pagrabs

Our next question is from Matt Koranda from ROTH Capital. Matt, go ahead, please.

Matt Koranda

Hey, guys. Thank you. Maybe just continuing on the M&A theme. For the $350 million that you identified in terms of incremental revenue coming from M&A, I wanted to see if maybe you could quantify what's currently in the pipeline, and a little bit more color would be interesting just on what the average EBITDA margin looks like in that pipeline, or are some of these things fixer-uppers or are they going to be accretive to margins? That would be helpful as well. Then just to Steve's point, maybe appetite on—if you're going to do something larger, what is the appetite look for in terms of stretching on net leverage in the balance sheet?

Jon Douyard

(Audio interference) about generating significantly more free cash flow over the next four years as we did—than we did in the past. If you look at the numbers Daryl presented earlier is $265 million of EBITDA by (audio interference) that we have in the business expected to be in the $350 million to $400 million range. You put those together and you're looking at the ability to go spend a billion dollars on—call it $900 million to a billion dollars on M&A. I'm not suggesting we're necessarily going to stretch that far or that we need to stretch that far, but we feel very comfortable. I think we've been very prudent in how we've managed that historically. We'll continue to keep that in mind.

When you look at the funnel, and I talked a little bit about this in the remarks, but we're looking for businesses that are attractive from a financial perspective—the competitive advantage and their inherent qualities and expand that and create value just as we did with DuraMag and Royal. I think Steve talked about the crossover from a geographic perspective as well as from a product perspective. Then you throw on completely different distribution channels.

We're really looking at attractive businesses from a gross margin perspective that we can then take in outpaced market growth as well as capture cost opportunities. Those are a couple maybe specifics there. If you look at the funnel, I would say we're really in that mid-teens range in terms of profitability, so call it 13% to 15% of companies that we're looking at. Again, we're looking for opportunities to take that north of those numbers as we integrate and gain value from them.

Matt Koranda

Super helpful, Jon. Then maybe I was curious to hear directly from Steve and Chad, if we could, just in terms of where they see the biggest opportunities in their respective segments for M&A. The message I took away from some of their respective presentations was it feels like there's a lot of fragmentation, they consolidate a bit there as well. But should we be thinking about other avenues of opportunity on the M&A front? Maybe if you could take that in turn, it will be helpful.

Juris Pagrabs

Steve, you want to start?

Steve Guillaume

Sure. I would agree with you, Steven. I think there is opportunities and the opportunity, our portfolio today and where we could potentially provide extensions to those products with an acquisition. I think geographic expansion is also critical. We showed you today where we're playing and where we'd like to expand to. But I still think there's some potential opportunities for expansion there. I think the other thing is also distribution expansion and capacity. We're focused on growth. We talked about some of our lean initiatives and how we're increasing capacity today. But certainly efforts from a (audio interference)

Chad Heminover

Yes, and from the FES front, I think you've asked a great question. We made a point about the truck body business. There are some markets that we plan in today that are fragmented, that we're going to look at consolidation opportunities. We're also going to look at new products categories, as well as different markets. Today, we focus heavily on the fleet side of our business, which is more or less a national play. There's areas on the regional side that we could play in a region that we do not play in today with where our footprint is today, that gives an opportunity to continue to expand. There's a few that have come up that have been of interest. We're going to continue to do what Jon mentioned, is play our playbook. We're going to keep to that playbook and hopefully we can provide value to the organization as we continue to look at acquisitions.

Matt Koranda

Great. If I could sneak one more on the EV opportunity and lots of good color there in the presentation, so I really appreciate that. But could you just characterize any indications in terms of orders and interest from fleets? Obviously, you wouldn't be doing this without that, I would assume. But any way you can quantify the interest you're getting and where you expect the order book to shake out over the next, call it, year-and-a-half as we ramp up? Then also that 50 (inaudible) opportunity.

Daryl Adams

Matt, I will take the beginning and I'll let Jon talk about the financial piece. But I would say it's a little early to talk about the order book. We're not going to go out to the public and try to get preorders like you may have seen in the past in some of the EV people that are coming to the market. We're going to do what we have done for 46 years. We're going to take the chassis that we know how to build, we're going to build it. We're going to take—and the reason the money is $50 million to $75 million, that's just for the integration. We're not the—preferred partners that we have, we're working on those right now. We feel we have a great line of sight on them. There's plenty out there, especially in the automotive field, so we're going to take those and integrate them in.

That's why we think that cost structure is going to be optimal for us to be able to compete at the end, not just from the fleet customers asking us to get in because they can't find a robust chassis. You see some people maybe taking a class II and trying to take it into a class III or make it a delivery vehicle. I think our customers are seeing how the cargo vans and the durability of those over (audio interference) motor-homes and fire trucks. We can scale that down to still make it robust, and that's the goal, and that's what we're going to do, and it's going to be in that class III and IV space.

Jon, you want to talk about the money?

Jon Douyard

Yes. I think from a financial perspective, the $50 million to $75 million that we laid out is really project-related expenses, so we don't view that as ongoing operating costs. If you look at it and try to get proof-of-concept in test vehicles out here in the next 12 months or so and then it'll transition to capital as we look to production and the new production facility potentially too, that's located close to suppliers as well as our customers in order to meet their needs. You'll see that trend here over the next two years and by the time we launch we would expect to have a very competitive price product with anchor, if you will, in terms of margins or in terms of profitability for the Company. We view this as an investment for two years that will be able to pay itself off shortly a couple of years after launch.

Juris Pagrabs

Thanks, Matt. I think we'll move on to (audio interference)

Felix

Hey, thank you. I just wanted to quickly ask on the parcel backdrop and the replacement cycle dynamics you guys laid out. The incremental 100,000 units from replacement and 200,000 for growth versus 2020, just put those numbers in mind, if we do some rough math on the $150 million in parcel growth implied from a revenue perspective, but these are about 30% to 35% based on where you are today, and you got to think there's probably some price increases as you transition to the velocity. My question is, Daryl, Jon, as you think through that forecast, do you feel that could prove ultimately conservative from a market share perspective if those units do all roll in? If you guys could just broadly touch on competitive dynamics in that parcel space with a slew of EV startups, maybe entering the market right around the time replacement kicks in.

Daryl Adams

Jon, you want to address the first part? Maybe we'll turn it over to Chad or…

Jon Douyard

Yes, I can start. I think as you look at the revenue attributed to that, I think it's a very fair question, Felix. We view the share that we have today, we feel like we're in an incredibly well position from an industry perspective and a customer relationship perspective. We don't expect that to change, and I think as I have indicated, we expect that to continue to grow, so we're not looking necessarily for share changes. I think, looking at exactly how those 300,000 vehicles play out here over the next couple of years, I think is obviously a bit challenging. Daryl talked about the crystal ball earlier, but what we do know from our analysis is that if you look from 2015 to 2025, the fleet size is going to triple.

Over that period of time, we've seen significant growth in the fleet business. We've more than doubled the business from that perspective and we expect to continue to see growth going forward. I think outpaced growth, I think, from that perspective as well. There's no indication of the share as those vehicles play out here over the next couple of years.

Daryl Adams

Chad, you want to talk about the competitive environment in that space?

Chad Heminover

Yes, the competitive landscape is changing with the dynamics of all these new EV startups coming into the space. But like I mentioned, we're well-established. We have been in business since 1973 on the Utilimaster brand and we're well-positioned. We have some product lines that we don't have any competition today and we're going to continue to do what we do best, which is we're going to continue to innovate and listen to our customers and develop products that meet their needs.

This market is going to evolve over the next three years as these fleets understand what's going to happen to them with the EV space and the changing environment from the shift from B2B to B2C. They're evolving, we're going to continue to evolve. It plays right into our strategy, which is that work driven design process where we listen to our customers, we do a needs assessment, and then we design and we innovate, and then we build and implement and we optimize, and we're going to continue to do that over the next five years.

Daryl Adams

Thanks, Steve. Further question, Felix?

Steve Guillaume

Felix, I'm sorry. Can I…?

Felix

Yes.

Steve Guillaume

Felix, do you mind if I add a little bit to that? Back to your first question, part of that question, I would say. I do think there's some upside. When we're looking at it, we're trying to understand it, and we do want to be a little conservative on what we put out for you guys, but I think if you've seen what we've done in the past, you take that and look at that for the future, we're not going to change. The market is changing and we're adapting to the market. However that grows, I think we've shown that in the past, we are growing much faster than that, and I think you're going to continue to see that from the Shyft Group.

Jon Douyard

Yes, maybe just to add one more thing. I think we haven't necessarily talked about our parcel exposure, if you will, historically. We included that in the materials today. You think we're certainly have a very strong position in parcel, not only from a products perspective, but as a piece of the portfolio. As you see that grow, certainly outpacing other industries, as we've talked about, we're well-positioned there. Again, could it be a little conservative? I think potentially, but we'll see how it plays out over the next four years.

Felix

I really appreciate all the color. Maybe just quickly as my follow-up on the free cash flow (inaudible) around the 100% conversion really being a key focal point. I think I know you mentioned going maybe below 100% in '22 and '23, presumably due to Capex needs on the EV project. But can you maybe update us more broadly on manufacturing capacity needs as you see it over the next five years based on the growth forecasts you've outlined today? Jon, if you have a good bogey for us just on maintenance Capex going forward if we were to strip out growth?

Jon Douyard

Yes, I think the Company has been able to grow incredibly well with little Capex historically. This is a Capex light business. I think as you are aware, we've spent, I think, $15 million in 2020 and prior to that it was typically under the $10 million range. As we grow, those numbers will increase over time. But what are you seeing here in '20 will be a bit of a headwind from a cash flow standpoint. I think as you look at capacity otherwise, I think we've proven with our margin expansion, with our growth, that this flexible manufacturing strategy has worked really well. You look at the velocity where we're able to convert a factory really within about three to four months to get up to production levels.

We've demonstrated the ability to be flexible based on the products that customers need and we'll continue to do that. Our urgent capacity needs are not even urgent, but would really be tied to a next-generation product as we look at the EV space. But from the balance of the portfolio at this point, I think we're in pretty good shape.

Daryl Adams

Any other questions, Felix, at this time?

Felix

No. I appreciate the time for it.

Jon Douyard

Thanks, Felix.

Juris Pagrabs

We may have some additional time to circle back to you guys. Let me, at this time, address some web submitted questions. We have a few. First one is, with our own EV chassis, how will the margin profile change for the (audio interference)

Chad Heminover

… RD chassis. Most of our customers are chassis. They buy the chassis stuff through the OEMS without us being involved. Today, our body that the FES division, we're putting on the CV chassis, that margin profile will not change. It could actually improve. But when you look at it from a chassis perspective today, basically our customers buy those outside of us.

Jon Douyard

I think that it's a point. We'll continue to innovate, we'll continue to drive value from that perspective agnostic of whatever chassis we have. I think that's one of the strengths they have. They can focus on innovation and on the customers' needs.

Daryl Adams

If I could add to that, I think when we talked about just the Shyft Innovations chassis that we're developing and that's where we're going to design too.

Juris Pagrabs

Thank you. Next question, can you please give more color on the 15,000-unit estimate for velocity? How did you get to that figure and what is our current capacity and production rate?

Chad Heminover

(Audio interference) got a factory that we tipped up and we're continuing to improve the throughput of that factory over the last even weeks. That 15,000 number is based on a variety of different customers on that product line. I think we're well-positioned with our current structure in place from a capacity perspective to support that volume, this year as well as next year, with no additional investment in infrastructure. We are well-positioned and we're in a great place (audio interference)

Jon Douyard

… we're about 33%, 35% percent into the volume we expect to get on a daily basis and we're still on one shift, correct?

Male Speaker

Correct.

Jon Douyard

Lots of room to grow that business in the Charlotte Plant.

Juris Pagrabs

Thank you. Arch (phon) third stool, are there any high RIC acquisition opportunities enrolling up the upfit market that remains so fragmented?

Daryl Adams

I guess I'll start with that one…

Juris Pagrabs

Okay.

Daryl Adams

…and maybe go through with it with Jon. But even when you still combine those, it is still a very fragmented business. There's a lot of those, maybe three to five different storefront companies around. We still take a number of those to get up to the number that Jon had in his slide. We are continuing to look at those. We are not moving away from—we're looking at the smaller tuck ins. I don't want to say rolling up the business, but maybe continue to have incoming calls from the bankers.

Juris Pagrabs

Thank you. We now have another analyst who joined us, Steve O'Hara, from the Sidoti Group. Steve, go ahead.

Steve O'Hara

Thanks for taking my question. Just maybe going back to the EV platform (audio interference) and is this something that's buildable? It doesn't sound like it's going to negate your ability to partner with Steve (phon) port providers and things like that. But is there a risk that they see you guys as a threat in that business?

Daryl Adams

(Inaudible) might see us as a threat. I think that's just normal business. But as you get into the EV chassis space, I think no one is going to single-source someone on a chassis, so there's always plenty of room for competition. This is into that—the niche Class III space and (inaudible) move up into Class IV. As I mentioned earlier, they've already brought out some of their products. This is going to be a purpose-built chassis that we can build on or anybody can build on. It could even be a shuttle bus that is moving people from the airport back and forth that has a real frame underneath it versus a unit body.

Steve O'Hara

Okay, and then in terms of the battery technology and things like that, is that something that you guys are (audio interference) enough where they don't want to single-source yet and pick a horse yet?

Daryl Adams

Very good question. Our goal and our design is to be very flexible because we understand the market and we understand that some customers may want a different eAxle or a different battery. Our goal is to make it flexible, and also, Steve, the—we want to make sure that we continue to be flexible and stay current on the products that are there, whether it needs (inaudible) battery source or change the motor possibly, or even the axle. Because some customers may want to have—they may pick to standardize the battery versus the chassis.

Steve O'Hara

Thank you. Then maybe just lastly, you talked a bit about Capex. Can you just talk about how you think about Capex going forward, 2024 is expected to be back to 100%. But how do you think about Capex the next few years assuming no M&A and then maybe assuming M&A, you've got (audio interference)

Jon Douyard

… we've put out there is that we're going to spend $20 million to $25 million on capital, really investing in the velocity as well as in some automation activities to drive throughput and cost out in the factories. As we get into 2023, we'll continue to have similar—some type of investment along the operational side. But we'll really start to see some of the EV investment come late 2022 and then into ‘23. I would expect us to be in the $25 million to $30 million capital range for those two years and then dropping (audio interference) with where we've been historically, 1% or even less than 1% of sales from a Capex perspective, is where this business has operated. I think we will continue to stay in that range.

Juris Pagrabs

Okay. You're good, Steve? Very good. We have no additional questions in the queue. At this time, this concludes our event. On behalf of Management team and these (audio interference)