UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2023.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________

Commission File Number 001-33582

THE SHYFT GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Michigan	**38-2078923**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
41280 Bridge Street	
Novi, Michigan	**48375**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(517) 543-6400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SHYF	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 20, 2023
Common Stock	34,289,839 shares

THE SHYFT GROUP, INC.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains some statements that are not historical facts. These statements are called "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve important known and unknown risks, uncertainties and other factors and generally can be identified by phrases using "estimate," "anticipate," "believe," "project," "expect," "intend," "predict," "potential," "future," "may," "will," "should" or similar expressions or words. The Shyft Group, Inc.'s (the "Company," "we," "us" or "our") future results, performance or achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Risk Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include the risk factors listed and more fully described in Item 1A – Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission on February 23, 2023, subject to any changes and updates disclosed in Part II, Item 1A – Risk Factors below, "Risk Factors", as well as risk factors that we have discussed in previous public reports and other documents filed with the Securities and Exchange Commission. Those risk factors include the primary risks our management believes could materially affect the potential results described by forward-looking statements contained in this Form 10-Q. However, these risks may not be the only risks we face. Our business, operations, and financial performance could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. In addition, new Risk Factors may emerge from time to time that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, although we believe that the forward-looking statements contained in this Form 10-Q are reasonable, we cannot provide you with any guarantee that the results described in those forward-looking statements will be achieved. All forward-looking statements in this Form 10-Q are expressly qualified in their entirety by the cautionary statements contained in this section, and investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company undertakes no obligation to update or revise any forward-looking statements to reflect developments or information obtained after the date this Form 10-Q is filed with the Securities and Exchange Commission.

Trademarks and Service Marks

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. Solely for convenience, some of the copyrights, trademarks, service marks and trade names referred to in this Quarterly Report on Form 10-Q are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our copyrights, trademarks, service marks, trade names and domain names. The trademarks, service marks and trade names of other companies appearing in this Quarterly Report on Form 10-Q are, to our knowledge, the property of their respective owners.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,876	$ 11,548
Accounts receivable, less allowance of $290 and $246	91,536	115,742
Contract assets	48,469	86,993
Inventories	115,200	100,161
Other receivables – chassis pool agreements	29,285	19,544
Other current assets	5,350	11,779
Total current assets	299,716	345,767
Property, plant and equipment, net	79,437	70,753
Right of use assets – operating leases	47,669	53,386
Goodwill	48,880	48,880
Intangible assets, net	46,221	49,078
Net deferred tax assets	11,004	10,390
Other assets	2,534	2,227
TOTAL ASSETS	$ 535,461	$ 580,481
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 99,299	$ 124,309
Accrued warranty	6,317	7,161
Accrued compensation and related taxes	16,127	14,434
Contract liabilities	6,233	5,255
Operating lease liability	10,884	10,888
Other current liabilities and accrued expenses	7,597	19,452
Short-term debt – chassis pool agreements	29,285	19,544
Current portion of long-term debt	203	189
Total current liabilities	175,945	201,232
Other non-current liabilities	10,105	10,033
Long-term operating lease liability	38,491	44,256
Long-term debt, less current portion	55,181	56,266
Total liabilities	279,722	311,787
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, no par value: 2,000 shares authorized (none issued)	-	-
Common stock, no par value: 80,000 shares authorized; 34,289 and 35,066 outstanding	91,046	92,982
Retained earnings	164,624	175,611
Total Shyft Group, Inc. shareholders' equity	255,670	268,593
Non-controlling interest	69	101
Total shareholders' equity	255,739	268,694
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 535,461	$ 580,481

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Sales	$ 201,325	$ 286,075	$ 669,865	$ 725,153
Cost of products sold	164,557	231,979	547,419	603,008
Gross profit	36,768	54,096	122,446	122,145
Operating expenses:				
Research and development	5,225	7,051	18,064	19,541
Selling, general and administrative	27,419	25,033	89,978	78,445
Total operating expenses	32,644	32,084	108,042	97,986
Operating income	4,124	22,012	14,404	24,159
Other income (expense)				
Interest expense	(1,572)	(1,137)	(4,697)	(1,754)
Other income (expense)	15	181	209	(342)
Total other expense	(1,557)	(956)	(4,488)	(2,096)
Income before income taxes	2,567	21,056	9,916	22,063
Income tax expense (benefit)	(1,951)	3,770	(965)	3,346
Net income	4,518	17,286	10,881	18,717
Less: net loss attributable to non-controlling interest	-	-	32	-
Net income attributable to The Shyft Group Inc.	$ 4,518	$ 17,286	$ 10,913	$ 18,717
Basic earnings per share	$ 0.13	$ 0.49	$ 0.31	$ 0.53
Diluted earnings per share	$ 0.13	$ 0.49	$ 0.31	$ 0.53
Basic weighted average common shares outstanding	34,604	35,056	34,863	35,071
Diluted weighted average common shares outstanding	34,637	35,365	34,985	35,481

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2023	**2022**
Cash flows from operating activities:		
Net income	$ 10,881	$ 18,717
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,360	10,055
Non-cash stock based compensation expense	5,187	4,922
Deferred income taxes	(614)	64
Loss on disposal of assets	132	481
Changes in accounts receivable and contract assets	62,730	(66,026)
Changes in inventories	(15,039)	(44,029)
Changes in accounts payable	(25,194)	24,708
Changes in accrued compensation and related taxes	1,693	(3,505)
Changes in accrued warranty	(844)	457
Change in other assets and liabilities	(6,474)	9,663
Net cash provided by (used in) operating activities	44,818	(44,493)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(16,143)	(14,228)
Proceeds from sale of property, plant and equipment	100	148
Acquisition of business, net of cash acquired	(500)	-
Net cash used in investing activities	(16,543)	(14,080)
Cash flows from financing activities:		
Proceeds from long-term debt	100,000	120,000
Payments on long-term debt	(101,000)	(55,000)
Payment of dividends	(5,392)	(5,395)
Purchase and retirement of common stock	(19,083)	(26,789)
Exercise and vesting of stock incentive awards	(4,472)	(8,539)
Net cash provided by (used in) financing activities	(29,947)	24,277
Net decrease in cash and cash equivalents	(1,672)	(34,296)
Cash and cash equivalents at beginning of period	11,548	37,158
Cash and cash equivalents at end of period	$ 9,876	$ 2,862

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)
(In thousands)

	Number of Shares	Common Stock	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at December 31, 2022	35,066	$ 92,982	$ 175,611	$ 101	$ 268,694
Issuance of common stock and tax impact of stock incentive plan	5	(4,656)	-	-	(4,656)
Dividends declared ($0.05 per share)	-	-	(1,820)	-	(1,820)
Purchase and retirement of common stock	(349)	(893)	(7,872)	-	(8,765)
Issuance of restricted stock, net of cancellation	193	-	-	-	-
Non-cash stock based compensation expense	-	1,827	-	-	1,827
Net income (loss)	-	-	1,710	(32)	1,678
Balance at March 31, 2023	34,915	$ 89,260	$ 167,629	$ 69	$ 256,958
Issuance of common stock and tax impact of stock incentive plan	5	83	-	-	83
Dividends declared ($0.05 per share)	-	-	(1,770)	-	(1,770)
Issuance of restricted stock, net of cancellation	36	-	(21)	-	(21)
Non-cash stock based compensation expense	-	1,263	-	-	1,263
Net income	-	-	4,685	-	4,685
Balance at June 30, 2023	34,956	$ 90,606	$ 170,523	$ 69	$ 261,198
Issuance of common stock and tax impact of stock incentive plan	4	101	-	-	101
Dividends declared ($0.05 per share)	-	-	(1,765)	-	(1,765)
Purchase and retirement of common stock	(674)	(1,758)	(8,652)	-	(10,410)
Issuance of restricted stock, net of cancellation	3	-	-	-	-
Non-cash stock based compensation expense	-	2,097	-	-	2,097
Net income	-	-	4,518	-	4,518
Balance at September 30, 2023	34,289	$ 91,046	$ 164,624	$ 69	$ 255,739

	Number of Shares	Common Stock	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at December 31, 2021	35,416	$ 95,375	$ 171,379	$ 101	$ 266,855
Issuance of common stock and tax impact of stock incentive plan	3	(8,372)	-	-	(8,372)
Dividends declared ($0.05 per share)	-	-	(1,794)	-	(1,794)
Purchase and retirement of common stock	(607)	(1,598)	(25,191)	-	(26,789)
Issuance of restricted stock, net of cancellation	215	-	-	-	-
Non-cash stock based compensation expense	-	1,648	-	-	1,648
Net loss	-	-	(3,852)	-	(3,852)
Balance at March 31, 2022	35,027	$ 87,053	$ 140,542	$ 101	$ 227,696
Issuance of common stock and tax impact of stock incentive plan	3	(219)	-	-	(219)
Dividends declared ($0.05 per share)	-	-	(1,784)	-	(1,784)
Issuance of restricted stock, net of cancellation	33	-	-	-	-
Non-cash stock based compensation expense	-	2,060	-	-	2,060
Net income	-	-	5,283	-	5,283
Balance at June 30, 2022	35,063	$ 88,894	$ 144,041	$ 101	$ 233,036
Issuance of common stock and tax impact of stock incentive plan	6	52	-	-	52
Dividends declared ($0.05 per share)	-	-	(1,790)	-	(1,790)
Issuance of restricted stock, net of cancellation	(6)	-	-	-	-
Non-cash stock based compensation expense	-	1,214	-	-	1,214
Net income	-	-	17,286	-	17,286
Balance at September 30, 2022	35,063	$ 90,160	$ 159,537	$ 101	$ 249,798

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

As used herein, the term “Company”, “we”, “us” or “our” refers to The Shyft Group, Inc. and its subsidiaries unless designated or identified otherwise.

Nature of Operations

We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific upfit segments) and recreational vehicle industries. Our products include walk-in vans and truck bodies used in e-commerce/parcel delivery, upfit equipment used in the mobile retail and utility trades, service and vocational truck bodies, luxury Class A diesel motorhome chassis and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture as well as truck accessories.

The accompanying unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are necessary for the fair presentation of our financial position as of September 30, 2023, our results of operations for the three and nine months ended September 30, 2023 and our cash flows for the nine months ended September 30, 2023. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission on February 23, 2023. The results of operations for the three and nine months ended September 30, 2023, are not necessarily indicative of the results expected for the full year.

For a description of key accounting policies followed, refer to the notes to The Shyft Group, Inc. consolidated financial statements for the year ended December 31, 2022, included in our Annual Report on Form 10-K.

Supplemental Disclosures of Cash Flow Information

Non-cash investing in the nine months ended September 30, 2023 and September 30, 2022 included $2,258 and $982 of capital expenditures, respectively. The Company has chassis pool agreements, where it participates in chassis converter pools that are non-cash arrangements and they are offsetting between current assets and current liabilities on the Company’s Consolidated Balance Sheets. See "Note 3 – *Debt*" for further information about the chassis pool agreements.

NOTE 2 – INVENTORIES

Inventories are summarized as follows:

	September 30, 2023	December 31, 2022
Finished goods	$ 20,706	$ 13,361
Work in process	8,878	5,200
Raw materials and purchased components	85,616	81,600
Total inventories	$ 115,200	$ 100,161

NOTE 3 – DEBT

Short-term debt consists of the following:

	September 30, 2023	December 31, 2022
Chassis pool agreements	$ 29,285	$ 19,544
Total short-term debt	$ 29,285	$ 19,544

(Dollar amounts in thousands, except per share data)

Chassis Pool Agreements

The Company obtains certain vehicle chassis for its walk-in vans, truck bodies and specialty vehicles directly from the chassis manufacturers under converter pool agreements. Chassis are obtained from the manufacturers based on orders from customers with receipt at our facilities dependent on manufacturer’s production schedules. The agreements generally state that the manufacturer will provide a supply of chassis to be maintained at the Company’s facilities with the condition that we will store such chassis and will not move, sell, or otherwise dispose of such chassis except under the terms of the agreement. In addition, the manufacturer typically retains the sole authority to authorize commencement of work on the chassis and to make certain other decisions with respect to the chassis including the terms and pricing of sales of the chassis to the manufacturer’s dealers. The manufacturer also does not transfer the certificate of origin to the Company nor permit the Company to sell or transfer the chassis to anyone other than the manufacturer (for ultimate resale to a dealer).

Although the Company is party to related finance agreements with manufacturers, the Company has not historically settled related obligations in cash, except as required under our credit agreement. The obligation is usually settled by the manufacturer upon reassignment of the chassis to an accepted dealer, and the dealer is invoiced for the chassis by the manufacturer. The Company has included this financing agreement on the Company’s Condensed Consolidated Balance Sheets within *Other receivables – chassis pool agreements* and *Short-term debt – chassis pool agreements*. Typically, chassis are converted and delivered to customers within 90 days of the receipt of the chassis by the Company. The chassis converter pool is a non-cash arrangement and is offsetting between Current assets and Current liabilities on the Company’s Condensed Consolidated Balance Sheets.

Long-term debt consists of the following:

	September 30, 2023	December 31, 2022
Line of credit revolver	$ 55,000	$ 56,000
Finance lease obligation	384	455
Total debt	55,384	56,455
Less current portion of long-term debt	(203)	(189)
Total long-term debt	$ 55,181	$ 56,266

Revolving Credit Facility

On November 30, 2021, we entered into an Amended and Restated Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, N.A., as administrative agent, and the lenders party thereto consisting of Wells Fargo, N.A., JPMorgan Chase Bank, N.A., PNC Bank, N.A. and Bank of America, N.A. (the "Lenders"). Certain of our other subsidiaries have executed guaranties guarantying the borrowers' obligations under the Credit Agreement.

On May 31, 2023, the Company amended the Credit Agreement to effectuate the transition of the underlying variable interest rate from LIBOR to the Secured Overnight Financing Rate ("SOFR"). Our interest expense is not expected to increase materially with this transition. Increased interest expense and/or disruption in the financial market could have a material adverse effect on our business, financial condition, or results of operations.

Under the Credit Agreement, we may borrow up to $400,000 from the Lenders under a secured revolving credit facility which matures November 30, 2026. We may also request an increase in the facility of up to $200,000 in the aggregate, subject to customary conditions. The revolving credit facility is also available for the issuance of letters of credit of up to $20,000 and swing line loans of up to $10,000, subject to certain limitations and restrictions. The revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted SOFR plus 1.0%; or (ii) adjusted SOFR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including the margin was 6.43% (or one-month SOFR plus 1.00%) at September 30, 2023. The revolving credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At September 30, 2023 and December 31, 2022, we had outstanding letters of credit totaling $1,550 and $1,200, respectively, related to our workers’ compensation insurance.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $177,546 and $187,162 at September 30, 2023 and December 31, 2022, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At September 30, 2023 and December 31, 2022, we were in compliance with all covenants in our Credit Agreement.

NOTE 4 – REVENUE

Changes in our contract assets and liabilities for the nine months ended September 30, 2023 and 2022 are summarized below:

	September 30, 2023	September 30, 2022
Contract Assets		
Contract assets, beginning of period	$ 86,993	$ 21,483
Reclassification of the beginning contract assets to receivables, as the result of rights to consideration becoming unconditional	(86,061)	(21,482)
Contract assets recognized, net of reclassification to receivables	47,537	87,098
Contract assets, end of period	$ 48,469	$ 87,099
Contract Liabilities		
Contract liabilities, beginning of period	$ 5,255	$ 988
Reclassification of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(5,182)	(988)
Cash received in advance and not recognized as revenue	6,160	10,601
Contract liabilities, end of period	$ 6,233	$ 10,601

The aggregate amount of the transaction price allocated to remaining performance obligations in existing contracts that are yet to be completed in the Fleet Vehicles and Services ("FVS") and Specialty Vehicles ("SV") segments are $383,448 and $80,983, respectively.

In the following tables, revenue is disaggregated by primary geographical market and timing of revenue recognition. The tables also include a reconciliation of the disaggregated revenue within the reportable segments.

	Three Months Ended September 30, 2023			
	FVS	SV	Eliminations and Other	Total
Primary geographical markets				
United States	$ 122,626	$ 76,603	$ 444	$ 199,673
Other	1,633	19	-	1,652
Total sales	$ 124,259	$ 76,622	$ 444	$ 201,325
Timing of revenue recognition				
Products transferred at a point in time	$ 15,768	$ 34,297	$ 467	$ 50,532
Products and services transferred over time	108,491	42,325	(23)	150,793
Total sales	$ 124,259	$ 76,622	$ 444	$ 201,325

THE SHYFT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30, 2022			
	FVS	SV	Eliminations and Other	Total
Primary geographical markets				
United States	$ 183,409	$ 103,869	$ (2,335)	$ 284,943
Other	1,085	47	-	1,132
Total sales	$ 184,494	$ 103,916	$ (2,335)	$ 286,075
Timing of revenue recognition				
Products transferred at a point in time	$ 10,821	$ 58,729	$ -	$ 69,550
Products and services transferred over time	173,673	45,187	(2,335)	216,525
Total sales	$ 184,494	$ 103,916	$ (2,335)	$ 286,075

	Nine Months Ended September 30, 2023			
	FVS	SV	Eliminations and Other	Total
Primary geographical markets				
United States	$ 401,117	$ 251,306	$ (4,180)	$ 648,243
Other	21,558	64	-	21,622
Total sales	$ 422,675	$ 251,370	$ (4,180)	$ 669,865
Timing of revenue recognition				
Products transferred at a point in time	$ 41,614	$ 109,977	$ 467	$ 152,058
Products and services transferred over time	381,061	141,393	(4,647)	517,807
Total sales	$ 422,675	$ 251,370	$ (4,180)	$ 669,865

	Nine Months Ended September 30, 2022			
	FVS	SV	Eliminations and Other	Total
Primary geographical markets				
United States	$ 428,606	$ 293,325	$ (2,335)	$ 719,596
Other	5,482	75	-	5,557
Total sales	$ 434,088	$ 293,400	$ (2,335)	$ 725,153
Timing of revenue recognition				
Products transferred at a point in time	$ 31,092	$ 163,068	$ -	$ 194,160
Products and services transferred over time	402,996	130,332	(2,335)	530,993
Total sales	$ 434,088	$ 293,400	$ (2,335)	$ 725,153

THE SHYFT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized by major classifications as follows:

	September 30, 2023	December 31, 2022
Land and improvements	$ 12,178	$ 12,314
Buildings and improvements	49,051	42,827
Plant machinery and equipment	58,427	55,969
Furniture and fixtures	19,777	18,334
Vehicles	2,019	2,083
Construction in process	11,167	9,946
Subtotal	152,619	141,473
Accumulated depreciation	(73,182)	(70,720)
Total property, plant and equipment, net	$ 79,437	$ 70,753

We recorded depreciation expense of $3,358 and $2,404 during the three months ended September 30, 2023 and 2022, respectively, and $9,503 and $7,155 during the nine months ended September 30, 2023 and 2022, respectively.

NOTE 6 – LEASES

We have operating and finance leases for land, buildings and certain equipment. Our leases have remaining lease terms of one year to 17 years, some of which include options to extend the leases for up to 15 years. Our leases do not contain residual value guarantees. Assets recorded under finance leases were immaterial (See "Note 3 – *Debt*").

Operating lease expenses are classified as Cost of products sold and Operating expenses on the Condensed Consolidated Statements of Operations. The components of lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating leases	$ 2,808	$ 2,683	$ 8,755	$ 7,492
Short-term leases(1)	373	87	995	144
Total lease expense	$ 3,181	$ 2,770	$ 9,750	$ 7,636

(1) Includes expenses for month-to-month equipment leases, which are classified as short-term as the Company is not reasonably certain to renew the lease term beyond one month.

The weighted average remaining lease term and weighted average discount rate were as follows:

	September 30,	
	2023	2022
Weighted average remaining lease term of operating leases (in years)	7.3	8.2
Weighted average discount rate of operating leases	2.9%	2.7%

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Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30,	
	2023	**2022**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow for operating leases	$ 8,312	$ 6,874
Right of use assets obtained in exchange for lease obligations:		
Operating leases	$ 10,208	$ 16,367
Finance leases	$ 89	$ 202

Maturities of operating lease liabilities as of September 30, 2023 are as follows:

Years ending December 31:	
2023(1)	$ 2,693
2024	10,292
2025	9,782
2026	7,605
2027	5,268
Thereafter	18,505
Total lease payments	54,145
Imputed interest	(4,770)
Total lease liabilities	$ 49,375

(1) Excluding the nine months ended September 30, 2023.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

At September 30, 2023, we and our subsidiaries were parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of our businesses. In the opinion of management, our financial position, future operating results or cash flows will not be materially affected by the final outcome of these legal proceedings.

Warranty Related

We provide limited warranties against assembly/construction defects. These warranties generally provide for the replacement or repair of defective parts or workmanship for a specified period following the date of sale. The end users also may receive limited warranties from suppliers of components that are incorporated into our chassis and vehicles.

Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. Infrequently, a material warranty issue can arise which is beyond the scope of our historical experience. We provide for any such warranty issues as they become known and are estimable. It is reasonably possible that additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. An estimate of possible penalty or loss, if any, cannot be made at this time.

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Changes in our warranty liability are summarized below:

	Nine Months Ended September 30,	
	2023	**2022**
Balance of accrued warranty at January 1	$ 7,161	$ 5,975
Provisions for current period sales	3,023	3,597
Changes in liability for pre-existing warranties	(1,044)	430
Cash settlements	(2,823)	(3,570)
Balance of accrued warranty at September 30	$ 6,317	$ 6,432

Legal Proceedings Relating to Environmental Matters

As previously disclosed, in May 2020, the Company received an information request from the United States Environmental Protection Agency ("EPA") requesting certain information regarding emissions labels on chassis, vocational vehicles, and vehicles that the Company manufactured or imported into the U.S. between January 1, 2017 to the date the Company received the request in May 2020. The Company responded to the EPA's request and furnished the requested materials in the third quarter of 2020.

On April 6, 2022, the Company received a Notice of Violation from the EPA alleging a failure to secure certain certifications on manufactured chassis and a failure to comply with recordkeeping and reporting requirements related to supplier-provided chassis. The Company continues to investigate this matter, including potential defenses, and will continue discussions with the EPA regarding the allegations. At this time, it is not possible to estimate the potential fines or penalties that the Company may incur (if any) for this matter.

NOTE 8 – TAXES ON INCOME

Our effective income tax rate was a benefit of 76.0% and an expense of 17.9% for the three months ended September 30, 2023 and 2022, respectively. These rates differ from the U.S. statutory tax rate of 21.0% primarily due to non-deductible executive compensation offset by the benefit of research credits and a discrete tax benefit in 2023 related to the 2022 tax return-to-provision adjustment for the research credit.

Our effective income tax rate was a benefit of 9.7% and an expense of 15.2% for the nine months ended September 30, 2023 and 2022, respectively. These rates differ from the U.S. statutory tax rate of 21.0% primarily due to non-deductible executive compensation offset by the benefit of research credits and a discrete tax benefit in 2023 related to the 2022 tax return-to-provision adjustment for the research credit.

NOTE 9 – BUSINESS SEGMENTS

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision maker to assess segment performance and allocate resources among our operating units. We have two reportable segments: Fleet Vehicles and Services and Specialty Vehicles.

We evaluate the performance of our reportable segments based on Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and it is calculated by excluding items that we believe to be infrequent or not indicative of our underlying operating performance, as well as certain non-cash expenses. We define Adjusted EBITDA as income before interest, income taxes, depreciation and amortization, as adjusted to eliminate the impact of restructuring charges, acquisition related expenses and adjustments, non-cash stock-based compensation expenses, and other gains and losses not reflective of our ongoing operations.

Our FVS segment manufactures commercial vehicles used in the last mile/parcel delivery, beverage and grocery delivery, laundry and linen, mobile retail, and trades industries. Our commercial vehicles are marketed under the Utilimaster brand name, which serves a diverse customer base and sells aftermarket parts and accessories for walk-in vans and other delivery vehicles. We also provide vocation-specific equipment upfit services.

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Our SV segment includes our Spartan RV chassis operations, Builtmore Contract Manufacturing operations, Royal Truck Body and DuraMag service body operations, vocation-specific equipment upfit services marketed under the Strobes-R-Us brand, and distribution of related aftermarket parts and accessories.

The accounting policies of the segments are the same as those described, or referred to, in "Note 1 – *Nature of Operations and Basis of Presentation.*" Assets and related depreciation expense in the column labeled "Eliminations and Other" pertain to capital assets maintained at the corporate level. Eliminations for inter-segment sales are shown in the column labeled "Eliminations and Other." Adjusted EBITDA in the "Eliminations and Other" column contains corporate related expenses not allocable to the operating segments. Interest expense and Income tax expense are not included in the information utilized by the chief operating decision maker to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

	Three Months Ended September 30, 2023			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 108,491	$ -	$ -	$ 108,491
Motorhome chassis sales	-	20,519	-	20,519
Other specialty vehicle sales	-	50,557	444	51,001
Aftermarket parts and accessories sales	15,768	5,546	-	21,314
Total sales	$ 124,259	$ 76,622	$ 444	$ 201,325
Depreciation and amortization expense	$ 1,700	$ 1,659	$ 951	$ 4,310
Adjusted EBITDA	7,977	15,988	(12,977)	10,988
Segment assets	254,729	219,204	61,528	535,461
Capital expenditures	750	1,006	3,697	5,453

	Three Months Ended September 30, 2022			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 173,673	$ -	$ -	$ 173,673
Motorhome chassis sales	-	50,399	-	50,399
Other specialty vehicle sales	-	48,570	(2,335)	46,235
Aftermarket parts and accessories sales	10,821	4,947	-	15,768
Total sales	$ 184,494	$ 103,916	$ (2,335)	$ 286,075
Depreciation and amortization expense	$ 1,144	$ 1,692	$ 523	$ 3,359
Adjusted EBITDA	24,361	15,550	(12,849)	27,062
Segment assets	281,510	231,185	39,004	551,699
Capital expenditures	2,791	220	195	3,206

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	Nine Months Ended September 30, 2023			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 381,061	$ -	$ -	$ 381,061
Motorhome chassis sales	-	78,578	-	78,578
Other specialty vehicle sales	-	156,906	(4,180)	152,726
Aftermarket parts and accessories sales	41,614	15,886	-	57,500
Total sales	$ 422,675	$ 251,370	$ (4,180)	$ 669,865
Depreciation and amortization expense	$ 4,679	$ 5,038	$ 2,643	$ 12,360
Adjusted EBITDA	32,918	47,207	(42,482)	37,643
Segment assets	254,729	219,204	61,528	535,461
Capital expenditures	4,317	2,185	11,132	17,634

	Nine Months Ended September 30, 2022			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 402,996	$ -	$ -	$ 402,996
Motorhome chassis sales	-	138,000	-	138,000
Other specialty vehicle sales	-	140,320	(2,335)	137,985
Aftermarket parts and accessories sales	31,092	15,080	-	46,172
Total sales	$ 434,088	$ 293,400	$ (2,335)	$ 725,153
Depreciation and amortization expense	$ 3,074	$ 5,306	$ 1,675	$ 10,055
Adjusted EBITDA	38,015	38,508	(36,415)	40,108
Segment assets	281,510	231,185	39,004	551,699
Capital expenditures	10,590	906	2,202	13,698

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Shyft Group, Inc. was organized as a Michigan corporation and is headquartered in Novi, Michigan. We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific upfit segments) and recreational vehicle industries. Our products include walk-in vans and truck bodies used in e-commerce/parcel delivery, upfit equipment used in the mobile retail and utility trades, service and vocational truck bodies, luxury Class A diesel motorhome chassis and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture as well as truck accessories.

Our vehicles, parts and services are sold to commercial users, original equipment manufacturers (OEMs), dealers, individual end users, and municipalities and other governmental entities. Our diversification across several sectors provides numerous opportunities while reducing overall risk as the various markets we serve tend to have different cyclicality. We have an innovative team focused on building lasting relationships with our customers by designing and delivering market leading specialty vehicles, vehicle components, and services. Additionally, our business structure is agile and able to quickly respond to market needs, take advantage of strategic opportunities when they arise and correctly size and scale operations to ensure stability and growth.

We believe we can best carry out our long-term business plan and obtain optimal financial flexibility by using a combination of borrowings under our credit facilities, as well as internally or externally generated equity capital, as sources of expansion capital.

Executive Overview

- Sales of $201.3 million for the third quarter of 2023, a decrease of 29.6% compared to $286.1 million for the third quarter of 2022.
- Gross margin of 18.3% for the third quarter of 2023, compared to 18.9% for the third quarter of 2022.
- Operating expense of $32.6 million, or 16.2% of sales for the third quarter of 2023, compared to $32.1 million, or 11.2% of sales for the third quarter of 2022.
- Operating income of $4.1 million for the third quarter of 2023, compared to $22.0 million for the third quarter of 2022.
- Income tax benefit of $2.0 million for the third quarter of 2023, compared to $3.8 million of expense for the third quarter of 2022.
- Net income of $4.5 million for the third quarter of 2023, compared to $17.3 million for the third quarter of 2022.
- Diluted earnings per share of $0.13 for the third quarter of 2023, compared to $0.49 for the third quarter of 2022.
- Order backlog of $464.4 million at September 30, 2023, a decrease of $579.5 million or 55.5% from our backlog of $1,043.9 million at September 30, 2022.

We believe we are well positioned to take advantage of long-term opportunities and continue our efforts to bring product innovations to each of the markets that we serve. Some of our recent innovations, strategic developments and strengths include:

- In March 2022, we announced Blue Arc™ Electric Vehicle ("EV") Solutions, a new go-to-market brand alongside a trio of initial product offerings—an industry-first commercial grade purpose-built EV chassis; a fully reimagined from the ground up all-electric delivery walk-in van; and a fully portable, remote-controlled charging station, the Power Cube™.

  - The proprietary battery-powered chassis features customizable length and wheelbase, making it well-suited to serve a wide range of medium-duty trucks and end uses. The chassis’ modular design will accommodate multiple weight ratings and classifications, based on build-out and usage.

  - Leveraging a scalable design, the full Blue Arc EV portfolio covers Class 3, 4 and 5 walk-in van configurations with body length options from 12 to 22 feet. With these options, Shyft customers can maximize productivity and minimize cost of ownership, including fuel and maintenance costs.

  - In March 2023, we completed testing and received certification from the United States Environmental Protection Agency (EPA) for the Company’s Blue Arc EV Solutions Class 3, 4 and 5 electric delivery vehicles. In April 2023, we completed testing and received an executive order of compliance from the California Air Resources Board (CARB) for the Company’s Blue Arc EV Solutions Class 3, 4 and 5 electric delivery vehicles. Testing for CARB demonstrated Class 3 delivery vehicle performance at a 225-mile city driving range.

  - In October 2023, we announced an agreement with Rush Enterprises, which operates the largest network of commercial vehicle dealerships in North America, to sell and service Blue Arc Class 3, 4 and 5 all-electric delivery vehicles.

- The Velocity lineup of last-mile delivery vehicles span Gross Vehicle Weight Rating class sizes 2 and 3 and are available on Ford Transit, Mercedes Sprinter, and RAM Promaster chassis. The Velocity combines fuel efficiency, comfort, and maneuverability with the cargo space, access, and load capacity similar to a traditional walk-in van.

- Royal Truck Body's new Severe Duty body, built to fit General Motors' medium-duty truck class and Ford's Super Duty truck class, includes more standard features than any other service body on the market. With its fortress five-point lock system, 10-gauge steel box tops treated with a protective Polyurea coating and 3/8″ tread plate steel floors, this work truck is built to last and is ideal for contractors and business owners that need heavy-duty work trucks.

- In March 2023, we debuted the all-new steel Royal XP Service Body, precision engineered to eliminate water, salt and chemical traps and featuring a proprietary high-endurance coating for a glossy, high-edge finish to seal out weather and wear. The body is third party tested to live up to its promise on the punishing proving grounds of a leading commercial testing facility and is performance-rated for 250,000 miles.

- The K3 and K4 motorhome chassis are equipped with the Spartan® RV Chassis Connected Coach®, featuring the new 15-inch anti-glare digital dash that is custom designed for the RV customer to meet their specific display or operational needs. Integrating with the digital dash is the new Tri-Pod Steering Wheel, which places driving features and instrumentation right at the driver's fingertips, enabling a more effortless engagement with driving features and controls.

- The strength of our balance sheet and access to working capital through our revolving line of credit.

The following section provides a narrative discussion about our financial condition and results of operations. Certain amounts in the narrative may not sum due to rounding. The comments should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes thereto included in Item 1 of this Form 10-Q and in conjunction with our 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2023.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the components of the Company's Condensed Consolidated Statements of Operations as a percentage of sales (percentages may not sum due to rounding):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Sales	100.0	100.0	100.0	100.0
Cost of products sold	81.7	81.1	81.7	83.2
Gross profit	18.3	18.9	18.3	16.8
Operating expenses:				
Research and development	2.6	2.5	2.7	2.7
Selling, general and administrative	13.6	8.8	13.4	10.8
Operating income	2.0	7.7	2.2	3.3
Other expense	(0.8)	(0.3)	(0.7)	(0.3)
Income before income taxes	1.3	7.4	1.5	3.0
Income tax expense (benefit)	(1.0)	1.3	(0.1)	0.5
Net income	2.2	6.0	1.6	2.6
Non-controlling interest	-	-	-	-
Net income attributable to The Shyft Group, Inc.	2.2	6.0	1.6	2.6

Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

Sales

For the three months ended September 30, 2023, we reported consolidated sales of $201.3 million, compared to $286.1 million for the third quarter of 2022, a decrease of $84.8 million or 29.6%. This decrease is driven by lower sales volumes in our Specialty Vehicles (“SV”) segment attributed to lower motorhome chassis market demand, and lower sales in the Fleet Vehicles and Services (“FVS”) segment attributed to lower sales volumes of walk-in vans partially offset by higher truck body sales, including $6.0 million in pass-through chassis sales.

Cost of Products Sold

Cost of products sold was $164.6 million in the third quarter of 2023, compared to $232.0 million for the third quarter of 2022, a decrease of $67.4 million or 29.1%. The decrease was due to $74.5 million in lower volume and mix and $1.5 million due to higher productivity, partially offset by $6.0 million in pass-through chassis costs and $2.6 million higher material and labor inflation, and other costs.

Gross Profit

Gross profit was $36.8 million for the third quarter of 2023, compared to $54.1 million for the third quarter of 2022, a decrease of $17.3 million or 32.0%. The decrease was due to $16.2 million in lower volume and mix net of favorable pricing, and $2.6 million in higher material, labor and other costs, partially offset by $1.5 million in higher productivity.

Operating Expenses

Operating expenses were $32.6 million for the third quarter of 2023, compared to $32.1 million for the third quarter of 2022, an increase of $0.5 million or 1.7%. Research and development expense for the third quarter of 2023 was $5.2 million, compared to $7.1 million in the third quarter of 2022, a decrease of $1.9 million, of which $1.5 million was related to electric vehicle development initiatives as the program moves closer to production. Selling, general and administrative expense was $27.4 million for the third quarter of 2023, compared to $25.0 million for the third quarter of 2022, an increase of $2.4 million, primarily driven by increased employee and administrative costs.

Other Income (Expense)

Other expense was $1.6 million for the third quarter of 2023, compared to $1.0 million for the third quarter of 2022, driven by higher borrowing costs.

Income Tax Expense (Benefit)

Our effective income tax rate was a benefit of 76.0% for the third quarter of 2023, compared to an expense of 17.9% for the third quarter 2022, which reflects the impact of current statutory income tax rates on our income before income taxes combined with the tax expense of non-deductible officer compensation offset by the benefit of research credits combined with a discrete tax benefit in 2023 related to the 2022 tax return-to-provision adjustment for the research credit.

Net Income

Net income for the third quarter of 2023 decreased by $12.8 million to $4.5 million compared to $17.3 million for the third quarter of 2022. On a diluted per share basis, earnings decreased $0.36 to $0.13 for the third quarter of 2023 compared to $0.49 per share for the third quarter of 2022. Driving this decrease were the factors noted above.

Adjusted EBITDA

Our consolidated Adjusted EBITDA for the third quarter of 2023 was $11.0 million, compared to $27.1 million for the third quarter of 2022, a decrease of $16.1 million.

The table below describes the changes in Adjusted EBITDA for the three months ended September 30, 2023 compared to the same period for 2022 (in millions):

Adjusted EBITDA three months ended September 30, 2022	$	27.1
Sales volume and other		(15.9)
Product pricing and mix		1.3
Material and labor costs		(1.3)
EV development/program costs		0.2
General and administrative costs and other		(0.4)
Adjusted EBITDA three months ended September 30, 2023	$	11.0

<u>Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022</u>

Sales

For the nine months ended September 30, 2023, we reported consolidated sales of $669.9 million, compared to $725.2 million for the first nine months of 2022, a decrease of $55.3 million or 7.6%. This decrease was driven by lower sales volumes in our SV segment primarily attributable to lower motorhome chassis market demand, lower sales volumes in our FVS segment primarily attributable to lower walk-in van sales partially offset by higher truck body sales including $19.2 million in pass-through chassis sales, and favorable pricing implemented to offset material and labor inflation.

Cost of Products Sold

Cost of products sold was $547.4 million for the first nine months of 2023, compared to $603.0 million for the first nine months of 2022, a decrease of $55.6 million or 9.2%. The decrease was due to $62.3 million in lower volume and mix and $18.6 million due to higher productivity, partially offset by $19.2 million in pass-through chassis costs, and $6.1 million in higher material and labor inflation and other costs.

Gross Profit

Gross profit was $122.5 million for the first nine months of 2023, compared to $122.1 million for the first nine months of 2022, an increase of $0.4 million or 0.3%. The increase was due to $18.6 million higher productivity, partially offset by $12.1 million in lower volume and mix net of favorable pricing and $6.1 million due to higher material, labor and other costs.

Operating Expenses

Operating expenses were $108.0 million for the first nine months of 2023, compared to $98.0 million for the first nine months of 2022, an increase of $10.0 million or 10.3%. Research and development expense for the first nine months of 2023 was $18.1 million, compared to $19.5 million in the first nine months of 2022, a decrease of $1.4 million, of which $0.6 million was related to electric vehicle development initiatives as the program moves closer to production and $0.8 million related to other products. Selling, general and administrative expense was $90.0 million for the first nine months of 2023, compared to $78.4 million for the first nine months of 2022, an increase of $11.6 million, primarily driven by $8.8 million of increased employee and administrative costs. These costs include $2.5 million of CEO transition costs, $0.9 million of severance related cost reduction initiatives, $2.6 million of electric vehicle administrative costs and $2.8 million of other employee and administrative costs.

Other Income (Expense)

Other expense was $4.5 million for the first nine months of 2023, compared to $2.0 million for the first nine of months of 2022, driven by higher borrowing costs.

Income Tax Expense (Benefit)

Our effective income tax rate was a benefit of 9.7% for the first nine months of 2023, compared to an expense of 15.2% for the first nine months of 2022, which reflects the impact of current statutory income tax rates on our income before income taxes combined with a discrete tax benefit in 2023 related to the 2022 tax return-to-provision adjustment for the research credit.

Net Income

Net income for the first nine months of 2023 decreased by $7.8 million to $10.9 million compared to $18.7 million for the first nine months of 2022. On a diluted per share basis, earnings decreased $0.22 to $0.31 for the first nine months of 2023 compared to $0.53 per share for the first nine months of 2022. Driving this increase were the factors noted above.

Adjusted EBITDA

Our consolidated Adjusted EBITDA for the first nine months of 2023 was $37.6 million, compared to $40.1 million for the first nine months of 2022, a decrease of $2.5 million.

The table below describes the changes in Adjusted EBITDA for the nine months ended September 30, 2023 compared to the same period for 2022 (in millions):

Adjusted EBITDA nine months ended September 30, 2022	$	40.1
Sales volume and other		(6.1)
Product pricing and mix		9.4
Material and labor costs		(4.2)
EV development/program costs		(3.4)
General and administrative costs and other		1.8
Adjusted EBITDA nine months ended September 30, 2023	$	37.6

Order Backlog

Our order backlog by reportable segment is summarized in the following table (in thousands):

	September 30, 2023		September 30, 2022	
Fleet Vehicles and Services	$	383,448	$	915,135
Specialty Vehicles		80,983		128,769
Total consolidated	$	464,431	$	1,043,904

The consolidated backlog at September 30, 2023 totaled $464.4 million, a decrease of $579.5 million, or 55.5%, compared to $1,043.9 million at September 30, 2022.

Our FVS backlog decreased by $531.7 million, or 58.1%, primarily to vehicle sales and softening demand in delivery vans. Our SV segment backlog decreased by $47.8 million, or 37.1%, due to lower motorhome orders.

Orders in the backlog are subject to modification, cancellation or rescheduling by customers. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions, supply of chassis, and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period-to-period is not necessarily indicative of eventual actual shipments.

Reconciliation of Non-GAAP Financial Measures

This report presents Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP financial measure. This non-GAAP measure is calculated by excluding items that we believe to be infrequent or not indicative of our underlying operating performance, as well as certain non-cash expenses. We define Adjusted EBITDA as income before interest, income taxes, depreciation and amortization, as adjusted to eliminate the impact of restructuring charges, acquisition related expenses and adjustments, non-cash stock-based compensation expenses, and other gains and losses not reflective of our ongoing operations.

We present the non-GAAP measure Adjusted EBITDA because we consider it to be an important supplemental measure of our performance. The presentation of Adjusted EBITDA enables investors to better understand our operations by removing items that we believe are not representative of our continuing operations and may distort our longer-term operating trends. We believe this measure to be useful to improve the comparability of our results from period to period and with our competitors, as well as to show ongoing results from operations distinct from items that are infrequent or not indicative of our continuing operating performance.

We believe that presenting this non-GAAP measure is useful to investors because it permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate our historical performance. We believe that the presentation of this non-GAAP measure, when considered together with the corresponding GAAP financial measures and the reconciliations to that measure, provides investors with additional understanding of the factors and trends affecting our business than could be obtained in the absence of this disclosure.

We use Adjusted EBITDA to evaluate the performance of and allocate resources to our segments. Adjusted EBITDA is also used, along with other financial and non-financial measures, for purposes of determining annual incentive compensation for our management team and long-term incentive compensation for certain members of our management team.

The following table reconciles Net Income to Adjusted EBITDA for the periods indicated.

Financial Summary (Non-GAAP)
Consolidated
(In thousands, Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	$ 4,518	$ 17,286	$ 10,881	$ 18,717
Net loss attributable to non-controlling interest	-	-	32	-
Add (subtract):				
Interest expense	1,572	1,137	4,697	1,754
Depreciation and amortization expense	4,310	3,359	12,360	10,055
Income tax expense (benefit)	(1,951)	3,770	(965)	3,346
Restructuring and other related charges	58	53	1,373	514
Acquisition related expenses and adjustments	149	243	440	800
Non-cash stock based compensation expense	2,097	1,214	5,187	4,922
Legacy legal matters	-	-	956	-
Non-recurring professional fees	-	-	160	-
CEO transition	235	-	2,522	-
Adjusted EBITDA	$ 10,988	$ 27,062	$ 37,643	$ 40,108

Our Segments

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision maker to assess segment performance and allocate resources among our operating units. We have two reportable segments: FVS and SV.

For certain financial information related to each segment, see "Note 9 – *Business Segments*," of the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q.

Fleet Vehicles and Services

	Financial Data (Dollars in Thousands) Three Months Ended September 30,			
	2023		2022	
	Amount	Percentage	Amount	Percentage
Sales	$ 124,259	100.0%	$ 184,494	100.0%
Adjusted EBITDA	7,977	6.4%	24,361	13.2%

Sales in our FVS segment were $124.3 million for the third quarter of 2023, compared to $184.5 million for the third quarter of 2022, a decrease of $60.2 million or 32.6%. This decrease was primarily attributable to a softening in the delivery van markets, partially offset by increased truck body sales, including $6.0 million in pass-through chassis sales.

Adjusted EBITDA in our FVS segment for the third quarter of 2023 was $8.0 million compared to $24.4 million for the third quarter of 2022, a decrease of $16.4 million. This decrease was attributable to $11.2 million in lower volume and $6.3 million of unfavorable mix net of pricing, partially offset by $1.3 million of favorable productivity net of material, labor costs, and other costs.

	Financial Data (Dollars in Thousands) Nine Months Ended September 30,					
	2023			2022		
		Amount	Percentage		Amount	Percentage
Sales	$	422,675	100.0%	$	434,089	100.0%
Adjusted EBITDA		32,918	7.8%		38,015	8.8%

Sales in our FVS segment were $422.7 million for the first nine months of 2023, compared to $434.1 million for the first nine months of 2022, a decrease of $11.4 million or 2.6%. This decrease was primarily attributable to a softening in the delivery van markets, partially offset by increased truck body sales volume, including $19.2 million pass through-chassis sales.

Adjusted EBITDA in our FVS segment for the first nine months of 2023 was $32.9 million compared to $38.0 million for the first nine months of 2022, a decrease of $5.1 million. This decrease was attributable to $9.9 million in lower volume and $9.7 million of unfavorable mix net of pricing, partially offset by $9.9 million of favorable productivity and $4.6 million of favorable material, labor costs, and other costs.

Specialty Vehicles

	Financial Data (Dollars in Thousands) Three Months Ended September 30,					
	2023			2022		
		Amount	Percentage		Amount	Percentage
Sales	$	76,622	100.0%	$	103,916	100.0%
Adjusted EBITDA		15,988	20.9%		15,550	15.0%

Sales in our SV segment were $76.6 million in the third quarter of 2023, compared to $103.9 million for the third quarter of 2022, a decrease of $27.3 million or 26.3%. This decrease was primarily attributable to lower motorhome chassis market demand, partially offset by higher service body sales.

Adjusted EBITDA for our SV segment for the third quarter of 2023 was $16.0 million, compared to $15.6 million for the third quarter of 2022, an increase of $0.4 million or 2.8%. This increase was primarily attributable to $7.6 million of favorable pricing and mix and $0.7 million of favorable productivity, partially offset by $6.6 million due to lower volume and $1.3 million due to material, labor, and other costs.

	Financial Data (Dollars in Thousands) Nine Months Ended September 30,					
	2023			2022		
		Amount	Percentage		Amount	Percentage
Sales	$	251,370	100.0%	$	293,400	100.0%
Adjusted EBITDA		47,208	18.8%		38,508	13.1%

Sales in our SV segment were $251.4 million in the first nine months of 2023, compared to $293.4 million for the first nine months of 2022, a decrease of $42.0 million or 14.3%. This decrease was primarily attributable to lower motorhome chassis market demand, partially offset by higher service body sales.

Adjusted EBITDA for our SV segment for the first nine months of 2023 was $47.2 million, compared to $38.5 million for the first nine months of 2022, an increase of $8.7 million or 22.6%. This increase was primarily attributable to $21.8 million of favorable pricing and mix and $3.7 million of favorable productivity, partially offset by $11.2 million due to lower volume and $5.6 million due to material, labor, and other costs.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash and cash equivalents decreased by $1.7 million from December 31, 2022, to a balance of $9.9 million as of September 30, 2023. These funds, in addition to cash generated from future operations and availability under our existing credit facilities, are expected to be sufficient to finance our foreseeable liquidity and capital needs, including potential future acquisitions.

Cash Flow from Operating Activities

We generated $44.8 million of cash from operating activities during the nine months ended September 30, 2023, an increase in cash provided of $89.3 million from $44.5 million of cash used in operating activities during the nine months ended September 30, 2022. The $44.8 million of cash generated in the first nine months of 2023 was driven by a $27.9 million net inflow related to income adjusted for non-cash charges to operations and by a $16.9 million net inflow related to the change in net working capital. The change in working capital in the first nine months of 2023 was driven by a $62.7 million net inflow related to decreased receivables and contract assets primarily attributable to the completion of in process vehicles and a $1.7 million net inflow related to changes in accrued compensation and related taxes, partially offset by a $25.2 million net outflow related to decreased payables primarily attributable to timing of payments within the period, a $15.0 million net outflow related to increased inventories, and a $7.3 million net outflow related to changes in other assets and liabilities.

Cash Flow from Investing Activities

We used $16.5 million in investing activities during the nine months ended September 30, 2023, an increase in cash used of $2.4 million from $14.1 million used during the nine months ended September 30, 2022. The increase in cash used in investing activities is primarily due to a $1.9 million increase in the purchases of property, plant and equipment and a $0.5 million increase related to the acquisition of a business.

Cash Flow from Financing Activities

We used $30.0 million of cash through financing activities during the nine months ended September 30, 2023, an increase in cash used of $54.3 million from $24.3 million generated during the nine months ended September 30, 2022. The increase in cash used by financing activities is primarily attributable to $46.0 million of increased payments on long-term debt and $20.0 million of decreased proceeds from long-term debt, partially offset by a $7.7 million decrease in the purchase and retirement of common stock and a $4.1 million decrease in exercise and vesting of stock awards.

Debt

On November 30, 2021, we entered into an Amended and Restated Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, N.A., as administrative agent, and the lenders party thereto consisting of Wells Fargo, N.A., JPMorgan Chase Bank, N.A., PNC Bank, N.A., National Association and Bank of America, N.A. (the "Lenders"). Certain of our other subsidiaries have executed guaranties guarantying the borrowers' obligations under the Credit Agreement.

On May 31, 2023, the Company amended the Credit Agreement to effectuate the transition of the underlying variable interest rate from LIBOR to the Secured Overnight Financing Rate ("SOFR"). Our interest expense is not expected to increase materially with this transition. Increased interest expense and/or disruption in the financial market could have a material adverse effect on our business, financial condition, or results of operations.

Under the Credit Agreement, we may borrow up to $400.0 million from the Lenders under a secured revolving credit facility which matures November 30, 2026. We may also request an increase in the facility of up to $200.0 million in the aggregate, subject to customary conditions. The revolving credit facility is also available for the issuance of letters of credit of up to $20.0 million and swing line loans of up to $10.0 million, subject to certain limitations and restrictions. The revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted SOFR plus 1.0%; or (ii) adjusted SOFR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including the margin was 6.43% (or one-month SOFR plus 1.00%) at September 30, 2023.

The revolving credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At September 30, 2023 and December 31, 2022, we had outstanding letters of credit totaling $1.6 million and $1.2 million, respectively, related to our workers' compensation insurance.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $177.6 million and $187.2 million at September 30, 2023 and December 31, 2022, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At September 30, 2023 and December 31, 2022, we were in compliance with all covenants in our Credit Agreement.

Equity Securities

On February 17, 2022, our Board of Directors authorized the repurchase of up to $250.0 million of our common stock in open market transactions. In the first quarter of 2023, we repurchased 348,705 shares for $8.8 million. In the third quarter of 2023, we repurchased 673,744 shares for $10.3 million. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

Dividends

The amounts or timing of any dividends are subject to earnings, financial condition, liquidity, capital requirements and such other factors as our Board of Directors deems relevant. We declared dividends on our outstanding common shares in 2023 and 2022 as shown in the table below.

Date dividend declared	Record date	Payment date	Dividend per share ($)
Aug. 2, 2023	Aug. 17, 2023	Sep. 18, 2023	$ 0.05
May 2, 2023	May 17, 2023	Jun. 20, 2023	$ 0.05
Jan. 31, 2023	Feb. 17, 2023	Mar. 17, 2023	$ 0.05
Nov. 1, 2022	Aug. 17, 2022	Sep. 16, 2022	$ 0.05
Aug. 5, 2022	Aug. 17, 2022	Sep. 16, 2022	$ 0.05
May 2, 2022	May 17, 2022	June 17, 2022	$ 0.05
Feb. 16, 2022	Feb. 17, 2022	Mar. 17, 2022	$ 0.05

Effect of Inflation

Inflation affects us in two principal ways. First, our revolving credit facility is generally tied to the prime and SOFR interest rates so that increases in those interest rates would be translated into additional interest expense. Second, general inflation impacts prices paid for labor, parts and supplies. Whenever possible, we attempt to cover increased costs of production and capital by adjusting the prices of our products. However, we generally do not attempt to negotiate inflation-based price adjustment provisions into our contracts. We have limited ability to pass on cost increases to our customers on a short-term basis. In addition, the markets we serve are competitive in nature, and competition limits our ability to pass through cost increases in many cases. We strive to minimize the effect of inflation through cost reductions and improved productivity. Refer to the *Commodities Risk* section in Item 3 of this Form 10-Q for further information regarding commodity cost fluctuations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risks related to changes in interest rates and the effect of such a change on outstanding variable rate short-term and long-term debt. At September 30, 2023, we had $55.0 million debt outstanding under our revolving credit facility. An increase of 100 basis points in interest rates would result in $0.6 million of incremental interest expense on an annualized basis. We believe that we have sufficient financial resources to accommodate this hypothetical increase in interest rates. We do not enter into market-risk-sensitive instruments for trading or other purposes.

On May 31, 2023, the Company amended the Credit Agreement to effectuate the transition of the underlying variable interest rate from LIBOR to SOFR. The interest rate charged on our outstanding borrowings pursuant to our revolving credit facility is currently based on SOFR, as described in Part 1, Item 1, "Note 3 – Debt" of this Form 10-Q. Our interest expense is not expected to increase materially with this transition. Increased interest expense and/or disruption in the financial market could have a material adverse effect on our business, financial condition, or results of operations.

Commodities Risk

We are also exposed to changes in the prices of raw materials, primarily steel and aluminum, along with components that are made from these raw materials. We generally do not enter into derivative instruments for the purpose of managing exposures associated with fluctuations in steel and aluminum prices. We do, from time to time, engage in pre-buys of components that are impacted by changes in steel, aluminum and other commodity prices in order to mitigate our exposure to such price increases and align our costs with prices quoted in specific customer orders. We also actively manage our material supply sourcing and may employ various methods to limit risk associated with commodity cost fluctuations due to normal market conditions and other factors including tariffs. See Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part 1, Item 2 of this Form 10-Q for information on the impacts of changes in input costs during the three months ended September 30, 2023.

We do not believe that there has been a material change in the nature or categories of the primary market risk exposures or in the particular markets that present our primary risk of loss. As of the date of this report, we do not know of or expect any material changes in the general nature of our primary market risk exposure in the near term. In this discussion, "near term" means a period of one year following the date of the most recent balance sheet contained in this report.

Prevailing interest rates, interest rate relationships and commodity costs are primarily determined by market factors that are beyond our control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "Forward-Looking Statements" before Part I of this Quarterly Report on Form 10-Q for a discussion of the limitations on our responsibility for such statements.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report. Based on the evaluation of our disclosure controls and procedures as of September 30, 2023, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes during the quarter ended September 30, 2023, in our internal control over financial reporting that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error or overriding of controls, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See "Note 7 – *Commitments and Contingent Obligations*," included in Part I, Item 1, "Notes to Unaudited Consolidated Financial Statements," within this quarterly report on Form 10-Q.

Item 1A. Risk Factors

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the "Risk Factors"). There have been no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2022 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

On February 17, 2022, our Board of Directors authorized the repurchase of up to $250.0 million of our common stock in open market transactions. In the first quarter of 2023, we repurchased 348,705 shares for $8.8 million. In the third quarter of 2023, we repurchased 673,744 shares for $10.3 million. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under Announced Plans or Programs(2) (In millions)
July 1 to July 31	-	$ -	-	$ 233.3
August 1 to August 31	674,811	15.32	673,744	223.0
September 1 to September 30	-	-	-	223.0
Total	674,811		-	

(1) During the quarter ended September 30, 2023, 1,067 shares were delivered by employees in satisfaction of tax withholding obligations that occurred upon the vesting of restricted shares.

(2) This column reflects the number of shares that may yet be purchased pursuant to the February 17, 2022 Board of Directors authorization described above.

Item 5. Other Information

During the quarter ended September 30, 2023, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" (as each term is defined in Item 408 of Regulation S-K).

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Item 6. Exhibits.

(a) Exhibits. The following exhibits are filed as a part of this report on Form 10-Q:

Exhibit No.	Document
10.1	Restricted Stock Unit Agreement dated as of September 1, 2023 (under The Shyft Group, Inc. Stock Incentive Plan (as amended and restated effective May 17, 2023)), between the Company and Paul Mascarenas.*
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101)

*Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 26, 2023	THE SHYFT GROUP, INC.
	By /s/ Jonathan C. Douyard
	Jonathan C. Douyard
	Chief Financial Officer

Exhibit 10.1

THE SHYFT GROUP, INC.

RESTRICTED STOCK UNIT AGREEMENT

This RESTRICTED STOCK UNIT AGREEMENT (the "Agreement") is made and entered into as of September 1, 2023 (the "Grant Date"), by and between **The Shyft Group, Inc.**, a Michigan corporation (the "Company") and Paul Mascarenas (the "Consultant").

Background

A. The Company has adopted The Shyft Group, Inc. Stock Incentive Plan, as amended and restated effective May 17, 2023 (the "Plan") pursuant to which awards of Restricted Stock Units may be granted.

B. The Committee has determined that it is in the best interests of the Company and its shareholders to grant the award of Restricted Stock Units provided for in this Agreement.

Agreement

Therefore, the parties, intending to be legally bound, agree as follows:

1. **Grant of Restricted Stock Units**. Pursuant to the Plan, the Company has granted to the Consultant on the Grant Date an Incentive Award consisting of, in the aggregate, 6,480 Restricted Stock Units (the "RSUs"). Each RSU represents the right to receive one share of Common Stock on the terms and conditions and subject to the restrictions set forth in this Agreement and the Plan. The RSUs shall be credited to a separate account maintained for the Consultant on the books and records of the Company (the "Account"). Capitalized terms that are used but not defined in this Agreement have the meanings assigned to them in the Plan.

2. **Consideration**. The grant of the RSUs is made specifically in consideration of the Consultant's provision, during the applicable vesting period (or portion thereof), of consulting services to the Company on a non-exclusive basis and as a non-employee consultant, on terms and conditions established for such consulting services as reasonably agreed to between the Company and the Consultant (collectively, the "Consulting Arrangement").

3. **Restricted Period; Normal Vesting**. Except as otherwise provided in this Agreement, provided that a Consulting Termination (as defined below) does not occur before July 31, 2024, the specified portions of the RSUs (rounded down, if necessary, to the nearest whole RSU) will vest in accordance with the following schedule:

Vesting Date	Number of RSUs That Vest
October 31, 2023	25% of RSUs
January 31, 2024	25% of RSUs
April 30, 2024	25% of RSUs
July 31, 2024	Remaining RSUs

The period from the Grant Date to July 31, 2024 is referred to as the "Restricted Period." Once vested, the RSUs become "Vested Units."

4. **Restrictions**. Subject to any exceptions set forth in this Agreement or the Plan, during the Restricted Period and until such time as the RSUs are settled in accordance with Section 8 below, neither the RSUs nor the rights relating to the RSUs may be assigned, alienated, pledged, attached, sold, or otherwise transferred or encumbered by the Consultant. Any attempt to assign, alienate, pledge, attach, sell, or otherwise transfer or encumber the RSUs or the rights relating to the RSUs shall be wholly ineffective.

5. **Termination of Consulting Arrangement**.

(a) The Consulting Arrangement shall terminate prior to July 31, 2024, if applicable, on such earlier date on which the Consultant ceases to provide such consulting services to the Company under the Consulting Arrangement (a "Consulting Termination," and the date of such Consulting Termination, the "Consulting End Date"). For purposes of this Agreement, a Consulting Termination and the Consulting End Date shall be determined, in good faith and on a reasonable basis, in the sole discretion of the Board.

(b) If a Consulting Termination occurs at the direction of the Company (or due to the death or Disability of the Consultant), then all of the Consultant's then-unvested RSUs shall immediately vest and become non-forfeitable as of the Consulting End Date.

(c) Notwithstanding Section 5(b) above, if a Consulting Termination occurs at the direction of the Consultant (and other than due to the death or Disability of the Consultant), then a pro-rated portion of the RSUs shall immediately vest and become non-forfeitable as of the Consulting End Date, with such pro-rated portion equal to the difference between (i) the product (rounded down to the nearest whole RSU) of (A) the number of RSUs subject to this Agreement, multiplied by (B) a fraction (in no case greater than one), the numerator of which is the number of days from and including the Grant Date through and including the Consulting End Date and the denominator of which is the number of days from and including the Grant Date through and including the last day of the Restricted Period, minus (ii) any RSUs that have already vested and become non-forfeitable under this Agreement as of the Consulting End Date. Any RSUs subject to this Agreement that do not vest and become non-forfeitable pursuant to Section 3 or Section 5 shall be forfeited.

6. **Effect of a Change in Control**. Notwithstanding anything to the contrary in this Agreement, if a Change in Control occurs during the Restricted Period (and prior to any Consulting End Date) at a time when any RSUs remain unvested under this Agreement, then, immediately prior to the Change in Control and without any action by the Committee or the Board, all of the RSUs that are not then vested shall become immediately vested and non-forfeitable.

7. **Rights as Shareholder; Dividend Equivalents**.

(a) The Consultant shall not have any rights of a shareholder with respect to the shares of Common Stock underlying the RSUs unless and until the RSUs vest and are settled by the issuance of such shares of Common Stock.

(b) Upon and following the settlement of the RSUs, the Consultant shall be the record owner of the shares of Common Stock underlying the RSUs unless and until such shares are sold or otherwise disposed of, and as record owner shall be entitled to all rights of a shareholder of the Company (including voting rights).

(c) Until such time as the RSUs vest (or are forfeited), the Consultant's Account shall be credited with an amount equal to all cash and stock dividends ("Dividend Equivalents") that would have been paid to the Consultant if one share of Common Stock had been issued on the Grant Date for each RSU granted to the Consultant as set forth in this Agreement. Dividend Equivalents shall be credited to the Consultant's Account and interest may be credited on the amount of cash Dividend Equivalents credited to the Consultant's Account at a rate and subject to such terms as determined by the Committee. Dividend Equivalents shall be subject to the same vesting restrictions as the RSUs to which they are attributable and shall be paid on the same date that the RSUs to which they are attributable are settled in accordance with Section 8 below. Dividend Equivalents credited to a Consultant's Account shall be distributed in cash or, at the discretion of the Committee, in shares of Common Stock having a fair market value equal to the amount of the Dividend Equivalents and interest, if any.

8. **Settlement of RSUs**. Subject to any withholding for applicable taxes pursuant to the Plan, within 30 days following any vesting date described in this Agreement, the Company shall: (a) issue and deliver to the Consultant the number of shares of Common Stock equal to the number of Vested Units and cash equal to any Dividend Equivalents credited with respect to such Vested Units or, at the discretion of the Committee, shares of Common Stock having a fair market value equal to such Dividend Equivalents; and (b) enter the Consultant's name on the books of the Company as the shareholder of record with respect to the shares of Common Stock delivered to the Consultant. Notwithstanding the foregoing, the Committee shall have the discretion to settle vested RSUs in cash using the fair market value of the shares of Common Stock underlying the vested RSUs as of the applicable settlement date. If the Consultant is a "specified employee" within the meaning of Section 409A of the Code and a payment subject to Section 409A of the Code (and not excepted therefrom) is due upon separation from service, such payment to the extent necessary to comply with Section 409A of the Code shall be delayed until six months after the date of separation from service (or if earlier the Consultant's death).

9. **No Right to Continued Service**. Neither the Plan nor this Agreement shall confer upon the Consultant any right to be retained in any position, as an employee, consultant, or director of the Company. Further, nothing in the Plan or this Agreement shall be construed to limit the discretion of the Company to terminate the Consultant's service to or status with the Company at any time, with or without cause.

10. **Adjustments**. If any change is made to the outstanding Common Stock or the capital structure of the Company, if required, the RSUs shall be adjusted or terminated in any manner as contemplated by Section 4.3 of the Plan (the RSUs and this Agreement are subject to mandatory adjustment pursuant to the terms of Section 4.3 of the Plan).

11. **Compliance with Law**. The issuance and transfer of shares of Common Stock shall be subject to compliance by the Company and the Consultant with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel.

12. **Legends**. A legend may be placed on any certificate(s) or other document(s) delivered to the Consultant indicating restrictions on transferability of the RSUs or the shares of Common Stock issuable upon settlement of the RSUs pursuant to this Agreement or any other restrictions that the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any applicable federal or state securities laws, or any stock exchange on which the shares of Common Stock are then listed or quoted.

13. **Notices**. Any notice required to be delivered to the Company under this Agreement shall be in writing and addressed to the Secretary of the Company at the Company's principal corporate offices. Any notice required to be delivered to the Consultant under this Agreement shall be in writing and addressed to the Consultant at the Consultant's address as shown in the records of the Company. Either party may designate another address in writing (or by such other method approved by the Company) from time to time.

14. **Governing Law**. This Agreement will be construed and interpreted in accordance with the laws of the State of Michigan without regard to conflict of law principles.

15. **Interpretation**. Any dispute regarding the interpretation of this Agreement shall be submitted by the Consultant or the Company to the Committee for review. The resolution of such dispute by the Committee (excluding any participation by the Consultant if he or she then serves on the Committee) shall be final and binding on the Consultant and the Company.

16. **RSUs Subject to Plan**. This Agreement is subject to the Plan as approved by the Company's shareholders. The terms and provisions of the Plan, as it may be amended from time to time, are hereby incorporated in this Agreement by reference. In the event of a conflict between any term or provision contained in this Agreement and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

17. **Successors and Assigns**. The Company may assign any of its rights under this Agreement. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth in this Agreement, this Agreement will be binding upon the Consultant and the Consultant's beneficiaries, executors, and administrators.

18. **Severability**. The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

19. **Discretionary Nature of Plan**. The Plan is discretionary and may be amended, cancelled, or terminated by the Company at any time, in its discretion. The grant of the RSUs in this Agreement does not create any contractual right or other right to receive any RSUs or other Incentive Awards in the future. Future Incentive Awards, if any, will be at the sole discretion of the Company. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of the Consultant's membership on the Board.

20. **Section 409A**. This Agreement is intended to qualify for the short-term deferral exception under Section 409A of the Code and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A of the Code. In all events, payment in respect of the RSUs shall be made within the short-term deferral period specified under Section 409A of the Code. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A of the Code, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Consultant on account of non-compliance with Section 409A of the Code.

21. **Counterparts**. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

22. **Acceptance**. The Consultant hereby acknowledges receipt of a copy of the Plan and this Agreement. The Consultant has read and understands the terms and provisions of the Plan and this Agreement, and accepts the RSUs subject to all of the terms and conditions of the Plan and this Agreement. The Consultant acknowledges that there may be adverse tax consequences upon the grant, vesting, or settlement of the RSUs or disposition of the underlying shares and that the Consultant has been advised to consult a tax advisor prior to such grant, vesting or disposition. The Company respects the Consultant's privacy. In order to administer the Consultant's equity award, the Company collects and uses certain personal information about the Consultant, including the Consultant's prior equity grant information where applicable. If the Consultant is a California resident, the Consultant should refer to the Company's California Consumer Privacy Act Notice for more information about the personal information the Company collects about the Consultant and the purposes for which the Company will use such data.

INTENDING TO BE LEGALLY BOUND, the parties have executed this Restricted Stock Unit Agreement as of the Grant Date.

COMPANY:	CONSULTANT:
The Shyft Group, Inc.	
/s/ Colin Hindman	/s/ Paul Mascarenas
By: Colin Hindman	Paul Mascarenas
Its: Chief Human Resources Officer	

Revision Dated September 1, 2023

EXHIBIT 31.1

CERTIFICATION

I, Daryl M. Adams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Shyft Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 26, 2023

/s/ Daryl M. Adams
Daryl M. Adams
President and Chief Executive Officer
The Shyft Group, Inc.

EXHIBIT 31.2

CERTIFICATION

I, Jonathan C. Douyard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Shyft Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 26, 2023

/s/ Jonathan C. Douyard
Jonathan C. Douyard
Chief Financial Officer
The Shyft Group, Inc.

EXHIBIT 32

CERTIFICATION

Each of the undersigned hereby certifies in his capacity as an officer of The Shyft Group, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition at the end of such period and results of operations of the Company for such period.

Dated: October 26, 2023

/s/ Daryl M. Adams
Daryl M. Adams
President and Chief Executive Officer

Dated: October 26, 2023

/s/ Jonathan C. Douyard
Jonathan C. Douyard
Chief Financial Officer