Spartan Motors, Inc. [SPAR]
Q1 2020 Earnings Conference Call
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Company Participants:
Juris Pagrabs; Group Treasurer and Director of Investor Relations
Daryl Adams; President and Chief Executive Officer
Jon Douyard; Chief Financial Officer

Analysts:
Steve Dyer; Craig-Hallum Capital Group
Mike Shlisky; Dougherty & Company
Steve O'Hara; Sidoti & Company
Matt Koranda; Roth Capital

Presentation:

Operator: Good morning, and welcome to Spartan Motors' First-Quarter 2020 Conference Call and Webcast. [Operator Instructions] This call is being recorded at the request of Spartan Motors. If anyone has any objections, you may disconnect at this time.

I would now like to introduce Juris Pagrabs, Group Treasurer and Director of Investor Relations for Spartan Motors. Mr. Pagrabs, you may proceed.

Juris Pagrabs: Thank you, Brant. Good morning, everyone, and welcome to Spartan Motors' first-quarter 2020 earnings call. I'm Juris Pagrabs and joining me on the call today are Daryl Adams, our President and Chief Executive Officer; and Jon Douyard our Chief Financial Officer. For today's call, we've included a presentation deck which will be filed with the SEC and is also available on our website at spartanmotors.com. You may download the deck from the Investor Relations section of the website to follow along with our presentation during the call.

Before we start, please turn to Slide 2 of the presentation for our safe harbor statement. You should be aware that certain statements made during today's conference call, which may include Management's current outlook, viewpoint, predictions and projections regarding Spartan Motors and its operations, may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. I caution you that, as with any prediction or projection, there are a number of factors that could cause Spartan's actual results to differ materially from projections. All known risks that Management believes could materially affect the results are identified in our Forms 10-K and 10-Q filed with the SEC. However, there may be other risks that we cannot anticipate.

On the call today, we will provide a COVID-19 business update, first-quarter highlights and a summary of our growth strategy, before moving on to a more detailed review of the first-quarter results and our guidance update, which will then be followed by a Q&A session.

I would like to remind everyone that, with the divesture of the Emergency Response segment on February 1, 2020, the revenues and expenses associated with the ER group, as well as the assets and liabilities, have been reclassified as discontinued operations for all periods presented. With this reclassification of the ER segment to discontinued operations, the results discussed today will refer to continuing operations unless otherwise noted.

At this time, I'm pleased to turn the call over to Daryl, which begins on Slide 3.

Daryl Adams: Thank you, Juris. Good morning, everyone. Thank you for joining us to discuss our first-quarter 2020 results. Please turn to Slide 3.

The extent of the virus is unprecedented on our personal lives, our businesses and our economies -- are being impacted by events beyond our control. Our leadership team is entrenched, fully aligned and controlling what we can, and acutely focused on the unique challenges presented by this pandemic.

Though we didn't begin to feel the effects of the pandemic until the end of the quarter, again, we began mobilizing a COVID-19 task force that been up and running since early March. We have been meeting daily, with the understanding that our highest priority remains the safety, health and wellbeing of our employees, their families and our communities.

We have enacted centralized protocols for responding to operational issues as they develop. We establish specialized sub teams to manage proactive and responsive actions across our operations as we engage with our facilities on a daily basis.

To ensure the safety of our associates, as well as to comply with various government restrictions for shelter-in-place or safer-at-home executive orders, near the end of the quarter we temporarily suspended operations at some of our plants. Since that time we have adjusted plant operations in response to government mandates and prevailing demand trends within our markets.

For each of our facilities that are operating we are taking aggressive actions to safeguard employees. We are committed to meeting or exceeding the CDC and state and local health department guidelines across all campuses. We began by developing and implementing our COVID-19 standard operation guidelines at each of our plants. We measure each associate's temperature upon entering the plant; provide personal protective equipment to reduce the potential of infection, including masks, gloves; and we are practicing social distancing protocols.

Throughout out plants and offices we are conducting heightened hygiene and cleaning protocols to ensure a healthy work environment. For workers that may work remotely, we have implemented procedures and technology to allow them to work from home, paying particular attention to IT security protocols.

Under the Cybersecurity and Infrastructure Security Agency (CISA) guidelines, the majority of Spartan's products are considered essential. This has allowed us to continue to produce vehicles for our customers and dealers. These vehicles are used in critical applications, including shipping and delivery services, infrastructure maintenance and for federal, state and local governments.

For example, we recently built a vehicle for Idealease, whose end customer was EquipSystems. This vehicle was sent directly to the pandemic's U.S. epicenter in New York, and is being used to sterilize -- used in sterilization efforts to help fight against COVID-19 pandemic. We are also working with a linen company regarding their COVID-19 facility cleaning initiative that is of high demand as a result of the pandemic.

In this challenging environment we recognized that we needed to move quickly to reduce cost and preserve cash across the organization. Our actions included implementing temporary furloughs for both salaried and hourly employees at select locations; instituted a companywide hiring freeze; eliminating discretionary operating expenses; cancelling or deferring noncritical capital expenditures and deferring wage increases and reducing executive and board compensation.

Additionally, we've been staying to our customers to understand their needs and expected orders for the second half of the year.

And, lastly, to ensure continuity of supplies, we began working proactively with our supply base to understand their constraints and chassis availability as it relates to our production schedule.

Please turn to Slide 4 and I'll recap our operations by segment and product line. Given the essential nature of our business, heading into April we were operating at approximately 40% of our facilities. With employee safety as our guiding principal, we continued to assess our order demand and supply base, made adjustments to our production levels on a plant-by-plant basis, which impacted our April operations. Since then, we continued to ramp up production and our currently operating in approximately 80% of our facilities at full or modified production levels, which includes our three largest operations in Bristol, Indiana; Carson, California; and Charlotte, Michigan. We expect to be back in full production by the end of the month.

With most of our vehicles, production is predicted on a availability of chassis from our OEM and component suppliers. While we are monitoring the situation closely, we are encouraged to hear that production at most OEM manufacturers will begin in the coming weeks. Demand remains strong in a number of locations and we see it accelerating in some cases, particularly in parcel and food and beverage, as consumers and retailers are being impacted by the stay-at-home orders. In fact, many of our customers are experiencing demand levels similar to the holiday peak season. Even among essential businesses like grocery and home improvement stores, there is a strong trend toward ordering online. We believe, as do our customers, some of these short-term behaviors consumers have adopted will continue and, in some cases, may become permanent.

A few of our other locations are projected to be flat or down, primarily impacted by dealer shutdowns due to the stay-at-home orders. We do see this as only temporary and expect a modest rebound in the second half of the year. And, while our motorhome backlog at the end of the quarter was up year over year, it does not reflect what we are currently seeing in the market due to the pandemic. We are seeing orders beginning to moderate as our OEM customers evaluate demand and inventories based on when retail dealers begin operations. As such, we do expect continued softness in the second half of the year. Based on us getting back to normal production levels by the end of May, coupled with our strong backlog position, we feel we are in a good position to respond quickly to customer demand.

With that, let me take a few moments to summarize our first-quarter results on Slide 5. We saw a strong start to the year and believe our results demonstrated the magnitude of our business transformation strategy, which is centered around high-margin products offerings within our core markets and growing market share with our expanding geographic footprint.

Revenues from continuing operations for the quarter increased 3% to \$177 million, up from \$172 million a year ago. Although revenues increased \$37.4 million, or 26.8%, excluding the \$32.7 million of pass-through revenues from the one-time USPS truck body order in the prior year. FVS, which now represents 75% of our total sales as a result of the ER divestiture, was driven by increased demand on delivery vehicles across all vehicle classes. As a result, FVS posted sales of \$136 million, which was up 11% from the prior year. Conversely, SCV sales were down 20%, primarily resulting from decreased luxury motor coach sales, which was partially offset by sales from the Royal Truck Body acquisition.

Looking to profitability, for the first quarter income from continued operations increased 143% to \$12 million and EPS from continued operations increased 154% to \$0.33 per share, up from \$0.13 in the same period last year. These results included a \$2.6 million, or \$0.08 per share, income tax gain resulting from recognizing a loss carryback relating to divestiture of ER and available under the newly enacted CARES Act.

Let's turn to Slide 6 and I'll provide an overview of our growth strategy. FVS saw strong demand in vehicle classes 1 through 7 in the first quarter. As we said on our fourth-quarter and full-year 2019 earnings call, there is a trend towards consumer spending more online, which in turn creates higher demand for delivery vehicles across our entire product portfolio. We've been talking about the long-term trends toward e-commerce and we believe some of the short-term behaviors consumers have adopted in relation to the pandemic will continue after the worst is over, and in some cases may become permanent. All of these recent shifts have been a boon to the online retailers, both large and small, driving increased demand for the enhanced delivery options that our vehicles provide.

With our expanded coast-to-coast flexible manufacturing capabilities, which effectively cover approximately 80% of the total US population, we can better accommodate the growing demand for our vehicles, both now and in the future.

I would now like to welcome our new CFO, Jon Douyard, to his first quarterly conference call. I know for you personally, Jon, timing isn't the best, with your family still in the Seattle area, but I want you to know how pleased we are to have you on board. With that, I'd like to turn the call over to Jon to discuss Spartan's financial results for the first quarter in more detail, as well as provide an update on our 2020 outlook, beginning on Slide 7.

Jon Douyard: Thank you, Daryl, and hello, everyone. Despite this difficult and challenging environment we are operating in, I am excited to be on board and part of the team. Through my first 60 days the strength of the team, the business's commitment to the customer and the long-term growth prospects have become very apparent. I look forward to partnering on this next stage of growth here at Spartan. And, having said that, I also look forward to the time when I can meet all of you in person, which is hopefully in the near future.

Please turn to Slide 8 and I'll provide an overview of our financial results for the first quarter. As Juris mentioned, the results we will be discussing reflect continuing operations as the ER business has been classified as discontinued operations for all the periods presented.

Our bottom-line results from continuing operations for the first quarter improved significantly over 2019. For the quarter, adjusted EBITDA from continuing operations more than doubled from $8.4 million to $18.4 million, while as a percentage of sales adjusted EBITDA from continuing operations increased 550 basis points to 10.4% of sales, compared to 4.9% of sales in the same period last year. These increases can be attributed to sales volume, favorable product mix and Royal Truck Body, which offset lower luxury motor coach chassis volume.

Adjusted net income from continuing operations grew 115% to $11.4 million, up from $5.3 million, which reflects favorable product mix, lower material and component costs, productivity improvements, the impact of the pass-through revenues on the USPS order in the prior year, as well as the Royal acquisition.

Adjusted EPS from continuing operations also more than doubled, to $0.32 per share, compared to $0.15 per share at this time last year.

Next, we'll jump into results by operating segment. Let's begin with Fleet Vehicles & Services segment on Slide 9. FVS generated total revenues of $135.7 million, which was up 10.6% compared to $122.6 million in the first quarter of 2019. As a reminder, first-quarter 2019 FVS revenues included $32.7 million of USPS passthrough revenue. So excluding the impact of that revenue, FVS sales year over year increased $46 million, or 51%.

FVS adjusted EBITDA more than tripled to $21.7 million from $7 million a year ago, due to sales volume, improved product mix, lower material and component costs and the impact of the passthrough revenue in the prior year. Adjusted EBITDA margin increased 10.3 percentage points to 16% of sales from 5.7% of sales last year.

FVS backlog totaled $302 million, up $187 million, or 162%, compared to $115 million at the end of the first quarter 2019, excluding the USPS truck body order.

Please turn to Slide 10 for the Specialty Chassis & Vehicles segment overview. SCV revenue decreased $10.4 million to $41.3 million, which was primarily due to a $17.7 million decrease in luxury motor coach chassis sales, along with lower contract manufacturing volume that was partially offset by revenues from the Royal Truck Body acquisition.

With the lower sales, SCV adjusted EBITDA fell to $3.7 million, or 9% of sales, compared to $4.9 million, or 9.6% of sales, in the same period last year.

SCV backlog is up 46% to $42 million compared to $29 million at the end of the first quarter of 2019, primarily due to the Royal acquisition.

Please turn to the liquidity and guidance update on Slide 11. As Daryl touched on, as a result of COVID-19, we have taken a number of steps to enhance our liquidity, including rightsizing our cost structure where possible to maximize our financial flexibility as we work through the uncertainties relating to the COVID-19 pandemic.

We have been working closely with our banks to ensure cash availability. At the end of the quarter we took a conservative position on our cash balance by drawing down on our existing credit line. Ultimately, we ended Q1 with $41 million of cash on hand, which is above our normal historical operating levels. We will continue to evaluate this cash position as we gain better visibility to the COVID-19 impact.

That said, we did pay down $14 million of debt in the quarter, resulting in a current leverage ratio of 1.1x adjusted EBITDA. The cash on hand, coupled with $75 million of availability on our existing credit line, provides us with sufficient liquidity to fund our working capital needs.

Turning to guidance, while we are very pleased with our first-quarter results and remain confident in the long-term prospects of our core markets, we do need to acknowledge the severity of the market conditions we are operating in today. We do expect our second-quarter results to be impacted by the headwinds related to the COVID-19 pandemic. We currently anticipate returning to normal production levels by the end of May and expect to deliver solid growth for the balance of the year when excluding the USPS passthrough revenue from 2019. We acted quickly to mitigate the financial impacts of lower production in the near term and we are working diligently to maximize our operations on a go-forward basis.

Despite these plans and all our efforts to date, production at any of our facilities may be further impacted by potential disruptions in our supply chain or future government, market or company actions in response to the COVID-19 outbreak that may be out of our control. With this elevated level of uncertainty, including the unknown magnitude and duration of the impact, we are withdrawing our guidance for the full year 2020. We currently plan to provide an updated outlook once we have greater clarity regarding the implications of COVID-19 on our business.

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

Daryl Adams: Thank you, Jon. Please turn to Slide 12.

In closing, our strong first-quarter results are a major indicator that our business transformation efforts and strategy are working. We delivered revenue growth, significant increases in net income, EPS, adjusted EBITDA and margins. We are monitoring the COVID situation closely and will continue to make swift decisions to protect our employees, our business and long-term shareholder value. Our enhanced cash and liquidity position, access to funding and expected cash flows from operations will support us through the short-term headwinds of the pandemic. Because of the actions we are taking now, we believe we will be a stronger, leaner company when we come out of this and will have the speed and flexibility to generate long-term growth and profitability.

Additionally, we continue to have a watchful eye on the M&A front and plan to pursue strategic opportunities as they present themselves in light of this market.

Finally, I want to also take a moment to thank all of our employees, who play a significant role in manufacturing and delivering the vehicles our customers need and expect. We thank them for their commitment and tireless work ethic as we work together as a unified team to get through this difficult condition.

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

Questions & Answers:

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Steve Dyer with Craig-Hallum.

Steve Dyer: Thank you, and nice execution here in a tough time. I guess as it relates to demand, that clearly doesn't seem to be the issue. But can you give us maybe a bit more color on what you're seeing there? Are you seeing new industries coming to you? I know you were starting to get some food and beverage traction, with the [refri] products and so forth, but do you continue to get orders or do you sort of feel like you have what you have and everybody else is sort of on lockdown right now?

Daryl Adams: Good question. I think, as you mentioned, over the last 18 months or so we've been focused on refining our refrigeration and grocery delivery. We're seeing some opportunities in that space as well as the parcel space, with our typical last-mile delivery customers. This is a very interesting time and I think we all are learning a whole lot more on how to order online.

And the hard part, Steve, that we can't -- I don't think anybody understands is when are we going to be back to 100% of what we would say is normal, right, back in January or February? And I think that's going to take some time. And I think that time is going to continue to drive some growth in a lot of our segments that we operate in.

We were actually a little concerned about the linen and laundry, just because offices are closed. But we're seeing, in hindsight, that with the increased cleaning and everything going on that some of those guys are giving us some calls to get some new orders.

Even with our backlog through -- almost through the end of the year, we're still pumping out trucks and trying to increase capacity.

Steve Dyer: Got it. So I guess, obviously, supply and production is the bottleneck right now. I think you had said right now 80% of your plants are at least somewhat operational. Can you just sort of help us I guess from a modeling perspective, if for no other reason, to help and think about out of 100% all in, the ones that are operational and the ones that aren't, sort of what percentage of capacity maybe you're operating at right now?

Daryl Adams: Yes. So when we went into this with the task force team and looking at it as a segment-level was not granular enough. So we broke it down into what we would call 20 different locations. And I'm getting all the way down to what is FVS aftermarket parts doing. What is SCV aftermarket parts? And we broke it by each plant location. So at the end of the day we had approximately 20 income streams we were looking at and managing those. And we did mention in the script that the big plants, the Big 3, and our Big 3, I guess, if you want to call it that, which are Bristol, Carson and Charlotte, are all up and running. We didn't run those dry on purpose, because it's hard to restart. But, like, Kansas City and Charleston and Mexico ship-through plants right now are not running because the OEMs aren't running and not building chassis. The Ram ProMaster, the Transit and the Sprinter aren't -- the factories aren't pumping those out. So those three are down.

So we just looked at it not so much on a capacity, but on out of the 20, by the end of the month 80% will be running. Now, that's changing and it's fluid. I just saw something this morning that they're trying to get Mexico open by the middle of this month, which would be helpful because we have heard it's going to be later in the month. So it's flexible and fluid, but the plants that are not up and running would be the smaller ones that would be ship-through, specifically Charleston, South Carolina in-transit.

Steve Dyer: So if those are primarily [upfit] plants, I guess, is the best way to think about it those are some of the lower-revenue but higher-margin plants, generally speaking?

Daryl Adams: You know, it -- probably lower revenue and obviously the margins vary based on how much content we put into it and the amount of upfit. You could say that, in general.

Steve Dyer: Got it. Okay, one more for me and then I'll jump back in the queue. As it relates to your supply chain, is it primarily chassis that you're waiting on? Are there sort of -- once the Big 3, so to speak, get up and running again, do you expect chassis fairly immediately? Is there a long queue? And are there any other components that could then sort of sneak up and bite you outside of that? Thanks.

Daryl Adams: Yes. You're welcome. I think you're probably going back in some history, back to 2018 with the tariff activity. But this is a little bit different. China's back up and running. Mexico should be back up and running by the end of the month. And we do see, have good visibility -- for instance, the chassis we use for walk-in vans, we have very good visibility into the number of units on the ground and where they're located. So I think we could see that through the middle of June, approximately. Is that right, Jon?

Jon Douyard: Yes.

Daryl Adams: Yes. So as long as they get up and running here in the next couple of weeks, we think it might take them a week to get us some chassis and get running. But, again, I think they're going to be at a percentage of output at their locations as well. So that's why there's some uncertainty here that we don't know how it's going to play out. But we are, obviously, staying close to it.

Steve Dyer: Great color. Thanks, and good luck.

Operator: Our next question will come from Mike Shlisky with Dougherty & Co.

Mike Shlisky: So I want to get a sense of the COVID-19 impact also in a little bit more detail. I guess I'm trying to figure out if there weren't safety questions and some chassis supply issues, on the demand side that really hasn't changed for you. Is that kind of fair to say? Or are you seeing customers who just aren't open at this time and they aren't placing any orders when they probably normally would. I'm trying to figure out whether the entire impact to you is on the cost side and not on the demand side at this point.

Daryl Adams: So I'll take the demand side. So what we're seeing -- I'm going to try to split it for you, Mike. As I mentioned when Steve was asking, we have good visibility into the chassis that we need for our walk-in vans. We could see those through, like I said, the middle of June. As long as they're back up and running, don't see a problem. And, again, that's predicated on the OEM. So let's take Ford, for example. As long as they get some engine plants up and running and they're getting their component parts, getting into Detroit chassis, we'll get them.

Where we're seeing some of the impact is on the retail, if you will, dealer side, because a lot of the automotive dealers are closed and they're just starting to reopen. Around here in Michigan, they're opening. They can do touchless transactions, delivering cars. So they're trying to figure out how to do that. And we looked at it as a positive. If they're doing it for consumers, they're going to be doing it for the retail space as well on the larger trucks, the 350s, 450s that we would get, or the GM trucks as well. So as soon as those dealers open and the plants run, they're going to fill that.

So there's some pipeline because we didn't run, again, all of Carson dry. So there's going to be -- there's no bubble. We didn't want to have a bubble going into this, so we managed it very close so that once they start, we can start almost within a week. And we'll get the chassis and we can produce from there.

Mike Shlisky: Okay. I also want to follow up on walk-in van business. I know there aren't that many competitors in this business. I don't know how the other folks are doing. But I'm curious if you've captured any new customers because [indiscernible] competition just isn't producing at this time.

Daryl Adams: Yes. I'll tell you we have some increased opportunities here recently from different customers. Some of that, I will say, is from our strategy on different customers we wanted to go after. And I'll also say some of it may have been driven by COVID and they came to us. So it's a mix. I would say it's more of the hard work of the Spartan team trying to get into other vocations, especially, like I mentioned earlier, into the grocery delivery and refrigerated area.

Mike Shlisky: All right. I also wanted to ask about the FVS margins, too. Those are very impressive, 15%, and that's with the impact, I'm sure, at the end of the quarter from COVID-19. So probably some higher costs there. I'm kind of curious. It's been three straight quarters where you're in the kind of mid-teens here on margins. Are you getting into a pattern of a new normal here? Or are there individual contracts that are really pulling that upward that might not last forever?

Jon Douyard: This is Jon. I would say a couple things. We didn't see a big cost impact at the end of March, so I wouldn't expect to see -- we were shut down I think for maybe the last week of the month. So I wouldn't expect -- I would expect to see it a little bit worse from a productivity perspective as we get into Q2 and deal with social distancing and those types of things.

But I think it's been a very favorable margin story in FVS and I think part of that is really the volume. We've been able to leverage without adding significant capacity. And so to the extent that the volume continues I think we have opportunity. We always have a mix of contracts that can change at any point. We've gotten some productivity out of the aluminum pricing year over year, which, if you think about a year ago from Q1, coming out of the tariffs, I think that was certainly an issue. And I think the other piece that the team has really driven well, is the Lean focus and the operational improvements from that perspective.

So I wouldn't say that 15%, 16% is sort of a new normal, but I think we are operating at a pretty good level there at this point.

Mike Shlisky: All right. And maybe just one last one from me, squeeze this one in here. In SCV I'm curious whether your contract manufacturing partner, Isuzu, do they have -- do you have the ability to kind of recapture any inefficiencies or elevated costs if the truck assemblies are down substantially due to things that are out of your control?

Daryl Adams: No, we do not, Mike. We view Isuzu, like all of our customers, as a partnership. And we talk and we share throughout the different ups and downs of the industry. And this is something way out of their control. But they do have product ready to go and as soon as Michigan opens back up -- that's one of the plants that, as we looked at it, we didn't consider that it was critical and essential under the CIFA because we have inventory on our campus in Charlotte and the other OEMs were down as well. So those vehicles, they go to dealers and the dealers weren't ready to accept them. So as soon as the dealers open up and the state opens back up, that plant will be back up and running and there should not be a supply issue.

Mike Shlisky: Okay. Well, thanks so much for your help. I appreciate it.

Operator: [Operator Instructions] Our next question will come from Steve O'Hara with Sidoti & Co.

Steve O'Hara: Just curious in terms of the, let's say, recovery in second half from 2Q. I mean, would you say it's more -- I guess in the short term, obviously, is it more based on kind of the opening up from COVID? Or is it -- I mean, it seems like it's less impacted by the economy currently or maybe going forward. Is it just the fact that things are shut down and that's hampering production, but you still have good demand and you expect that to be the case at least in the short term? And then longer term maybe if you could just talk about the impact of maybe lower economic growth, despite the fact that maybe you have improved penetration with e-commerce and things like that. Thank you.

Jon Douyard: This is Jon. Maybe I'll take the first part of that. I think as you look at the economy opening back up from COVID and those impacts, I think it really is a supply-side force at this point. If you think about our backlog of nearly $350 million, which is usually in the 4- to 6-month range. In terms of [convertability] that gets us pretty comfortable with our factory capacity and those types of things here as we head into the second part of the quarter and the second half of the year.

So I think it really is on the demand side -- or on the supply side and the OEMs supplying the chassis and other components.

Daryl Adams: Yes. I'll take the second part of that, the demand side. I think as we mentioned a couple times in the script, there's going to be some of this online ordering that's going to, if you will, stick. People are getting used to it.

Steve, I think the question that we all have is what is going to be the new normal. For instance, we didn't talk about it, but we're investigating and have purchased a couple different systems because we don't think it's efficient for us to measure someone's temperature as they walk in, each person individually. We're going to be looking at some sensing equipment, thermal imaging and sensing that will automatically check the temperature as they walk through and will know if they should not come into the plant or not. So some of this is going to stick as the new normal. And we think as -- and there could be a little bit of a resurgence, too, in some of these states or regions, that the COVID comes back. And we're not sure exactly how the governors will react. And it may be some more time until things open up.

But I also did mention one of our laundry and linen companies that are asking for more trucks because the new normal in that office is going to be a lot more cleaning, a lot more laundry, mats and things. So we're not sure exactly how much is going to be the new normal, but we see increased demand longer term on this new normal that we're going to end up with.

Steve O'Hara: Okay. No, that's helpful. On the chassis side, to the RVs, it seems like they shut down in late March, are starting to kind of open back up here. I mean, what's the sense on that side of the business? I know you are on the higher-end units, from what I know. Do you see that business being less impacted, given maybe the people buying those are economically less sensitive?

Daryl Adams: Yes. It's a good question. And I think you've been [indiscernible] listening to us, because we've talked about that in the past. We do believe that the people that are buying the luxury motor coach are -- have their wealth. They're not buying it -- if they can buy it, they're buying it because they want it. It's a lifestyle. And the backlog that increased year over year is because some of the new models that are coming out, our chassis is under them. So we do have some more market share gains wind. If the market comes back, we should see some more, because we are 100% underneath some of the new models coming out by both of the bigger customers, Newmar and Entegra.

So to us it's just like I think we mentioned. It's a matter of time. But we don't know when and at what speed, but qualitatively we're positioned well, we think, in the RV space as well as our other markets now without the ER segment.

Steve O'Hara: Okay. And then, finally, just with the sale of the ER business, I think at least some of the manufacturing was done in Charlotte. Was that facility acquired? Or is that space available for maybe manufacturing for either SCV or FVS?

Daryl Adams: Good question. In Charlotte we have a number of buildings. And with the sale, three of the buildings went to the REV Group. And those three buildings were mainly -- two of them were 100% -- no, actually one of them was 100%, one was 50% and one was 60% utilized by ER. So those did go with them. But there's still capacity in two of our plants. One we're running truck body and one where we moved the motor home business over to. Because I think on our last call we mentioned we opened a new aftermarket parts building in the Bristol area. So we moved out aftermarket parts to free up space in Charlotte for the motorhome.

Steve O'Hara: Okay. Thank you very much for taking my questions.

Operator: Our next question will come from Matt Koranda with Roth Capital.

Matt Koranda: So, Daryl, maybe I'll start out with a question on Slide 4. I think was helpful that you kind of broke out your views on fleet demand by parcel, food and beverage, utility, et cetera. Was curious if maybe you could speak to kind of historically what the mix of revenue has been in the Fleet Vehicles business between those sources of demand. And then where is the biggest opportunity in terms of order book maybe in the coming couple of quarters? And are there any margin implications fallout from that?

Daryl Adams: Yes. Matt, we figured someone was going to ask that question. I think we're going to stick with our standard answers. We don't break it out by location. We tried to put this in and I'm glad you thought it was helpful.

This was a big change for us, to put it in. It was actually Jon's idea and Jon had put it back in, only as guidance. We wanted to give everyone some help on what it looks like and where we see the growth opportunities. As you know, in the past when we had three segments it was a little confusing to understand I, how much was ER, how much was motorhome. So we felt now that were in the two segments, the majority of it is Fleet, it was important to identify that on the slide. So I don't know if you have anything you want to add, Jon.

Jon Douyard: I would just add that historically it's been more weighted toward the walk-in van side, but we haven't really broken out the details.

Matt Koranda: Got it. Okay, that's fair. And then, one other one for you, Daryl, just in terms of the M&A front. I know you mentioned it briefly in the prepared remarks. But what are you looking at in terms of macro signals or maybe just market-based signals within Fleet Vehicles to get more aggressive on the M&A front? I know you had done some stuff last year. But going forward, it seems like there are potentially some opportunities that will present themselves, with valuation multiples maybe coming in over the next couple of quarters. But what are you seeing on that front? And is there anything to kind of report back on so far?

Daryl Adams: Good question. I think with everyone working at home and most of the M&A activity down, we've received a lot of calls from a number of different bankers over the last month or so. We were involved with a number of opportunities going into the shutdown period. We're still working them.

And I do believe, to your point, there's going to be some other opportunities. We've seen a couple, I'll say, bolt-ons we're looking at, nothing significant. But it's going to be interesting to see what happens over the next quarter or two, when people are stressed. And I think we've talked before, we've had the question, what leverage are we comfortable with. And I think the position we're in today is only because we watch, right, we want to make sure that we don't get too over-levered. We work hard to integrate and take out cost where we can to make sure that we move that leverage ratio down. And it's going to be how we operate going forward. We've seen a lot of it back in '08, '09. We saw some in '18 and I think we're going to see some more shakeout of the industry here through this COVID-19 epidemic. We're ready. We have good liquidity. The banks are very in tune with what we're doing and our strategy. So we're just going to continue to watch and figure out the opportunities.

We still have -- we have a real good market, if you will, in the larger fleet customers. We're working on the more, if you will, some of the regional retail space that we haven't done a whole lot of business in. And that's some of our strategy going forward, along with continuing to work on the larger fleets. But with the 80% of the US population now within 300 miles of each of our plants, that's the future strategy, is to build out those regional locations.

Matt Koranda: Got it. Very helpful. I'll leave it there. Thanks.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Juris Pagrabs for any closing remarks.

Juris Pagrabs: Thanks, everyone, for joining. We look forward to keeping you updated as we move forward in these uncharted waters here. We are scheduled to do several virtual conferences here over the next month or so, I think Craig-Hallum at the end of the month and then UBS the first week of June. And of course that will be virtual, so we'll keep you updated.

Thanks for joining. Have a great day.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.