Spartan Motors
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Daryl Adams; Spartan Motors; President, CEO
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Presentation

Operator: Good day everyone and welcome to the fourth quarter and full-year 2016 earnings conference call. All participants will be in listen-only mode. (Operator instructions.) After today's presentation there will be an opportunity to ask questions. (Operator instructions.) Please note that the event is being recorded. I would now like to turn the conference over to Juris Pagrabs, group treasurer and director of investor relations. Please go ahead, sir.

Juris Pagrabs: Thank you, William, and good morning, everyone, and welcome to the Spartan Motors 2016 fourth-quarter and full-year earnings call. I'm Juris Pagrabs.

Joining me on the call today is Daryl Adams, president and chief executive officer and Rick Sohm, our chief financial officer. For today's call, we have 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 our website to follow along with our presentation during the call.

Before we start today's call, please turn to page 2 of the presentation for our safe harbor statement. You should be aware that certain statements made during today's 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 Security's Litigation Reform Act of 1995.

I caution you that, as with any prediction or projection, there are 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.

For today's call, Daryl will provide a review for the full year as well as the business update including our recent acquisition of Smeal Fire Apparatus. Rick will review the fourth quarter results and our guidance provided for 2017. We will then return to Daryl's closing remarks before proceeding to the Q & A portion of the call.

At this time, I am pleased to turn the call over our CEO, Daryl Adams, for his opening remarks, which begin on slide three.

Daryl Adams: Thank you, Juris. Good morning, everyone. Thank you for joining us in Spartan Motor's 2016 fourth-quarter and full-year conference call. I'd like to begin by saying how proud I am by the Spartan team's performance this year. As we clearly made significant strides in improving operational and financial performance across all of our business segments.

I'm pleased to report a solid year of growth for Spartan Motors, which exceeded our initial expectations and guidance. Revenues for 2016 grew 17.2% to $590.8 million, from $549.4 million a year ago.

For the year, we reported net income of $8.6 million, or $0.25 per share compared to a loss of $17 million or $0.50 per share last year. That is up $25.6 million, or 150.7% year-over-year.

2016 represents our most profitable year since 2009. I'm particularly pleased how quickly our Spartan team members have embraced our multiyear turnaround plan. The talent upgrades we have made are beginning to take hold and our path to profitability is clear, as lean initiatives and process improvements are driving significant operational improvements.

Our gross profit in 2016 improved 370 basis points to12.3% of sales, from 8.6% of sales last year. Operating income rose $21.1 million, or 169.1% to $8.6 million. On an adjusted basis, operating income improved 222.1% to $14.5 million, which excludes $0.9 million of acquisition-related costs.

Now turning to slide four, let's take a look at the full-year results of our three business segments. Our fleet vehicle and services segment posted a 22.3% increase in revenue to $278.4 million year-over-year, and a 97.9% increase in operating income to $28.7 million. FVS performance in 2016 was driven by higher volumes in our vehicle upfit business located in Kansas City and Saltillo, Mexico, which I plan to cover in more detail a bit later in the presentation.

Our special chassis and vehicles segment had essentially flat revenues year-over-year at $129.4 million despite five sales, after income rose 39.5% to $6.8 million. SCV operating results reflect higher volumes from contract manufacturing and a nonrecurring defense order offset by a decline in motorhome sales due to a major customer adjusting inventories.

Our emergency response segment revenues declined 5.3% in 2016 to $183 million to reflect fewer shipments year-over-year as a result of our deliberate effort to only accept profitable orders. We made significant progress in 2016 toward returning this business segment to profitability, which remained a top priority in the multiyear turnaround plan.

Our focus on lean manufacturing principles and continuous process improvement resulted in a 42.4% or $10 million improvement in operating loss year-over-year, something we are particularly proud of as we work towards returning ER to profitability by the end of 2017. Our fourth-quarter results at the business unit segment level were equally impressive, which Rick will provide further details during his comments.

Let’s turn to slide five and I will update on some business highlights and developments. On the complete apparatus side, 2016 brought to market the S-180, currently 11 pumper models, the S-180 was designed to provide the market with faster, order to delivery cycle times. In fact, we are able to design, build and deliver S-180 pumpers in half the time of any competitor.

In conjunction with that effort, for our 43 cab and chassis OEM customers we launched the Spartan [swap] program which packaged commonly ordered cab and chassis options, eliminating unnecessary complexities which made ordering Spartan cab and chasses easier for OEM partners and abbreviated build to delivery times.

To date, we have sold over a dozen S-180 pumpers and we are continually met with significant interest from dealers and departments alike. We shipped five units in the fourth quarter of 2016 and five units in January. Our backlog is beginning to build with 20 units scheduled for production through June 2017. This is truly a game changer in the industry as we believe 30% to 40% of the pumper market is addressable with the S-180 line of pumpers.

Please turn to slide six. In the second quarter, we announced the production of the first new Chevy M series medium duty gasoline powered truck being manufactured in Charlotte, in partnership with General Motors and Isuzu Commercial Truck of America.

Building on a great partnership with Isuzu at last year’s NTEA work truck show we were named Isuzu’s Manufacturing Partner for the F-series, a class VI on-highway cab-over diesel commercial truck. As previously announced, we allocated capital for the construction of a new plant on our Charlotte campus.

Exterior and interior construction as well as tooling and equipment installation efforts are now complete. We are currently running small run preproduction units and anticipate full production ramping up near the end of Q2.

Moving to slide seven. Last week, Spartan Upfit Services, a division of Utilimaster, announced the launch of our newest facility in Kansas City. Dedicated exclusively to providing tailor upfits, cargo vans and other fleet vehicles, including those serving utilities, telecom, healthcare, construction, food and beverage, and parcel delivery markets.

Spartan Upfit Services streamlines the fleet customization process for Ford transit, located adjacent to Ford’s Kansas City-based transit manufacturer facility. Spartan Upfit Services customers benefit from Ford’s ship-through program which delivers the vehicle to the customer’s dealership of choice. In addition to cost savings, Spartan Upfit Services seeks to optimize speed of delivery for businesses waiting for their fleets by offering a combination of kits and base packages, with customized Upfit services to a full range of cargo van manufacturers.

Similarly, we have been operating in a 100,000 square-foot facility directly adjacent to the Chrysler Dodge Ram Plant in Saltillo, Mexico since 2014. The facility utilizes contract employees and has a capacity of 20,000 units. The facility upfits primarily cargo vans and performs a variety of delivery upfit solutions, including factory completions, fleet vocations, Mopar offerings and DOT completions.

Our Utilimaster brand has a long history of designing and building solutions for virtually every kind of fleet delivery and service business, including some of the largest fleet brands in the world. Spartan Upfit Services is born from that pedigree, and we believe the insight we have garnered over the years will benefit all fleets.

Specifically, those using cargo vans as last mile delivery solutions become increasingly significant in the parcel market. We can add value through single point of release, one-time freight expense, and custom design that meet the precise needs of individual fleet managers.

Please turn to slide eight. When we talked last, we just announced that our FVS segment, which encompasses a Utilimaster go to market brand, was one of six vehicle manufacturers awarded a USPS (inaudible) contract to build six next-generation delivery vehicles. We share with you that the award contract of $3.6 million was designed to offset the prototype build cost.

As you have seen earlier this week, we announced we are seeking withdrawal of the USPS next-generation vehicle delivery program as a prime contractor because we cannot find a substitute commercial chassis player that would meet our minimum marketing targets necessary to continue to pursue the project as a bodybuilder.

We will be continuing to support this project by partnering with a leading USPS prototype award participant to provide interior cargo management solutions specific for the USPS program. This will enable us to participate in the next-generation delivery vehicle program as a cargo management supplier with all the related upfront development capital to provide a better return on capital, which better serves Spartan and our shareholders.

Please turn to slide nine. As we previously announced, we completed the Smeal acquisition on January 1, with total cash consideration of $32.5 million. Smeal, an industry leading innovator and manufacturer of fire apparatus in North America, had revenues for 2016 of approximately $70 million, which excludes approximately $30 million of Spartan chasses sold to Smeal.

The newly combined Spartan Emergency Response business unit will rank one of the top four in North America fire apparatus manufacturers. An increasingly consolidated industry with its expanded geographic reach and industry leading innovation and operational excellence, the new company is well-positioned to deliver a robust and respected portfolio of leading products, services and technologies to its broad range of customers, including original equipment manufacturers and dealers.

The addition of Smeal compliments our own Spartan Emergency Response business unit. As we start the transaction to accelerate this business unit’s turnaround, we’re also (inaudible) up to provide an expanded innovative product offering to new and existing customers. The transaction greatly expands our geographic reach with 47 dealers in 44 states, 10 provinces and 3 territories.

Response from both Spartan and Smeal dealers has been outstanding as it benefits all of our customers by expanding our product offerings, and brings an additional portfolio of leading technology and expertise to the market. To increase capacity utilization the new company will double its apparatus production and leverage its strength to accelerate our ER business unit turnaround plan. We expect the transaction to be accretive in 2017 results on an adjusted basis, which Rick will cover in more detail.

With that, I will turn the call over to Rick to discuss Spartan’s financial results for the fourth quarter and outlook for 2017.

Rick Sohm: Thank you, Daryl. Please turn to slide 11. As Daryl mentioned, we are pleased to report quarterly progress and significant increase in net income for the fourth quarter of 2016. Our improvement includes the favorable impact of implementing lean manufacturing and continuous improvement initiatives across all our production facilities, while we closely manage overhead expenses.

Revenue for the quarter increased 3.7% to $145.9 million from $140.6 million in the prior year. Our gross margin improved 850 basis points to 12.3% of sales, from 3.8% a year ago. This is primarily due to a favorable product mix, which included a higher proportion of sales from van upfit and contract manufacturing.

Fourth-quarter operating income rose 109.6% to $1 million from a loss of $10 million in the prior year. Our increased earnings were due to operational improvements and a reduction in charges recorded in Q4 of 2016 compared to Q4 of 2015 which related to legacy product repair campaign reserves of $6.3 million, restructuring charges of $0.2 million and joint venture wind down costs of $1 million. Operating mergers for the quarter improved 780 basis points to .7% from a -7.1% a year ago.

Moving over to slide 12, our adjusted operating income improved by 182.6% to $1.9 million from a loss of $2.3 million in the prior year. The prior year fourth quarter included adjustments of $6.3 million relating to product recall campaigns, joint venture wind down costs of $1 million, and $0.4 million in restructuring charges.

The current year fourth quarter included adjustments of $0.7 million, or $.02 per share relating to Smeal acquisition expenses, and $0.2 million of restructuring charges. Adjusted net income grew 158.9% to $1.5 million or $.04 per share compared to $0.6 million or $.02 per share last year.

Now, let's take a look at our operating results by operating segment, starting with the FVS segment on slide 13. FVS reported revenues of $67.3 million compared to $65.7 million last year, an increase of 2.4%. Revenue was driven by increased vehicle sales primarily from Reach, and the continued growth in our vehicle upfit business.

Operating income rose 56.8% to $7.1 million, or 10.5% of sales from $4.5 million or 6.9% of sales a year ago. The increase is largely due to higher upfit volumes from fulfilling a large upfit order that extended through November of 2016. Although we expect this business and this customer to be an important part of FVS's future growth, we do not currently have a follow-on order for 2017.

Q4 results for FVS also included approximately $0.4 million or $.01 per share of USPS development costs, which we do not expect to incur going forward as a result of our withdrawal from the program that Daryl mentioned earlier. Our backlog remains strong at $89.5 million, compared to $96.1 million last year. And subsequent to year end, we've received $37 million in new orders starting in January. That is up 20% over new orders received in January 2016.

We will now move to slide 14 and the SCV segment. Fourth-quarter 2016 revenue totaled $31.2 million, down $5.3 million from $32.9 million in the prior year.

Motorhome chassis revenue declined 11.1% to $24.7 million from $27.8 million, primarily due to lower unit shipments to one of our customers as they worked through some dealer and inventory adjustments. Although motorhome shipments were partially offset by increased levels of contract manufacturing.

Our backlog year-over-year is up $1.6 million to about $20 million from $18.4 million, and remains consistent with our backlog at the end of Q3. As we noted last year, we continue to see an increase in our market share as a result of becoming the sole chassis supplier for a major customer and being added to additional models of another major customer.

Even mobile home sales stabilized in Q3, but Q4 showed a reduction versus the first nine months of 2016 and end of the year down 1% versus 2015. While backlog remains healthy at over $20 million, we expect some softness in Q1 demand versus 2016. We will continue to watch the class A diesel trends closely during the first quarter to see if this trend will continue further into 2017.

Operating income in the fourth quarter increased $1.3 million to $1.4 million from $0.1 million in the prior year, driven by improved manufacturing productivity and from a more favorable product mix.

Let's now move on to slide 15 and the ER segment. Revenue improved 12.7% to $47.3 million, from $42 million, due to higher shipments of complete fire apparatus and custom cab and chasses compared to last year.

Our operating loss for the quarter decreased $8.3 million to $3.8 million from $4.1 million in the prior year. Included in our fourth-quarter operating loss are restructuring charges of $0.2 million. Our operating loss improved $1.2 million to $3.5 million from an adjusted operating loss of $4.7 million a year ago.

The operating loss for the prior year fourth-quarter includes product repair campaign reserves of $5.9 million, joint venture wind down costs of $1 million and restructuring charges of $0.4

million, as I mentioned earlier. Our backlog remains strong at $139.9 million compared to $156.3 million for the prior year.

You need to remember that included in our back log a year ago was a large municipal order that did not repeat, and 12 legacy classic units which were discontinued from production in 2016 as these units were not profitable. As we have said previously, we are not necessarily looking to grow ER business, we'd rather return the ER business to profitability.

Turning to our balance sheet on slide 16, you will see our balance sheet continues to improve. Cash net of debt at year end improved 16% to $32 million, compared to $27.6 million in 2015.

Cash on hand at year end reflects approximately $6.4 million in CapEx for our new F-series production facility for repayment of our $5 million in term debt. And a repurchase of approximately 422,000 shares at the price of set $4.74 per share on average for $2 million.

Our total liquidity improved 75% or $44.2 million to $103.1 million, from $50.9 million a year ago. Working capital management and maximizing cash levels to support future growth continue to be high priorities for our management team.

On October 31 of 2016, we entered into a new three-year, $100 million revolving credit facility with essentially the same terms as our previous $70 million facility. In connection with our acquisition of Smeal, we drew down $32.8 million on this new facility as part of the cash consideration paid to shareholders.

Interest expense on these borrowings is expected to be approximately $1 million in 2017. We will continue with our disciplined approach to working capital management, as well as being opportunistic as market conditions dictate to support both future growth and maximizing shareholder value.

Please turn to slide 17 and I will discuss our outlook for 2017. As we move into 2017, our backlog remains strong at $249.5 million at year end. Smeal's backlog on January 1, 2017 was $140.9 million. Combined and excluding Spartan chassis orders to Smeal of $24.8 million, our total company backlog at the beginning of the year was $365.6 million.

As a result of the Smeal acquisition, our 2017 forecast adjusts for certain acquisition-related costs and inventory adjustments of $0.4 million, net of tax. In the impact from the one-time lag in recognizing sales and gross margins on chassis sales of $2.4 million net of tax, that are now in our company transactions.

Of these adjustments, we expect the acquisition fees and inventory adjustment to occur largely in Q1. With our intercompany chassis adjustment, we expect approximately 75% to be recognized in Q1, and the remainder in Q2 and early Q3.

Our outlook for full-year 2017 is expected to be as follows, which includes the Smeal acquisition. Revenue in the range of $615 million to $685 million. Acquisition-related costs and the impact of intercompany chassis sales of $2.8 million net of tax. We will have adjusted

EBITDA in the range of $25.1 million to $28.3 million. Income tax expense of $1.7 million to $2.8 million. Interest expense of approximately $1 million. And adjusted earnings-per-share in the range of $0.30 to $0.36 per share, assuming approximately 34.8 million shares outstanding.

At this point, I will turn the call over to Daryl for his closing remarks.

Daryl Adams: Thanks, Rick. In summary, I would like to emphasize that we are extremely pleased with the progress we have made to date in our multi-turnaround effort. Our results for 2016 were the strongest since 2009, in addition to having achieved four profitable quarters, something that has not been accomplished since 2008.

We will continue to work hard on improving quality, reducing warranty expense and focus on delivering operational efficiencies and improve processes with a continued rollout of the Spartan production system across all of our campuses. With the Smeal acquisition, we are now a new realigned company with an increased footprint and scale.

We have a deeper bench of talent throughout the organization. We have expanded our industry leading product portfolio and geographic reach. Our ER business, together with Smeal, remains on track to return to profitability on an adjusted basis by 2017.

While we have made [notable] progress to date, it is only the top of the fourth inning, which is really exciting as we know that significant opportunities still exist. The Spartan management team is fully entrenched. Our employees are embracing the progress. And we are poised to continue our 2016 success into 2017.

We are excited about the opportunities we see in front of us and remain focused on holding our entire team accountable for executing our plan, while increasing shareholder value.

Operator, we are ready to take questions.

Questions-and-Answer Session

Operator: We will now begin the question and answer session. (Operator instructions.) Steve Dyer; Craig-Hallum.

Steve Dyer: You had mentioned some orders I think, $37 million or something like that, that fell into January. I was wondering if you've seen strength continuing into February or any additional color there.

Rick Sohm: Yes, we had a good month in general, Steve. The trends into February may not be as dramatic as they were in January. But our order intake continues to increase.

Daryl Adams: Yes, Steve, we think that the order we talked about was partially a shift from December into January with some of our customers delaying the request.

Steve Dyer: Okay. As it relates to the USPS program pull out or readjustment I guess, it sounds like most of those costs are behind you or what would have been the upfront costs. Any way of gauging the revenue potential if you can get some of the upfit business, and maybe timing on any of that? Or is this just too early to say?

Daryl Adams: Steve, it is really too early to say because if you remember there were six players. With our withdrawal that leaves five. And we are partnering with one of them. So the benefit to us would be that one is picked when it comes time to pick the next supplier for the [NGDV].

Again, it is sort of like when we were in it, we were one of six, not knowing if we were going to get anything at the end and spending all of that upfront money. That played into the decision as we talked about with our chassis supplier, so it is a very complicated, if you will, equation. But we think the partner that we are picking is in a good position, although there is no guarantee whether they will get the nod to build the truck for the USPS.

Steve Dyer: Got it. Okay. Then just looking under guidance, in the context of the wording which is modest organic growth, and then if you add in Smeal guidance would be seem to be pretty far on the conservative side. Do you agree with that assessment or is there a missing piece that I am not following?

Rick Sohm: No, Steve, I think I would tend to agree with your assessment. I think we are less than 60 days into the acquisition, still a lot of work we need to do. What we are focused on is integrating the acquisition as quickly as we can, something that maybe we haven't done real well in the past, so that we can harvest some of the synergies as soon as possible. At this point where we are in the process, we feel comfortable with our guidance.

Steve Dyer: Okay. Thank you.

Operator: Matt Koranda; Roth Capital

Matt Koranda: Just wanted to cover in the emergency response segment, maybe could you help us understand this sort of cadence of operating margins through the year and the improvements you expect? And maybe is there still a breakeven goal in that segment by the end of the year? Just help us understand where things are shaking out and how that fits into your overall guidance.

Rick Sohm: Yes, Matt, I think it is still consistent with what we've said previously. We originally discussed before the Smeal acquisition that we would be profitable on a run rate basis in ER. And we think now with Smeal it helps accelerate that process throughout the year. On an adjusted basis, we expect ER to be profitable on an EBITDA basis for 2017.

Matt Koranda: Got it. That is helpful. Just to break it out even more clearly maybe for us, is there a way to quantify the EBITDA contribution you are expecting from Smeal in 2017?

Rick Sohm: I don't know at this point, Matt, if we would want to delineate the two pieces of the ER business, but in our due diligence, we've identified several million dollars' worth of synergies. And the faster we can integrate the businesses, the faster we can harvest them. But like I said, on a combined basis, the business will be profitable on an adjusted EBITDA level.

Matt Koranda: Got it. The synergies you highlighted I think partly during the Smeal call that you held, but maybe could you go over those one more time for us in terms of the buckets those fit into, and how much of those will you be recognizing in 2017 versus how much of those are longer-term in nature?

Rick Sohm: Yes, I think we will see some sales and gross margin improvement as we offer our S-180 product to the Smeal dealers. They have a strong aerial business, so that should improve our mix over time. But there's other natural kinds of savings. Material cost savings from leveraging the larger organization. And then what I call manufacturing and operating efficiencies as we put the two businesses together.

Matt Koranda: All right. That is helpful. And then maybe just one more on fleet vehicle segment. I think some of your package delivered customers have highlighted some challenges on e-commerce deliveries and e-commerce efficiencies, given the last-mile efficiencies for them. I'm wondering, does that present an opportunity for you guys in 2017, and maybe even further out as well? Just talk a little bit about how you enable the greater efficiency and last-mile deliveries giving your high market share and the walk-in vans.

Daryl Adams: Hi, Matt, this is Daryl. Very good question. The answer is, yes, we believe we are going to be the solution. We have worked with large company fleets on helping them be efficient with their delivery cycles. This last month delivery, if you have followed it, right, the big guys aren't going to own their own trucks right now. That is not what they're looking at. So they are contracting to third-party delivery firms. So we are contacting those people. We have a couple of prototype units out right now to help them understand how they combine those efficiencies in delivery.

Right now we follow some of them and the back of the trucks are just thrown in with these packages. We believe with our van upfit and our experience from the larger delivery, parcel delivery, customers and companies, that we can show them the efficiencies they can gain with some of our interior van upfit products. So we are working with them right now. There's, as I said, two trucks out, prototypes, to show them. And we have engineers riding along with them with stop watches, to show them the benefits.

We believe that industry, it is very much in its infant stage right now as it continues to grow and mature. We are going to be able to see the benefit in future years with the van upfit at FVS.

Matt Koranda: Got it. That's very helpful. I will go back into the queue, guys. Thanks.

Operator: Mike Shlisky; Seaport Global.

Mike Shlisky: Just wanted to start with a few follow-ups from the previously asked questions. First, on the USPS deal and the (inaudible) being made there, in partnering with somebody else, would you still have to have expenses to develop your contribution to their prototype and their product? And will any of the money they might be getting for the prototype be reimbursed to you going forward?

Daryl Adams: Mike, good question. Maybe we should have explained that better in the script. We are going to be paid as we design the product for them. So we are going to be basically a design house, if you will. We get paid an hourly rate. In turn for that, we are in line to be competitive with them to build a product that if they were to win it would go inside the vans.

Mike Shlisky: Okay. That makes sense. If you could just give us a little bit more color on some of the organic growth guidance you put out there. I don't want to get into the details of that segment too much, but I wanted to see if you could see yourself increasing on an organic basis double-digit's in SCV this year, given some of the new product ramps. Or is that probably too aggressive given RV business?

Rick Sohm: I think that is a good question, Mike. I think double digits is too aggressive. I think we have picked up market share, but we have also seen some softness, and one of our customers has gone through a couple of stages of dealer inventory adjustments. So I think double digits is probably a little too far.

Mike Shlisky: Okay. Understood. I also wanted to make sure I got a feel for the mix in the current backlog for both -- for SCV. I'm kind of curious as to whether the mix that's in there now is in line to what we're seeing in the previous years from a margin standpoint, where you feel like what you're getting signed more recently is going to be a better margin than we have seen in the past.

Daryl Adams: Yeah, Mike, I think I would expect to see the margin mix perhaps a little better in 2017, as we gain some more manufacturing productivity. The one thing we are looking at right now is when we exactly anticipate the launch of the F-series. It is probably lagged slightly behind our original expectations. But once that gets up and running, we believe that is accretive to the division's margins.

Mike Shlisky: Okay. Going on to your Kansas City facility, is the intention there to solely be selling to Ford and their vehicles? Or is the centralized location for anybody that wants delivery because it is so close to the center of the US?

Daryl Adams: Your second point, Mike. It is not strictly for Ford transit. It is for any upfitter in the area. And we've been contacted by some people already, to your point that it is centralized in the United States. We believe it is in a good spot, not only for transit but for the other customers I think we mentioned in the script.

Mike Shlisky: All right. One last one for me. I just wanted to get a sense for Smeal in 2017. You had mentioned that having Smeal helps you pull forward the breakeven timing, but at this point, even prior to Smeal you were already saying you guys breakeven in 2017. Are you looking at maybe rather than the fourth quarter maybe getting to zero in the third quarter? Or is it you are going to start out very, very profitable from the first or second quarter here?

Rick Sohm: Yes, I think what we said previously, Mike, is that we would be profitable in 2017 on a run rate basis. The difference here on adjusted EBITDA base, it will be an absolute level of profitability. But I would say those improvements are still second-half weighted, as we try to integrate the two businesses.

Mike Shlisky: You are saying on an EBITDA basis not an EBIT basis you will be profitable at some point in 2017?

Rick Sohm: On an adjusted EBITDA basis, that is correct.

Mike Shlisky: Okay. Appreciate the help, guys.

Operator: There are no further questions so this will conclude our question and answers session. I would like to turn the conference back over to Juris Pagrabs for any closing remarks.

Juris Pagrabs: Thank you, everyone, for participating. We look forward to talking to you next quarter and give you additional updates and progress as we go along. Thank you.

Operator: The conference call is now concluded. Thank you all for attending today's presentation. You may now disconnect your lines.