SPAR - Spartan Motors
Q4 Earnings Conference Call
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Company Representatives:
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Daryl Adams; President and CEO
Rick Sohm; CFO

Analysts:
Steve Dyer, Craig Hallum
Steve O'Hara, Sidoti
Matt Koranda, Roth Capital
Mike Shlisky, Seaport Global

Presentation

Operator: Good morning, and welcome to the Spartan Motors Fourth Quarter and Full Year 2017 Earnings Results Conference Call. All participants will be in a listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Juris Pagrabs, Group Treasurer. Please go ahead.

Juris Pagrabs: Good morning, everyone, and thank you, Danielle. And welcome to the Spartan Motors 2017 fourth quarter and full year earnings call.

I'm Juris Pagrabs and joining me on the call today is Daryl Adams, our President and Chief Executive Officer, and Rick Sohm, 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 our website to follow along with our presentation during the call.

Before we start, please turn to Page 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.

For today's call, Daryl will provide an overview of the full year and a brief business update, and Rick will review the fourth quarter results and our 2018 guidance. We plan then to return to Daryl for closing remarks before proceeding to the Q&A portion of the call.

At this time, I'm pleased to turn the call over to Daryl for his opening remarks, which begin on Slide 3.

Daryl Adams: Thank you, Juris. Good morning, everyone. Thank you for joining us this morning for our fourth quarter update. I'd like to start by saying how excited I am about the Spartan team's performance this year. Since 2015, we've worked hard to deliver on our commitments by concentrating on sales growth and operational improvements to drive profitability.

I am pleased to report another strong year of growth in sales and profitability for Spartan Motors. 2017 marked the year we successfully completed our turnaround. We are now focused on our growth strategy as we move into 2018 and beyond.

Revenues for the year rose $116 million or 20% to $707 million. This sales increase was driven by strong performances from our ERV and SCV segments. And while FVS performed as expected, incurred headwinds relating to the timing of a follow-on last mile delivery upfit order, its truck body and walk-in van revenues were up year-over-year.

The fourth quarter of 2017 was our 8th consecutive profitable quarter on an adjusted basis.

Net income for the year improved 85% to $16 million or $0.46 per share and adjusted EBITDA increased 37% to $31 million. This improvement in financial performance not only reflects a relentless focus and customer-centric top line, profitable growth initiatives, but also the impact of leveraging our centers of excellence in engineering, purchasing, manufacturing, quality and marketing throughout the organization to drive operational improvements.

Now please turn to Slide 4. I'd like to take a minute to highlight ER's impressive performance in 2017. Since our Analyst Day and Investor Day last October, we've talked about our outlook for ER segment, stating that the segment will be profitable on a GAAP basis for both Q3 and Q4. I am pleased to report that we exceeded our internal projections and ER was profitable on a GAAP and adjusted basis for the full year, the first time since 2011.

I'd like to congratulate the entire Spartan team for their hard work, dedication, and execution of the ER improvement plan.

For the full year, revenues were up $120 million or 66% to $303 million, and we saw improvements in gross margin, including significant improvements in warranty expenses, SG&A and an adjusted EBITDA of $11 million. The improvement was driven by significant operational improvements, lower warranty expenses, price increases, increased product optimization resulting from the successful integration of the Smeal acquisition.

Regarding pricing, beyond our normal annual price increases, we foresee additional price increases due to rising commodity costs.

Please turn to Slide 5 for an update on a few business highlights and developments. As you are likely aware, on September 29, we received a $214 million multiyear truck body order from the United States Postal Service for more than 2,000 class 5 and 6 vehicles. The USPS contract, which represents our largest single order in the history of Spartan Motors, is significant, as it provides a foundation to expand our truck body manufacturing footprint long enough to enter the commercial and retail markets on the East Coast utilizing our Ephrata, Pennsylvania, facility.

Prior to this USPS order, Spartan merely focused only on its existing fleet body customers. We'll use this expansion as a springboard into a very fragmented commercial and retail market, which will support our long-term growth strategy. This expansion is key, as the states of New York and Pennsylvania represent 15% of the U.S. truck body market.

With our facility and sales force on the East Coast, combined with our existing facility in the Midwest, we will have clear access to over 60% of the U.S. truck body market.

Spartan, through Utilimaster, has a long history of manufacturing alternative fuel vehicles for its fleet customers. Whether it's gas, diesel, CNG, propane or electric, we have produced more than 800 alternative fuel vehicles over the past 8 years. We are a customer solution-based manufacturer and we are in the optimal position to serve the growing alternative fuel market for the large fleet operators. We plan to invest in the latest technologies in support of this increasing demand.

We have a long history of providing our package delivery fleet customers with focus-based solutions for their vehicles. We are the only manufacturer capable of supplying class 1 through class 6 vehicles, and we believe we are well positioned to be a significant player in this space over the next several years.

The e-commerce delivery business continues to expand, as noted in recent articles referencing increased competition in the delivery space. As we told you back in October during our Analyst Day, the number of packages delivered daily is expected to double to 64 million by 2026.

Additionally, we are working with large innovative e-commerce and delivery companies to provide solution-based upfit products that will support the retailers entering the home delivery segment and a growing consumer demand for grocery delivery. We are also expanding our refrigeration capabilities and integrating new technologies into our Kansas City facility to help support the growing demand for grocery and temperature-controlled product deliveries.

With the Smeal integration behind us, we'll continue to improve efficiencies and streamline operational processes in the ER segment.

From a customer standpoint, the product lines between Smeal and Spartan have been blurred. Municipalities know through an optimized dealer network, they can obtain both industry-leading aerial and pumper products to meet their needs.

Our motorhome chassis business had a strong performance during the fourth quarter. We continue to gain market share within the Class A, greater than 400 horsepower segment, as evidenced by our $33 million backlog in motorhome chasses at the end of the fourth quarter. That's up 77% from a year ago.

Motorhome sales for the year were up 27% to $125 million and attributed to our superior products and services, which encompass first-to-market innovations for superior ride, handling and safety. We are optimistic that we will continue to see growth in the RV business and plan to invest in new products.

In January, we introduced the new K1 360 chassis on the Jayco Embark motorhome, marking our expansion into the less than 400 horsepower Class A diesel market that is becoming more popular. The K 360 chassis, this new Jayco motorhome marks an expansion of Jayco into the [rear] diesel market with a product that offers great technology features, and outstanding ride and handling for a 37-foot coach.

With that, I will now turn the call over to Rick to discuss the firm's financial results for the fourth quarter as well as our outlook for 2018.

Rick Sohm: Thanks, Daryl. I'll start on Page 7. As Daryl mentioned, we are pleased to report a significant increase in profitability for the fourth quarter. Revenue for the quarter increased $35 million to $181 million from $146 million, with ER contributing almost $29 million and SCV contributing more than $8 million to the top line increase for the quarter.

FVS showed a modest sales decline of $2.3 million primarily due to a non-recurring last-mile delivery upfit order last year.

Net income for the quarter increased $1.5 million or 159% to $2.4 million or $0.07 per share from $900,000 or $0.03 per share a year ago.

Our GAAP net income included a $2.6 million or $0.07 per share charge to our deferred tax assets and to reflect a new corporate tax rate of 21%, resulting from a tax reform legislation signed into law in December.

Across-the-board operational improvements, higher motorhome volumes and ER operational and pricing improvements led to gross margin improving 130 basis points to 13.6% compared to 12.3% last year.

Now please turn to Slide 8. Fourth quarter adjusted EBITDA rose $5 million or 118% to $9.3 million from $4.3 million in the prior year. Our adjusted EBITDA margin improved 220 basis points to 5.1% of sales from 2.9% of sales a year ago.

Our adjusted net income grew 156% to $3.9 million from $1.5 million last year, and our adjusted EPS improved to $0.11 per share from $0.04 a share a year ago, an increase of 175%.

Now we will take a look at our operating segments, starting with FVS on Slide 9. FVS reported fourth quarter revenues of $65 million compared to $67 million last year, a decrease of $2 million, which reflects increased truck body and walk-in van volume, offset by the large last mile delivery upfit order that did not reoccur.

Adjusted EBITDA declined $1.9 million to $5.8 million from $7.7 million a year ago, largely due to unfavorable product mix. Our adjusted EBITDA margin declined 250 basis points to 8.9% of sales from 11.4% of sales a year ago driven by this unfavorable product mix and the non-recurring last mile delivery upfit order. These were partially offset by cost reductions and improved labor and manufacturing productivity.

Backlog, including the USPS order, increased almost 200% to $268 million compared to $89.5 million a year ago. While the backlog, excluding the USPS order, is down slightly versus the prior year, we are actually pleased with the underlying trend as we have improved manufacturing throughput and direct labor efficiency.

Production for our USPS truck body order will begin early in the second quarter. At this time, I'd like to remind everyone that unlike the rest of our fleet business, this contract contains significant amounts of pass-through revenue which includes the cab and chassis. We anticipate approximately $80 million of contract revenue of which $15 million is value-add. This will be achieved in 2018. And as we mentioned last quarter, we expect to incur certain launch cost and spend additional capital as we begin to ramp production.

We expect margins during the first year of production to be in line with overall corporate margins, despite the startup costs and inefficiencies associated with early production runs. When you exclude the pass-through revenue, we expect the contract to be accretive to our overall FVS margins.

On Slide 10, I'll cover our ER segment. Fourth quarter revenue was up 60% to $75.9 million from $47.3 million, with Smeal contributing $22.4 million. And as Daryl mentioned, this reflects increased product optimization resulting from the successful integration of Smeal.

I'd also like to point out that ER revenues in 2017 include approximately $24 million of additional Smeal revenue that was related to the treatment of revenue recognition from purchase accounting that will not reoccur in 2018.

Adjusted EBITDA improved $5.7 million to $2.7 million from an adjusted EBITDA loss of $3 million a year ago. And our adjusted EBITDA margin improved almost 10 percentage points to 3.5% of sales. The improvement reflects improved pricing, lower [poor] quality costs, material inefficiencies, improved volume mix and increased labor and manufacturing productivity, driven by the hard work and execution of the entire Spartan team.

Our backlog increased 67% to $233.6 million compared to a year ago. Smeal backlog was $84.4 million at year-end. Excluding the Smeal backlog, our overall backlog was up 7% or $9.3 million compared to a year ago, which we believe reflects an increasing market share.

Moving to Slide 11, we will review the SCV business segment. Fourth quarter revenue increased $8.3 million or 25% to $41.1 million compared to $32.8 million last year.

Motorhome sales were up $8.6 million or 35% to $33.3 million from $24.7 million a year ago, as we continued to gain market share in the Class A diesel segment.

Adjusted EBITDA in the fourth quarter more than doubled to $4.6 million or 11.2% of sales from $1.9 million or 5.7% of sales. Our margin expansion of 550 basis points due to our increased sales volume and improved operational performance.

Our backlog continues to grow, up 69% to $33.8 million compared to $20 million a year ago and reflects the continued strength in our Class A Motorhome orders as we gain share and expand our product offering including a smaller Class A chassis which we announced on January 16.

Now please turn to Page 12. We ended the year with $33.5 million of cash, which includes a $5 million payment on our revolver during the fourth quarter, bringing our debt down to $17.9 million which reflects a total debt reduction of $15 million from the beginning of the year with the Smeal acquisition. Liquidity at year-end totaled $100 million.

And the strength of our financial position provides us the opportunity to invest in our growth for 2018 and beyond. This year we plan to expand our R&D efforts for new product innovations, enhancing our operational capabilities and expanding our alternative fuel technologies.

Additionally, we will expand our manufacturing capabilities at our Ephrata, Pennsylvania, facility to meet the growing truck body demand, and we'll continue to pursue additional M&A opportunities.

Please turn to Slide 13 and I will discuss our outlook for 2018. Looking ahead, we expect 2018 to be another strong year for Spartan Motors. We expect mid-teen top line growth and overall earnings growth to accelerate. We expect revenues in the range of $790 million to $815 million; net income of $18 million to $21 million; adjusted EBITDA of $39 million to $42 million; an effective tax rate of 28%; earnings per share in a range of $0.54 to $0.60; and adjusted earnings per share to be in the range of $0.56 to $0.62.

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

Daryl Adams: Thanks, Rick. Before we conclude, I once again want to thank the entire Spartan team for their hard work and extraordinary effort in achieving an outstanding year for Spartan. 2017 marked the year we successfully completed our turnaround. We're now focused on our growth strategy as we move into 2018 and beyond.

Our disciplined approach and profitable sales growth and operational improvements will be the foundation to drive our financial performance, as we make meaningful progress for our stated goals of achieving $1 billion in sales and approximately 10% adjusted EBITDA margins by 2020.

Over the past 2 years, we have worked hard to consistently improve and deliver on our commitments, enabling us to earn the confidence of our customers, our employees, our board of directors and our shareholders.

Today, we are determined to maintain our momentum and deliver real measurable shareholder returns by accelerating organic growth, making sure it's sustainable for the long term. We are aggressively pursuing strategic market share expansion opportunities and acquisition targets as they present themselves.

Through the efforts of the entire Spartan team, we will continue to drive results that will ultimately benefit our customers, suppliers, team members and shareholders and the communities we call home. Thank you for your continued support and interest in Spartan Motors.

Operator, we're now ready to take questions.

Questions and Answers

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

Steve Dyer: Nice quarter.

Daryl Adams: Thank you, Steve.

Rick Sohm: Thanks, Steve.

Steve Dyer: Just on the FVS segment, profitability looked a little softer there than it has been in a while. In the prepared remarks, you talked about mix shift. Can you be a little more specific as to sort of what you saw there, and assuming just giving guidance, you expect that to bounce back here in Q1?

Rick Sohm: Yes, we expect to see some of that recovery in Q1 and kind of continue out through 2018. I think what we were up against in the fourth quarter was an upfit order that we had in 2016 which didn’t reoccur in 2017. And we also were starting to face some stronger comparisons year-over-year in manufacturing productivity on our cost structure, as we had improved quarter-over-quarter throughout 2017. So I think we should see that come back, Steve. And we have, I think, continued progress in 2018 sequentially through the quarters.

Steve Dyer: Great, thanks. And then are you able to kind of quantify, I guess, maybe startup costs, or the cost of getting geared up for this USPS deal, whether it's in CapEx this year or just able to quantify the drag on margins?

Rick Sohm: Yes, I think from a capital perspective, in Ephrata, we will probably spend several million dollars of capital. And I don’t know that we have publicly said what the drag would be, Steve, but it's probably the better part of $1 million to $2 million in the early production runs where we'll have some training costs, lower line speeds and additional direct and indirect labor to make sure we get the early builds correct.

Steve Dyer: Yes, I guess put another way, just kind of going back to your Analyst Day and the target for $100 million in EBITDA in 2020, if you hit 40 this year, it obviously implies a pretty steep ramp next year and 2020. Does that contract just get a lot more profitable this year or maybe a little bit more detail as to kind how you get there if you are willing?

Rick Sohm: Yes, I think we have mentioned back at Analyst Day and even in our follow-up calls after last quarter, that the 2019 margin improved significantly. And if you remember, Steve, we talked about going after additional truck body business. Our market share currently in truck bodies is somewhere around 4%. So we are going to put some more boots on our ground later in 2018 to start chasing down some additional sales.

And I think this footprint will make us more competitive on the cost side where we currently lose some truck body business with our existing customers because the freight costs make us a little un-competitive. So as we head out in 2019 and 2020, I'd expect some nice increase in truck body market share.

Steve Dyer: That’s good to know. And are there any sort of big deals out there that you have in mind or you just think you'll be relevant to a lot more customers given the new footprint?

Rich Sohm: I think it's more relevant to additional customers but also more relative to our current customer base because we can better compete on cost now.

Steve Dyer: Yes, okay. Thanks, guys. I'll hop back in queue.

Operator: Steve O'Hara of Sidoti and Company.

Steve O'Hara: I was just curious about the increase in backlog at the ER segment, and I'm just -- was that kind of within your expectations? Was there any surprises in terms of -- and maybe you don’t break it out but how it shook out versus Smeal or maybe the legacy Spartan brand?

Rich Sohm: Yes, I think it's fair to say that we did expect our backlog to build a little. What I would say, Steve, is that the lines are blurring between the two entities as we start to move towards focused factories. We've shut down Spartan's old aerial build and converted to the Smeal aerial. So I think we've got some good momentum.

Our quality is improving, which is something our customers are keen on, and I think our S-180 has come out a little stronger than we had thought. So the backlog build is in line with our internal expectations.

Steve O'Hara: Okay. And then just on the commodity price increases, does that imply that margins will be maybe under pressure in the first half of the year, as those price increases take effect, or are they kind of baked into the -- is it a cost-plus type arrangement on the steel and stuff like that?

Rich Sohm: I think we have the ability to pass a lot of these costs through as we see some of the increasing commodity costs in aluminum and rubber. The other part though, Steve, is our new procurement organization still has a lot of opportunities they can pursue. In the last year or so, we've significantly reduced our supply base. We're starting to sign long-term agreements and seen some nice savings over our historical performance.

Steve O'Hara: Okay. And then just lastly, on the motorhome side, that seems to be up nicely; you're winning share. There have been some concerns. Obviously, the January numbers were very good for the industry, but I think maybe there are some lagging concerns about inventory levels. Are you seeing anything there that would concern you or anything like that with demand?

Daryl Adams: Steve, this is Daryl. I think it's important, right, because we kind of get that question only because everybody throws us into the total RV market. We're in the smaller niche market of greater than 400 horsepower and we just reached down into the smaller Class A.

So we're seeing that still strong, but some of the other smaller towables and gas, even if it's maybe seeing the effects -- you have to separate out the niche market of the greater than 400 horsepower Class A. And we think last year, we believe that the inventory was adjusted and that they've managed that throughout 2017. So we feel comfortable going into 2018.

Steve O'Hara: Okay. Thank you very much.

Operator: Matt Koranda of Roth Capital.

Matt Koranda: I just wanted to cover the commodity question from a different angle, if we could. I guess what segments for you guys have more ability to pass through commodity price input increases? I'd assume with sort of a year backlog in ER, maybe less so and maybe more so in fleet vehicles and specialty chasses. Can you just kind of comment generally on sort of how that works by segment?

Daryl Adams: Sure. So, Matt, tracking the commodity pricing isn't something new for us. We've been tracking it along and trying to forecast where it's going with all the commodity forecasters. But what we can do, right, so we're locking in as much tonnage of aluminum as the orders come in or as we see the backlog. So we're locked in at a certain price. That will be costed in as we quote new business.

In the rubber, we get to quote the same thing with new orders. We'll add that in. And if something gets really way out of whack, we do have the ability to add in surcharges on some of these products as we sell them or deliver them based on the contracts that we have. So I think it's going to be like everybody is going to impact a little bit, but we think, as Rick talked about, our new organization, long-term contracts, we're trying to alleviate as much of that as we can.

Matt Koranda: Okay. That's helpful. And then just wanted to clarify what you guys alluded to in the prepared remarks on the USPS business and the pass-through revenue. I think you were essentially alluding to the fact that operating margins on that $15 million of value-added business should be in the maybe 10% or north of 10% range. Is that how we should interpret the comments?

Rick Sohm: Yes, that's exactly right, Matt. They will be accretive to the overall FVS margin. So I think your statement was a good summary.

Matt Koranda: Okay. And then going forward, I guess, is there something totally unique to the USPS contract where you're getting that cab and chassis pass-through? So how should we expect sort of future truck body business to flow through the P&L in FVS?

Daryl Adams: Yes, Matt, it is unique with this contract with USPS because we are prime, but in the future orders that come through, it depends on each order, but sometimes we can get the chassis delivered to us, and it's not on our books, it's just a pass-through. And it doesn't even hit us; we just put the box on it or we'll be prime and we'll purchase the chassis, and it will flow through us. So it's not one way or the other. It depends on the contract that they're letting out and individual customers.

Matt Koranda: Okay. And then what do you expect that, I guess, the mix between prime or the other arrangement to be?

Daryl Adams: I am going to let Rick talk about how most of the work done at FVS is handled today and I would assume it would be similar to that.

Rick Sohm: Yes, that's right, Daryl. This contract is unique in that we have significant amounts of pass-through material. We build most of our vehicles on customer-supplied chassis. So I would expect the majority of our business, Matt, going forward to be on customer-supplied chassis. But when we have opportunities for large orders, and when we think it better serves the customer, we have the financial wherewithal to fund that working capital.

Matt Koranda: Okay. That's helpful, guys. So you mentioned 15% of the truck body market in Pennsylvania and New York combined and with that new facility in Ephrata, I guess you guys are better positioned to serve the market. Could you talk about quotation activity there and sort of how that is factored in to your 2018 guidance, if at all?

Daryl Adams: So it's not in the 2018 guidance at all, Matt. We want to make sure we get the launch right and have everybody focused on that. What we do know, customers in that area that we currently build for out of our Bristol plant for truck bodies, so we feel once we get this launched, we'll probably -- maybe third or fourth quarter be having, like Rick said, boots on the ground, push them for orders.

We do believe at that plant that we can exceed the daily requirements for the USPS. So we will be able to start pushing trucks through there as soon as we get the orders. We do have experienced people that have been in that market previously and we feel comfortable with where we see this going in the future.

Matt Koranda: Okay. Maybe just one more on kind of the strategic positioning in FVS. I guess with Amazon building up their delivery service from the West Coast at first, do you need a physical footprint out there to be competitive in walk-in van and truck body? Can you do that organically? Is there something in the M&A pipeline that would sort of leapfrog you into the region? How should we think about that going forward?

Daryl Adams: We don't about our pipeline specifically. We do have a pipeline but it could be either/or. We put up a Kansas City plant relatively quick and we could do the same out on the

West Coast if needed, or through the M&A pipeline someone might be available. So we're looking at both.

I don’t think anybody has got an order yet. So we are all trying to figure out who might get that order when they're ready to place it, but as we've talked before, we are meeting with them. We're in a lot of dialog and the need to continue to move up through the organization and up through our organization as well.

Matt Koranda: Okay. That’s helpful. And maybe just one last one on specialty chassis and vehicles. I guess with that Jayco Embark announcement with the smaller K1 chassis, any thoughts on how that sort of impacts motorhome chassis revenues in 2018? Is that factored into your guidance? And I guess is that what's showing up in the strong motorhome backlog increase as well?

Rick Sohm: I think most of the increase, Matt, has been in the plus-400 diesel segment. We talked a lot in October in New York about the automotive technology that we're bringing to the industry and the impact we think it's had on our ability to gain market share. We are excited about the new chassis and there is some volume assumed later in the year, but I think we need another quarter or two to get a better handle on what that will mean in the second half of 2018 and heading into 2019.

Matt Koranda: Okay. Thanks, guys. I'll jump back and get in the queue, nice job.

Operator: (Operator Instructions). Matt (sic) Shlisky of Seaport Global.

Mike Shlisky: Just looking at your SCV EBITDA margin percentage in Q4, it was the best that has been since I think it was 2013. And the full year 2017 was also the best since 2013, a very large leap there from the prior year.

Now looking at 2018, SCV has got a pretty strong year ahead, especially if it's driven by some of your Class A motorhomes. Is there a possibility that you can actually scratch that 10% EBITDA margin in 2018 for that segment; in other words, kind of meet your 2020 goals 2 years early?

Daryl Adams: We've had a great amount of improvement, Mike. That’s a good call-out. I think we could start to approach that level but we are not forecasting that we get to 10% in 2018.

Mike Shlisky: Okay, fair enough. Just looking at the ERV, just kind of curious as to the earnings seasonality here. Is it possible that you have that segment profitable in all four quarters of 2018 at this point, given what you’ve already done?

Rick Sohm: I'll take that one, Mike. That’s certainly what we are shooting for. I think Daryl has been pretty clear to the outside world and to our organization internally that we need to continue to improve quarter-over-quarter and year-over-year. And so I think the success we had in ER in the second half of the year that did, as Daryl mentioned, exceed our own internal expectations. But as we head into 2018, we are planning to be profitable on an adjusted basis each quarter.

Mike Shlisky: Okay, great. And then more broadly on the EV vehicles out there, I'm curious, have you guys kind of thought as to how crowded that space is right now in the EVs? And if you were to see one big engine maker come out with an EV chassis that has a very low price with lots of scale that can be shipped to you, can you give us a sense as to what means for Spartan? At this point, do you feel you're very far ahead of peers on offering EVs to the truck body market?

Daryl Adams: Mike, that’s a good question. I wish I would've asked that of my team before I got on the call with you, but what I will tell you is we feel pretty confident with where we stand. You see some other people trying to get there with small orders. We just announced recently that AmeriPride, 20-unit order with Motiv, as our partners; we like their products. We're also looking at others, the big players.

And there's a lot of smaller people that are trying to get in and as we know, they’ve faded over the years due to the amount of government help in order to make the cost lines cross on an EV. But I think we are not unique. We're trying to do what a lot of other people are trying to do, is to lower the cost. So I think most people will tell you that as the battery cost goes down, the competitiveness of an EV is getting closer.

We do have meetings with all of our customers on products in future years and it continues to come up. We have heard that one of our larger customers wants somebody bigger to be responsible for this versus the startups and it's something that we are trying to address. So I think we will continue to meet with the players.

I think, as you know, we won't necessarily only have one option in one product line because we have class 1 through 6. So we are working on all those classes as we move forward, because we really don’t know where it is going to end up, but we feel comfortable where we are at on all the segments and classes.

Mike Shlisky: Okay. Got it. And just one last one from me, just a quick cash question and it's a two-parter here. Can you give me your overall full company view for CapEx in 2018? And secondly, is there a big working capital build in the first quarter needed for the big USPS contract? Thanks.

Rick Sohm: Yes, good questions. There is significant working capital build in Q1, so we will see working capital increase in the first half of the year. A lot of it is driven from the ramp-up of USPS, and we think free cash flow becomes much stronger in the third and fourth quarter. And I'd say the outlook for our capital spend this year is somewhere between $10 million and $15 million.

Mike Shlisky: Okay. Thanks very much, guys.

Operator: Steve O'Hara.

Steve O'Hara: I was just wondering, it sounds like there is going to be some sort of announcement on steel and aluminum today. And I'm just -- what's your plan there if there is some very aggressive tariffs, things like that. How do you deal with that? And maybe what type of planning is kind of ongoing for any disruption or big price increases put to you?

Rick Sohm: Yes, I think when we look at commodity costs, right, we are aware that we are seeing some pressures, Steve. And I think Daryl mentioned that we have the ability to pass some of this through to the customers. I think whenever you are in a time period where commodity costs are rising, there may be a little lag between the time we see commodity costs hit and then are able to pass it on to the end customer.

But we are very focused on it, like I said, the new team, as we continue to find bigger suppliers and cull the supply base, we still think there is opportunity to make some good forward progress.

Steve O'Hara: Okay. All right. Thank you very much.

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

Juris Pagrabs: Thanks, everyone, for joining us today. We look forward to keeping you up-to-date on our progress during 2018 which we are very excited about. I think our next earnings call is scheduled for the first week of May. And again, thanks, and have a great day.

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