The Shyft Group, Inc. [SHYF]
Second-Quarter 2021 Earnings Results Conference Call
Thursday, August 5, 2021 10:00 AM ET

Company Participants:
Juris Pagrabs; Group Treasurer and Head of Investor Relations
Daryl Adams; President, Chief Executive Officer
Jon Douyard; Chief Financial Officer

Analysts:
Steve Dyer; Craig-Hallum Capital Group
Matt Koranda; Roth Capital
Mike Shlisky; D.A. Davidson

Presentation:

Operator: Good morning and welcome to the Shyft Group's Second-Quarter 2021 Earnings Results Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Juris Pagrabs, Group Treasurer and Head of Investor Relations. Please go ahead.

Juris Pagrabs: Thank you, Kate, and good morning, everyone, and welcome to The Shyft Group's second-quarter 2021 earnings call. 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 theshyftgroup.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 call, which may include Management's current outlook, viewpoint, predictions and projections regarding The Shyft Group and its operations, may be considered forward-looking statements under the Private Securities Litigation Act of 1995. I caution you that, as with any prediction or projection, there are a number of factors that could cause The Shyft Group's actual results to differ materially from projections. All known risks that Management believes could materially affect the results are identified in our Forms 10-K and 10-Q filed with the SEC. However, there may be other risks that we cannot anticipate.

On the call today, we will provide a business update before moving on to a more detailed review of the results and our outlook for the remainder of 2021. We will then open the line for Q&A.

I would like to also remind everyone that, with the divestiture of the emergency response business last year in February, the revenues and expenses associated with the ER business as well as the assets and liabilities have been reclassified as discontinued operations for all periods presented. With this reclassification, the results discussed today will refer to continuing operations unless otherwise noted.

At this time, I'm pleased to turn the call over Daryl for his comments beginning on Slide 3.

Daryl Adams: Thank you, Juris. Good morning, everyone, and thank you for joining us to discuss our second-quarter 2021 results.

We are very excited and pleased to share with you our second-quarter performance that exceeded our expectations as our sales nearly doubled and our adjusted EBITDA tripled over the prior year. As you can see on Slide 4, this momentum, driven by strength and quality, innovation and customer-focused product development, combined with rising demand in our markets, led to a significant order intake across all segments, with backlog more than doubling to a record $751 million, providing visibility through 2021 and into 2022.

The benefits of our strategy continue to be clear, as we delivered our highest quarterly sales on record, with revenues of $244 million, resulting in income from continuing operations of $17 million and $0.44 per share.

Please turn to Slide 5, where I'll provide a business update. Let me start with an update on what we are experiencing with respect to the supply chain, as I am sure this is top of mind for many of you. During the back half of the second quarter we experienced industrywide supply constraints, including chassis and other components, which caused production challenges. However, as our results show, we effectively managed through these challenges, thanks to the hard work and determination of our entire team. Based on feedback from our OEM and suppliers, we expect these challenges to continue at some level and we will continue to add rigor to our internal processes to ensure we are able to minimize any potential impact. Jon will have additional comments later in the presentation.

Turning to the business segments, in Fleet Vehicles and Services strong order flow continues, as we have positioned ourselves with the right products that meet the needs of our customers and the industry. In Q2 we achieved a steady ramp in production of the new Velocity vehicle, with our daily output increasing significantly despite chassis and component constraints. We expect to see continued acceleration as we enter the second half. Given the positive feedback we are receiving on the Velocity, we are now working with other locations and channels and we are now seeing interest from the dealer market.

Other highlights in the quarter include continued strong truck body order flow. And we continue to make headway in our efforts to provide grocery customers with both upfit and delivery refrigeration solutions in walk-in vans, truck bodies and cargo vans.

Moving to Specialty Vehicles segment, the strength of our innovative products and our underlying markets has resulted in a significant growth in sales and profitability, even as our team has managed through pandemic-related supply constraints.

Our motorhome market share during the quarter increased to 31%, reflecting the demand of our product offerings and our brand among the motorhome buyers. We are even more optimistic about the upcoming '22 model year launch, which is happening this month. We believe will reflect strong consumer demand amid low dealer inventory levels.

Our service body business continues to execute on our strategy of geographically expanding our product offerings to drive additional growth in volume and new products. Our service body team achieved record revenue in the second quarter, which includes the impact of the DuraMag acquisition. We continue to leverage our flexible manufacturing capabilities by expanding in California and adding equipment upfit and mounting in Charlotte, Michigan and West Palm Beach, Florida. Additionally, our service body operations have been approved for ship-through by General Motors in Charlotte, Michigan, which allows us to deliver mounted service bodies to any dealer in the General Motors distribution network across the United States.

Let me provide an update and some additional context on Shyft Innovations, which we announced in the second quarter. Shyft Innovations is a dedicated mobility research and development team, reporting directly to me, which is initially focused on introduction of the Shyft electric vehicle chassis. We are very excited by this opportunity to leverage our near half century of expertise in building chassis to a new product with great potential. We have a strong track record of building alternative propulsion vehicles for more than 17 years, which we'll bring to bear on this new effort. We know the demand is there and many of our biggest customers in last-mile delivery are searching for innovative and efficient ways to meet their commitments to stakeholders, to improve efficiency and to reduce carbon emissions within their operations.

We continue to make good progress on the existing new initiative, but let me outline some of how we will differentiate our offerings from the growing competitor base. The first phase of the project will focus on Class 3 electric vehicle chassis. Our electric vehicle chassis will initially be available in 2 wheelbase options with 5,000 pound payloads, offering a range of up to 175 miles. We are very excited with the extremely talented team we are assembling to support our electric vehicle chassis development.

We have made considerable progress on electric vehicle chassis design and have finalized key design objectives and performance requirements on electric vehicle chassis. Proof of concept chassis design has been completed and we start the assembly of the first electric vehicle chassis this month. We have signed LOIs with a number of key suppliers and we have also secured additional component suppliers to support prototypes and production. We look forward to updating you on our continued progress.

With that, I'll turn the call over to Jon to discuss Shyft's financial results for the second quarter in more detail, as well as provide an update on our 2021 outlook, beginning on Slide 6.

Jon Douyard: Thank you, Daryl, and good morning, everyone.

Please turn to Slide 7 and I'll provide an overview of our financial results for the second quarter. The Shyft Group continued to perform at a high level in the second quarter, despite ongoing challenges in the broader supply chain. We saw robust growth across all segments of the business and, while second quarter of 2020 was depressed due to the impact of the COVID, the underlying strength and demand for our products was clear in our results.

Revenue for the second quarter was $244 million, up 96.8% from the year-ago quarter. Income from continuing operations was $17 million compared to a loss of $1.1 million a year ago. Diluted earnings per share from continuing operations was $0.44 per share compared to a loss of $0.03 per share in the second quarter of 2020. On an adjusted basis EBITDA from continuing operations more than tripled, rising 206% to $28.6 million from $9.4 million last year. As a percent of sales, adjusted EBITDA increased 420 basis points to 11.7% of sales from 7.5% of sales last year. Adjusted net income rose 316% to $19 million, or $0.53 per share, from $4.6 million, or $0.13 per share, in the prior year.

Let me now take you through the results by operating segment, beginning with Fleet Vehicles and Services, on Slide 8. Our FVS business posted an impressive quarter, effectively managing through the supply chain and labor challenges to get vehicles in the hands of our customers, while also seeing continued order strength. The business delivered revenue of $168.3 million, up 73% compared to $97.2 million a year ago. The increase was broad-based with strong double-digit percentage growth across all product categories, as well as a significant contribution from initial sales of the Velocity product line.

FVS adjusted EBITDA was up 107% to $28.3 million versus $13.7 million a year ago. Adjusted EBITDA margin was 16.8% of sales compared to 14% in the second quarter of 2020.

We continued to see the benefits of both our factory Lean initiative, as well as our investment in automation, which has helped us expand our output and partially offset supply chain challenges. With impressive growth in new products, led by Velocity, we saw significant order growth that resulted in FVS backlog of $660.9 million, the third consecutive quarters of record highs. FVS backlog was up 12% sequentially and up a remarkable 130% compared to the prior year.

Please turn to Slide 9 for the Specialty Vehicles segment overview. Specialty Vehicles' momentum continued in the second quarter, as the business delivered strong revenue growth across all categories, with impressive growth in motorhome chassis in particular. Sales were $75.7 million, an increase of $49 million, or 183% versus prior year. Our luxury motorcoach chassis business grew 191% year over year and, while the prior-year comp includes the impact of COVID, the increase in motorcoach chassis sales were up over 40% when compared to the same quarter of 2019, clearly demonstrating the strength of our products and the market. On an organic basis Specialty Vehicles grew 144% in the quarter.

As you can see on the left side of this chart, FVS continued to see consistent sequential growth in sales since Q2 of last year, including 14% growth over the first quarter. Adjusted EBITDA was $8.6 million, or 11.4% of sales, compared to $1.2 million, or 4.6% of sales, in the same period last year, primarily driven by higher sales volumes.

SV backlog was up 79% to $90.5 million, which included a 45% growth in motorhome chassis backlog and a 191% increase in our service body backlog.

Please turn to the liquidity and outlook update on Slide 10. We remain focused on working capital and managing our overall liquidity. While we typically see seasonally lower cash flow in the first half of the year, we saw significant improvement this year, as year-to-date cash flow from operating activities increased $15 million versus 2020. At the end of Q2 we had total liquidity of $120 million, including $4 million of cash on hand and $116 million in borrowing availability under our current credit agreement. Our leverage ratio stands at 0.4x adjusted EBITDA and our strong balance sheet enables us to access capital as needed to fund our operations and to continue to invest in our growth strategy.

CapEx for the quarter was approximately $6 million and included investment in Velocity production, as well as fabrication equipment at a number of facilities, which we are using to meet increased demand and drive margin expansion across the Company. Year to date, CapEx was $12 million, tracking in line with our expected full-year range of $20 million to $25 million, as previously disclosed.

Overall, we are pleased with our results and our team's ability to execute at a high level through the first half. As we look forward, we are optimistic about the demand for our products and are well positioned to have a strong year.

That said, we are not immune to the ongoing challenges in the supply chain and labor markets and expect supply constraints and inflation to have some impact on us through at least the balance of the year. We have taken several actions to mitigate these risks, including instituting price increases across the business, expanding the supply base to manage both material inflation as well as component shortages, flexing production as needed and continuing to be innovative in our hiring process to address the labor shortages.

With our current visibility we are confident that our performance through the first half of the year, as well as the strength of our backlog, puts us in a position to exceed our previous guidance. With this backdrop, we are excited to raise our 2021 estimates as follows. We expect revenues to be in the range of

$900 million to $950 million, adjusted EBITDA of $100 million to $110 million and adjusted EPS of $1.75 to $1.95 per share.

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

Daryl Adams: Thank you, Jon.

Please turn to Slide 11. Our results for the second quarter highlight the successful execution of our strategy and the amazing efforts of the entire Shyft team. Our commitment to quality, execution, innovation and investment in operating efficiencies are generating improved profitability.

The Shyft Innovations Team and their efforts on developing our new electric vehicle chassis is a great example of our innovation DNA, unleashed to tackle a critical issue facing fleet operators around the nation. Bringing a new solution to the market that will eliminate carbon emission while enhancing the productivity and efficiency of fleets is a game changer.

In summary, our momentum continued in the second quarter, with each of our business units performing well and positioned to support our improved growth and profitability for the remainder of the year. I'm proud to lead this great team that continues to perform for our shareholders.

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

Questions & Answers:

Operator: [Operator Instructions] The first question today is from Steve Dyer of Craig-Hallum.

Steve Dyer: You talked about price increases. There's others in the industry that have talked about sort of the guidance, raising guidance for the remainder of the year on the revenue side, driven largely by price increases. Does that play into your guidance, the revenue bump, much?

Jon Douyard: I think, Steve, when you look at it, our -- there's certainly an element of price in there, but I think we really think about it as our comfort with the backlog. We've seen significant order growth here over the last three quarters that has put us in a good position and really in a position where we just need to execute.

I think as we look at chassis component availability as we've worked through the second quarter, I think at this point we feel comfortable with the portion of that backlog that we're able to execute. And so that's really where the increase is coming from. I think price will certainly play an element into that, but more on the demand side.

Steve Dyer: And so your ability to raise then for the back half of the year, I mean, do you feel like the supply chain pinch, the worst is behind you? Or do you think it will impact you more in Q3 than Q2?

Jon Douyard: I think it's tough to pinpoint that. I think as you look at the OEMs and the chassis situation, particularly in the second quarter, there were certainly shutdowns throughout Q2 which will have implications on us in Q3. GM announced some of their pickup truck plants will be idled here in the third quarter. And so there will continue to be sort of ongoing issues from a chassis perspective. You've got the freight issues coming out of China. You've got just component challenges across the board. But I think where we find comfort is the visibility that we have both from an order perspective and really just our ability to execute on that.

Steve Dyer: Okay. Got it. And you talk about backlog. You're out more than three quarters of revenue without taking any more orders. Do you have mechanisms in place to sort of protect margin, then, just kind of given the duration of that backlog and all of the uncertainty around supply chain and commodities and things like that? Year ended 2022, do you have mechanisms started to protect pricing, protect margin there?

Jon Douyard: Yes. There's a couple things I would point to. I think Daryl talked about adding rigor to some of our processes. We've certainly done that [technical difficulty] material changes. And so we've instituted that in quotes and new order activity. I think when you look at our backlog in general, particularly on the fleet side of the business, we do have mechanisms in our standard terms and conditions where we're able to work with our customers if there are certain inflationary elements where we can go back for pricing as well.

Daryl Adams: And, Steve, I'd add -- back on 2018, remember when the tariffs came in we put in our raw material purchasing strategy. That is still in place and as we continue to move backlog out we're continuing to ensure we have adequate supply of material. And we understand the pricing to put into the pricing of the quotes that are out that far. So we've moved it forward. We were running on a -- I think it was 6 months at the time. Now we've moved that out, so we're locking in further. And that sometimes can be challenging with the suppliers, but once we get comfortable with them and they get comfortable with us, it's a good discussion and we're both comfortable with the pricing we lock in at.

Steve Dyer: Yes, that's what drove that question. Thanks for the color.

Operator: [Operator Instructions] The next question is from Matt Koranda of Roth Capital.

Matt Koranda: Just wanted to see if you could just start out by talking about the bookings environment in Fleet Vehicles. It looks like an implied order flow is still very strong, or you ticked down just a touch Q over Q. But maybe you could just talk about seasonality in bookings in Fleet Vehicles and then just traction with Velocity and then sort of maybe mix of new orders that were Velocity.

Daryl Adams: I'll take a little bit of that, Matt -- good morning, by the way -- and I'll let Jon finish. So, I think it shows the strength of our strategy and the strength of our operational team where, as we continue to set records in revenue, we are also continuing to take on additional backlog. So, it's not like a delay in the production, which I think is important to mention. Right? We're accelerating on all fronts on production and the backlog still continues to grow. So as I mentioned, this is based on us having the right products at the time our customers need them and the design and innovation that they're looking for. And if we continue to look at FVS as a typical walk-in van plant, is setting daily records on volume, monthly records on volume. Same with Velocity as it ramps up. And we continue to get backlog.

So when we typically would say the delivery -- customers want their products in October, before Halloween, due to the delay in some of the chassis supply during Q2, they are asking for them all the way up through Q4 and right through the holidays. So that's a little unique for this year and that's helping us with the typical Q4 seasonality. So we're excited about that.

And, Jon, do you have anything you want to add?

Jon Douyard: I think the only thing I'd add -- we saw really the last 3 quarters of significant order strength in the FVS business. It really puts us through now into early 2022. And so we expect that to continue from an order flow perspective. It probably will slow down here in the second half of the year, just as our customers really prepare for 2022, but we feel pretty confident with the pipeline that we have for next year, as well as where we are from a current backlog perspective.

Daryl Adams: And I think, Matt -- so I'm going to come back and add one more. I think, if you remember about a year ago there was some concern about how much of this online ordering and e-commerce was going to stick. And I think if you look at our backlog and you continue to look at the overall macro and micro items in the last-mile delivery, the growth is still there for this year and next year. And I think it's out for probably 3 to 5 years they're looking at. So we're excited about where this business is going to go and we're putting in capital and team members to make sure that we can handle the growth as it continues over the next few years.

Matt Koranda: Good color. Thanks for that. And so if I heard you right, I guess, fleet vehicles typically seasonally seen as kind of a weaker quarter in Q4 as the fleet customers kind of hold off on deliveries during their busier periods. But it sounds like the Fleet Vehicles revenue should sort of build from 2Q and then hold flattish into 4Q. Is that the way to kind of think about the cadence of revenue for Fleet Vehicles for the rest of the year and what's embedded in guidance?

Jon Douyard: Yes. Well, I think if you look at our guidance overall it's probably tough to parse out exact -- we certainly didn't guide on Q3 in particular. But if you look at sort of a Q2 run rate through the balance of the year is really our midpoint guidance. And so between Q3 and Q4 there may be some pluses and minuses depending on component flow and chassis availability, those types of things. But we feel pretty comfortable essentially delivering Q2 for the balance of the year.

Matt Koranda: Okay. Got you. And then you did mention that supply chain got a little bit tougher in the back half of the second quarter. And it sounds like probably more chassis than anything, but wanted to give you the opportunity to kind of discuss anything else that got crimped in the quarter and how we're addressing some of that stuff.

Daryl Adams: Thanks, Matt. I'll just tell you it's up and down the supply chain. It's not just chassis. I think we're not unique to have some labor issues. I think you can look around, talk to different people. I think everybody's having it, just due to the expansion. But, as we mentioned, we're taking -- I think Jon mentioned it -- we're taking some alternative actions and having great new ideas on how to hire people, how to keep them, limited turnover. And the other thing is, we mentioned is we're adding additional suppliers to ensure that we can have the capacity as we need it, because we can see the backlog. So we're looking at it and understanding the current supply constraints and adding on additional suppliers for the commodities that we need, whether it's fasteners or fiberglass parts or plastic parts. So, the team is really doing a nice job to keep out in front of that, and it's pretty neat to watch.

Matt Koranda: All right. I appreciate it. I'll jump back in queue.

Operator: The next question is from Mike Shlisky of D.A. Davidson.

Mike Shlisky: Good morning and thanks for taking my question. I wanted to start off maybe by asking about some of the other big news of the week in EVs and that is the new commercial EV that was announced by GM the other day. I'm not sure of the sizing of it and they didn't really give much as far as detail. But is your impression of that vehicle -- is there anywhere in the same-size range as the Class 3 that you're going to be putting out? And, to your knowledge, will that be the same kind of vehicle as other vans out there, that will need an upfit from an outside provider such as Shyft Group?

Daryl Adams: Mike, good question. I think, when we read it, because there aren't a whole lot of details, our assumption is it's probably in the higher classes and more of a -- maybe even a dry van box. So it could be the higher classes. But we're trying to understand it, as you are. But, again, I think -- I have confidence in our team and what we're doing in Class 3, which is a niche space, as we've mentioned. That's why we went into it, because we didn't want to compete against other OEMs in the Class 2 space or even the people up in the Class 5 and 6.

Mike Shlisky: Okay. Got it. And I also want to ask just a question about market share for these. So far this year you've done a great job executing on the [up to 7 sent] your way. Do you get a sense that some of the smaller players in cargo vans just aren't getting it done, that you've found a way to gain some share others couldn't really fulfill?

Daryl Adams: I think it's probably more of -- as I mentioned, it's our quality, our ability to execute, find the labor and get the products in the customers' hands. We've seen -- our backlog has seen a nice order flow from customers that we haven't built for typically. Some of them on the grocery side, some are on the delivery side. So it's broad-based and it's exciting to see that what we've been talking to teams about, is being able to get the products out the door at high quality and customer service, is paying off. And it's -- the [conquest] business is very nice for us in the backlog, as well as our new technology, new products like the Velocity and other products.

Mike Shlisky: Got it. Thanks so much, Daryl. I'll leave it there.

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

Juris Pagrabs: Thanks, Kate, and thanks, everyone, for participating this morning. Stay tuned for announcements in the next month or so on additional sell-side conferences that we'll be participating in. I think we have two in September and then we actually have a wide one in November, virtual, that we're all looking forward to.

So, again, thanks for participating and have a great day.

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