The Shyft Group
Second Quarter 2020 Earnings Results
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Executives
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Daryl Adams, President, CEO & Director
Jon Douyard, CFO

Analysts
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Mike Shlisky, Seaport Global Securities
Steve O'Hara, Sidoti & Company

Presentation

Operator: Good morning, and welcome to the Shyft Group's Second Quarter 2020 Conference Call and Webcast. (Operator Instructions). This call is being recorded at the request of the Shyft Group. If anyone has any objections, you may disconnect at this time.

I'd now like to introduce Juris Pagrabs, Group Treasurer and Head of Investor Relations for the Shyft Group. Mr. Pagrabs, you may proceed.

Juris Pagrabs: Thank you, Grant, and good morning, everyone. And welcome to the Shyft Group's Second Quarter 2020 Earnings Call. Joining me on the call today are Darryl 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 has been filed with the SEC, and is also available on our website at the www.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 today's call, please turn to Slide 2 of the presentation for our safe harbor statement. You should be aware that certain statements made during today's conference call, which may include management's current outlook, viewpoint, predictions and projections regarding the Shyft Group 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 the Shyft Group's actual results to differ materially from projections. All known risks that management believes could materially affect the results are identified on 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, including the impact of the COVID-19 pandemic at our operations, and second quarter highlights, before moving on to a more detailed review of the second quarter results and our outlook for the remainder of the year. We will then be opening the line for Q&A.

I would also like to remind everyone that with the divestiture of the emergency response business this past February, the revenues and expenses associated with 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 to 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 2020 results. Today, we are hosting our first earnings call under the new corporate brand The Shyft Group. This is an exciting change for our company, following 45 years of operating as Spartan Motors. We carefully considered our new brand, and I wanted to ensure and align with the next phase of our long-term growth strategy, while allowing our go-to-market brands, the names our customers know and trust, to take a more prominent position in our externally-facing sales and marketing materials.

The Shyft Group represents a pivot and market focus and clear forward momentum we've built in the delivery vehicle, work truck and specialty service vehicle markets. As the name indicates, The Shyft Group is nimble, aggressive and here to win.

Please turn to Slide 4 where I'll discuss the current environment, some of our Q2 learnings and challenges related to the pandemic. This health crisis has created some of the more difficult challenges most of us have faced in our lifetimes, inflicting uncertainty and disruption in our lives that we could not imagine just 6 months ago.

I'd like to recognize the tremendous effort, flexibility and dedication of our entire team, as we work together to mitigate the impact of the pandemic. Our leadership team has been fully engaged and aligned on controlling what we can, and mitigating the potential negative impact of the unique challenges presented by this pandemic. Our highest priority has been the health and safety of our workforce as we continue to maintain enhanced screening protocols, social distancing in our manufacturing plants and offices, securing PPE for our team members and supporting remote work where possible.

On our last earnings call, we mentioned that we ended the quarter with approximately 40% of our facilities operating due to the chassis and component shortages as a result of the pandemic. As the quarter progressed, we quickly recognized that the chassis supply chain would take longer to ramp up than originally anticipated. So we chose to make a number of difficult decisions in the quarter, including furloughing employees, reducing executive compensation and implementing additional cost controls to mitigate the short-term risk and ensure the long-term success of the business.

Today, 95% of our facilities are operational, and we are encouraged by the recent performance of the North American OEMs. But uncertainty remains given the recent surge in COVID cases and hospitalizations around the country, and how this may impact the supply chain sustainability.

Operationally, while the chassis and component shortages created its own set of challenges during the quarter, including production scheduling, we also had some labor shortage headwinds to overcome. To resolve the employee-related issues, we have been aggressively conducting drive-through job interviews in various campuses, which have been very successful.

Parcel delivery for e-commerce continues to be strong, as more consumers are ordering online than ever before, which is reflected in the 18% increase in our FVS backlog year-over-year. Goldman Sachs recently published an e-commerce report and concluded that the COVID-19 pandemic has driven a doubling of the penetration of e-commerce globally, accelerating what we were already seeing, and in some major categories like consumer packaged goods, driving as much as 3 years of penetration in 3 months.

We further believe that this trend is sustainable with a permanent steepening of the growth curve for e-commerce, as the financial realities of fewer people in stores, particularly during key holidays, lead to even more store closures.

E-commerce in the U.S. through 2022 is now forecasted to grow at a 22% CAGR rate versus its pre-COVID estimate of 14%, which implies continued delivery vehicle growth from their peak level last holiday season. While customers assess and plan for the new normal, we believe this is favorable for us longer term.

On the specialty vehicle side, our luxury motor coach chassis operations were impacted by OEM manufacturing and dealer shutdowns early in the quarter. However, chassis orders are ramping up. In some cases, customers are exceeding their pre-COVID order levels, which again should be favorable for us longer-term.

On the service truck body side, for the quarter, Royal was also impacted by chassis shortages, as well as the dealer network shutdowns.

As a point of reference, we had nearly 4x as many chassis in our production system at the end of Q1, 338, than we did at the end of Q2, 89. I'm pleased that chassis availability is improving. However, visibility is still somewhat limited beyond the third quarter. We will flex our operations accordingly in the coming months.

But I'm pleased to say that it appears we are turning the corner, as recent trends are favorable across all SV product lines, as shown in our backlog, which is up 56% to 50.5 million at the end of June and includes a record amount of motor coach chassis.

With that, let me take a moment to summarize our year-to-date results on Slide 5. We had a really good first half despite the considerable pandemic-related headwinds we encountered in Q2.

Our year-to-date results demonstrate the effectiveness of our business transformation strategy, which is focused on higher margin product offerings within our core markets, growing market share within our expanding geographic footprint and improving productivity at all of our locations. The results can be clearly seen an increase in our overall adjusted EBITDA margins.

Despite the impact of COVID-related shutdowns, revenues for the first half increased $17 million or 6% to $301 million, excluding the USPS order. And adjusted EBITDA increased $10 million or 53% to $28 million while adjusted EBITDA margin improved 400 basis points to 9.2% of sales.

Please turn to Slide 6, and I'll provide a business update. At NTA, the Work Truck Show in March, just ahead of the pandemic, we launched the Velocity M3, Utilimaster's answer to flexible delivery needs to meet our customers' and emerging and ongoing demand. The vehicle features smart delivery access and ergonomic provisions, enhancing efficiencies for drivers with more stops than ever before.

The world's most advanced purpose-built walk-in cargo van has passed comprehensive durability testing, and is currently being reviewed and tested by multiple customers with production scheduled to begin in Q4 or early 2020. To meet the increase in fresh delivery demand, we have introduced additional temperature-controlled cargo vans for both new and existing fleet customers, including vehicles for grocery and pharmaceutical applications.

In addition, during the quarter, we completed testing of an electric version of the Velocity Class 2 purpose-built walk-in cargo van, which is currently being scheduled for delivery to our customers for their field testing. Initial reactions to this potentially game-changing electric vehicle walk-in cargo van has been very positive from the customer aspect.

On the SV side of the business, we enhanced operating efficiencies while continuing to lead the market with new products and features, including launching our new K2 chassis on Newman's New Aire and Ventana Coach. Our Gen2 digital dash is now on 100% of our models eliminating analog gauges. They have to exceed that alerts to drivers using seat vibrations when departing a lane, a new positive steer tag axle with improved wheel cut. This is a technology that allows the rear wheels to turn to assist in making turns with the motor coach.

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 2020 outlook beginning on Slide 7.

Jon Douyard: Thank you, Daryl, and good morning, everyone. Please turn to Slide 8, and I'll provide an overview of our financial results for the second quarter. As a reminder, the results we will be discussing reflect continuing operations as the ER business has been classified as discontinued operations for all the periods presented.

As Daryl alluded to earlier, we operated in unprecedented times throughout the second quarter, as the health crisis drove supply shortages and suspension of production at a number of our facilities.

The quarter got off to a slow start, and while our supply chain begin to ramp in May, it was slower than initially anticipated, driven by complications with re-integrating the workforce. Management reacted by swiftly taking cost actions, which enabled us to lessen the impact of the COVID-related volume declines.

Revenues for the second quarter were $124 million, a 31% drop from $180 million in the second quarter of 2019. Sales decreased $20 million or 13.9%, excluding $35.7 million of pass-through revenues from the one-time USPS truck body order in the prior year. Income from continuing operations for the second quarter was a loss of $1.1 million compared to a profit of $4.5 million a year ago, reflecting the decrease in revenues.

These results also include a pretax $4.8 million or $0.10 per share noncash charge to write off certain ERP assets. Given the significance of the charge, I would like to take a minute to discuss the decision in more detail. Prior to the sale of the ER business, the company had been on a multiyear path to standardize on one ERP platform for all locations.

After ER was sold, we launched an initiative focused on streamlining the remaining IT systems and processes across the organization. As part of that exercise, we determined that the legacy ERP strategy was not the optimal solution for us going forward, primarily due to the fact that the system had been highly configured for the more customized ER products, and was tougher to scale in our higher-volume businesses without further investment.

In addition, given that we have stable operating platforms in the FVS and SV segments, it is a better use of company resources to transition away from the legacy ERP project, and focus our IT resources on areas where we can drive greater returns and build scalable infrastructure that will support our future growth.

Please note that of the $4.8 million charge, approximately half was recorded as accelerated depreciation related to the 2 remaining locations where it was active and the other half was recorded as an impairment.

Turning to Slide 9, for the quarter, adjusted EBITDA from continuing operations decreased slightly to $9.4 million from $9.8 million, while as a percentage of sales, adjusted EBITDA from continuing operations increased 210 basis points to 7.5% of sales compared to 5.4% of sales in the same period last year.

The margin growth reflects favorable product mix, productivity improvements and the addition of Royal Truck Body, partially offset by the impact of lower sales volume. Our response to take cost actions at the outset of the crisis also played a key role in mitigating the profit fall-through.

Adjusted net income from continuing operations was $4.6 million, a 26% decrease from $6.2 million, while adjusted EPS from continuing operations was $0.13 per share compared to $0.18 per share at this time last year.

Next, we'll jump into results by operating segment. Let's begin with the Fleet Vehicles and Services segment on Slide 10. FVS generated total revenues of $97.2 million, which was down 31% compared to $141 million in the second quarter of 2019. As a reminder, second quarter 2019 included $35.7 million of USPS pass-through revenue. So excluding that impact, FVS sales decreased year-over-year by $8.2 million or 7.8%.

Despite the decreased revenue, FVS adjusted EBITDA increased 73% to $13.7 million from $7.9 million a year ago due to improved product mix, productivity and lower material costs, and the impact of the pass-through USPS order in the prior year, which were partially offset by the lower sales volume.

Adjusted EBITDA margin increased 8.4 percentage points to 14% of sales from 5.6% a year ago. FVS backlog totaled $287 million, up $43 million or 18% compared to $244 million at the end of the second quarter 2019, excluding the USPS truck body order.

Please turn to Slide 11 for the Specialty Vehicle segment overview. SV had revenue of $26.7 million, a decline of $15 million primarily due to a decrease in luxury motor coach chassis and lower contract manufacturing sales, as production was shut down for all of April. These declines were partially offset by the addition of revenues from the Royal Truck Body acquisition.

Adjusted EBITDA was $1.2 million or 4.6% of sales compared to $5.1 million or 12.2% of sales in the same period last year.

SV backlog was up 56% to $51 million, led by record motor coach backlog and the addition of the Royal Truck Body business.

Please turn to the liquidity and outlook update on Slide 12. As we noted in our first quarter call, we took a number of steps to enhance our liquidity, including adjusting our cost structure and delaying or deferring noncritical capital investments to maximize our financial flexibility. Despite the COVID headwinds, we were able to generate $5.4 million of cash from operating activities and ended the quarter with $115 million in total liquidity, including $24 million of cash on hand and an additional $91 million in borrowing capacity.

As conditions stabilized, we paid down $50 million of debt, reducing our cash on hand to more normal levels at the end of June. Our current leverage ratio stands at 0.84 times adjusted EBITDA, providing sufficient liquidity to fund our operations and to pursue opportunistic growth initiatives.

Turning to the right side of the page, I'd like to take the opportunity to address the second announcement that we made this morning regarding a shift in our dividend frequency. After review, our Board approved a quarterly dividend of $0.025 cents per share payable September 18 to shareholders of record on August 18.

While the annual dividend value remains the same, we believe that this change in dividend frequency from semiannual to quarterly is advantageous by providing more consistent cash flow to our shareholders and is also better aligned with our industry peers.

Transitioning to our outlook, we are proud of our overall performance for the quarter, as we quickly implemented the measures necessary to help ensure the safety and wellbeing of our employees, while also implementing margin-enhancement actions to help mitigate the financial impact of the pandemic.

As of today, 95% of our operations are running at full or modified production levels, and we expect to fully resume operations in early August, bring all of our locations back online. We remain optimistic regarding the underlying strength of our end markets and saw positive demand indicators for both our FVS and motorhome businesses in the quarter.

With our strong backlog and visibility to chassis for the balance of the quarter, we are positioned to provide Q3 guidance. We expect to deliver third quarter revenues in the range of $180 million to $200 million, adjusted EBITDA of $20 million to $23 million, and adjusted EPS of $0.36 to $0.42 per share, notwithstanding further or unforeseen pandemic-related issues.

Given the longer-term uncertainty, the company is not in a position to reinstate full year 2020 guidance at this time. We expect to provide an updated outlook for the year once we have sufficient clarity into supply chain and production schedules.

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

Daryl Adams: Thank you, Jon. Please turn to Slide 13. In closing, I'd like to thank all of our employees for their continued commitment and incredible work ethic, enabled The Shyft Group to deliver on the promises we've made to our customers to provide delivery vehicles, work truck and specialty service vehicles that are critical to their success.

We do believe the worst is behind us. Production and output have ramped up significantly. Our current backlog position remains robust, and we continue to see strong interest from delivery customers for our products to support e-commerce growth which we see accelerating.

We continue to monitor the rapidly-evolving COVID-19 situation closely, and will maintain our operational flexibility to respond to any changes that protect our employees, our business and long-term shareholder value. With the actions we have taken to improve our efficiency and optimize our operations. we are confident that we can deliver a strong second half for 2020.

With that, operator, we are now ready to take Q&A calls.

Questions and Answers

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

Steve Dyer: I've gotten a lot of questions lately just kind of with the perceived or expected move in final-mile delivery to EV's pick-your-company Rivian workforce, whoever. Can you talk a little bit about how you're positioned there? I know you've always said you're drive-train agnostic. But maybe so that others on the call could sort of hear how you're positioned, is there any scenario or supplier that you benefit more or less from?

Daryl Adams: Yes, Steve, thanks for the question. I think that you're right, it's evolving quickly as we are. We still haven't changed our position, but because our customers do like multiple chassis, at least on the ICE side of the powertrain. But with that said, we are working with a number of EV chassis, if you will, skateboard suppliers on a regular basis, constantly working with them. Unfortunately right now, we can't mention their names because we all do have NDAs signed. But trust me, we're very into EV and close to a lot of, as I said, the skateboard suppliers that do need somebody to build a body; and actually, possibly to build the skateboard as well. So we are engaged with a number of players currently.

Steve Dyer: Got it. That's helpful. Thanks. And then just within the FVS segment, a couple of questions there. Sort of what are you seeing in terms of customer order patterns? Are people keeping it pretty close to the vest? Obviously, COVID is accelerating a trend that already was very well in place. And I'm just wondering throughout the quarter, did you see any pauses or cancellations of orders, just sort of pending visibility. The backlog is solid, but it's not quarters and quarters and quarters out. So maybe if you could kind of characterize what you're seeing from those customers in terms of real-time ordering?

Jon Douyard: Yes, Dave, this is Jon. It's a question we've asked ourselves a lot this quarter as well. I think to your point, what we are seeing is the customers are kind of holding it close to their vest at this point. I think they're in the process of assessing what acceleration of e-commerce and parcel delivery looks like in assessing their networks and capital investments associated with that. So we did not see significant orders in the second quarter as it relates to that.

I think to your point, our backlog remains very strong. We feel like we're in a good position through the end of the year from a demand perspective with what we have on the books. And it's a question of chassis availability and conversion of that backlog. And I think longer-term, the expectation is that we'd continue to partner with our customers and meet their needs as we address the increase, the expected increased, volume here.

Daryl Adams: Steve, if I could add on to that a little bit. Last quarter, we talked more about the Velocity body that we're putting on the cargo van cutaway chassis, which would give us 4 additional chassis we can build on. And we did say that those vehicles would be at customers and the feedback from the 3 customers that have seen them so far is very positive. What they like about it is it fits the Class 3 void that we talked about as well, where the packages through COVID, in size have changed.

So they're trying to figure out is it a cargo van or a Class 4 walk-in van, and our Class 3 basically solves that problem for them where they have the flexibility to go either larger packages or can handle the small packages as well. So we're looking forward to get that launched and out in the market later this year and early next year.

Steve Dyer: Got it. That's helpful. With respect to chassis availability, it seems like a topic we've talked about a lot in the last couple of years. Is there any reason to think you're either more or less in a more or less advantageous position vis-a-vis competitors in the space in terms of availability in the flow of those chassis?

Daryl Adams: Yes, that dovetails into the previous discussion I had in the last question where in 2018, when the tariffs came in, there was a chassis shortage. And at that time, we quickly worked to develop our Class 3, the purpose-built walk-in cargo van. And that's on the Mercedes chassis, Ford chassis, and we're working on the ProMaster chassis as we speak. So the chassis supply, right, as the vehicles are getting reviewed by our customer today, we are pretty confident that the Class 3 is going to be filling that void. And with the Class 3, we will not have chassis supply issues because we get it from three different OEMs versus today, we only get it from Ford and Freightliner.

So we'll continue with Ford and Freightliner, but it's something that we saw the need in the market, and we took advantage of it and we're first-mover into that space as well; competitors are not there yet, as I mentioned on the last call. So we're excited to be in that Class 3 space, which is a maybe a hybrid walk-in van between the larger Class 4 and then Class 2 cargo van.

Steve Dyer: Yes, it makes sense. And then one last question, and I'll jump back in the queue. You have talked about sort of food delivery and then I see something in the slide presentation. You talked about pharmaceutical refrigerated vehicles. Are those products sort of selling en masse at this point in time? Have any of your -- sort of your big freight customers taken any of those, or are those just kind of going to market early days right now?

Daryl Adams: Yes, it's early, Steve. We have -- and like Jon talked about -- I think the food delivery is very similar to the grocery delivery, is very similar to the parcel where the customers are waiting to see how much of the increase is going to stick. We have shipped a number; I think it's been continued, for probably the last 18 months, it hasn't really taken off. But with the additional cargo vans that we have in the refrigerated space today, we do think, as you know, our goal is to be a one-stop shop and that's helping us get there. So that when it does free up and people do start ordering, we can hit it with different options for them. To us, it's like EV; it's coming. It just depends on when.

Steve Dyer: All right. Thanks, guys.

Operator: Matt Koranda with ROTH Capital.

Matt Koranda: On the third quarter outlook, I'm curious to get your take as to the split between FVS and SV in terms of how we're thinking about the EBITDA split or revenue split, however you want to attack it.

Jon Douyard: Yes, I think the mix within the quarter will be in line with what we've seen really year-to-date. The reason that we are comfortable from a from a guiding Q3 standpoint is really the visibility that we have to the chassis on the FVS side of the business right now. We have approximately 80% of chassis in our possession, or close to being in our possession. So we feel pretty strongly about that position at this point.

Matt Koranda: Okay. That's helpful. And then since you mentioned the better visibility on chassis supply, maybe you could comment on sort of are you getting better flow of supply from one chassis supplier relative to another? And what's your ability like to shift customers between the 2 platforms and FVS?

Daryl Adams: Yes, this is Daryl and I will take that. So early on, we did see Freightliner came up faster than Ford did, but through the last couple of months, Ford has increased their output. They actually did shut their line down for a bit to make some changes that would help them produce more. And once they came back up from that, they do continue to hit the ramp curve as they move up. So we see that visibility. So we have 80, but we see the rest of it is not a real issue in Q3. And we hope it continues in Q4, but this pandemic has seemed to come and go, and increase hotspots in certain areas. It's not that we see a chassis issue; it's just we're really sure or not what's going to happen with the pandemic as we move into Q4. As we continue to see the improvement, there is a chance, if you will, that we may have a conversation before we get to the end of the year.

Juris Pagrabs: Hey, Matt, it's Juris. I'll also add on that revenue split between FVS and SV, that disclosure on I think the first or second slide, 75-25 is probably a good number to use as far as gauging third quarter.

Matt Koranda: Got it. Very helpful, guys. And I'm curious, I know Steve asked a question on fleet order demand dynamics, but maybe I'll ask in a different way. Do you think that there is just a lot of distraction that some of your fleet customers were dealing with in Q2 that caused a delay on their part, in terms of order flow for the year? Just trying to get a sense for is there a decently large backlog of demand that should be flowing into the order book as we head into Q3? And then in terms of the order flow, what do we think the mix of Velocity will be within that order flow for the remainder of the year?

Daryl Adams: Yes, I'll take a shot at it, and Matt, let Jon jump in if he's got some additional comments. But I want to be clear, we have not seen the order flow slow down from our traditional customers; it's still coming in. What we haven't seen was what people may expect as an increase due to the e-commerce increase due to COVID and people staying at home. That's when we talk about the customers are still trying to figure it out, is the increase that we've seen. So they want to make sure that what level of it is going to stick before they start placing additional orders beyond their normal growth plan.

So I think we've talked about before, Goldman Sachs came out with 14%. We were talking 16% to 19% as a CAGR rate, and now Goldman it's going to be up to 22%. So the orders have been coming in at, let's say, the lower rate of CAGR on a regular basis. What we're waiting to see is the increase, and I think that's what people are asking about.

And on the Velocity, right, the vehicle is currently in customers' hands, so we haven't received any orders, and that's why we have -- whether it's Q4 or Q1 of 2021, it's dependent on when they release that appeals to us. So we're ready and we've built a number of them. They're being tested in their fleets today, so we're just right now waiting for the orders.

Matt Koranda: That's very helpful.

Jon Douyard: Yes, I think I would add, from a walk-in van perspective, our backlog takes us out through the end of the year as it is. So the urgency in terms of getting in line is not necessary there in that type of chassis availability. I think the one spot where we have seen an uptick in orders, particularly towards the end of the quarter, was on our truck body business, which was a little bit slower earlier in Q2. And we've seen some strong activity there where there is a little bit more availability, and we can turn it more quickly.

Matt Koranda: All right. Makes sense, guys. I'll jump back in queue here. Thank you.

Operator: Mike Shlisky with Colliers Securities.

Mike Shlisky: So I wanted to touch on some of your comments on the EV velocity model that's coming out within testing. Just a little more detail there -- can you tell us what's the capacity of the vehicle for cargo? Can you tell us who makes the powertrain? Is that from your JV or from somewhere else? And is that a shift-exclusive powertrain now?

And then maybe thirdly, how competitive is the vehicle from a cost perspective versus your ICE engine both from an upfront cost and a total cost of ownership? Just some of the basic numbers around that model, please. (Laughs).

Daryl Adams: (Laughs). Just a couple of questions?

Mike Shlisky: Sorry. Yes, I know.

Daryl Adams: Okay. You're fine. I'm going to say we can answer some of them. Due to confidentiality, we can't answer all your questions, but I will tell you it fits into the Class 3 that we've talked about the Velocity. So the Velocity body is the same whether it's on an ICE engine or an EV skateboard regular platform. And it is one of the traditional current cutaway walk-in -- sorry -- cargo vans.

So it's going to be on a Transit or Sprinter or a ProMaster, so it's on 1 of those 3. And it is not our EV system powertrain; it is one of the partners I mentioned from Steve's call. And it has been tested; we've done a durability test -- it fits the demand, if you will, that the customer wants to see on the EV side, which is why we're excited about it. So I think that answers all of them. Did I miss any?

Mike Shlisky: Yes, I just wanted to know about the cost, which is upfront cost and total cost of ownership.

Daryl Adams: Yes, and the reason we're excited about -- and thank you for the reminder. The reason we're excited about the partnership we have with this company is it is going to be, in our minds, significantly less than some of the ones that are on the market today. And that's where we're excited about it, optimistic about the future with this partner we have and the performance of the EV system itself.

Mike Shlisky: That sounds great. Thanks for that color. Turning to the other more recent events, I'm curious to see how your drive-through hiring events have gone so far. And you're hiring general -- and some of the comments on absenteeism in the quarter, has been improved at all here in July and August?

Daryl Adams: Yes, so I will give you some feedback on that. So far, we've had 3, our mind is successful. Each one of the events has been 50% and higher on the applicants coming through. We've done both online and drive-through, if you will. I think we're like everyone, we're trying to get creative. The unemployment checks that people are receiving, that stopped I think last week. We don't think that helped us a whole bunch. As you know, some people were making more money to stay at home than they were if they were coming to work. So that's a challenge that not only we have, a lot of people have.

So that's why we started to get creative on the drive-throughs and in our minds, it's been successful trying to pull people from other employers in the area and just to get people back in, as Jon mentioned, back into the workforce after being out for a number of months and we'll continue with those until we have the team in place.

By the way, it's not just to replace the workers that we have. We are ramping up down in Bristol, right, to increase the plant throughput. So it's twofold for us; it's to get some of the workers to stay whole, if you will, and then we're also ramping up. So we need new workers to fill those spots that we have.

Mike Shlisky: Great. Maybe my other -- last question here is on the luxury motor coach business, a couple of things there. I guess can you just give us a sense as to where that fits in your margin profile? Is that a high-margin business for you still? And then it sounds like there has been such great demand for RVs of all types this summer, and so there could be some lower retail inventories out there at this point. Do you think there is a tailwind, not just next quarter, but into next year for that category of your business?

Daryl Adams: We haven't typically disclosed profitability at the product line level. I think in terms of the demand side of things, we certainly see there is an opportunity beyond the second half of this year and going into next year. We talked about the backlog has increased.

I think most of our, if not all of our, manufacturers at this point back to pre-COVID levels, or increased from pre-COVID levels. And that's not an investment they're making just for a short period of time here. So I think we feel pretty good about the long-term, longer-term or intermediate-term demand profile in that business.

Mike Shlisky: Okay, great. Thanks for the color, guys, I appreciate it.

Operator: (Operator Instructions). Steve O'Hara with Sidoti & Company.

Steve O'Hara: In terms of the third quarter outlook, is it possible to frame it in terms of kind of with the impact of COVID is in the quarter, and maybe what it might have been? Obviously, it's kind of a tough thing to answer, but what the impact of COVID was on the quarter, or kind of the projected outlook for the third quarter?

Daryl Adams: Yes, to your point, that’s tough to put our finger on. We certainly saw depressed volumes in the second quarter related to chassis. There will be some timing given our backlog remains strong. Some of that backlog shifted from second quarter to third quarter. I think as you look at Q3, in particular, I think it's fair to say that the opportunity would have been higher without part shortages or labor issues. But it's tough to put a number on that.

Steve O'Hara: Okay. And then maybe just on the motor home side, it seems like the RV market is booming. Is that more or less what's going on with the backlog there? From talking to the RV guys, it sounds like a lot of that's been on the entry-level side, a lot of new buyers coming in. But I'm just kind of curious what your thoughts there are.

Daryl Adams: Yes, this is Daryl. I think in the past, we've talked about it, trying to put analogy on it where the towables and the lower class RVs move. I'm not going to try to put a number on it. But as they move large, we're going to move a little; if they move today, we're going to move a little up. If they move down, they have a cold, right, we may have a sniffle type of a thing.

Just because the cost of the larger motor coaches, so we do trend with them, but it is a little bit delayed. And it's not quite as large due to the cost profiles of vehicles versus a towable or a smaller drive-away RV, which I think if you talk to them, that's the same answer they'll give you is that they're seeing high demand in towables and a smaller class drivable RVs.

Steve O'Hara: Okay. And then is the -- so the backlog improvement, I think you said this is the biggest kind of record backlog.

Daryl Adams: Yes.

Steve O'Hara: And maybe part of that is due to COVID? Is that the other issue there that there was delays? Or was it market share gains or maybe your customers had market share gains or something like that?

Daryl Adams: Yes, I think it's a mixed bag. We had a little bit of a delay in COVID, but I think a majority of it is also due to COVID, right, because people are concerned on staying in hotels or air travel. And I personally -- there's a number of people in our office here that decided, with families, to rent some motor homes and take motor home vacations, which in the past, they probably would've flown somewhere for their summer vacation. And I was at work, and I've seen a couple of people outside of work that have done the same.

So it may be a longer-term trend for travel again just due to the concern of being in an airplane in the air with a lot of people on the plane. So unfortunately, it probably doesn't weigh well for the airlines, but we are enjoying the trend that we're seeing in the motor home luxury coach market.

Steve O'Hara: Okay. Thank you very much. Oh, and maybe just lastly, in terms of potential acquisitions, things like that, could you just talk about the landscape there? Maybe -- I think in the past, it's been partially about improving geography of your locations, things like that. Where do you stand now on that front? And then are there other areas that you're kind of comfortable with the footprint from a business standpoint that you have, or are there other kind of avenues that you might find attractive here?

Daryl Adams: So I think our position has not changed. Even through COVID, we still have our pipeline meetings weekly. We are looking at a couple closely right now. We aren't happy with the footprint, where I think on previous maps in our IR deck, you'll see that we can contact within 300 miles of each location, 80% of the U.S. population.

Now, we have said it doesn't mean that we're not going to tweak it a little bit, or find an opportunity that will give us additional product. So that's the key right now is find additional product that will enhance our product portfolio, as well as if there is a location that can give us an additional -- increase to 80% to something higher, we'd look at that as well.

Also, if there is a larger one, sort of a tuck-in, if there's a larger one that could be a third leg to the stool, we're open for that as well. So we have a new business development person on board who is doing a great job in stirring up different opportunities for us. So we're excited about what that might bring, especially with our liquidity position going forward.

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

Operator: Steve Dyer with Craig-Hallum.

Jon Douyard: Follow-up maybe to ask an earlier question a different way. With respect to specialty chassis business backlog, etc., I know Royal Truck is sort of smudged in there. Maybe that's more of a final-mile business. But are you willing to sort of break out kind of demand between the motor home business compared with the Royal Truck business?

Daryl Adams: If you look at those 2 businesses, I would say, Royal backlog is about 3 to 4 months out. Motor home is maybe 3 to 6 beyond that; I'm not sure we're in a position to provide a more detailed split.

Steve Dyer: No, that's helpful. Thanks, Jon. That's it for me. Thanks, guys.

Daryl Adams: And Steve, just add to that, maybe a correction. I wouldn't consider the Royal Service bodies into the last mile; they're more into the construction, infrastructure, electrical cable type of products, more of a work truck than a last-mile delivery truck.

Steve Dyer: Yes, that's fair. That's fair. Thank you.

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

Juris Pagrabs: Thank you, everyone. We look forward to keeping you updated on our progress. I think if you keep tuned, we have a number of virtual conferences we'll be participating in over the next several months. So please keep in touch, and have a great day and be safe. Thank you.

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