[SHYF] The Shyft Group Inc. (fka Spartan Motors Inc.)
Third Quarter 2021 Earnings Results Conference Call
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Company Participants:
Juris Pagrabs, Group Treasurer and Head of IR
Daryl Adams, President, Chief Executive Officer
Jon Douyard, Chief Financial Officer

Analysts:
Matt Koranda, Roth Capital
Steve Dyer, Craig-Hallum Capital Group
Felix Boeschen, Raymond James
Michael Shlisky, D.A. Davidson

Presentation

Operator: Good morning, and welcome to the Shyft Group Third Quarter 2021 Earnings Results Conference Call. (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 and Head of IR. Please go ahead.

Juris Pagrabs: Thank you, Kate, and good morning, everyone, and welcome to The Shyft Group's third 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 that has been filed with the SEC and is also available on our website at theshyftgroup.com. You may download the deck from the IR section of the website to follow along with our presentation during the call.

Before we start, please turn to Slide 2 of the presentation for our safe harbor statement. You should be aware that certain statements made during today's conference call, which may include management's current outlook, viewpoint, predictions and projections regarding 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 in 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 remind everyone that with the divestiture of the emergency response business on February 1, 2020, 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 today to review our third quarter 2021 results. We are delighted and pleased to share with you another quarter of strong financial performance, which continues our trend since the beginning of the year.

Our team continues to execute on our operational plans despite industry-wide supply challenges, enabling our growth momentum to endure while positioning us for a record year. Fittingly, this week, we were honored to have been named in the 2021 Fortune 100 Fastest-Growing Companies list. This distinction would not have been possible without the team's incredible hard work, dedication to the business, and most notably, for the resilience in the face of adversity over the last couple of years.

As you can see on Slide 4, our team did a tremendous job navigating the macroeconomic headwinds to generate year-over-year revenue growth of 34% to a record $273 million, and record income from continuing operations of $21 million or $0.58 per share, which represents 8% year-over-year growth in income from continuing operations.

Throughout the quarter, actually since the beginning of the year, we worked hard to minimize supply constraints, labor shortages and inflationary pressures to ensure customer deliveries while meeting our financial targets. I'm extremely proud of the team's continued resourcefulness and relentless focus on execution that drove these results.

Please turn to Slide 5, where I'll provide a business update. I am pleased that the demand for all of our fleet vehicle and services products continue unabated, particularly for our parcel delivery vehicles. We recently announced an add-on USPS order of 47 -- sorry -- 447 truck bodies, representing $53 million in revenues. Production on this order is expected to begin in Q2 of next year, with completion slated for 2023.

As discussed in prior calls, a critical component of our FVS strategy is to identify and evaluate ways we can expand into new locations. In August, we announced orders for more than 500 refrigerated delivery vehicles from several grocery chains. To fulfill these orders, we expanded our production capabilities in our existing Kansas City facility, leveraging our flexible manufacturing strategy. We are encouraged by these orders, as grocers continue to evaluate delivery solutions while consumer expectations are shifting toward home delivery. We continue to work with grocers as they develop solutions needed to optimize their home delivery strategies.

Moving to our specialty vehicles segment, the strength of our innovative products and underlying markets resulted in strong revenues and orders during the quarter. We continued to execute on our service body growth strategy by expanding production into our existing North Charleston facility. This provides critical capacity as we grow and expand this business, again, leveraging our flexible manufacturing strategy.

In our motorhome business, demand for our luxury motor coach chassis continues unabated as our market share increased to 31% during the quarter, while reaching a high of 37% in August, reflecting the strength of our product offerings and brand among luxury motor coach customers.

And in our Builtmore contract manufacturing business, we are excited to work closely with our partner Isuzu on the launch of their latest F-Series vehicle. We are optimistic in this vehicle's prospect and look forward to continuing to ramp volume into next year.

Let me provide an update on Shyft Innovations, our dedicated mobility research, and development team, which is currently focused on developing Shyft's electric vehicle chassis and our new walk-in van body design. During the quarter, we opened an R&D facility, which is the new home of Shyft Innovations and our 2 proof-of-concept electric vehicles.

Our innovation team continues to impress me with their progress on the development and build status of our 2 proof-of-concept electric vehicles. This product is not immune to the supply challenges, but we are currently on track to the project timeline we introduced in June. And we look forward to unveiling this product, this proof-of-concept vehicle, in the first quarter of 2022.

With that, I'll turn the call over to Jon to discuss Shyft's financial results for the third 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 third quarter. In Q3, we delivered record sales and profit. We saw strong revenue growth in both segments and delivered another quarter of sequential margin improvements despite higher inflation and increased supply chain delays.

Revenue for the third quarter was a record $272.6 million, up 34% from the year-ago quarter. Income from continuing operations was $21 million, compared to net income of $19.4 million a year ago.

Diluted earnings per share from continuing operations was $0.58 per share, compared to $0.54 per share in the third quarter of 2020.

Our gross margin for the quarter was 20.6%, consistent with our year-to-date margin levels despite operating in a more challenging period. Prior year gross margin was 24.9%, the highest in company history, as we benefited from favorable product mix driven by increased fleet volumes and reduced truck body sales.

As expected, our mix returned to a more normalized level in 2021. We also saw favorable pricing and productivity in the quarter, which helped us offset the impact of higher inflation and supply disruptions.

On an adjusted basis, EBITDA from continuing operations increased to $33.7 million, up from $32.6 million last year. As a percent of sales, adjusted EBITDA was 12.4% versus 16% last year.

It's important to note that we saw sequential improvement in adjusted EBITDA, up 70 basis points from 11.7% in the second quarter, while managing through a tougher supply environment and investing an additional $2 million in our EV chassis and body initiative.

Let me now walk through our results by operating segment, beginning with Fleet Vehicles and Services on Slide 8. Our FVS business continued to perform at a high level, posting another quarter of impressive sales growth, profit and order intake, while the team remained diligent on pricing and management of the supply base. The business achieved revenue of $198.5 million, up 36.7%, compared to $145.2 million a year ago.

The increase was driven by robust end-market parcel delivery demand, including a continued ramp in Velocity, while truck body sales more than doubled after a Covid-impacted third quarter last year. FVS adjusted EBITDA was $36.8 million versus $33.2 million a year ago. Adjusted EBITDA margin was 18.5% of sales, which is the second-highest in FVS history, behind the third quarter of last year.

FVS backlog was up 15% sequentially and up a remarkable 231% compared to prior year. The year-over-year increase was driven by parcel delivery vehicles, particularly walk-in vans and Velocity, in addition to the USPS add-on order of $53 million.

Please turn to Slide 9 for the Specialty Vehicle segment overview. Specialty Vehicle sales momentum continued in the third quarter. Sales for the quarter were $74.1 million, an increase of $15.8 million or 27.1% versus prior year, and up 9% organically, with consistent growth across product lines.

Adjusted EBITDA was $5.8 million, or 7.9% of sales, compared to $7.2 million or 12.3% of sales in the same period last year, with the decrease primarily driven by raw material and labor inflation, as well as supply constraints impacting production, both of which accelerated in the third quarter. These factors collectively outpaced the pricing actions that we took earlier in the year. We will see incremental price benefits starting in October, and we expect to fully recover the inflation impact in the coming quarters.

SV backlog was up 82% to $94 million, which included significant growth in both motorhome and service bodies.

Please turn to the liquidity and outlook update on Slide 10. We remain focused on managing our overall liquidity and cash flow to fund our operations and growth initiatives. Through the first 9 months of 2021, we generated $42 million in cash from operations, enabling us to pay off our debt entirely, leaving zero borrowings at the end of the quarter.

At the end of September, we had total liquidity of $184 million, including $15 million of cash on hand and $169 million in borrowing availability under our current credit agreement. CapEx for the quarter was approximately $6 million. Year-to-date, we have spent $18 million on capital, and we expect the full year to be approximately $25 million, in line with the upper end of our previously-disclosed range.

Overall, our team has executed at a high level year-to-date, and despite dealing with a highly dynamic supply chain and labor market, we are pleased with our overall results.

As we look forward, we are optimistic about the underlying demand for our products and our ability to sustain growth. We expect inflation and supply constraints to continue into next year, and we are taking the appropriate actions to mitigate the impact.

Given our performance to date and solid backlog position, we are pleased to raise our 2021 midpoint guidance as follows. Revenue of $950 million, up from $925 million; adjusted EBITDA of $109 million, up from $105 million; and adjusted EPS of $1.99 per share, up from $1.85 per share.

With that, I'll turn the call back to Daryl for closing remarks.

Daryl Adams: Thank you, Jon. Please turn to Slide 11. Our record third quarter results reflect the success of our long-term growth strategy and the efforts of our incredible team. Our commitment to quality, execution, innovation, and operational excellence is generating improved revenue and profitability.

I'm proud of the dedication and collaboration of our team as they manage through the current macroeconomic issues to ensure we delivered for our customers and our shareholders. We remain nimble and creative in our approach, managing our suppliers and labor into 2022, while continuing to invest in our team and new products, our operations, and technologies that will drive our future growth.

With that, operator, we are now ready to take questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Matt Koranda of ROTH Capital.

Matt Koranda: On the margin front, it just seems like you're not getting the pull-through from the pretty exciting revenue growth that you've generated in 3Q. I just wanted to see if you could maybe put a finer point in each segment maybe on sort of what the headwinds were related to product cost inflation, labor inflation. And it sounded like there's recovery coming from price action, especially in SCV, but wanted to see if you could maybe speak to pricing in both SCV and fleet vehicles to kind of recover some of the headwinds that you've been experiencing on the inflation front.

Jon Douyard: Sure, Matt. This is Jon. I think when we look at the overall performance, we're certainly pleased with the result from an EBITDA percentage perspective. But as we said in the prepared remarks, there's certainly some headwinds that we faced in the quarter. I think when you look at it across the board, we've seen the impact of inflation, just like others, on commodities, labor, etc. I think our team has done a really nice job being able to manage through that as well as the supply constraints, and have been able to offset that, I think, more so on the FVS side, at least in the quarter than on the SV side.

We've taken multiple price increases on -- and really across the business. I think if you look at piece of the business, we've taken 3 or 4 price increases throughout the year. And so we've seen that pricing sort of trickle in. And we felt the impact of that in Q3 and expect to see more of that in Q4. And so we'll continue to be conscious of the environment and the markets.

We continue to execute and look for opportunities to lock material and pricing consistent with the strategy that we've talked about previously; and really just focusing on execution of getting products in the hands of our customers. I think that there were some inefficiencies that occurred in the quarter, really just driven by part shortages. And so the team had to be nimble throughout the quarter, which certainly impacted productivity. But we did see productivity across the business in the quarter as well.

And so I think as we look at all those pieces and look at how we performed year-to-date, I mentioned the gross margin is consistent for the first 3 quarters of the year. I think we're really, really pleased with the way the team has performed.

Matt Koranda: Great, very helpful, Jon. Thank you. And then just one more for me, just on the fleet vehicles side. Backlog still looks extremely healthy. Just wanted to see if you could clarify, is the USPS order, the $53 million order, in the backlog figure that you provided for FVS.

And then just wondered maybe, Daryl, if you could speak to sort of trends in order flow that you've seen as of late. It looks pretty healthy here. But maybe you could just parse out sort of the strength in Velocity platform, what the mix looks like in terms of backlog, and any other trends that are notable in the fleet vehicles backlog?

Daryl Adams: Okay. I can answer both of those. The first one is easy. Yes, it's in our backlog. Your second question, we are seeing the Velocity increase in backlog, but we're also seeing a number of Fed Ex Ground contractors and dealers ordering both Velocity and traditional walk-in vans so -- and as Jon mentioned, truck body is up significantly over Q3 last year. So we're seeing it on all the products. I don't think I could pick one in particular, but we're excited about how it is across all the products and not just in one. And it's a diverse customer base too, not just one.

Matt Koranda: That's great. And I lied, I have one more question just around the USPS contract, more of a modeling-oriented question. But I recall the last go-around with this, there was quite a bit of pass-through revenue associated with the cabin chassis on that truck body contract that you had. Is it similar? Is it going to be recognized in a similar way this go-around? Or is that $53 million all just sort of truck body revenue to you guys? Just if you could clarify that for us in terms of modeling this, that would be helpful.

Jon Douyard: No, the order is consistent with what we had last time. So we'll be procuring chassis and building truck bodies, and so that is the $53 million inclusive of both.

Matt Koranda: Okay, very helpful. I'll jump back in queue, guys. Thank you.

Operator: Steve Dyer of Craig-Hallum.

Steve Dyer: Great quarter. As it relates to the supply chain, I guess, the subject de jour, does it feel like things are getting incrementally a little bit better with supply chain, or is it still a slog? I guess any color as to when you feel like things will loosen up a bit.

Daryl Adams: I'll start with that, Steve. Thank you for your quarter comment. The team appreciates it. It's interesting because we've -- it's constantly on our mind, we're talking about it. Some days, we think the chassis supply is breaking loose with the chips, and then a few days later, we'll hear that there's a shutdown at one of the chassis suppliers. And we think we got supply on some fiberglass, which I think we mentioned last quarter, where we went to 9 different suppliers trying to get the Aerocaps. And then they'll have some issue procuring supply, and then it moves into the labor piece.

So I would tell you it's about the same; it's been the same all year. It's been a constant battle, but the team -- and I can't say enough about how resourceful they have been. And actually looking through the backlog and understanding the volume and making sure they had enough product procured, they didn't -- they'd find other suppliers. And that's -- look, that's frankly what allowed us to have the successful quarter that we had. And as we look into Q4, I think we're in pretty good shape.

And in the beginning of Q2 or 2022, things could change. But right now, it has been the same, and we see it continuing at least through the first half of 2022, for sure.

Steve Dyer: Got it. And then just with respect, I guess, to capital spending or capital allocation, I guess bigger picture, you guys generate a lot of cash, have very, very little debt at this point. And the strategy has sort of historically been to find accretive tuck-in acquisitions, things that sort of make sense to your business. Is that sort of still a strategy? I guess any color you could give on the acquisition pipeline, sort of how you sort of see things playing out going forward.

Daryl Adams: Again, I'll lead with that, Steve. And maybe you have a financial question, we can move over to Jon. But we do still have our pipeline as we continue to have that every Friday morning. I think with the supply constraints and all the disruption that people are dealing with, there's only been a couple of assets that we felt were something we could look at. We've looked at them, haven't executed on any of them for various reasons, but it is tight.

I think people are waiting to see what's going to happen because they -- when you try to value a company that has had supply constraints all year, and revenues are down on most companies and profits are down, the owner is looking for something different. We're still searching and are in some discussions, but right now, nothing actionable, but we'll continue to do that. Our preference, right, we've done 4 recently, which have been smaller tuck-ins, like you said. We'd rather do something larger, but we continue to look at both the smaller one and something that might be a third leg or a larger acquisition. But nothing right now that we see in the horizon as actionable.

Steve Dyer: Got it. Okay. Last one for me, and no offense to Jon, but it's not financial. Your manufacturing capacity, you've added a bunch. You've kind of rejiggered capabilities geographically the last few years. Sort of how do you feel like you're set up there? I don't expect you to give me a utilization number. But I guess just big picture, do you feel like you're starting to rub up against needing more or different or different locations? Or do you feel like you're set up pretty well there for the next couple of years?

Daryl Adams: Good question, Steve. I'm glad you're starting to understand how our flexible manufacturing strategy that we put in place is working, right? Due to the lumpiness of the orders, to us, it doesn't matter what name is on the front of the plant, right, whether it's an SV or FVS plant. If it's got capacity, we're going to try to fill it because we continue to grow.

We're looking at expanding currently in Pennsylvania. Last -- maybe it was in 2918, we did that USPS order in a smaller plant in Pennsylvania. We like where we're seeing the truck body order, so we're looking to expand that facility and probably would more than double it, I believe, with some of the buildings we're looking at. We continue to add in capacity in Kansas City. And as we see the orders and the growth, we do have some -- Pennsylvania comes to -- if you get that finalized, that will give us an extra 100-and-some thousand square feet, which will last for a while. But right now, nothing else besides that.

But I do feel, right, there is capacity available because currently, we're still running mainly on one shift at a lot of locations. But it's just we've tried to go to 2 shifts when needed. And it's a struggle just due to the labor challenges that we're seeing today in the market. But I think the team has done a really good job over the last 5, 6 years managing our footprint, and we'll continue to do that.

I think we continue to add it into the script, and we talk about our long-term growth strategy but we -- as a reminder, we do have a 5-year rolling strategy that we continue to look at. And part of that discussion is capacity, so we're usually ahead of the game, and we'll continue to run that same process forward.

Steve Dyer: Got it. That's very helpful. Thanks, Daryl, and congrats again.

Operator: Felix Boeschen of Raymond James.

Felix Boeschen: I was hoping to start on the grocery comments. You mentioned expanding the KC facility there for refrigerated units. I'm just curious, from your conversations with customers, is that where you think the market is going, refrigeration versus maybe more dry van bodies with insulation? Just curious if you could maybe talk to the grocery opportunity in general and how you're approaching it.

Daryl Adams: Like any new product, new location, I can go back, Felix, to what we did with Amazon, right, when we were able to solidify that order. We gave them 10 trucks, all different shapes, and sizes and different options. And that's where we're actually at with the grocery guys. It was nice to receive the order, but that's -- by receiving that order, no means do I feel or believe that that's going to be the only solution in the market, right? This is something they're trying. They like the product and it's not a big truck body. So it's not a real large space to, if you will, cool or freeze. But even in there, right, they're going to have to have some compartmentalization inside the truck.

So they're still trying to figure out, and we're right beside them like we have been with all of our customers, to make sure we give them different solutions and different ideas to help them be more efficient at what they're doing. I'm not sure if you saw it, but there was some stuff on CNBC this morning about what Kroger -- the strategy Kroger is doing. I think we alluded to that on a couple of calls ago, the last call that they're going to try to do without brick-and-mortar stores and do it more from a DC center. So it's starting to, in my opinion, gain some traction, maybe not as fast as last-mile delivery did, but it will still be something there.

And we feel confident we'll be in the mix when the vehicles are finally -- and again, I don't think there'll be one solution for all of them. So there could be different strategies by different customers and different grocers. So we'll continue to monitor and offer ideas.

Felix Boeschen: Right, okay. That's helpful. And then just maybe switching gears a little bit, but I'm curious if you could touch on the Velocity product lineup. And curious if you could specifically comment on the progress of the Mercedes and Ram chassis launch, sort of the timeline there and expectations.

Daryl Adams: For sure, I do know the Ram. So we are done with our testing, vehicle passed, it's ready to go. And some of our customers are in discussions with Stellantis to understand how many vehicles they're going to get for 2022. So it is ready, and we believe we'll see some orders. I'm not sure we'll get them in Q4, but there should be some in early 2022 on that vehicle. It did -- the customers liked it when they drove them. And we also, like I said, passed all the durability testing, so we're ready to go. We're just waiting for the orders, which is the typical process.

And I'm going to defer to Jon if he has any updates on Mercedes. I've not heard of anything lately.

Jon Douyard: Yes, we do have in 3 orders in the backlog, and those will be in production if not December, it will be early next year.

Felix Boeschen: Got it. Okay. And I was hoping, Jon, to just follow up quickly on the specialty vehicle margins and the commentary around recovering the full cost inflation with price over time. I was wondering, just looking at the backlog in that segment, it seems like that could happen pretty swiftly into early 2022, assuming we run through pricing actions in 4Q. Curious if you would agree or disagree with that statement or how we should think about that sequential ramp there.

Daryl Adams: No, I think you're right in that. We will see -- we've taken additional pricing in Q4. We will see benefits from pricing that we've already taken earlier in the year incrementally in Q4. And then as we work through that backlog, we will -- early next year, we should be in that recovery piece. I think it's important to note, as we look at where the business is today, that Q4 will look more like the first half of the year for SV than it did in Q3. And so we expect incremental sequential improvement there going into next year.

Felix Boeschen: Got it. Very helpful stuff there, I appreciate it.

Operator: Mike Shlisky of D.A. Davidson.

Michael Shlisky: I wanted to maybe touch on FVS performance in the quarter first. It's clear you've had probably fewer challenges than most in securing chassis and securing the parts you need. It's not easy, but you've done better than most (indiscernible) at this point.

Can you maybe share with us whether you've seen better performance from the larger fleets, the big parcel delivery companies, to get these chassis as opposed to the smaller folks? Are they paying up for chassis to make sure they have what they need for the holidays or for next year? And other certain smaller customers just not getting to same treatment from the Fords or the GMs of the world?

Daryl Adams: I think when you look at it, I wouldn't necessarily say they're paying off. I think we're -- the discussions that we were having, even if you go back to last year, was not necessarily on chassis availability, though we did anticipate some issues on that front earlier in the year. But it was more around just the overall demand profile for parcel and last-mile delivery in general. And so given the demand that we were seeing at the time are expected, we worked close with our customers as well as with our own pool in terms of securing chassis early in the year. And so that's benefited us, I think, through certainly year-to-date.

And we continue to work closely with customers as we look at 2022 as well, even though there's some uncertainty in terms of volumes there. And so I think our ability to identify early in the year, you can even go back to Q4 last year, in terms of securing chassis theirselves as well as supporting our customers, in that I think is a big dynamic and potentially differentiator.

Michael Shlisky: Got it. I also wanted to maybe get a little more granularity on some of your comments on EV. It's probably a bit more depth there. So one of your main competitors has been announcing publicly some new agreements with various EV platform providers like Isuzu and Atlas to develop the next generation of EV vehicles. Must have 4 or 5, not more than that, out there at this point. And then it's clear you have your own platform coming as well, but that's going to be probably just one class of vehicle.

Can you update us as to what you're doing beyond the basic Class 3 to address the EV sector? Are you signing up more customers for (inaudible) manufacturing or for platform development without announcing them, or is it just still all to come here?

Daryl Adams: Mike, I hope I remembered all your questions, but if I didn't, just please ask.

Michael Shlisky: One big one.

Daryl Adams: Yes, one big one. So first, I want to clarify, our EV strategy isn't only Class 3. I believe in Analyst Day, we mentioned we're starting with Class 3 and we're moving down to Class 2 and up through Class 5, right? So we will have, as we typically do, a one-stop-shop for any customer looking for an EV product. And it will be all on our chassis and our operating system. So we're not going to be buying any of that. But we will procure, as we typically do with our motorhome chassis, axles, springs, and things.

We're not going to vertically integrate except in the software for the operating system and that's Shyft Innovations. So we'll have the ability to build our own product or sell the chassis to others.

And then if we look at FVS, they are currently doing some EV builds for other customers, as we would expect, and possibly even doing some up-fit for them, which we've talked about in the past. So they're having some good discussions. So as we talked at the Analyst Day, we wanted to make sure that we didn't mix it with FVS and Utilimaster. We want to keep it as a separate group, which so far, we feel was the right decision. But we will have -- in addition to just the chassis, we'll have some other products, I think, to talk to people about in the future.

Michael Shlisky: Okay. And just to kind of clarify there, often times, when a company has partnered with your big competitor in some of these bodies, it's really not their decision, right? The customer can choose to specify Utilimaster or the other guy, correct?

Daryl Adams: Absolutely, absolutely.

Michael Shlisky: So it doesn't mean that they're going to get the business. Got it. A lot of --

Daryl Adams: Yes, and I think, Mike, if you -- sorry to interrupt. If you look at it, there was a report out yesterday by Morgan Stanley that said, when it comes to EVs, it's not demand that's the problem; it's the supply, right? So when people wonder if there's enough appetite out there, the answer from Morgan Stanley anyway is yes. And when they ask is there enough business for more than a couple of suppliers, I think they also answer that by saying it's a demand problem. So we're very comfortable with where we're at on the EV project, the timing.

And as I mentioned, right, if I could share with you guys what I'm seeing, and the progress the team is making, it's really rewarding that we made that decision back -- and announced the decision back in June.

Michael Shlisky: Got it. If I can squeeze in one more here. Can you update us on the Magnum and Royal business, and if you've gotten any good integration benefits, or has that been put on pause given some of the supply chain issues?

Daryl Adams: Sorry, ask that question again?

Michael Shlisky: I just want to know how things are going with Royal and Magnum, and if you’ve had any additional benefits from trying to get the 2 [private] lines across their footprints and whether you had to pause that because of the supply chain?

Daryl Adams: Oh, you're talking more from the strategy standpoint?

Michael Shlisky: Yes, exactly.

Daryl Adams: Yes, I thought it was more toward the financial. But yes, on the strategy side, for sure, we are currently mounting DuraMag bodies in the California locations. We're doing -- mounting DuraMag bodies in Florida, as well as doing some of our Royal bodies out of our existing facilities in Florida as well. And I think I mentioned, we are building some other bodies in our South Carolina facility to increase capacity for the DuraMag. So we're excited about how that progress and the integration between the 2 are going.

And if I can mention again, Tom Ninneman, our COO, was just out in Maine the last few days and I talked to him this morning. And he's really excited with the through-put that they're getting due to our lean activities. And we're hoping we'll see the same progress there that we saw in Royal over the last probably year or so, when we really focused on improving operations to improve capacity. And it was good to hear the report when they came back.

Michael Shlisky: It sounds like all systems go. Thanks so much. Have a good day.

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: Thank you, Kate. For those interested in learning more about Shyft, we'll be participating in a couple of conferences in the next couple of weeks. Next week is Baird on November 10, and then Deutsche Bank on Tuesday, November 16. So please sign up if you'd like to learn more.

Having said that, thanks for participating in today's call, and have a great day.

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