SPAR - Q2 2018 Spartan Motors Earnings Conference Call
Thursday, August 02, 2018 10:00 AM ET

Company Representatives:
Juris Pagrabs; Group Treasurer and Director of Investor Relations
Daryl Adams; President and Chief Executive Officer
Matt Long; Interim Chief Financial Officer

Analysts:
Steven Dyer; Craig-Hallum Capital Group LLC
Mike Shlisky; Seaport Global Securities, LLC
Steve O'Hara; Sidoti & Company

Presentation

Operator: Good day, and welcome to the Spartan Motors Second Quarter 2018 Earnings Results Conference Call and Webcast. [Operator Instructions] Please note this event is being recorded.

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

Juris Pagrabs: Thank you, Robert. And good morning, everyone, and welcome to Spartan Motors 2018 second quarter earnings call. I'm Juris Pagrabs. And joining me on the call today are Daryl Adams, our President and Chief Executive Officer; and Matt Long, our interim Chief Financial Officer.

For today's call, we've included a presentation deck, which will be filed with the SEC and is also available on our website at spartanmotors.com. You may download the deck from the Investor Relations section of our website and 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 Spartan Motors and its operations may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. I caution you that, as with any prediction or projection, there are a number of factors that could cause Spartan's actual results to differ materially from projections. All known risks that management believes could materially affect the results are identified in our Forms 10-K and 10-Q filed with the SEC. However, there may be other risks that we cannot anticipate.

Please turn to Slide 3. As of January 1, 2018, the company adopted the new revenue recognition standard, ASC 606, using the modified retrospective transition method. The adoption had minimal impact to our net income in Q2. As a result, reported consolidated sales for cost of products sold were higher by $5.7 million and $5.0 million respectively. Consolidated net income net of tax was about $500,000 higher. The adoption reduced reported Q2 consolidated backlog by $37.1 million, reducing both FVS and ER reported backlog by $8.4 million and $28.7 million respectively.

For more details regarding ASC 606 and its impact on the company's financial results, see the company's quarterly report on Form 10-Q for the quarter ended June 30, 2018.

On the call today, Daryl will provide an overview of the second quarter alongside a business update, and Matt will provide a more detailed review of the quarterly results and our outlook for the remainder of the year before proceeding to the question-and-answer portion of the call.

At this time, I'm pleased to turn the call over to our Daryl for his opening remarks, which begin on Slide 4.

Daryl Adams: Thank you, Juris. Good morning, everyone. Thank you for joining us on our second quarter conference call.

I’d l~~L~~ike to start by saying how incredibly proud I am of the Spartan team's performance in Q2. In the face of some significant and cross-industry challenges, our team not only rose to the occasion; more importantly, they minimized the disruption to our customers and our shareholders, as you can see clearly in the results.

As you're aware, we're operating in a global economic and business climate that has recently become incredibly volatile, escalating commodity costs and unfavorable exchange rate for our ER Canadian dealers. Chassis and other supplier provided component shortages due to, in part, both truck and rail transportation and freight scarcity have become daily challenges for companies in our segment.

I share all this with you, not only to underscore how incredibly strong the market forces were pushing against us this quarter, but again to tell you that our team, in reaching profitability for our shareholders in Q2 of 2018, was a significant accomplishment.

This update will be a bit longer than is typical for me. But throughout, I'll share a bit more of the backstory behind how we were able to accomplish another solid quarter of growth and profit improvements.

With that, let's review the quarter. Revenues for the quarter rose 8.4% to $184 million from $170 million a year ago. The increase in sales was driven by strong growth in FVS and SCV, partially offset by a decline in ER. We continue to see higher demand in corresponding sales of Reach vehicles, improved production in our vehicle upfit centers, improved mix, and strong luxury Motor Coach chassis sales. For the second quarter of 2018, net income increased 233% to $3.7 million or $0.11 per share, compared to net income $1.1 million or $0.03 per share a year ago.

Gross profit margin improved 280 basis points to 14.3% of sales from 11.5% of sales, which is significant given that we had to overcome $1 million of additional commodity costs. The improvement reflects higher Reach orders and luxury Motor Coach volumes, improved ER pricing, increased upfit volume and continued operational and organizational improvements.

Our solid performance during the quarter was anchored by the strength of our team and an ongoing commitment to drive operational and organizational improvements and profitability. Even more impressive was that we were able to achieve these solid results in the face of increasing commodity costs, supply constraints and transportation and freight challenges.

One quick story I'll share with you is around the cross-industry driver deficit that's really delaying transportation, in our case interrupting our regularly scheduled commercial chassis supply. Nearing production interruption, our FVS Bristol location quickly sent drivers to our chassis supplier to pick up the chasses in order to maintain the schedule and eliminate any further risk of interruption to the customers. It's this level of dedication and selflessness that's allowed us to continue to push the boundaries of what's possible in the face of adverse market conditions.

In addition to thinking outside the box, we continue to benefit from the efforts we've made to grow our business by delivering on quality and durability and bringing innovation across markets to our vehicles. This focus has enabled us to win new business with major global ecommerce vendor.

Now please turn to Slide 5. I'll provide an update on a few business highlights and developments, starting with FVS.

Last Mile continues to be a significant major growth opportunity for us, as retail, grocery and ecommerce delivery business continues to expand, as noted by recent articles referring to increased competition in the delivery space. As we've indicated in the past, we've been working closely with some of the largest and most innovative ecommerce retailers to provide them with solution-based upfit products.

I am pleased to report that that work has paid off, as we have secured a new upfit order with a global leader in ecommerce offering branded leased vehicles to deliver their packages. Unfortunately, I cannot share the specifics of the agreement. But I can tell you how honored we are to be at the forefront in providing vehicle solutions to help our customers meet the consumer market's aggressive demand for Last Mile deliveries.

As a result, we've established an interim manufacturing facility in northern Charleston, South Carolina to fulfill the order. This grants us access to Mercedes ship-through program. This new location will complement our existing upfit facilities in Kansas City and [Mexico] and that support primarily the Ford Transit and Dodge Pro Master vehicles. We expect to transfer production to a permanent facility sometime later this year.

In addition to that win and resulting factory facility expansion, the biggest development over the past year was the $214 million USPS contract for 2,141 vehicles placed in October of 2017. I'm pleased to report that we've produced our first units in April, achieved our desired capacity in June; and we are well on our way to achieving the $80 million in targeted 2018 revenues.

In addition to the 2,900 vehicles, including 1,400 Reach units we mentioned last quarter, we have received several fleet orders from major customers, which include Frito-Lay, and a large linen and laundry company I'll mention more about later. What's exciting is that our work-driven design approach that included a differentiator in an industry of full catalog sales continues to drive long-lasting business relationships across multiple vehicle platforms.

I mentioned that I'd come back to a quick story about a longtime large client in the linen and laundry space and their growing relationship with Spartan and our Utilimaster brand. This Midwestern-based company supplies nearly a million customers across North America. I'm proud to say that this same longtime customer has not only expanded their product portfolio with us, recently placing an order for cargo vans, walk-in vans and truck bodies; but that we've also just secured a 5-year exclusive supply agreement with the company. In addition to market expansion and linen and laundry, we continue to see large growth opportunities in refrigerated vehicles.

I mentioned on our call last quarter that we are making strategic investment in expanding our refrigeration technology capabilities to best support the growing market for home delivery of groceries, medicines and other fresh goods. To that end, we recently received a new refrigeration order for 96 walk-in vans from a national food distributor. We expect accelerated growth in the segment over the coming months and years.

And lastly, for FVS, we're working on all [classes of sellers] new EV technology relationships to meet increased customer demand for electric-powered fleet vehicles as the market shifts to include sustainability and mileage improvement strategies.

Please turn to Slide 6, and I'll continue with Emergency Response. Again, I'd like to thank the Spartan team, as our ER business achieved its fourth consecutive quarter of profitability. Considering where we were just 2 years ago, this run rate is exceptional.

For the trailing 12 months ended June 30, 2018, compared to the 12 months ended June 30, 2017, we saw revenues increase 7% to $268 million, gross profit increase 162%, and gross margin improve 7 percentage points to 11.8%. Adjusted EBITDA improved 207% to $6.6 million or 2.5% of sales from a loss of $6.2 million or negative 2.5% of sales. This 5-point improvement in adjusted EBITDA was driven by significant operational and organizational improvements, lower warranty expense, price increases, product optimization and dealer rationalization. Despite a modest downturn in the market demand for fire apparatus, according to [Fama ~~D~~data], Spartan firetruck sales, alongside its Smeal, Ladder and Tower and UST sister brands, continued to be well received in the marketplace.

As I mentioned at the outset of the call, the headwinds against us were tremendous this quarter. You will see us continue to implement margin improvement initiatives that will help us achieve the EBITDA margin goal of 6% to 8% for ER we share with you at the offset of the year.

To that end, here are a couple initiatives underway in order to get us there. We recently increased our aerial manufacturing capacity, alongside implementing a new order-to-ship process. This process will take 80 days out of the ordering process and allow us to get much-needed trucks to the customers' hands faster.

We've [seen it] optimize our plant footprint and recently consolidated tanker [pumper] manufacturing, formerly located in Delavan, Wisconsin; with our [brand new] South Dakota fire apparatus manufacturing operations. We also are in the process of moving production of all F-180s from Charlotte to the ~~brand new~~brand-new campus. In so doing, all Spartan pumper manufacturing operations will be under one roof, where we can maximize both commodity and labor efficiencies. We've worked diligently alongside our dealers to remove territory conflicts and make our products easier for them to sell in key markets across North America.

Please turn to Slide 7. I'll continue with Specialty Chassis and Vehicles segment. In the SCV segment, our momentum continues to build across chassis platforms, as we capture a greater share of the luxury motor coach category. We're driving measurable and sustainable growth by introducing new market-responsive chassis platforms, leading technology transfers initiatives, as we [borrow] proven automotive technology and innovate for RVs, and by placing a hyper focus on after-sales support and vehicle service and doing so creating customers for life.

Last quarter, you heard me refer to our newest Class A Diesel Chassis, the K1360. This 360-horsepower 37-foot chassis first launched under the 2019 model year Jayco Embark marked a first entry into the sub-~~40 foot~~40-foot motorhome market as well as our first chassis supply agreement with Jayco.

I'm pleased to share that Spartan's K1360 chassis now also rides under longtime exclusive Spartan chassis OEM Entegra Coaches Reatta. Integra's 2019 Reatta was unveiled at last month's FMCA International Convention in Gillette, Wyoming and was highlighted as providing the coach with best-in-class ride and handling in a smaller format and a more accessible price point. Spartan's ability to penetrate and win in this new market segment grants us access to go with younger buyers as well as RV owners wishing to

step down into a more nimble coach size without sacrificing the quality, durability and innovation they've come to expect from Spartan.

Also new this quarter, Newmar added another Spartan chassis to the 2019 lineup featured on the Ventana Coach. Spartan's K2400 gives discerning Newmar owners a tag axle option for increased maneuverability and a tighter turning radius as compared to the competition. We've gone the extra mile alongside our partners at Newmar and offered our joint customers the industry's best 5-year, 75,000-mile transferable warranty. New OEMs, new product platforms and technology adoption is proof positive that our focus in innovation and the customer experience and after-sales support is paying off.

With that, I'll turn the call over to Matt to discuss Spartan's financial results for the second quarter as well as our outlook for 2018.

Matt Long: Thanks, Daryl.

Please turn to Slide 9. As Daryl mentioned, the operational and organizational improvements we've made over the past 2 years has provided a solid foundation that continued to drive profitable long-term growth for Spartan Motors, as evidenced in our second quarter results.

Second quarter adjusted EBITDA increased 79.6% to $8.9 million from $4.9 million. Adjusted EBITDA margins improved 190 basis points to 4.8% of sales from 2.9% of sales a year ago. Adjusted net income increased 82.6% to $4.3 million from $2.4 million in the second quarter of 2017, while adjusted EPS rose 71.4% to $0.12 per share from $0.07 per share. The strong growth in adjusted net income reflects the continued solid operational performance of all 3 segments.

Our backlog at June 30, 2018 remained strong and ended at $524.1 million, up a solid 40.6% from $372.8 million at June 30, 2017, and reflects the addition of the USPS order as well as continued strength in all 3 segments. And as Juris mentioned, the reported backlog was reduced by $37.1 million with the adoption of ASC 606.

Now let's take a look at the results by operating segment, starting with FVS segment, on Slide 10. FVS reported revenues of $78.4 million compared to $53.5 million last year, an increase of 46.5%. The revenue increase reflects improved sales mix at Reach vehicles and upfit volumes. Adjusted EBITDA increased $2.2 million to $8.4 million, from $6.2 million a year ago, largely due to sales volume. Adjusted EBITDA margin decreased 80 basis points to 10.7% of sales, from 11.5% a year ago, which reflects the $1 million higher commodity costs and $500,000 of startup costs at the Ephrata truck plant and unfavorable mix.

Backlog remained strong at $313.4 million compared to $131.3 million at June 30, 2017. Backlog for the second quarter of 2018 includes the impact of $214 million USPS order.

Moving on to Slide 11 and the ER segment. Second quarter 2018 revenue fell to $59.6 million from $80.8 million last year. Included in the prior year sales is $8.3 million of revenue that resulted from the tightening of revenue relating to the Smeal acquisition. Excluding these sales, revenues decreased $12.9 million or 17.8% over the prior year, reflecting decreased shipments of complete fire apparatus and custom cabs and chasses, partially offset by pricing increases taken in 2017 and 2018 respectively.

Adjusted EBITDA in the second quarter improved $900,000 to a profit of $200,000 or 0.3% of sales from a loss of $700,000 or 0.8% of sales in the prior year. The improvement in adjusted EBITDA reflects operational and organizational improvements and increased pricing, partially offset by lower unit volume

and mix. Our ER backlog was $175.6 million compared to $214.8 million at June 30, 2017, which reflects the $28.7 million reduction from adopting ASC 606 that Juris mentioned previously.

Let's move on to Slide 12 and the SCV segment. Revenue was up 32.7% to $47.5 million, from $35.8 million, due mainly to a $9 million increase in luxury Motor Coach chassis sales, driven by new products and increased market share. Adjusted EBITDA increased 57.1% to $4.4 million from adjusted EBITDA of $2.8 million a year ago, driven by increased sales volume and improved operational performance. Adjusted EBITDA margin increased 150 basis points to 9.2% of sales from 7.7% of sales a year ago. Backlog at end of the quarter was up 31.5% to $35.1 million, compared to $26.7 million a year ago, reflecting continued strong luxury Motor Coach sales and corresponding Spartan chassis orders.

Turning to our balance sheet on Slide 13. Spartan's balance sheet remained strong. Total liquidity at the end of the quarter was $115 million, reflecting $22 million in cash and $93 million of borrowing capacity, which is more than adequate to support our working capital requirements and acquisition opportunities as they present themselves. In accordance with ASC 606, we had $46.4 million of contract assets on the balance sheet, representing revenue as a corresponding profit recognized on the products in process but not yet invoiced to the customer.

Please turn to Slide 14, and I will discuss our outlook for the second half of 2018. As Daryl mentioned, the team worked incredibly hard during the quarter to minimize the challenges that we faced, particularly through cost-cutting measures and operational improvement initiatives. The team rose to the occasion, protecting the quarter.

We've implemented a proactive procurement process which identifies trends through daily tracking of commodity prices, which allows us to act swiftly and be proactive in mitigating our exposure to a rise in commodity prices. Because of this, in early 2018, we implemented the following actions: switched to domestic sources wherever possible, reduced exposure to imported raw materials, pre-bought on known production volumes, worked closely with suppliers to pre-buy based on known orders, bought in pricing in aluminum on ER production as well as raw materials at FVS. We consolidated suppliers, and we entered into long-term agreements with many of them.

Although we have worked hard to mitigate our exposure, we do expect to see the commodity headwinds experienced in the first half to continue in the second half and see our costs being about $3 million to $5 million higher than originally planned when we began the year.

We have also received news that a large upfit add-on order originally expected for the second half of 2018 will be delayed into 2019. However, we do expect the new ecommerce company upfit order to personally offset this delay in add-on order. As we did in the first half of the year, we will exert considerable effort to drive margin improvements through cost-cutting measures, coupled with operational and organizational improvement initiatives to offset these cost headwinds as much as possible.

Based on current macroeconomic conditions, we are maintaining our current outlook for 2018 as follows: revenue to be in the range of $790 million to $850 million, net income of $20.2 million to $22.4 million, adjusted EBITDA of $39 million to $42 million, the effective tax rate of approximately 23%, earnings per share of $0.58 to $0.64, assuming approximately 35.3 million shares outstanding; and adjusted EBITDA earnings per share of $0.60 to $0.66.

At this point, let me turn it back over to Daryl for his closing remarks.

Daryl Adams: Thanks, Matt.

Please turn to Slide 15. As I mentioned at the start of the call, the market forces at work against us in Q2 created headwinds throughout the quarter that many companies were unable to overcome. Proud doesn't begin to describe my feeling about how the team's diligence, discipline and our foresight granted Spartan the ability to remain not only profitable but navigate forward on a solid growth trajectory.

Constant monitoring, situational assessments, direct supply-based negotiations and an insistence on swift action both internally and with our suppliers has allowed us to remain in control despite a challenging commodity market. Continuous operational and organizational improvements which drive efficiencies advance our ability to take costs out of the business.

Our most sincere thank-you goes to the entire Spartan team for their focused effort in doing what was necessary to make the quarter a success. No matter what market [influxes] we face or what political shifts occur, I have full faith and confidence that we'll meet them head on and continue to do what's right for the business and our shareholders.

Operator, we are now ready to take calls.

Questions and Answers

Operator: [Operator Instructions] The first question comes from Steven Dyer of Craig-Hallum.

Steven Dyer: I guess, just starting -- overall on the topline was, I think, a little bit light of expectations; maybe not yours, but consensus in the street. That, combined with inventory, a lot of it appearing to be finished goods, being up 24% quarter-over-quarter -- should we assume that maybe there was a timing delay or a bump for maybe some of the USPS business into Q3 from Q2?

Daryl Adams: No, a lot of that was those chassis constraints that we saw throughout the quarter. And our look is we will make those up, but it's probably going to be out into late Q3 into Q4. So we don't -- the shortage was based on the shortages of transportation and getting chassis in our facilities to build.

Steven Dyer: And then, I guess, just digging into FVS -- congratulations on your large new customer, doesn't sound like we can get you to name them. But do you have any sense, or can you share with us sort of your expectations for revenue or magnitude over the remainder of the year, and then going forward?

Daryl Adams: Yes. There's one other piece in there that I think I mentioned, that we're unable to disclose the details of the order. I do want to say that we are excited about it. We're looking forward to a long-term relationship with them. And the team is currently executing to build the vehicles. And I think there should be more coming out, maybe through the rest of the year, even into the next year, on what this means to us.

Steven Dyer: And then, should we assume that most of that over time will be serviced out of your new South Carolina facility?

Daryl Adams: No, I think there's going to be potentially multiple vehicles that they build on. It obviously depends on how they want to grow the vehicles and the quantities they're requiring, and what the constraints there would be to the OEMs that are supplying the vans. But again, it's very early, although we're excited to be part of it.

Steven Dyer: Would you expect revenue there in Q3, or is that more in Q4 and into next year?

Daryl Adams: I think it'll be in late Q3 to Q4.

Steven Dyer: And then, you mentioned that another large upfit order pushed out into next year. Any sense, are you able to share sort of the magnitude about that? Obviously, pretty impressive you were able to hold guidance, kind of just given the combination of that as well as the raw material impact.

Daryl Adams: Yes. I think some of that also goes with the Frito-Lay order and the large linen company that we talked about. It's [fortunate] to get those to be able to let us maintain. But no, we're not putting numbers onto the order that moved into '19.

Matt Long: I can tell you, it's similar to what we've done in the past with that customer.

Steven Dyer: One more for me, and then I'll hop back in the queue, just as it relates to raw materials going forward. Can you remind us sort of your ability to hedge those, or sort of whether you're trying to build it into pricing over time, or how you -- other than sort of the operational changes that you continue to do, which are great, anything else that you're able to do to sort of mitigate risk there? That's it for me, guys.

Daryl Adams: I think Matt talked about it. As we track the commodities on a daily basis, and we review them weekly in our staff meeting, as we saw things start to move up late last year and early this year, we took some actions. We went out and secured some capacity with the processors and locked in some pricing.

We've pre-bought -- we do not hedge -- we pre-bought material based on orders we had. And as new orders came in to a certain quantity, we would go out and, again, pre-buy the material. So it's not a silver bullet, it's a lot of actions by a lot of different people in the organization all working together as one to accomplish what we did in Q2.

Operator: The next question comes from Mike Shlisky of Seaport Global.

Mike Shlisky: I want to start off just to follow up on that ecommerce order you had. Could you maybe tell us if you are the only provider on this deal? Are you exclusive here? Or are there others across the country that might be supplying through the same ecommerce provider?

Daryl Adams: Good question, Mike, and I'm sure it's not going to be the last one we have regarding that. But unfortunately, we're unable to share the details. But I think, as I've mentioned to people, this very large company, very sophisticated purchasing organization -- if I was in their shoes, I'd probably have [dual sourced] this, just because of where they want to go and how large of accomplishment they have over the next few years to build out their fleet. But our team is focused on the business we have with them, executing on it, and making sure that we hit their delivery dates in order to continue to win additional orders with them.

Mike Shlisky: I'll move on from that topic, then, in that case.

I want to ask also about commodity costs on some of your chasses. If I look at the chart correctly, it looks like some of the major metals like aluminum are actually down year-over-year. [Are] these down from the previous quarter as far as the sort of per-ton price is concerned? So I'm a little surprised that there's still going to be headwinds in the rest of the year. Can you [a sense] as to what extent you can add any pricing in the back half of the year to help offset if there is still an elevated cost to you?

Daryl Adams: So two points there, Mike. Let's not forget that -- Matt mentioned it, I mentioned it -- when prices were going up, nobody knew where the ceiling was. So we made a decision to go out and

buy [tonnage] based on orders we had. So some of that at today's prices may be elevated, but it's still business that we thought was the right decision to make for the company. We'll work through it. And as material prices come back down, obviously we'll see some positive news from that.

On the ability for us to add in pricing -- so it's different at three of our divisions. But overall, rest assured, wherever we can, we're taking pricing and adding in the commodity cost. The ER and FVS both quote orders differently throughout the year in different sizes and different customers. So what we'll do is, at that time, we'll see what the material is on the street, and we'll price that in, and then we'll go out and pre-buy it.

So it's not an easy formula. But we wanted to make sure that we would ensure our guidance for the year and do what we could to make sure that we do get pricing put in and buy the best material costs on the street that we can.

Mike Shlisky: And I just want to ask, [sir], about the ERV business and the backlog there. I know it's down year-over-year even when you take out the accounting changes. Can you maybe just give us a sense as to, is part of this deal kind of just walking away from orders that just don't make sense anymore, and just trying to focus on what's profitable? Is that why it's down? Because it sounds like a lot of your products are in decent demand right now.

And then, perhaps, secondly related, given that, does the margin cadence get better in the back half, could you actually beat last year's margins in the third and fourth quarter?

Daryl Adams: Good question. I'm going to list off a number of items, Mike, that have impacted us. So compared to second quarter of last year, we had -- Smeal was in there for, I think, $8 million plus. This year, they're down a little bit. And I think some of that was due to the dealer shakeup that we had to make in getting the dealers in the regions settled in. The F-180s down a little bit the number we shipped last year. And then there's some unfavorable mix. We built less aerials this quarter versus what we did second quarter of last year. So there's a number of things going on in that business.

But to your first question, yes, we are still only taking profitable orders. We will not waver with the small decline in the Fama data showing that the market is declining a little bit. I think it was about 2%. We're not going to go out and chase orders just to get revenue. We've talked about that since late in 2015, for sure.

And we're disciplined. And obviously, it's not easy for our sales guys to walk away from some business. But it's what we do, and we're going to continue to manage the business that way and stay disciplined on profits and EBITDA versus revenue and topline.

Mike Shlisky: And on the margins, can you beat, perhaps, last year at this half? So I'm [concerned] there on our price costs, et cetera.

Daryl Adams: Yes, we think we'll be at or exceed the performance in the back half of the year.

Operator: [Operator Instructions] The next question comes from Steve O'Hara of Sidoti & Company.

Steve O'Hara: I guess you kind of alluded to it, but you talked about the unfavorable mix in ER, I guess, in the quarter. And it would appear that the mix is more favorable going forward in the backlog, given your expectations around margins in the second half. Is that correct? Or is it more volume related?

Daryl Adams: It's going to be a combination of both the mix and the volume, and then obviously material. And we took pricing both in 2017 and 2018. So just to remind everyone that if we take pricing at any point in time usually takes somewhere in the area of 300 or 400 days before we see that impact. So some of the pricing we took in '17 is coming through maybe right now. Some of it will be coming in -- the ones we took in '18 may be coming later in the year. And then, there's some actions that we took operationally and organizationally that we're going to pick up in the back half as well.

So again, it's a number of activities. And that's what makes me so proud of the team, that everyone's working on their -- playing the position, if you will, but working together as a team to accomplish what we've accomplished.

Steve O'Hara: And then, just following up on that -- with the pricing in the [delay] to kind of realize it, do you get the same lag on the way down? So if you've raised your costs and then commodity costs go down, is it a faster pace? Or do you usually get that benefit to kind of make up for what you lost on the way up?

Daryl Adams: So let me think about that for a minute. Can you maybe say that again?

Steve O'Hara: Yes, sorry. So there's a lag on the way as commodity costs rise, you're losing money on the contract that you'd originally priced at x, with commodity cost of x. And then, that price goes back down by 10% or something like that. Is that contract -- do you get the benefit of that difference in raw material costs going on the way down to make up for kind of what you lost on the way up? Or is it a faster adjustment on the pricing on the way down?

Daryl Adams: It would be the same. So trucks are between 300- and 400-day delivery times. Aerials are a little bit longer. So it obviously differs by truck and whether it's a pumper aerial or a tanker. But in general, if we take it on the way up, we're buying the material. There's a lot of aluminum in these vehicles. And then, on the way down we're buying, so it takes the same amount of time. Within reason.

Steve O'Hara: And then, just on the motorhome side -- the RVI is showing, I think, down deliveries in May and June. It sounds like the industry took kind of the full 2 weeks in July, around July 4. And I'm wondering just how you're looking there. But I know it's kind of a different product point and price point that you're selling into. I'm just wondering how that looks relative to your business.

Daryl Adams: Yes, we see it as positive. And I appreciate that you understand that we're in a niche market on the large Class A and moved into the under-40-foot Class As. Because that is an important segment when you break it out and you look at it. It doesn't seem to trend with the overall RV market. But we still see a strong second half or consistent second half for them.

Steve O'Hara: And just maybe lastly, on the order that you had mentioned with the undisclosed customer, et cetera, did you say kind of when you start that, when you expect that to start hitting the results? Was that in the second half, and that's kind of why the guidance was unchanged relative to the other pressures you were facing?

Daryl Adams: Yes, that was a number of orders. The first of the one we had or expected to get got pushed into '19. That left a bit of a hole. This new customer with ecommerce is going to help, but not fully replace. But then we had the Frito-Lay and then the large linen company.

And again, when I say it's an entire team, we have -- when the order got pushed out, we had our sales team out working hard, as they continue to do, and a little bit more pressure and more focus. And they

were able to win some of these and continue to fill the pipeline. And if there's a hole, sometimes the customers are more excited, because they get their vehicles faster.

So it's, again, a number of factors. But we still feel confident that we can maintain the guidance we have for full year.

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

Juris Pagrabs: Thanks, everyone, for participating. We look forward to keeping you updated on our continued progress. We'll be at the Jefferies conference next week in New York and then the Seaport conference at the end of the month in Chicago. So I'm sure we'll see many of you there.

With that, I think our next call is scheduled for the first week in November for third quarter results.

Have a great day.

Daryl Adams: Thank you.

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