The Shyft Group
Third Quarter 2020 Earnings Results
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Executives
Juris Pagrabs, Director, Investor Relations, Treasurer
Daryl Adams, President, CEO & Director
Jon Douyard, CFO

Analysts
Mike Shlisky, Collier Securities
Matt Koranda, ROTH Capital
Steve Dyer, Craig-Hallum Capital Group
Steve O'Hara, Sidoti & Company

Presentation

Operator: Good morning, and welcome to the Shyft Group's Third 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: Thanks, Alyssa. Good morning, everyone, and welcome to the Shyft Group's Third Quarter 2020 Earnings Call. Joining me on the call today are Daryl Adams, our President and Chief Executive Officer, and Jon Douyard, our Chief Financial Officer.

For today's call, we've included a presentation deck, which will be filed with the SEC, and is also available on our website at theshyftgroup.com. You may download the deck from the Investor Relations section of our 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 ongoing impact of the Covid-19 pandemic on our operations, as well as the third quarter highlights, before moving on to a more detailed review of the third quarter results and our outlook for the remainder of the year. We will then be opening the line for Q&A.

I would like to also 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 of the ER business to discontinued operations, 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 thanks for joining us to discuss our third quarter 2020 results. I'd like to start by saying that I could not be more proud of the hard work and tremendous efforts by our team during the quarter as we achieved some truly amazing results, finishing the quarter with record performance across the company.

We also need to acknowledge that 2020 has been a year that has really put the team and our company to task. As we face the Covid-19 pandemic, affecting virtually every aspect of our personal and working lives for the past 8 months, we continue to work hard, managing supply constraints, while emphasizing the health and safety of our team members. We rose to the challenge. We over-delivered on our prior outlook, and in many cases, exceeded our own expectations, resulting in the most profitable quarter in our company's history.

We also remained focused on M&A opportunities by finalizing the recently-announced acquisition of F3 MFG, a complementary service body opportunity which I'll discuss later.

As we head into the home stretch of 2020, we continue to proactively address opportunities, prioritizing the needs of all our stakeholders in a way that reflects our goal to be nimble, aggressive, and positioned to win in markets that are growing at an accelerated pace since the onset of the pandemic.

Please turn to Slide 4. We'll discuss the current environment, and the progress we've made to address and emerge from the health crisis. On our last quarterly earnings call, we discussed the initial actions we took to address the pandemic. Our leadership team remains fully engaged and aligned on controlling what we can. As we return to full production, our team has adapted with incredible and innovative solutions to meet our customers' demands, such as pulling forward customer orders when requested, drive-through interviews to address our labor constraints, and employing a second shift to allow our employees the flexibility to provide care for their school-age children.

From a supply perspective, conditions improved throughout the quarter, as we now have clear visibility through the rest of the year. Parcel delivery continues its accelerated growth trajectory, as consumers embrace e-commerce at a much higher rate.

In a recent Wall Street Journal article, delivery companies have indicated that their upcoming holiday shipping capacity is already booked much earlier than usual. Between Thanksgiving and

Christmas this year, total shipping is expected to be up 21%. Carriers have already been operating near capacity for months, as consumers have stayed home, avoided stores and shopped online, and that has driven a capacity shortage for parcel delivery vehicles.

We are excited about these trends. Our parcel delivery customer orders are ramping and customers have been asking us to fill them with urgency. FVS backlog has jumped 54 million to 282 million in the month of October alone.

On the special vehicle side, our luxury motor coach chassis operations benefited from the ongoing resurgence of the RV industry emerging from the pandemic. With a rebound in demand, our motorhome chassis line increased daily production levels throughout the quarter.

On the service truck body side, road truck body rebounded significantly due to the increase in chassis availability, and finished the quarter strong.

These recent SV trends are reflected in our backlog, which is up 30% year-over-year to 52 million, and includes back-to-back quarterly records for the motor coach chassis.

With that, let me take a moment to summarize our year-to-date results on Slide 5. For the first 9 months of 2020, we posted solid improvement in our results, especially considering the pandemic-related headwinds we encountered in the second quarter. Once again, our year-to-date results demonstrate the success and effectiveness of our business transformation strategy, which is focused on growth in higher-margin product offerings within our core markets, growing market share within our expanding geographic footprint and consistent productivity improvements in our operation.

The results of our strategy can be clearly seen by the increase in our overall adjusted EBITDA margins through the first 9 months, as we achieved 12% margin even in the face of headwinds from Covid-19, shutdowns and supply constraints that limited some production.

Revenues for the first 9 months increased $19 million or 4% to $504 million, excluding the USPS order. Adjusted EBITDA for the first 9 months period increased $20 million or 49% to $60 million, which nearly matches all of our 2019 when we achieved $64 million. Adjusted EBITDA margin improved 500 basis points, driven primarily by considerable labor efficiencies, as well as a shift in product mix resulting from the continued implementation of our business transformation strategy.

Please turn to Slide 6, and I'll provide an FVS business update. Last week, Utilimaster announced the launch of the Velocity F2, a purpose-built walk-in van based on a Ford Transit Class 2 chassis to meet growing demand for e-commerce and last-mile delivery. Initial customer views have been very favorable, as Velocity F2 combines nimbleness, comfort and increased fuel efficiency with cargo space, load capacity and access similar to a traditional walk-in van. This innovative new vehicle is on a deal solution for partial delivery to fleet operators that want to expand their fleet and delivery capacity quickly, as Velocity F2 offers lower total cost of ownership.

Utilimaster's Velocity F2 expands our product offering and complements the previously-announced Velocity F3 built on a Ford Transit chassis and an M3, which is built on a Mercedes

Sprinter chassis, offering parcel delivery fleet customers an entirely new vehicle lineup with innovative solutions to improve efficiency and safety from the loading process to the final delivery.

Please turn to Slide 7 for an update on our most recent acquisition, which will be part of the SV business. On October 1, we announced the acquisition of Maine-based F3 MFG, a leading aluminum service body and accessory manufacturer. Going forward, we will refer to the business as DuraMag after one of its core product brands. We are all excited to welcome DuraMag to the The Shyft Group family. We are looking forward to growing their complementary product lines, and extending our service body production and distribution footprint from coast to coast.

The company has 2 industry-recognized brands, DuraMag in the service bodies and Magnum in the light-duty aluminum accessory primarily headache racks. DuraMag also brings a wide range of complementary aluminum products to Shyft, which are lighter weight, leading to better fuel efficiency as well as enhanced corrosion protection. Aluminum products also provide a growth advantage, as the segment has been growing above market rates.

F3 has been included in Inc.'s Magazine Annual List of America's 5,000 fastest-growing privately held companies in both 2018 and 2019. Sales for DuraMag grew at a 74% CAGR rate from 2015 to 2019, and generated revenues of approximately $25 million in 2019. The acquisition closed on October 1, and we expect it to be accretive in 2021.

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 2020 outlook beginning on Slide 8.

Jon Douyard: Thank you, Daryl, and good morning, everyone. Please turn to Slide 9, and I'll provide an overview of our financial results for the third quarter.

As Daryl alluded to earlier, despite the ongoing impact of the Covid-19 pandemic, we had a terrific quarter, one that saw conditions improve sequentially each month. We worked through the lingering supply chain and labor constraints, and in each case, exceeded expectations, alleviating the pressures through a variety of initiatives that resulted in a record-breaking profit quarter.

Revenues for the third quarter were $203.5 million, up slightly from the year-ago quarter, excluding $23 million of USPS pass-through revenues. Income from continuing operations was $19.4 million compared to $13.1 million a year ago.

Earnings per share from continuing operations increased to a record $0.54 per share, up from $0.37 per share in the third quarter of 2019.

Turning to Slide 10, Q3 adjusted EBITDA from continuing operations increased 46% to $36.2 million from $22 million, while as a percent of sales, adjusted EBITDA from continuing operations increased 610 basis points to 15% of sales compared to 9.9% of sales in the same period last year. I will cover these increases in more detail when we get to the segment discussions.

For the third quarter, adjusted net income from continuing operations was $22.1 million, a $6.2 million increase from $15.9 million a year ago, while adjusted EPS from continuing operations rose 38% to $0.62 per share compared to $0.45 per share at the same time last year.

Next, we'll jump into results by operating segment. Let's begin with the Fleet Vehicles and Services segment on Slide 11. Our FVS business delivered remarkable results in the third quarter, while managing through a number of challenges. Our truck body business experienced significant year-over-year volume declines, with our factories shut down for a good portion of the quarter due to order softness and chassis timing.

On the flip side, our Bristol and Upfit teams were able to respond quickly to customer demand, and accelerate deliveries that were planned for Q4, which offset the truck body volume decline and drove favorable mix and productivity for FVS in the quarter.

Overall, FVS generated total revenues of $145.2 million, which was down 19% compared to $179.6 million in the third quarter of 2019. As a reminder, third quarter 2019 included $23 million of USPS pass-through revenue. So excluding that impact, FVS sales year-over-year decreased $11.4 million or 7%. Despite the decreased revenue, FVS adjusted EBITDA increased 34% to $33.2 million from $24.7 million a year ago due to the improved product mix and productivity noted earlier, as well as lower material and component costs and favorable healthcare expenses.

That said, adjusted EBITDA margin also improved 920 basis points to 22.9% of sales from 13.7% of sales last year.

FVS backlog totaled $229 million, up $5 million or 2% compared to $224 million at the end of the third quarter 2019. And as Daryl mentioned earlier, demand has been robust recently, with orders exceeding the order volume we experienced in all of the third quarter, with October order volume exceeding the order volume we experienced in all of the third quarter, resulting in a current FVS backlog of approximately $282 million.

Please turn to Slide 12 for the Specialty Vehicle segment overview. Specialty Vehicles also had a great quarter, delivering the first quarter of motorhome sales growth since 2018, while also realizing the benefits of the Royal Truck Body acquisition that we made in September of last year. SV had sales of $58.3 million, an increase of $13.2 million or 29%, primarily due to higher sales of luxury motor coach chassis, as well as the addition of revenues from the Royal acquisition.

Adjusted EBITDA was $7.2 million or 12.3% of sales compared to $4.1 million or 9% of sales in the same period last year, driven primarily by production efficiencies and higher motor coach volume, as well as the addition of the Royal Truck Body business.

SV backlog was up 30% to $52 million, which included a record $40 million in motor coach backlog, breaking the record set in Q2 of this year.

Please turn to the liquidity and outlook update on Slide 13. As we noted in our previous Q2 earnings call, we took a number of steps to enhance our liquidity to confront the pandemic. We continue to exercise discipline in our use of cash, and plan to continue to support our M&A growth strategy, as opportunities arise.

We generated $32 million of cash from operating activities in Q3, ending the quarter with $43 million of cash on hand and $144 million of total liquidity. As we began October, we used a portion of the $43 million of cash on hand to fund the DuraMag acquisition, as well as make a payment to finalize the net working capital adjustment related to the sale of the ER business.

As conditions improved during Q3, we paid down $10 million of debt in August, and recently made $20 million of payments, paydowns, in Q4. As a result, our current leverage ratio stands at approximately 0.5x adjusted EBITDA, which positions us well to fund our operations and to pursue our growth strategy.

We are extremely proud of our overall performance, given the significant challenges we faced this year. The high level of execution at FVS, coupled with the transformational actions we made earlier in the year, illustrate the power of Shyft's earnings and growth potential. We are increasingly confident in the underlying strength of our end markets. In October, we saw sizeable increases in order volume, which is a positive indication, as customers are now making initial buying decisions for 2021 vehicle orders to support e-commerce parcel delivery.

Given these factors, and despite the industry-wide headwinds that impacted our business, we are excited to reinstate our initial March 2020 guidance at the high end of the full year profit range. We expect to deliver full year revenues in the range of $660 million to $680 million, adjusted EBITDA of $73 million to $75 million, and adjusted EPS of $1.28 to $1.32 per share, barring any additional pandemic-related impacts.

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

Daryl Adams: Thank you, Jon. Please turn to Slide 14. We had an incredibly successful quarter. I want to re-emphasize how proud I am for the incredible hard work, dedication and commitment to excellence demonstrated by our team throughout this unusual time. When we needed to step up to ensure The Shyft Group could manufacture and ship the vehicles our customers demanded, our employees came through. It's often said that challenging times bring out the best in people, and we certainly saw that demonstrated at The Shyft Group in 2020.

Over the last few years, we've made a number of key strategic decisions that have positioned The Shyft Group to win in markets that are growing at an accelerated pace. I believe our year-to-date performance reflects the earnings power of the transformed company. Our entire team is excited, as we continue to have great conversations with our customers who share their optimism, will continue to grow the trend in 2021.

Operator, we are now ready for the Q&A portion of the call.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Mike Shlisky of Collier Securities.

Mike Shlisky: So I wanted to first talk about the Q4 outlook. The last 2 years, the Q4 margins have been better than the Q3 margins. Looking at what you've mentioned today, it looks like the margins will be a bit lower from the all-time record we just had in Q3. So I'm kind of curious, the only times you've worked through any operational issues, it seems like those are probably going away also. So I'm trying to figure out how or why margins might be down in Q4 compared to Q3.

Jon Douyard: Yes, Mike, this is Jon. I'd say a couple of things. As we look at the mix of volume that we had in the third quarter with heavy walk-in van and upfit compared to what Q4 looks like, which will be higher truck body and lower contribution from an upfit and walk-in van perspective, we certainly see some negative mix. And that's again partially attributable to some of the pull-in activity that we had. We'll also see some strong growth in the motorhome business, which was strong in Q3, but it will accelerate year-over-year in Q4.

There's also the lower volume impact and so we're not going to be able to get the same fall-through from a contribution perspective just with the point of volume declines. And then we do expect to see some of the productivity that you talked about.

I think as we look at the quarter, there's still uncertainty, given the environment that we're operating in, and so we think we've taken a good view here as to what it could be. But there's still a lot of variability and uncertainty that we're playing with, particularly given some of the case increases I've seen across the country in the last couple of weeks.

Mike Shlisky: Okay. Okay. And then still up there, in Q3 in the FVS segment, it sounded like some customers wanted to be put out to the front of the line for their orders. I was curious, is there a charge for that? And do you have other orders, other folks, in Q4 who just simply cannot wait any longer and also want to be put to the front of the line here?

Daryl Adams: Yes, Mike, this is Daryl. I'll take this one. No, we don't. We look at our customers as partners and they're struggling to meet the demand. So we wanted to make sure that we could do that, so we got creative, did a few different things. I think it just shows, as The Shyft Group name gets out there more, that we continue to be, according to our strategy, nimble, agile, flexible, and the customers really look at that as an asset. We think it's going to pay off in future orders, that we're able to help them out in Q3 in posting those orders forward.

Mike Shlisky: Okay. Got it. Also want to ask about some of the big parcel delivery companies. I think that one of them, in the last week or two, had indicated that they want to cut their CapEx in 2021. I don't know if you talked with those folks recently, but do you know if that would be including the vehicle part of the CapEx? And do you think that the other companies out there, the other parcel folks, might be actually increasing to offset what this one company might be cutting?

Daryl Adams: Yes, Mike, we did hear that. And I think when you look at the big delivery companies out there, they're buying airplanes and a lot of other product in their CapEx budget. So we have not heard directly that our products are going to be part of that reduction. We're actually seeing increases in a number of our parcel delivery customers and having great conversations with some other ones that we think will come to fruition here before the end of the year. So we're actually bullish and optimistic on 2021.

Mike Shlisky: Excellent. If I could squeeze one more here on the Velocity discussion you had earlier, the F2. Will that family of products eventually be electrified? And will it be the F2 or the F3? And do you have to wait until Ford or Mercedes has an EV chassis that's available, or can you use another manufacturer's chassis, if you do choose to electrify the Velocity product lineup?

Daryl Adams: So I think there was 3 questions in that last question, so let me try to answer them. Yes, we can electrify the F2, the F3 and the M3 and we don't have to wait for the OEMs to come out with their product. We can use a third-party to electrify those, and you're probably getting ahead of us a little bit. But that's probably something that we're going to be talking more about as we move forward into 2021.

Mike Shlisky: Okay. Well, thanks very much. I will leave it there. Appreciate it.

Operator: Matt Koranda of ROTH Capital.

Matt Koranda: I guess implied in your commentary on the sequential backlog increase in fleet vehicles suggests that you may have had order flow approaching 100 million. So I was just wondering if you could speak to whether that's accurate. And then also maybe on the composition of that order flow, it sounds like you guys are alluding to it mostly being partial fleet, which I'd assume is mostly walk-in van. Was any inclusion of Velocity product in that October order flow as well?

Jon Douyard: This is Jon. Yes, I'd tell you, your math is close, probably a little bit less than the number you stated. And what we saw is probably mostly on the parcel side, also on the walk-in van side of the business. I think as we continue to have very good discussions with customers on the Velocity and hopefully, we'll have something here shortly. But there's nothing in that backlog increase in October related to that Velocity increase -- sorry -- related to backlog increase.

Matt Koranda: Okay, very helpful. And then just usually -- the normal seasonality, I believe, to your parcel fleet's sort of order flow tends to be more balanced toward the Spring. So I'm just wondering, as you get orders kind of toward the end of the year here, how does that impact your view, or your expectations, as we head into early 2021 when you would normally get the normal course orders?

Daryl Adams: Yes, Matt, this is Daryl. Good morning. I think the Covid delayed some of the ordering in Q2, as we discussed, and we're seeing some of that come through right now. And the other factor that we're right now currently unable to weigh is what does the Velocity mean in 2021, right? So if we even go back to 2019, we had some restrictions in late 2018 with chassis due to a various number of reasons. And I think at that time, if you go back and check, I discussed that. We're going to develop additional Class 3 chassis that will not put them in a situation again.

So I think it's very timely that as e-commerce continues to accelerate a nice CAGR rate, and then you have Covid have an inflection point into that trajectory. I think the traditional walk-in van suppliers like Freightliner and DCP or the Ford chassis, are going to struggle, especially with motorhome continuing to accelerate or have good numbers. So with us bringing out the F2, the F3 and the Mercedes Sprinter M3, we give the customer 3 more chassis to pick from, not that they're unlimited supply, right, but at least gives them options that run much faster.

The Transit Cutaway is running probably 60 units an hour out of Kansas City; Sprinter is probably a little bit less. But they're higher volume than Freightliner or DCP would get. So then we're looking at probably Q1 maybe to bring out the R2, which is going to be the Dodge Ram Class II, which is going to be also in the Velocity family. So we'll actually give them 4 more chassis to be able to buy on, and these are purpose-built walk-in vans, so very similar to a walk-in van from Shape, except that it's double the fuel efficiency of a traditional walk-in van. And it's smaller and easier to get around the city.

So we see that with Covid and the delivery customers at peak, basically since March and running the holiday season, that this may be a trend of the future at this level. And they're going to need to fill out their fleet. So we're excited about orders coming here at the end of the year and into 2021.

Matt Koranda: Very helpful, Daryl. And I think that fits well with what I was going to ask next, which is could you speak to maybe your ability to fulfill from the FVS backlog of 2021. Obviously like the gaiting factor typically historically for your guys has been chassis availability but it sounds like at least, if you were to get a strong mix from the Velocity platform, that chassis may no longer be the large constraint on your ability to book open backlog. And so just curious as to maybe if you'd speak to capacity and utilization there, and then how quickly we can fulfill next year if we do see sort of maybe a bit of a backlog of orders, so to speak that flows through from the parcel fleet guys next year?

Daryl Adams: Yes, I'll take it again, Matt. So again, I think we go back in history a little bit and talk about our strategy, which was to build out the footprint we have, and have a model plan, if you will. So I'm going to tell you, the model plan isn't fully based, but right now, our footprint is nicely situated, and we have the ability, right? So right now, we're building truck bodies in Pennsylvania and Michigan and California. We have the ability to move truck body out of Michigan and open that plant up to build Velocity, right? And then we have some space in South Carolina that we can move around in order to build Velocity down there on the Mercedes chassis. We're currently looking at additional space opportunities in Kansas City that'll help us build the trend.

So we have flexibility to move other product around, and open up some space to build the Velocity, which we're pretty well down the path and ready to pull the trigger here probably in Q4 sometime to start that move.

Matt Koranda: Okay, very helpful, Daryl. And I'll jump back in queue, guys. Thanks.

Operator: Steve Dyer of Craig-Hallum.

Steve Dyer: Heck of a quarter. Congratulations. As it relates to sort of the implied Q4 guidance, I understand kind of mix shift and holidays and some things like that kind of working against you from a margin perspective. Just what it implies for revenue and volumes, it seems a bit more severe than it typically is. And I'm trying to sort of gauge how much of that is just your trademark conservatism versus anything else you may see. I don't know if you're constrained from a labor perspective or I think it should be generally better revenue opportunities in upfit. But maybe some commentary there?

Daryl Adams: Yes, I think on the revenue side of things, I think Q3 was a fantastic quarter, particularly in the FVS business. And if you think about the leverage they were able to get and the volume they were able to get out and respond to customers and pull in demand, things were sort of hitting on all cylinders from that perspective. Part of that was -- the mix was in products even where we were able to deliver on fleet volume, and so consistent trucks going down the line would shift a little bit into Q4 where we have sort of more varied backlog.

So being able to sort of change the lines and change customer builds and specs and those types of things are impacting some of the output and differences between Q3 and Q4, as we again brought volume in to satisfy customer demand ahead of the peak holiday season here.

Steve Dyer: Okay. In terms of the incremental backlog, the big boost you saw in October, just kind of curious if that -- sort of maybe the composition of that, how concentrated that was, or was it a couple of big customers? Was it fairly [inaudible] any color there?

Daryl Adams: Yes, Steve, I'll take it. We saw it from, I'd say, a couple of the smaller parcel delivery companies out of maybe, say, the top 4. So we were -- again, the conversations we're having with the 2 bigger ones, we're excited about them. And I think as I said before, we're looking to have something before the end of the year out of both of those guys. So it was none of the big guys -- it was mainly the smaller ones -- which they're grabbing as much volume as we can get, right?

So I think that's what you're seeing right now is the race to see who could lock up the chassis going into 2021. So there's a little bit of a race going on. And I think there's some horse-trading and some big negotiations with the OEM chassis manufacturers that all the big players are talking to on the parcel and e-commerce delivery.

Steve Dyer: Got it. That's very helpful, Daryl, thanks. A question just kind of on labor. You were sort of recently quoted in saying you want to add something like 10% to your workforce over the next year or so, sort of in anticipation of this demand. Has that -- and I know you've had a lot of hiring fairs and so forth. Has that been a constraint at all? Your Q3 results would suggest you're doing just fine and having success there. But do you anticipate that being a constraint at all going forward, or you're having good success?

Daryl Adams: No, I think, Steve, we've shown good success, as you mentioned, in Q2 down at Bristol. And the increase that I talked about was company-wide, so as you can imagine, it's probably not going to be at Bristol. That's when I talked about Michigan a little bit and probably into South Carolina. And both of those locations, we feel we have the ability to hire the headcount we need. The real constraint we have is down at the Bristol location due to the motorhome business humming along pretty good. But again, we've been successful getting that second shift started and able to move the product out for Q3. But the hiring is probably going to be not in Bristol.

Steve Dyer: Okay. Got it. Lastly for me, I guess, just kind of a two-part question and it relates to capital allocation. You're generating a ton of cash and a lot of options for places to put it, whether it's -- it might be you have a cheap stock, you can buy back stock, you can make acquisitions, you could pay down the debt, all of those types of things. But how do you sort of thing about the allocation of that capital for greatest return?

And then as it relates to acquisitions, you've done kind of two-prong. One has been sort of buying capacity around the country, or expanding capacity, and the other has sort of been, I guess what I'd call, horizontal acquisitions, whether it's Strobes or DuraMag or Royal. Any sort of color on how you think about that capital allocation and acquisition opportunities going forward? That's it.

Jon Douyard: Yes, I'll start on here and maybe Daryl can add some comments. I think to your point, we're in a solid position from a capital allocation standpoint. Our cash flow certainly picked up here in the second half of the year and we expect that to continue. We continue to have a pretty solid pipeline, I think, from an M&A perspective, and we feel that there are opportunities to drive accretive returns through that. And we feel like DuraMag fits squarely into that equation, and there's other opportunities out there that will be similar.

And then I think we continue to discuss internally growth investments. As we think about Velocity launch, or as we execute a Velocity launch as well as other expansion opportunities, we feel like there's the opportunity to sort of accelerate organic growth both from a footprint perspective, to Daryl's points, but also from a footprint perspective, a product perspective and potentially and technology perspective. And so those are certainly high on the list.

And then from a buyback perspective here, specifically to your question, we've got 800,000 shares available under the current authorization, and we certainly understand that. So have you got anything on the acquisition side?

Daryl Adams: No, I think, Steve, we're always looking for that third leg, but right now, it seems there's a lot of PE money out there that may be paying higher than what we'd be willing to jump into. So we're beginning to look. We still have our pipeline meetings every Friday, and if something nice comes along, we'd be very interested. Again, I think we talked about the leverage ratio at being 0.5 here internally and I think we'll be comfortable somewhere at 2.5. So we can do a sizeable deal if the opportunity comes to the top of the table.

Steve Dyer: All right. Got it. Well done, guys. Thanks.

Operator: Steve O'Hara of Sidoti & Company.

Steve O'Hara: Just on the e-commerce shift, I think Goldman or somebody had noted that -- I think previously, they had noted, or they thought it pulled forward by a few years, and I think the most recent was more like 5 years or something like that. Can you talk about what that might do to the demand environment maybe in the medium term? So if the e-commerce growth was expected to be 10% CAGR, but now you've kind of leapfrogged a few years forward, and now you've got to kind of catch up to that. Does that imply that the medium-term, there's a significant order book out there waiting, or are they kind of meeting that need with some other method?

Daryl Adams: Yes, good question, Steven, and I'll tell you what we've learned since the last conference call where we talked about the conversations we're having. And the big parcel delivery companies are trying to figure out what the volume is going to remain after Covid. And I think the Goldman Sachs article or report you mentioned, I think Morgan Stanley came out with one late last night that's all positive in the parcel delivery space from a demand -- especially with the brick-and-mortar stores closing.

And I always go back to even before Covid, e-commerce was on a 14% to 18% CAGR rate, depending on which company report you looked at. I think if we take Goldman Sachs, which was 14% CAGR rate year-over-year, they didn't put a term on it. And then with Covid, they said it increased 6 points -- sorry -- 8 points up to 22. That's the one you're referencing that pulled forward.

Something that you have to consider, and we're trying to understand that right now, is with the acceleration in parcel delivery and the vehicles needed, and they've been doing that now for about 2, 2.5 years, the replacement cycle is going to be accelerated due to the more parcels that it's delivering. So if the walk-in vans would've been a 15-year life, I think will all the increase in parcel delivery, that's going to shorten. And then if you look at the cargo vans that are running around in the Class II space, those are thinking maybe a 5 to 7 and those are going to shorten as well.

So not only do we have the CAGR rate on the parcel going up, we also have to add on top of that the replacement cycle that's going to come sooner. So in the next midterm to longer term, I see continued growth in this market. And look, it may go up and down a little bit if Covid does totally go away, but we're coming into that holiday season and the more I read, just more people are going to not go to the stores and continue to shop online. So the longer that drags out, I believe the muscle memory is going to be harder to come back to what it was before Covid.

Steve O'Hara: Yes, I think that makes sense. And then maybe just on the RV side -- maybe I missed it -- but the backlog I think increased pretty nicely there as well year-over-year at least. And would you characterize that as more demand, or share gains there? Maybe how do you flesh that out a little bit?

Daryl Adams: Yes, that's a good question. We didn't actually talk about that; we talked about the backlog side. It's both, so some of it -- and when I have two options, I usually say they're 50/50. So I'd say that increased volume is split between two. One is the demand and one is because we're exclusive on more products with our customers, so it's both.

And I don't know, maybe Jon or someone else has a percentage better than 50%, but I think we're adding in, I think, it was 3 different models we gained exclusivity on with one of our customers. Then you have the natural increase due to people want the RV versus air travel and stay in hotels, so it's split down the middle on both of those.

Steve O'Hara: Okay. And then maybe on the EV side, I guess the election is still kind of undecided at this point. But is there a thought about what a Democratic president might mean for the EV side? It seems like the opportunities may be more on the West Coast now, but you see that growing a little faster. And is that good or bad for you guys long term?

Daryl Adams: Yes, Steve, another good question there. I think we always go back to our strategy where we have a national footprint now, if you look at the product lines, we've always said that we want to bridge that gap on the EVs until the OEMs have a product available. And I think at the time, or the times, that we've talked about it, I've also said we're not sure when it's coming, but we want to be ready, right? So there's a lot of variables in the economy, right, both micro/macro and the government subsidies, different states.

We can't plan for everything, so what we want to do is make sure that when we are doing our strategy, that we're ready whether it's -- it's not fair, I don't think, fair to our investors to say, well, we're just going to wait for the OEMs to have their chassis in 2022 or 2023 and miss that opportunity. So that's why we bridged the gap just in case something like what you're describing happens, or just in case another state gives more subsidies to the EV product. So what I'll tell you is we're ready regardless of what. We can do it in any of the 10 states that we operate in today; we can do the conversion from ICE to EV at all of our locations.

Steve O'Hara: Okay. All right. Thanks a lot for the time, appreciate it.

Operator: Mike Shlisky of Collier Securities.

Mike Shlisky: Hey, guys. thanks for taking these extra questions here, and I want to follow-up on the last two questions. On the EV story here, I recall seeing you actually announce that you are starting to supply several parcel companies with your initial orders of EVs from Utilimaster, if I'm not mistaken.

So I guess I want to know how it's going, but I kind of want to know more broadly, there are some other startups in the EV walk-in van space, more than one. And do you think any have kind of made any schedule inroads thus far? And I also want to know if you're -- even if it's converted, if your EV walk-in van is priced competitively with folks who try to make theirs inroad facility from the ground up.

Daryl Adams: Mike, I just want to make sure I'm clear, right? The Shyft Group doesn't take anything for granted. So every time a new player comes in the space, we gain as much due diligence as we can -- frankly, even talk to them, right, because as I mentioned before, a lot of the EV startups are great at inventing, but they lack some skillset in actually building the product.

So we're talking to them, even the ones that are coming in. We continue to talk to -- I hate to put a number out there, but more than a handful of companies that we're working with have arrangements with, agreements with, to build product, so that we're all over just making sure. Again, we want to stay in our swim lane; we don't build ICE chassis today and we're not going to get into the developing an EV operating system. We can use somebody else's. But we are really good at either contract manufacturing or assembly, and that's what we're talking to them about.

As for how are the customers evaluating [technical difficulty] we're getting great feedback from them. We're making a couple of changes on some of the vehicles that we put out there. And I think it's going to be -- if they want them, we'll be ready to supply them. And that's still the problem, right, that Steve talked about is I think if the election goes one way or the other, there will be probably more EVs required around the country. Not sure at what point that'll start, or it stays the same as it is today where really, it's only California.

So again, we want to be ready at [any] locations, and if you look at our Class I through VI, there's none really that we can electrify. We're ready and we're positioned to answer the call if we get it from our customers.

Mike Shlisky: And just to tie a bow on the answer there, so I guess you've got pretty good volumes in general across your facilities. Can you maybe compare your pricing and your ability to deliver a good-priced product with some of the startups that might be out there? Are you able to provide, even it's just converted, which is nothing wrong with that, a competitively-priced EV at the current time to these other folks?

Daryl Adams: Yes, we believe we've done the price analysis, Mike, and I think some of the people that are offering product options at a certain price, maybe a little optimistic on being able to achieve that price when you start adding it up. And I think their price may take the incentives into account, so that's some of the things you have to try to uncover or unwrap as you're looking at pricing. But we feel our vehicles, especially when we can do them at our current plant and our overhead is obviously going to be lower because we cover it with our traditional vehicles. We think we can be as competitive, more competitive, with them.

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

Juris Pagrabs: Thanks for joining, everyone. And to learn more about The Shyft Group, we plan to keep you updated on our progress on a regular basis. Next week, we are participating in the Baird Virtual Conference on Wednesday, the 11th. I think there's a few slots available if you want to check with them. Again, thanks for participating, and have a great day.

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