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Officers and Speakers
Juris Pagrabs; Director, Investor Relations, Treasurer
Daryl Adams; President, Chief Executive Officer and Director
Jon Douyard; Chief Financial Officer

Analysts
Mike Shlisky; Collier Securities
Steve Dyer; Craig-Hallum Capital Group
Felix Boeschen; Raymond James
Steve O'Hara; Sidoti & Company
Matt Koranda; Roth Capital

Presentation

Operator: Good morning, and welcome to the Shyft Group Fourth Quarter and Full Year 2020 Earnings Conference Call.

[Operator Instructions]

Please note this event is being recorded.

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

Juris Pagrabs: Thank you, Andrew, and good morning, everyone, and welcome to The Shyft Group's Fourth Quarter and Full Year 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 the website to follow along with our presentation during the call.

Before we start today's call, please turn to Slide 2 of the presentation for our safe harbor statement. You should be aware that certain statements made during today's conference call, which may include management's current outlook, viewpoint, predictions and projections regarding The Shyft Group and its operations, may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. I caution you that, as with any prediction or projection, there are a number of factors that could cause The Shyft Group's actual results to differ materially from projections. All known risks that management believes could materially affect the results are identified in our forms 10-K and 10-Q filed with the SEC. However, there may be other risks that we cannot anticipate.

On the call today we will provide a business update before moving on to a more detailed review of the results and our outlook for 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 this past year, 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, the results discussed today will refer to continuing operations, unless otherwise noted.

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

Daryl Adams: Thank you, Juris. Good morning, everyone, and thank you for joining us to discuss our fourth quarter and full year 2020 results.

While 2020 has been categorized by many as unprecedented and challenging, for The Shyft Group it was historic and transformational, as we strategically aligned our product portfolio toward more profitable growth markets, starting with the sale of our ER business. The Shyft team showed immense resilience, and I could not be more proud of their hard work and tremendous effort as they executed on our strategy and delivered a remarkable year.

We invested in innovation with the launch of Velocity, our purpose-built walk-in van vehicle, and in supporting our customers' growing interest in transitioning to EV technology. We continued with our M&A initiatives, completing our key acquisition in 2020 that expanded our product offerings in the service truck body market. We strengthened our leadership team and added key positions throughout the organization to support our growth, as well as adding several highly qualified directors to our board.

As we continue to evolve, we are optimistic as we enter 2021 and are more prepared than ever to proactively address opportunities, prioritizing the needs of all of our stakeholders in a way that reflects our goal to be nimble, aggressive and positioned to win. We have emerged from 2020 in a stronger position and are well equipped to drive growth across our businesses for years to come.

Please turn to Slide 4, where I'll discuss the current environment. Consumers continue to embrace e-commerce at accelerated rates, driving increased demand in parcel delivery and establishing a new normal for delivery capacity. This demand has required our customers to increase their delivery vehicle fleet size, which is reflected on our backlog as we ended 2020 with nearly $500 million, up 40%, which provides us with good visibility as we head into 2021.

To help our customers meet this growing demand, during the fourth quarter, we began taking orders for the Velocity F2, a purpose-built walk-in van design with a Ford Transit Class 2 chassis. This innovative new vehicle is an ideal solution for parcel delivery fleet operators that want to expand their fleet and delivery capacity quickly and complements the Velocity F3 and M3 vehicles, providing our customers alternative solutions to meet their needs. And in January, we announced Velocity F2 orders totaling 3,000 units from several customers for delivery this year. We are scheduled to begin delivering on these orders later this month from our newly upgraded, flexible manufacturing facility located in Charlotte, Michigan.

The adoption of this vehicle is a great example of our work-driven design methodology, where we listen to our customers' needs, design, engineer and implement a solution. In this instance, our engineers hit it out of the park, as we've fulfilled our customers' demand for a more versatile and efficient delivery vehicle.

We continue to make investments in support of our flexible manufacturing strategy, which allows us to expand product offerings geographically and to rebalance our infrastructure to support higher levels of growth over the long run. We are introducing truck body manufacturing in Kansas City and service body capabilities at our Florida and Michigan locations, which includes the addition of a new chassis pool. We continue to expand our EV capabilities and continue to invest in this area to proactively address our customers' mandate to advance adoption of green vehicles in the last-mile-delivery segment. To that end, we are excited about the progress the OEMs have made; in particular, the Ford Transit BEV coming out later this year.

I'd like to take a moment to address what we are seeing with respect to the availability of semiconductor chips used in vehicle manufacturing, which has been heavily publicized recently. To date, we have seen very little impact on our operations. However, it may be a bit too early to assess the full impact of these shortages, and we will continue to monitor and keep you apprised of changes.

Our luxury motorcoach business continues to perform well, benefitting from the resurgence of the RV industry, as did our service body business, resulting from the Royal Truck Body and DuraMag acquisitions, ramping up nicely since the peak of the pandemic. The team at DuraMag, which we acquired last October, hit the ground running, and our integration efforts are well under way. We quickly partnered with their management team to make improvements in production flow and it has resulted in additional output and cost reductions. Together with Royal Truck Body, we continue to be excited about the value creation opportunities these companies provide.

With that, let me take a moment to summarize our full year results on Slide 5. For 2020 we posted solid results despite the significant impact of the pandemic. Once again, our results demonstrate the success and effectiveness of our business transformation strategy, which encompasses growth in higher-margin product offerings within our core markets, increasing market share within our expanding geographic footprint and ongoing productivity improvements within our operations. Revenues for 2020 increased $10.9 million, or 2%, to $676 million, excluding the UPS order. Adjusted EBITDA for the year increased $12.3 million, or 19%, to $76 million, and our adjusted EBITDA margin improved 280 basis points to a record 11.3%, clearly reflecting the power of our business transformation efforts.

With that, I'll turn the call over to Jon to discuss Shyft's financial results for the fourth quarter in more detail, as well as provide our 2020 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 fourth quarter.

As Daryl indicated, 2020 was a fantastic year for The Shyft Group. While our fourth quarter financials declined year-over-year, our performance exceeded our expectations. We generated significant cash flow from operations and saw an increase in orders that resulted in a sizeable year-over-year backlog increase, positioning us well as we entered 2021. Revenue for the fourth quarter was $171.6 million, down slightly from the year-ago quarter. Income from continuing operations was $8.3 million, compared to $14.3 million a year ago. Earnings per share from continuing operations was $0.22 per share, compared to $0.40 per share in the fourth quarter of 2019.

Turning to Slide 8. Q4 adjusted EBITDA from continuing operations decreased to $16 million from $23.6 million, while as a percentage of sales, adjusted EBITDA from continuing operations declined to 9.3% of sales, compared to 13.1% of sales in the same period last year. For the fourth quarter, adjusted net income from continuing operations was $10.1 million, a $6.4-million decrease from $16.5 million a year ago, and adjusted EPS from continuing operations was $0.27 per share, compared to $0.47 per share at this time last year.

Next we'll jump into results by operating segment. Let's begin with Fleet Vehicles & Services on Slide 9. Our FVS business posted solid results for the quarter and full year while working closely with customers in a dynamic environment that ultimately resulted in significant order activity. FVS generated total revenue of $112.4 million, compared to $132.5 million a year ago. The decline was primarily due to lower cargo van upfit volume. Truck body revenue was also down versus a year ago but improved sequentially, as expected, following pandemic headwinds in the second and third quarters. In addition, it's important to note that fourth quarter revenues were also impacted by the acceleration of vehicles into Q3 as we supported our customer demand, which we discussed in the prior call.

FVS adjusted EBITDA declined to $16.6 million from $21.1 million a year ago. On a percentage basis, adjusted EBITDA margin decreased 110 basis points to 14.8% of sales, driven by lower volumes and product mix, as well as investments required to support the increase in volume expected in 2021.

Our backlog position was incredibly strong as we closed out the year. The pickup in order activity that we noted on our Q3 earnings call continued throughout the quarter, resulting in a record backlog of $427 million, which was up 40% versus prior year.

Please turn to Slide 10 for the Specialty Vehicle segment overview. Specialty vehicles had a good finish to the year as well, with the second consecutive quarter of strong double-digit growth in motorhome and the completion of the DuraMag acquisition. Similar to our FVS business, we saw favorable commercial demand that positions us well entering 2021. Sales of $59.2 million, an increase of $11.8 million, or 25%, was primarily driven by a 30% increase in luxury motorcoach chassis volume, as well as the addition of revenue from the DuraMag acquisition, partially offset by lower contract manufacturing volume and lower Royal Truck Body revenue due to the impacts of COVID. Organically, the business grew 8% in the quarter.

Adjusted EBITDA was $6.9 million, or 11.6% of sales, compared to $6.9 million, or 13.9% of sales, in the same period last year, as cost productivity was offset by the unfavorable mix impact of higher motorcoach volume, integration-related expenses and lower efficiencies due to COVID.

SV backlog was up 67% to $51 million, which included strong growth in motorhome chassis backlog as well as the backlog from our service body acquisitions.

Please turn to the liquidity and outlook update on Slide 11. Throughout the year, the team did a fantastic job managing cash flow and investing in our future. We generated $66 million of cash from operating activities, ending the year with $21 million of cash on hand and $147 million in total liquidity. We paid down $65 million on our revolving credit facility. Our current leverage ratio stands at 0.4x adjusted EBITDA, which positions us well to fund our operations and to continue to invest in our growth strategy. We also returned $11 million in cash to our shareholders in 2020 in the form of a regular dividend and the repurchase of 300,000 shares. We have subsequently purchased an additional 100,000 shares in Q1, taking our total purchases to 400,000 shares over the last four months at an average price of $27 per share.

We are extremely proud of our overall performance given the significant challenges we faced this year. As we enter 2021, our backlog is solid and we are increasingly optimistic regarding the underlying strength of our end markets. Given these factors, we are excited to introduce our 2021 guidance. We expect to see significant growth with both revenue and profits up approximately 30% year-over-year, with revenue in the range of $850 million to $900 million, adjusted EBITDA of $95 million to $105 million and adjusted EPS of $1.65 to $1.85 per share. To support this growth and our future production needs, we expect CapEx for 2021 to be in the range of $20 million to $25 million as we plan to make additional investments for Velocity vehicle production and to support other growth initiatives.

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

Daryl Adams: Thank you, Jon. Despite the many varied challenges 2020 brought, we had an incredibly successful year. I want to reemphasize how proud I am of the hard work, dedication and commitment to excellence demonstrated by our team throughout this unusual year. When we faced an adverse economy, within an environment characterized by fear and uncertainty, our team rose to the occasion. This week, in recognition of their hard work and relentless commitment to the business and our customers, we awarded all of our employees a special $500 bonus.

As we move into 2021, we are excited about the power and earnings potential of our newly transformed and evolving company. We will continue to invest in new products and markets with increased focus on EV, in response to our customers' requests in the last-mile-delivery space, and we will make prudent choices on M&A opportunities that will deliver shareholder value for years to come.

With that, operator, we are ready to take the Q&A portion of the call.

Questions & Answers

Operator: [Operator Instructions]

The first question comes from Mike Shlisky of Collier Securities.

Mike Shlisky: So I just want to get a little color on the very near-term outlook here in the first quarter, largely on the margin side. Actually, on both the revenue and the margin side. Are there any concerns we should be thinking about as far as the price of steel in the near term, availability of chassis from any of the OEMs in the kind of near term, or do you think this will be somewhat normal seasonality for you this year?

Jon Douyard: Yes, I think -- this is Jon. I think as we start off the year, I would expect normal seasonality. I think the Q1 will look somewhat similar to Q1 of last year. In terms of aluminum and steel pricing and commodity pricing in general, we certainly are monitoring this on a regular basis. We have, I think, discussed in the past, talked about inflation on the labor side of things as well, which will be a bit of a headwind for us this year. But on aluminum in particular, we feel like we're in good shape here, certainly through the first half of the year and out into the second half of the year.

I think from a chassis perspective, we've seen little impact, I think as Daryl noted. We'll continue to stay close to it with our customers, but we don't see any short-term impact here in the first quarter or probably in the first half.

Mike Shlisky: Great, thanks for that. Can we switch over to the -- some commentary on the EV market? I'm just kind of curious if -- at this point, you're offering both, in certain models at least. I'm kind of curious: What are some customers telling you about their desire to adopt EVs in 2021 in general, and do you think that we're at any kind of tipping point or changeover point over the next couple of quarters?

Daryl Adams: Yes, Mike, this is Daryl. I'll take this. I think we're going to stay consistent with what we've talked about in the past. We believe that EV is coming. I think there's been some recent changes by some of the OEMs on how they'll allow conversion of their ICE vehicles to EV that I think is going to have a little bit of a problem for some of the EV startups, but we're still in a good position. We continue to have requests from our customers, and they continue to get stronger to -- for us to play a bigger role in EV on their vehicles because they're not seeing -- or they're not having anyone meet their needs in the market today. So I think over the next, probably, three quarters or so, maybe by the end of the year, we're going to continue working with our customers and understand their needs more closely and understand what they're not seeing. I mean, we have a good idea, but we're looking for some type of a partnership with them if they want to get serious about it with us.

Other than that, we're still offering all the products we have. We're excited about the Ford Transit BEV and I think it's playing out as we expected.

Mike Shlisky: Okay. And then just switching over to the Velocity, I have two: I just want to get a feel for if -- you've got some orders from it now; are there orders that you're not getting on a different product, or is this more of a white space for you? And I'm just kind of curious also, what's the capacity of that vehicle compared to the F3 or other categories that you currently offer? Could it pull from your primary cargo van business with that Ford Transit?

Daryl Adams: Yes. I think, Mike, the -- we're excited about the orders. We're excited about -- continue to be excited about conversations we're having. The vehicle is not cannibalizing any other volume we have that we've seen, and I think you can see that in our backlog, right? It's additive in all respects, and the capacity in that facility, we have another shift we can add on if needed. And if it continues to accelerate from there, whether it's the Velocity, whether it's our walk-in van or it's the upfit we do, I think the team has proven in the last three years that we are flexible, we can adjust with our customers' needs and we can do that better than anybody in our space, and I think we've proven that.

So we will -- if we need additional volume, we have locations. We talked about some of the things we're doing, moving service body down into Florida and then moving truck body into Kansas City, right? Which is all based on our backlog and the increase we're seeing. So our move years ago, probably three or four years ago, to start building flexible manufacturing facilities is starting to reap its benefits right now.

Operator: The next question comes from Steve Dyer with Craig-Hallum.

Steve Dyer: FVS backlog was up pretty significantly sequentially; is there any sort of large customer or overwhelmingly large order in there, or is it fairly well spread out?

Jon Douyard: Yes, I think the -- we probably won't get specifically into customers, but I think a big driver is that -- was the Velocity order, which was in the backlog at the end of the year. And to Daryl's point, we saw the incremental volume from that and it's reflected in that number.

Daryl Adams: Yes, Steve, I'd also say that I think you're -- we talked about it, and there's a lot of questions due to COVID in Q2 and Q3, and I think some of our investors were frustrated by us saying, hey, we're meeting with them, they're going to come, and I think the backlog is showing what we were talking about, is it's coming. And I think there's -- it's just, they continue to understand the market and how people are going to continue to buy online. I don't know about you, but I saw more rental vehicles being used by our FedEx, UPS, Amazon and others as delivery vehicles this year than ever before, and we've heard that from them as well, so the order -- the backlog is dispersed. I think we're seeing it from at least two of the bigger delivery customers, and we're in some talks with a third on some things for this year.

Steve Dyer: Got it. And then any update -- I know you've, I think, been piloting some things around food delivery with a refrigeration unit on them, et cetera; anything new to report on the food delivery piece of things?

Daryl Adams: Well, we continue to refine our product based on customer feedback, working with different companies to try to give them the most economical and efficient refrigeration unit they can get with -- to their specs, and I think, as I've talked before, this is the new space. And it's just going to take a little bit longer to understand exactly how they're going to use the vehicles, so we're continuing to have dialogue and supply different rev levels of vehicles to have them test.

Steve Dyer: Okay. And you touched on the flexible manufacturing; just kind of curious, as you look at your capacity, both in terms of raw amount of capacity and what you have and where in the country you have, are you still looking to sort of add there? I know you've kind of put a ring around the country in the last two, three years, but where are you as it relates to additional capacity geographically?

Daryl Adams: I think if you go back and look, we've added capacity in Florida with another facility, we've added capacity in Kansas City, we made an acquisition up in Maine with F3, we moved some things around in Charlotte to give us some space for Velocity, so I think -- it's a very good question, because right now I think we are pretty much out of space, so the next move would have to be some type of an additional facility, and that's some of the capital that we're expecting to have this year as volume continues to grow.

Steve Dyer: And then just lastly from me, and I'll hand it over: As it relates to acquisitions, you still sort of have your eye out for the right strategic fit? Or any color there would be helpful as to sort of your appetite.

Daryl Adams: Yes, we -- yes, I think everybody understands that last year was a little slow, and this year we're starting to see more activity. We're still looking for the third leg, if you will, larger acquisition, but there are a number of ones that we're actually just -- actually, we were close to one and then decided that it wasn't the right fit right now. So we moved away, but there's plenty on the table that we're looking at, and look forward to some more activity before the end of the year.

Operator: The next question comes from Felix Boeschen of Raymond James.

Felix Boeschen: I was just hoping to start with a quick point of clarification. The backlog number in fleet vehicles was obviously very, very strong. Just to clarify, was the full 3,000 Velocity order included in that backlog number as of 4Q '20?

Jon Douyard: That's correct.

Felix Boeschen: Got it, okay. And then maybe just one last question on the Velocity, Daryl. I mean, from a bigger-picture standpoint, can you just talk to us a little bit about the shift toward lower vehicle sizes, specifically in the parcel market? I think it's been happening for a while, but it seems like that should be a big tailwind for the Velocity. Just curious if you could update us on how customer conversations have tracked kind of over the first three months of the year here.

Daryl Adams: Yes. And good question, Felix. It actually started right after we rolled this out, helping them understand the benefits. We've talked before that the fuel efficiency is double the typical Class 4 walk-in van, and the payload is very similar in size. So it's a really nice fit in the Class 3 space, that Class 2 space, versus a cargo van that has a limited space capacity for payload and cargo volume, and that was the feedback we received from our customers early on when we were developing this, which -- the engineers, honestly, they did hit it out of the park with this. Great value. And the vehicle is flexible. We've actually had some requests to lower the height of the vehicle inside, and it's a simple change for us, lower the roof a little bit to get some more aerodynamics and maybe move into some vehicle tightness that they might have in an area of the country, and it was a quick change for us. So it's -- look, again, the engineers did a really nice job designing this. It is -- maybe I should say flexible, when it's adjustable where needed to be. So it's an exciting new vehicle for us.

Felix Boeschen: Got it. That's helpful. And then maybe switching to the margin side a little bit, as we think about the '21 outlook, I know there's quite a few moving pieces in the P&L; you talked about very little impact on the chip side so far, but Jon, curious if you're baking in any sort of supply chain drags into the guide. And then if you could maybe help us out a little bit on temporary cost cuts, how much you anticipate rolling back into the P&L this year as maybe we see T&E and travel come back online?

Jon Douyard: Yes. So as we -- I mean, as we look at sort of year-over-year headwinds from that perspective, we did take out about $2.5 million of short-term countermeasures in the second quarter. As you think about how that flows into 2021, that's really offset by some of the restructuring benefits that we did. And I think on top of that, we saw our healthcare expenses decline in 2020, and so there will be -- we're estimating about $4 million of headwind related to healthcare expenses. We've also got increase through the wage inflation and the increases in the hourly labor rate, particularly as we're trying to ramp pretty significantly in a number of our facilities, as you've probably seen from some of the press releases and social media activity that we've had.

And so those are headwinds, as well as getting essentially a business off the ground with Velocity. We started investing in that in Q4, and we will continue to invest in that here in the first part of the year to be able to hit the volume levels that we anticipate going forward. And so as you look at those items, we are -- if you look at the midpoint of the guidance, we're showing some slight margin expansion there year-over-year. But there certainly are cost headwinds from that perspective as well.

Felix Boeschen: Okay, that was super helpful. And then just my last one: You briefly touched on it, but in your presentation, you guys talk about a little bit of expanding the network from the facility footprint. Could you talk about the other point of -- the side of capacity, specifically on labor? How is that tracked? And has it been a constraint to production, I guess, is my bigger question?

Daryl Adams: Yes, this is Daryl, Felix. It has not been a constraint to production. The HR teams at locations that are hiring are still pushing job fairs and having good attendance to them, so right now we don't see it hindering us at all. As we move through the ramp and the volume increases, we'll continue to monitor. Right now we're -- the HR teams are doing a great job, along with the ops teams, interviewing, training and getting new people on the floor.

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

Steve O'Hara: Just maybe on the CapEx, I mean, it seems like a pretty big increase for 2021. So I'm just curious how you think about it maybe going forward. I mean, is this something where you're building out facilities that can be used longer-term and then CapEx drops back, or is CapEx kind of a step function change?

Jon Douyard: No, I think it's -- I'd say it's a year of investment to meet the -- what, 30% increase in the top line here. Certainly the Velocity is the largest piece of that, and we're, as Daryl talked about, basically launching a new facility designed specifically for that line to accommodate the volume levels. We're also -- we talked about Kansas City expansion into the truck body markets, and so there will be some investment associated with that. And so there's, I'd say, two or three larger investments that we need this year in order to support the volume increase, and we should see the benefit to that, that capacity, as we move forward into '22 and beyond.

Daryl Adams: Steve, I'll add a little bit more internally. We're adding -- we're buying lasers at a number of facilities, along with some fabrication equipment, in order to continue to optimize the purchased parts in make-buy. And the teams are doing a really nice job with getting these launched and we're seeing a payback in less than a year, so that's some of the additional capital that -- besides the facilities part that Jon was talking about.

Steve O'Hara: Okay, that's helpful. And then I guess, if you think about the fleets that are on the road today, it would seem like utilization was very high in 2020. I mean, is that -- does that shorten the lifespan? Does that quicken the pace of the replacement cycle? How do you think that plays out, or -- and maybe EV takes part of that and gets factored in? Can you talk about, maybe, the replacement cycle down the road, if there's been -- you think there's been any change there in terms of where utilization was in 2020?

Daryl Adams: Yes, absolutely, 100%. We're seeing and having dialogue with customers that, for instance, the typical Class 4 walk-in van in the past has been labeled as a 15-year-life. We're seeing that, through conversations and some of the dialogue that's coming in, somewhere maybe around 12 or so. And we're seeing the cargo vans, there's a lot of the Class 2s, expectations from the customers were seven years, and they're coming in, some, at four and five, and some maybe a little bit less, depending on the routes. But -- so to your point, utilization, the amount of volume that's going through all the vehicles is going to shorten the life, and we're having that dialogue now. So we actually believe that that'll start probably a little bit maybe next year and then continue, '23 and beyond, on filling some of the replacement cycle that's coming quicker.

Steve O'Hara: Okay. And then maybe just switching to EV. I mean, I think in the past you guys have talked about staying agnostic on that side. I guess GM kind of launched their platform, and I'm just kind of curious: Is that kind of the -- do you expect that -- do you want to stay agnostic and continue to deal with everybody? And then maybe what you think -- how EV starts to build in terms of the next few years in terms of penetration? I mean, do you see it at 20% of deliveries five years from now, 50%? I'm just kind of curious how you see that playing out maybe.

Daryl Adams: Yes. I think if I could be accurate on that estimate, we'd know exactly what we were doing on EV and so would everyone else. So that's a bit of a -- I don't want to say loaded question, but it's a difficult question. So what we do, Steve, is we actually go to different outside sources, and I think we had it in our analyst or earnings deck where by 2030, some of the larger -- I think it was Bloomberg actually said they think by 2030 it might be 25%. I would have loved to have seen what they predicted for 2020 or 2021 and see how accurate they were, but -- so we don't try to predict it ourselves. We use outside sources. And that's what everybody, I think, is looking at.

But it is coming. It's going to get -- I think there's going to be some lower volume first, but to your point, of us being agnostic, I think -- I mentioned it a couple times in the script today -- that we are getting a lot of pressure from our customers. Because they're actually not seeing or receiving any vehicles that meet their needs, and I think their needs are evolving, so that's some of what might be changing our view on it, but it's going to take some more analysis and some more review.

But right now, our position is the same. We are -- we did say we're going to bridge the gap, and we're waiting for the OEMs to come out, and Ford's coming out with theirs later this year, and Mercedes will have theirs -- we believe next year is still on track. We understand that FCA/Atlantis is working on one. So eventually, right, they will be there. And I did mention that one of the OEMs stopped letting people convert their ICE engines or vehicles over to EV and maintain the warranty, so if you do that anymore the warranties are void -- voided. So it's going to -- that's new news, so that's going to create some havoc here, I think, in the EV space in the next, probably, quarter or two.

Steve O'Hara: Okay. And then just maybe within the FVS, maybe you mentioned it, but the backlog and the growth there, I mean, is that primarily kind of on the parcel delivery and -- I mean, it seemed like truck body was kind of ramping up. But maybe how you see that playing out? Is it first, meet the acute demand on the parcel delivery side, and then they have to deal with the truck body when they've kind of gotten their fleets in shape again? Is that how you see it playing out?

Jon Douyard: I would say we've actually seen pretty strong orders across all the product offerings, truck body not excluded. So truck bodies, upfit and walk-in vans have seen strength through the end of the year. Velocity was obviously a big piece of that, as we talked about. And as we look here in Q1, we continue to see sort of strong order patterns, and we continue to have good discussions with our customers about their needs. And it gets back to the point Daryl made in the script about we're operating essentially at a new normal level with extremely high rental utilization in Q4, and that's kind of normalized itself through the market. And so our customer base is really building out for that situation.

Operator: The next question comes from Matt Koranda of Roth Capital.

Matt Koranda: Just wanted to start off by maybe zooming out and then discussing the guidance at a higher level. So could you just help us understand the basic assumptions around the split between FVS and Specialty Vehicle that's in the outlook? And then how much are you assuming in terms of inorganic contribution from DuraMag?

Jon Douyard: Yes. So when we look at the guidance, we actually see -- we see strong year-over-year growth in both of the segments, and both of them are actually growing pretty much right on that target at about 30%. And there's two different dynamics there: You've got, on the SV side of the business, you've got strong tailwinds coming out of the motorhome business and you -- where we also saw, call it a softer first half. And so there's some COVID recovery in there as well as the inorganic piece to DuraMag, as you talked about.

On the fleet side of the business, it's really the expansion of products and the continued growth in the parcel delivery side of the business, but we see both strong going forward. I would say, from an organic perspective, there's probably, call it three points of that growth that's inorganic or acquisition-related, and not --

Matt Koranda: Okay, that's helpful. Thanks, Jon. Sorry, go ahead.

Jon Douyard: No, I was just going to say, not a significant contributor year-over-year given the $200-million increase in revenue.

Matt Koranda: Yes, got you. That makes sense. And then I wondered if you could just talk a little bit about the order environment currently as we're heading into the spring, because I know that FVS typically -- the seasonal order pattern generally picks up kind of heading into the spring, and I just wanted to get a sense for -- did we get pull-forward in order activity with that larger Velocity order that you guys have referenced? Or is that just additive to the normalcies now that we should expect heading forward? Just talk a little bit about the current order environment, especially for FVS.

Jon Douyard: Yes, I think it's tough to describe anything as normal given the current environments we're operating in. I think that the Velocity piece was certainly incremental. I think the dynamics last year, where we saw very slow ordering happening through the second -- late second and third quarter, there was a bit of an acceleration and pickup that's probably not aligned with historic seasonality. But to my comment earlier, I think we continue to see strong order patterns here as we are into Q1, and the customers are getting smarter about sort of fleet sizing and capacity requirements and those types of things, and we continue to stay close to them.

Daryl Adams: And we're seeing order interest on other -- all of our product, right?

Jon Douyard: Yes.

Daryl Adams: Across the board, motorhome and service bodies.

Matt Koranda: Great. And then lastly, just on FVS, I wondered if you guys could help us maybe just characterize capacity to produce, because at some point it seems like you've got a high-quality problem on your hands, which is the backlog is so large that maybe it deters order flow. But wanted to get a sense for how quickly can we ramp up capacity there? And then I know you've referenced a lot of different sort of puts and takes around what could constrain you there, but could you just put a finer point on what are the maybe one or two kind of gating items in terms of your ability to ramp up production in FVS?

Daryl Adams: Yes. I'll attempt to answer this one, Matt. So yes, I mentioned some of the laser equipment we were buying and some of the press brakes; those were down in Bristol, along with some other facilities, so that is helping some of the supply constraints that we were seeing. And obviously, getting some nice payback too. We -- as I mentioned before, right, we typically run on a shift, shift and a half, so we still have to fill out the second shift, and if we need to we can go to third.

But the team's really doing an amazing job with their Kaizen events and putting in some automation and -- in the plant to help with the throughput. We are in the middle of, right now, moving what we call our SSV vehicles, which are the heavy, heavy upfit, maybe like for the electrical companies or the power companies and sewer companies, right, for the cities. We are moving that to a different facility in Bristol, right? Moving out of the main plant to give it more room to operate with some of the orders we're getting. The only real constraint we have is -- will be paint, right? But we have a backup for paint if the orders continue to flow and get to that level, but we're a number of units away from reaching that level right now, on a daily basis, that is.

If you have another question, Matt, you might want to ask -- go ahead, sorry, Andrew.

Operator: Apologies. 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, Andrew, and thanks, everyone, for joining us today. We have a couple conferences that we're going to be participating in in the next couple weeks, Roth next week and Sidoti, still virtual. We look forward to the day when we can do this in person.

And with that, thanks for joining, and we look forward to keeping you updated on our progress throughout 2021. Thanks, everyone.

Daryl Adams: Thank you.

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