The Shyft Group

Fourth Quarter and Full Year 2022 Earnings Results

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CORPORATE PARTICIPANTS

Randy Wilson – *Vice President, Investor Relations and Treasury*

Daryl Adams – *President and Chief Executive Officer*

John Douyard – *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to The Shyft Group's 2022 fourth quarter and full year 2022 earnings conference call and webcast. All participants will be in a listen-only mode until the question-and-answer session of the conference call. As a reminder, this call is being recorded at the request of The Shyft Group, and if anything has any objections, you may disconnect at this time.

I would now like to introduce Randy Wilson, Vice President of Investor Relations and Treasury of The Shyft Group. Mr. Wilson, you may proceed.

Randy Wilson
Good morning, and welcome to the Shyft Group's Fourth Quarter and Full Year 2022 Earnings Conference Call. Joining me on the call today are Daryl Adams, President and Chief Executive Officer, and John Douyard, Chief Financial Officer. Their prepared remarks will be followed by a question-and-answer session.

For today's call, we've included a presentation deck that's been filed with the SEC and is also available on our website. Before we start, please turn to Slide 2 of the presentation for our safe harbor statement. Today's conference call contains forward-looking statements, which are subject to risks that could cause actual results to be materially different from those expressed or implied.

All known risks that management believes could materially affect our results are identified in our forms 10-K and 10-Q, which are filed with the SEC. We will be discussing non-GAAP information and performance measures we believe are useful in evaluating the company's operating performance. In addition, the results discussed today will refer to continuing operations unless otherwise noted.

During today's call, we will provide a business update before moving on to a more detailed review of the results in our 2023 outlook. We will then open the line for Q&A. Please turn to Slide 3, and I'll turn it over to Daryl Adams.

Daryl Adams
Thank you, Randy. Good morning, and thank you for joining us to review our fourth-quarter and full-year 2022 results. This past year presented numerous challenges in our supply chain that impacted our operations, but I'm proud of the team's ability to execute and close out the year on a high note, with solid year-over-year growth in both sales and adjusted EBITDA in the fourth quarter.

We built agility and nimbleness in our approach to operations. Last year, we saw the benefit of this approach as our team effectively navigated in a rapidly evolving operating environment to deliver value to our customers.

Turning to Slide 4. I'll update you on our financial summary. The team generated a record $1 billion of sales in the year, up 4%, led by growth across our specialty vehicle portfolio. After a challenging first half, chassis supply stabilized, and we saw a significant sequential improvement in profitability as our teams were able to improve output.

For the full year, profits declined as we made strategic investments in Blue Arc EV and managed through supply chain shortages that impacted operational efficiency. Overall, we achieved adjusted EBITDA of $71 million, which included $27 million of EV-related expenses.

Turning to Slide 5. I'm excited about our Blue Arc EV program. The team continues to make good progress and remains on track to our original development timeline. We continue to receive favorable customer feedback and positive results from our developmental testing, which gives us confidence that Blue Arc will help lead the evolution of commercial fleets toward zero-emission vehicles in the coming years.

Let me update you on recent results of the Blue Arc team's efforts as we prepare to commence production in the second half of 2023. In January, we completed the acquisition of XL Fleet, which enhances our capabilities to accelerate further innovation at Blue Arc with the addition of a highly talented group of engineers and technical experts.

We recently announced the selection of Charlotte, Michigan, for the initial Blue Arc production site, which includes a planned investment of $12 million for Blue Arc production and $4 million for other campus enhancements to support future growth. We have received EP certifications and completed Air Resource Board or ARP testing with positive results and are waiting final approval.

We expect the final test results will demonstrate vehicle performance that exceeds the requirements of our customers and differentiates us from our competition. In the coming months, we expect to formally receive ARP certification, qualifying Blue Arc for zero-emission vehicle incentives, continued demonstration of the Blue Arc vehicle with key customers and deliver field testing vehicles to validate performance, expand our national dealer and service network as we continue to have meaningful discussions with key partners as we look to support our fleet customers and begin initial pilot and production builds.

While the initial development efforts have focused on Class III, due to the enthusiasm around our vehicle, we've accelerated our product roadmap. As a result, we have made significant progress on developing a Class V cab chassis with flexible body options. The Class V cab chassis will be on display at the NTA Work Truck Week in March, and the Blue Arc team looks forward to showcasing this important product with you.

Please turn to Slide 6. I remain confident in how we have strategically positioned the company in terms of the end markets that we serve. Given the dynamic operating environment, I want to provide additional perspective on how we are viewing these markets for each of our business segments.

Starting with Fleet Vehicle and Services business, long-term favorable demand trends for North America parcel remain intact as the secular shift to e-commerce continues; according to industry estimates, domestic parcel volumes will continue to drive demand for our delivery vans. As we sit here today, we are cautious in the near-term outlook as customer feedback and external announcements have been mixed, given macroeconomic conditions, which may create uncertainty with fleet operators and influence their near-term capital spending plans.

Over time, our expectations are aligned with broader industry reports that there is an increased level of long-term demand for last-mile delivery vehicles, and we like how we are positioned. Entering 2023, our backlog provides good near-term visibility. We are working through orders to reduce lead times towards more sustainable levels, and we will continue to flex our operations as appropriate.

Turning to our Specialty Vehicle business. Our strategy to invest in infrastructure-related businesses continues to pay off as service, body, and contract manufacturing are performing well. As new construction projects get underway, contractors and service providers invest in their fleets to meet the demand of these projects. The success of our infrastructure strategy is evidenced by their strong '22 performance and improved backlog position entering 2023.

Turning to our Motorhome Chassis business, the retail demand in Class A luxury motorcoach space that we serve remains more stable than the broader RV market. But unfortunately, after years of robust retail growth, the broader RV industry slowed in 2022. This softening has resulted in elevated dealer inventory levels of smaller motorized and towable units, which has limited the ability of dealers to stock more expensive Class A luxury motor coaches.

As a result, our motorhome chassis backlog has declined year-over-year. We remain excited about our competitive position as our market share increased again in 2022 to 33% and the greater than 400-horsepower diesel class, up 2 points year-over-year. This progress has been driven by continued investment in innovation and aftermarket parts and services and has helped offset the slower industry market conditions.

Overall, we have industry-leading brands that are positioned to win in the markets we serve. We remain confident in our team's ability to manage through uncertainty; we continue to remain cautious about the dynamic macro environment.

With that, I'll turn it over to John to discuss our financial results beginning on Slide 7.

Jonathan Douyard
Thank you, Daryl, and good morning, everyone. Please turn to Slide 8, and I'll provide an overview of our financial results for the fourth quarter of 2022.

Overall, we are pleased with the improvement we experienced in the second half as well as the performance to close out the year. Our team delivered strong results in the fourth quarter despite the continuation of supply chain delays, inflation pressures, and labor challenges that impacted us and our industry throughout the year.

Sales for the fourth quarter were $302 million, up 9% from the year-ago quarter. Net income from continuing operations decreased 13% to $17.8 million or $0.50 per share. The year-over-year comparison was impacted by increased EV spending, operational inefficiency driven by supply chain issues, and a favorable one-time tax item in 2021.

Turning to our adjusted financial results on Slide 9. In the fourth quarter, we improved adjusted EBITDA to $30.7 million or 10.2% of sales, up from $26.6 million or 9.6% of sales in the fourth quarter of 2021. These results include EV spend of $7.6 million, up $3.6 million from the prior year.

Excluding Blue Arc EV spend, adjusted EBITDA was 12.7%, up over 1.5 points year-over-year. Adjusted net income improved to $20.5 million compared to $20.2 million in the year-ago quarter, while adjusted EPS rose to $0.58 per share from $0.56 per share last year.

I'll now walk through our fourth quarter results by operating segment, beginning with Fleet Vehicles and Services on Slide 10. The FVS team delivered strong growth of 17% and adjusted EBITDA of 6% as more consistent chassis supply enabled improvements in production output. While overall chassis supply was stable in the second half, we continued to face component shortages, which impacted our schedule, drove inefficiencies and rework in our operations, and pressured working capital. FVS achieved sales of $212.9 million, up 17% compared to $182.6 million a year ago, marking solid sequential and year-over-year growth. FPS adjusted EBITDA for the quarter was $27.7 million versus $26.2 million a year ago. Adjusted EBITDA margin was 13% of sales compared to 14.4% in the fourth quarter last year.

Please turn to Slide 11 for the Specialty Vehicle segment overview. SV capped off the year with another fantastic quarter. Our service, body and contract manufacturing businesses remained strong and continued to perform well, but overall, SV sales were impacted by a softening of demand for luxury motorhome chassis.

Fourth quarter sales were $93.2 million, a 2% decrease versus the prior year. Adjusted EBITDA was $15.9 million or 17.1% of sales compared to $10.3 million or 10.8% of sales in the same period last year, reflecting strong operational performance and the impact of pricing actions implemented earlier in the year to recover inflationary costs.

Please turn to Slide 12 for our 2023 outlook. As we look forward into 2023, we remain positive on the company's ability to perform but want to be cautious given the potential impact of near-term macroeconomic headwinds across industries. That said, on the top line, we expect to exceed 2022's record year with continued growth in delivery and service body offsetting softness in luxury motorhomes.

We expect to see strategic growth initiatives pay off with an exciting SV geographic expansion announcement in the coming weeks as well as the first revenue from Blue Arc later in the year as we go into production. From a profitability perspective, we expect strong year-over-year growth despite incurring remaining Class II R&D investment and initial start-up costs to support the production launch of our Blue Arc vehicle as well as the incremental expenses driven by the XL Fleet acquisition.

(PLEASE NOTE: The below has been revised slightly at The Shyft Group's request.)

Given these underlying drivers, our outlook for 2023 is as follows: sales to be in the range of $1 (billion) to $1.2 billion representing 7% year-over-year growth at the midpoint, adjusted EBITDA of $70 (million) to $100 million, representing 20% growth at the midpoint; adjusted EPS of $0.97 per share to $1.59 per share, which includes an effective tax rate of approximately 25% and shares outstanding of approximately $36 million. Capital expenditures are expected to be approximately $35 million, and free cash flow conversion as a percentage of net income is expected to be greater than 100% as we work down working capital.

Please turn to the capital allocation update on Slide 13. We remain disciplined in our approach to capital allocation with a focus on utilizing internally generated cash to fund our operations and growth initiatives. In the fourth quarter, we generated $19 million in free cash flow. We maintain a robust capital structure with net leverage ratio of just 0.93 times adjusted EBITDA at the end of the year. We also maintained a line of credit of $400 million, giving us strong access to capital to invest in growth.

As we have previously noted, our recent investment focus has been on attractive organic growth opportunities, including Blue Arc EV solutions. In addition, we continue to evaluate M&A opportunities and maintain an active funnel and a disciplined M&A evaluation process. We remain focused on pursuing efficient return of capital to our shareholders, including a consistent dividend payment and assessing share repurchases as appropriate.

In conclusion, we are committed to maintaining a strong balance sheet as a foundation to support strategic investments in our future while taking a disciplined approach to efficiently return cash to our shareholders.

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

Daryl Adams
Thank you, John. Please turn to Slide 14. At The Shyft Group, we have created a compelling industrial growth company. Our priorities start with a culture of customer-focused innovation. We win by delivering market-leading solutions that address our customers' needs. Operational excellence drives efficiency in our operations, quality in our products and differentiates us from our competition.

Lastly, our financial strength provides us with the flexibility to invest in long-term growth and strive to deliver returns ahead of our peers. Looking ahead, we are excited about our growth prospects, especially with the beginning of the Blue Arc production later this year with the right people and the right processes in place to execute on our strategy and deliver for our customers and shareholders.

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

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question you may press “*” “1” on your telephone keypad. If you are using a speakerphone please pick up your handset before pressing the keys. To withdraw your question please press “*” “2”. At this time, we will pause momentarily to assemble the roster.

And our first question comes from Greg Lewis of BTIG. Please go ahead.

Gregory Lewis
My first question was around margin progression. And congratulations on the nice sequential gross margin increase in Q4. As we think about your adjusted EBITDA range guidance for this year, how should we be maybe thinking about gross margins sequentially going forward? And is there any impact as we start delivering Blue Arc later this year?

Jonathan Douyard
Yes, Greg, thanks for the question. I think as we look at the overall operating environment, we're expecting something that resembles the second half of next year. And so we're not expecting any of the operational challenges, some of the inflation, and inefficiencies that exist to perfectly right themselves as we begin the year here.

And so we are expecting to see gross margin improvement. You'll see year-over-year, we do have some margin expansion from an EBITDA perspective. But I think the operating environment is going to continue to remain challenging as we work through the first half of the year. I think that said, that is where our teams are focused in terms of driving and fixing those inefficiencies and getting better flow through the supply base. And so we will see progression throughout the year, but we're not taking an aggressive position here in the guidance on margin expansion.

Gregory Lewis
Okay, great. Thank you for that. And then, yes, rolling out a classified Blue Arc was always part of the plan since you embarked on the move into EVs. As we think about that, and the rollout of that given the existing footprint in Michigan, where that's where I believe we're building the Blue Arcs over the next few years, how should we think about that now that we have the classified vehicle that we plan on rolling out over the next year, year and a half?

Daryl Adams
Greg, you broke up a little bit. This is Daryl. The vehicle that will be shown at NTA was not part of the original plan. Part of the original plan was a Class III and Class V walk-in van. This is something different. It's a cab chassis.

So we haven't announced any type of production timing on that. It's still early in the development phase, but we're thinking it's going to -- I don't want to say steal the show, but be pretty exciting on NTA once people see it and the opportunities that it would have for municipalities and other I would say, city-type trucks that might need it because it does have a flexible options on the back, whether it's a flatbed, a box truck or even some type of a dump for landscaping. And so this part wasn't in the original plan, but we're excited about the enthusiasm we're receiving from customers about it.

Gregory Lewis
Okay, great. Thank you very much for the time.

Daryl Adams
Thank you

Operator
The next question comes from Felix Boeschen of Raymond James. Please go ahead.

Felix Boeschen
Good morning, everybody.

Daryl Adams
Good morning, Felix.

Felix Boeschen
I just want to clear up a couple of things. So you reiterated a 2H production start for Blue Arc. And I just want to be crystal clear, and maybe I missed this, but is the associated EV revenue included in the guidance? And is it included in the backlog today?

Jonathan Douyard
Just in terms of the backlog, it is not included in the backlog today. I think in terms of the guidance, we're expecting 200, 250 units, which is consistent with what we've previously talked about, and that is in the sales number.

Felix Boeschen
Okay. And then what I'm trying to better understand, John, is the implied R&D costs for 2023. Can you maybe just walk us through how you're thinking about that bucket between the XL fleet, between the Class III, and now it sounds like there might be some incremental R&D associated with the Class V. Just trying to understand the buckets here, John.

Jonathan Douyard
Yes. So I think if you go back in what we previously talked about was $30 million of spending last year, something in the $10 (million) to $15 million range this year. I would say we're trending towards the higher end of that $15 million as well as having some carryover from 2022 just based on the fact that we ended up spending about $27 million. And so that puts you in the $18 million range.

And then, as we noted in the deck, you've got $8 million of incremental spending from the XL Fleet acquisition that is really cost that we contemplated adding throughout ‘23 and into ‘24, and so it's more of an acceleration of cost, but we saw that as a great opportunity for us to bring in a talented group of people to really stabilize that business as we like the opportunity. As we've talked about, we view that as a very transformational project for us.

So I think if you look at the overall impact of EV on us this year, it's in that $25 (million) to $26 million range, with the biggest sort of variance being the addition of XL Fleet versus what we previously talked about.

Felix Boeschen
Okay. And then I think in the prepared remarks, you mentioned some start-up costs associated with the ramp of the production, and I know at the EV Day last year, we had talked about being around breakeven all in. Can you update us on that? Would it be safe to assume the $8 million XL is an incremental hit to the breakeven? I'm just trying to understand how you're thinking about that earnings potential relative to what was originally stated last year.

Jonathan Douyard
Yes. I think when you look at that approximately breakeven number, I think, again, we're probably at the higher end of that R&D range versus what we originally contemplated. You've got some carryover investment again, the $3 million, which isn't incremental to the program, but is incremental to 2023, and then you have the XL Fleet cost on top of that. And so that's how I would bridge that.

I think we had always contemplated start-up costs probably coming in a little bit higher than we expected, as well as there is some, call it, incremental R&D costs associated with some of the Class V activity that Daryl talked about, but the big drivers are XL Fleet and then just the development being closer to the higher end of the range.

Felix Boeschen
Okay. Got it. And then, can you just talk about the strategic rationale behind the XL Fleet deal? I'm just trying to understand how it fits in, it sounds like a bit of an acceleration, but I'm curious if there's any capabilities that you brought in-house that you didn't have before. Just trying to understand that deal a little bit better.

Jonathan Douyard
Yes. Maybe I'll start, Felix; Daryl can jump in. Again, I think we looked at this as a talented group of engineers both on the electrical side, on the battery side, on the telematics and software side that we were building internally and also using some third parties to support. And so this was really an opportunistic play for us to accelerate talent into the organization that will help us not only get through the last development phase here but also, again, provide that stable (inaudible) for us as we move forward.

Daryl Adams
Yes, Felix, good question. The only thing I would add to what John mentioned is bringing in engineers that aren't familiar with EV, which they're hard to find, because it's new technology that everybody is bringing on to grab people, engineers that have that talent already is going to help us leapfrog others in the market, in our opinion, and we thought it was a great opportunity.

And I'll tell you what, so far, it's absolutely amazing the progress they've made and how they've helped. So we're really excited about where it's going to take us throughout the year. And like John said, it's accelerated, but we thought the cost-benefit was worth it, and instead of trying to bring in new people. So in our opinion, is paying off right now, and we're excited about it.

Felix Boeschen
Okay. Got it. And then just my last one, if I could, and maybe this is better for John, but I appreciate the capital allocation update. I think you noted that your free cash flow conversion as a percent of net income should be higher than 100% this year. I imagine the working capital plays into that.

But I'm just curious in the guide it doesn't seem like you're accounting for necessarily any decreases in share count or even interest expense, for that matter. So I'm just curious, is there anything baked in from a capital allocation perspective in the guide? And how would you think about deploying that incremental free cash flow?

Jonathan Douyard
Yes. No, I think it's a good question. I think, certainly, we have not contemplated any repurchase activity in the share count that we put forward. But given the flexibility we have, we've got $242 million under authorization at this point, which we'll continue to remain flexible on that. I think from an interest expense standpoint or from a debt standpoint in general, we are levered under return.

We're obviously very comfortable with being in that range. And so we'll balance debt pay down with other deployment options. I think the interest expense, in general, I think, is a bit elevated versus where we ended 2022, just based on really interest rate changes. So but again, we've got flexibility, and we've got a strong balance sheet to be able to deploy it appropriately.

Felix Boeschen

Got it. I'll pass it on. Thanks for the time.

Daryl Adams

Thanks, Felix,

Operator
The next question comes from Steve Dyer of Craig-Hallum. Please go ahead.

Steven Dyer
Good morning. Thanks, everybody. You had talked as it relates to the backlog you've talked about how you anticipated that coming back down to more normalized levels, maybe a couple of quarters versus a year plus. Near term are you seeing any change? Are you seeing any move-outs later into the backlog or cancellations, or would you say the burndown right now is just less order intake for 4 or 5 quarters from now?

Jonathan Douyard
Yes. I think the biggest impact, I would say, is the less order intake with also when chassis supply freed up in the second half of the year, obviously, allowing us to produce at an accelerated rate. And so I'd say those are the two main drivers. I think, as Daryl noted in his comments, there is a ton of uncertainty out there in the environment.

I would say, we're having favorable discussions with customers about opportunities from an ordering perspective, and there's some really attractive fleet buys out there. And then we're having conversations with dealers or dealers and customers as well about potentially delaying or moving on orders just given some of the either floor plan or interest rate dynamics that are out there in the marketplace.

And so as we look at that collectively, we do remain optimistic certainly to the upside of where we are from a midpoint perspective, but we do want to be cautious just because there is so much uncertainty out there in the environment.

Steven Dyer
Yes. So even looking when you normalize this year for XL fleet those costs and the incremental Blue Arc costs, the guidance, to my math, implies that the core business is maybe even a little

softer in 2023 than it was in the second half of '22. So is that just conservatism on your part, given all the moving parts? Or are you seeing something in specific customer conversations recently that gives you pause?

Jonathan Douyard
I would say the one piece that is softer than what we would have expected in the fourth quarter is on the motorhome side of the business. And then I would say on the rest of the portfolio we remain, particularly on the fleet side, we remain balanced as we monitored the market.

Like we talked about in the prepared remarks, the service body business, as well as contract manufacturing, continues to be fantastic growth for us and so we do feel like we're balanced. But again, cautious as we look at all the, call it, noise that's out there in the system right now.

Steven Dyer
Yes. Got it. Along those lines, we've been talking about supply chain disruption for so long, are we to the point where, near term, maybe demand uncertainty is a little bit more of the challenge right now, or supply chain still less than ideal?

Jonathan Douyard
I think it's a little bit of both. But I think 12 months ago, I don't think we would have been talking about demand problems. So I think some of it just might be some of the headlines and those types of things that are out there that people are and customers and the industry is reacting to in general.

But I'd say demand is maybe a little bit more prevalent than it was a year ago. But again, we've always said that we like the markets that we're playing in. We know growth isn’t a straight line. But we think over the long term we're positioned very well for us to meet the needs of our customers.

Steven Dyer
Got it. I’ll pass it along. Thanks guys.

Jonathan Douyard
Thanks Steve.

Operator
The next question comes from Mike Shlisky of D.A. Davidson. Please go ahead.

Michael Shlisky
Good morning and thanks for taking my questions. I want to start off with a question on FES. Maybe I wanted to hone in on two details of your comments and outlook there. First is on the pricing. Do you anticipate having a positive price year-over-year in 2023? And then secondly, I mean, it feels to me like FES was already behind on its replacement and growth schedule before the pandemic even started, and of course, only got more and more dire during the pandemic itself. And given what happened in '22, I don't think we've caught up on what fleets are looking to put on the road.

So I'm curious if this is not the strongest year here in '23 is it just because the fleets are pushing out the inevitable, and there will be all these new trucks on the road eventually, if not this year, then following '24.

Daryl Adams

Yes, Mike, I think you answered your question. And I think we had it in prepared remarks. We're like where we're at positioned. We just think it's the macroeconomic issues, to your point, and we have not caught up on the vehicles, but I think it's just maybe I don't want to say a pause, but there's a slip out.

We still see the demands. We see parcel packages moving in the right direction. I think it's just being cautious on the macroeconomic issues that everyone is talking about, FedEx, UPS, they all had their earnings out, and we're reading those and talking with them. So unless something changes, I think you're right, it's going to be pushed out a little bit, but it's still a great business to be in.

Jonathan Douyard
And I think just on the price comment, Mike, I think--sorry, go ahead.

Michael Shlisky
Yes. On the price question, please.

Jonathan Douyard
Yes, just on price. Our expectation right now is we've taken solid pricing over the last 18 months as inflation came through. Our expectations will be positive from a pricing standpoint in '23.

Michael Shlisky
Okay. Great. Moving on to the other kinds of EVs. We saw some announcements that there's going to be a (inaudible) are coming out at some point in 2023, that's a Class II, absolutely nothing to do with the Blue Arc products there, but curious whether you're ready from an upfit perspective when that comes to your facilities, do you have the design and people in place to start upgrading the (inaudible) sprinter going forward?

Daryl Adams
Yes, Mike, I think, like any EV vehicle, we're always working with our customers, whether it's, in this case, Mercedes, whether it's Stellantis, or Ford. We're working with all of them on packages. We like the upfit business. And if our customers, whether it's direct to them or through a fleet management company, and we are prepared to build the vehicles and obviously, quote those orders and try to win the business. So yes, like the transit, e-transit, and like the (inaudible) auto Stellantis; to us this is just another opportunity to gain some more upfit business.

Michael Shlisky
Okay. Got it. Can you just maybe touch on some detail on the guidance here, John, on the cadence do you feel well supplied in chassis for the first quarter? And just (inaudible) some challenges in the first quarter on margins, I'm just curious as to how things might play out at the very start of the year here would be appreciated.

Jonathan Douyard
Yes. I think as you know, Q1 is typically seasonally low for us, just given some of the model year changes from the chassis supply perspective, we would expect Q1 is probably in the low to mid-single-digit range from a margin perspective before ramping up in midyear like we typically do. So obviously, we're not guiding quarters here, but it's probably something like 30% in the first half as you look at the full-year guide.

Michael Shlisky
Got it. Guys, thanks so much. I appreciate the color.

Jonathan Douyard
Thanks, Mike.

Daryl Adams
Thanks, Mike

Operator
The next question comes from Matt Koranda of Roth MKM. Please go ahead.

Matt Koranda
Hey guys. So I just want to make sure I understand the EBITDA bridge embedded in the guidance versus last year. So take the $71 million from ‘22, roughly $15 million unwinds from Blue Arc spend, but then you got $8 million of incremental spend from XL, the $78 million would be embedded in the guidance, excluding any benefit from the segment growth.

So maybe $7 million of segment growth contribution embedded in the guidance. Just curious, is SV adding to growth? Or is that a headwind? I just want to understand the moving pieces in the segment underneath the overall guidance.

Jonathan Douyard
I think as you look at the SV business, we do expect to see positive growth in that business year-over-year. I think you obviously do have some motorhome headwinds that we talked about that need to be offset, but the opportunities that we have from a service body and contract manufacturing perspective will offset those. So probably growing at a slower pace operationally, but still growth year-over-year.

Matt Koranda
Okay. All right. That makes sense. And then just digging into the SCS backlog a bit more. So obviously, you guys have talked about reticence among fleet customers, maybe a little bit of caution around the macro. But one thing that we found in speaking with some dealers is that chassis order books seem like they're closed this year. And so how much of the implied order flow or the weakness there is just given that fleets can't really get chassis for the rest of this year and they just essentially be indicating for new vehicles early to middle of next year if they're going to put an order in. So that longer lead time just throttles back their ordering behavior versus like macro reticence. I'm just curious if you guys have any sense for that.

Jonathan Douyard
Yes. I think we're specifically hearing the same thing. I think as you look at some of the Class II vehicles, I think as the OEMs allocate those vehicles historically, the commercial capacity has been absorbed pretty quickly. And so there's certainly that aspect, I'm not sure we're hearing anything.

Daryl Adams
Yes, I would agree with John, Matt. I think it's more in a Class II because what we've heard is Ford is now allocating quarterly. So that might be some of the adjustment that people are trying to understand and make. In the past, it would let you book for the whole year, and now they're forcing you to book quarterly. So it has shortened up some of the view in the Class II space. But I'm with John; we're not hearing any of that in the Class III and above.

Matt Koranda
Okay, that’s helpful. The rest of mine have been asked and answered, so thanks, guys.

Jonathan Douyard
Thank you.

Daryl Adams
Thank you.

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

CONCLUSION

Randy Wilson
I'd like to thank you for participating in today's conference call. As Daryl and John mentioned in their prepared remarks, we look forward to hosting investors at the NTA Work Truck week, taking place in Minneapolis on March 7 through 9.

In addition, we will be hosting one-on-one investor meetings and fireside chats in March at the Raymond James Institutional Investor Conference on March 6 and the 35th Annual ROTH Capital Conference on March 13 and 14.

We thank you for your interest in The Shyft Group. And with that, operator, please disconnect the call.

Operator
Conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.