[SHYF] The Shyft Group Inc. (fka Spartan Motors Inc.)
Fourth Quarter and Full Year Earnings Results Conference Call
Thursday, February 24, 2022 10:00 AM ET

Company Participants:
Juris Pagrabs; Group Treasurer and Head of Investor Relations
Daryl Adams; President and Chief Executive Officer
Jon Douyard; Chief Financial Officer

Analysts:
Ryan Sigdahl; Craig-Hallum Capital Group
Felix Boeschen; Raymond James
Mike Shlisky; D.A. Davidson
Matt Koranda; ROTH Capital Partners
Chris McGinnis; Sidoti and Company

Presentation

Operator: Good day, and welcome to the Shyft Group Fourth Quarter and Full Year 2021 Earnings Results Conference Call. (Operator Instructions) Please note, this event is being recorded. At this time, I'd like to turn the conference over to Juris Pagrabs, group Treasurer and Head of Investor Relations. Please go ahead.

Juris Pagrabs: Thank you, Allison, and good morning, everyone, and welcome to the Shyft Group's fourth quarter and full year 2021 earnings call.

Joining me on the call today are Daryl Adams, our President and Chief Executive Officer; and Jon Douyard, our Chief Financial Officer. For today's call, we've included a presentation deck that has been filed with the SEC and is also available on our website at theshyftgroup.com. You may download the deck from the investor relations section of our website to follow along with our presentation during the call.

Before we start, please turn to Slide 2 of the presentation for our safe harbor statement. You should be aware that certain statements made during today's conference call, which may include management's current outlook, viewpoint, predictions and projections regarding the Shyft Group and its operations, may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. I caution you that as with any prediction or projection, there are a number of factors that could cause the Shyft Group's actual results to differ materially from projections. All known risks that management believes could materially affect the results are identified in 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 an overview of business trends before moving on to a more detailed review of the results in our outlook for 2022. We will then open the line for Q&A. I'd like to also remind everyone that with the divestiture of the Emergency Response business in February 2020, the revenues and expenses associated with the

ER business as well as the assets and liabilities have been reclassified as discontinued operations for all periods presented. With this reclassification, the results discussed today will refer to continuing operations unless otherwise noted.

In the fourth quarter of 2021, the company made a change in its segments and moved Montebello and Strobes-R-Us from the FVS segment to the SV segment, consistent with the change in organizational reporting.

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 thank you for joining us to review our fourth quarter and full year 2021 results.

The past year was challenging in many ways, but the power of our strategy has again been highlighted in our record results. I've often said on these calls, we always try to be agile, nimble, flexible, proactive and solution-based in everything we do. Last year, we saw the benefits of this approach and what is truly possible with the right strategy and the right team. Our team proactively managed through the many challenges with resourcefulness and relentless focus on execution for our customers.

2021 was a year of record financial operational performance built on the incredible efforts of our entire team. Our perseverance as we navigated against industrywide challenges is what made the difference in our performance and positions us for greater success in the coming years. Our efforts have been rewarded in continued strong customer demand of our products as illustrated by our backlog, which is now over $1 billion.

Turning to Slide 4 for our financial summary. Our team did a tremendous job executing on our growth plans and navigating supply and labor challenges to generate year-over-year revenue growth of 47% to a record $992 million. With our industry-leading products, we continue to see a very strong demand result in increased order intake and record backlogs.

For the first time in the company's history, adjusted EBITDA was over $100 million, ending at $108 million, up 42% year-over-year. Adjusted income was a record of $75 million, while adjusted EPS increased 56% to $2.08 per share from $1.34 per share. We continue to see positive business opportunities in the market and believe it is imperative that we continue to invest in ourselves. In 2021, we invested $6.5 million in EV development, which impacted our margins by approximately 66 basis points for the full year. We plan to continue these investments in 2022, which Jon will outline later, as we believe they will put us in a leading position for the transition to electric vehicles throughout our core markets.

Please turn to Slide 5, where I'll provide a business update. Our Fleet Vehicle Service business continues its pattern of strong growth driven by our two industry-leading parcel delivery vehicles, our traditional walk-in van and our Velocity platform. You will recall the Velocity platform was a customer-driven solution-focused innovation, where we created an entirely new category of purpose-built Class 2 and 3 walk-in vans. We saw tremendous success in '21 as the F2 debuted on the road.

Also in 2021, we introduced and secured additional customer order of approximately 400 units for our Velocity M3 parcel delivery vehicle. As a leading manufacturer of last mile delivery vehicles, we are excited by the potential this unique category has to offer. In fact, building on the success of our Velocity platform, Utilimaster is now taking orders on the new Velocity R2, an under 10,000 pound GVWR walk-in van built on a Ram Promaster chassis, which will be debuted at the NTEA Truck Show next month in Indianapolis.

As a testament to the product's capability we recently received an order for 2,500 units from a leading parcel delivery customer. Additionally, we recently announced that Utilimaster work with Ford Pro to produce two pilot vehicles on the all-electric Ford E transit chassis. These road ready pilot vehicles are currently being tested and are fit with our Velocity body, creating a route delivery vehicle comparable to the Velocity F-Series gas-powered vehicle.

Moving to our specialty vehicles segment. Demand for our products continued and resulted in strong revenue growth in orders during the quarter. In our motorhome business, demand for our luxury motor coach chassis continues unabated as our market share increased to 31.2% for the quarter, reflecting the strength of our product offerings and brand among luxury motor coach consumers. To date, we continue to experience strong demand for motorhomes. And we expect this demand to continue through 2022.

Our market share growth continues to be driven by our introduction of new technologies into the market. Last month, we launched the Red Diamond leveling system at the Tampa RV show. In our service body business, we are seeing indications of improved component and chassis supply beginning in the second quarter. We continue to expand our service body distribution channels geographically, and we recently secured a national distributor of specialty truck products to aid in the expansion of our Magnum products. With strong backlogs, we are well positioned for another year of strong performance in SV.

On Slide 6, I will update you on our development efforts to design a commercial-grade EV chassis delivery vehicle and supporting portable charger for a full ecosystem approach. As I've mentioned many times in the past, we looked for a viable EV chassis option, and we're unable to find one that met our needs. So we decided to build our own. We developed our proof-of-concept EV chassis, an all-new electric delivery vehicle, by leveraging nearly 50 years of experience in custom chassis and last-mile delivery body manufacturing. I'm excited to share with you that we are on schedule to our original timeline and plan to have prototype vehicles in our customers' hands for testing and validation in the second half of this year.

I'm incredibly excited by the progress the team has made in the development of this vehicle. In two weeks, we plan to reveal our all-new electric vehicle on our proprietary purpose-built Class III EV chassis with a portable charging solution at the NTEA Truck Show in Indianapolis. With a new look and a new lightweight body that has a high degree of configurability, this all-new vehicle is ideal for last-mile delivery, work trucks, mass transit, recreational vehicles and other emergent EV markets. We expect to begin taking orders next month and build electric delivery vehicles in 2023 with production launching in our Plymouth location and ultimately transitioning to a flexible production facility in the Southeast with annual capacity up to 2,500 vehicles per year, directly impacting the current supply gap in the commercial EV segment.

With that, I'll turn the call over to Jon to discuss Shyft's financial results for the fourth quarter and full year in more detail as well as provide our 2022 outlook beginning on Slide 7.

Jon 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 and full year 2021. Overall, we are pleased with our team's performance and excited to report record results for the year, which we delivered despite the inflation pressures, supply chain delays, chassis availability and labor challenges that are broadly impacting our industry as well as many others.

These macro headwinds accelerated in the fourth quarter and continue to remain dynamic through today. That said, we were still able to deliver a solid quarter that included margin expansion year-over-year. Revenue for the fourth quarter was a record $277.3 million, up 62% from the year ago quarter. Income from continuing operations was $20.5 million compared to net income of $8.3 million a year ago. Diluted earnings per share from continuing operations was $0.56 per share, up 155% from $0.22 per share in the fourth quarter of 2020. Our gross margin for the quarter was 18.5% compared to 20.5% in the prior year.

On an adjusted basis, EBITDA from continuing operations for the fourth quarter increased to $26.6 million, up from $16 million last year. As a percent of sales, adjusted EBITDA was 9.6% for the quarter. This compares favorably to the 9.3% of sales in the fourth quarter of last year.

Adjusted net income for Q4 was $20.2 million or $0.56 per share compared to $10.1 million or $0.27 per share. Fourth quarter net income from continuing operations was $20.5 million. These results were favorably impacted by a tax benefit of $4.4 million, or $0.12 per share, which the company earned by amending prior-year tax returns to include additional credits. Our efforts in this area resulted in an effective tax rate of 17.2% for the full year.

I'll now walk through our results by operating segment, beginning with Fleet Vehicles and Services on Slide 10. Our FVS business continued to perform well in Q4, closing another year of impressive growth in sales, profit and order intake, while the team effectively managed through a dynamic market and supply chain environment. The business achieved revenue of $182.6 million, up 72.4% compared to $105.9 million a year ago. The increase was primarily driven by strong demand in deliveries of the Velocity F2 walk-in van.

FVS adjusted EBITDA for the quarter was $26.2 million versus $15.8 million a year ago. Adjusted EBITDA margin was 14.4% of sales compared to 14.9% in the fourth quarter last year, due in part to higher material and labor costs and unfavorable mix. FVS backlog was up 14.6% sequentially and up a remarkable 104% compared to prior year. The year-over-year increase was driven by strong demand in parcel delivery vehicles as well as the United States Postal Service add-on order of $53 million, which was announced in the fourth quarter.

Given the size and length of the backlog, we continue to be proactive and look for ways to mitigate higher input costs. And the team was effective in increasing price on new orders as well as repricing a significant portion of prior orders during the quarter.

Please turn to Slide 11 for the specialty vehicle segment overview. As we talked about in the Q3 call, we expected improved performance from SV in Q4, and they delivered. Fourth quarter sales were $94.7 million, an increase of $29 million, or 44.1% versus prior year. Sales were driven by the continued strength of our product offerings and luxury motorhome chassis and service bodies as well as the new F-Series Class VII launched by Isuzu.

Adjusted EBITDA was $10.3 million, or 10.8% of sales, compared to $7.7 million, or 11.7% of sales in the same period last year, reflecting higher material costs, inefficiencies from tight labor markets and unfavorable mix, which was partially offset by pricing actions. SV backlog was up an impressive 82.3% compared to the prior year, driven by continued order strength across product lines.

Please turn to the liquidity and capital allocation update on Slide 12. We remain focused on managing our overall liquidity and cash flow to fund our operations and growth initiatives as well as providing return to our shareholders. Through diligent management of working capital throughout the year, we generated $74 million in cash from operations, enabling us to pay off our debt during the year.

In the fourth quarter, we proactively amended our lending agreement to take advantage of favorable market conditions. The amendment provides a line of credit of $400 million, which is expandable to $600 million under certain circumstances through an accordion feature. We believe this expanded credit line will provide ample liquidity and flexibility to fund the next phase of our growth initiatives.

At the end of December, we had total liquidity of $414 million, including $37 million of cash on hand and zero revolver debt. Capex for the quarter was approximately $4.8 million, while for the full year, we invested $23 million. Key projects for the year included investments in Velocity production, insourcing fabrication, establishing our new R&D facility as well as an initial investment in our new Pennsylvania truck body facility.

We remain committed to delivering value to our shareholders through dividends and share repurchases. In January, we repurchased 409,000 shares of company stock for $18.9 million, exhausting our most recent authorization. Earlier this month, we announced the doubling of our quarterly dividend of $0.05 per share. And just this week, we announced that our board approved a new authorization to repurchase up to $250 million of company stock, providing us additional capital allocation flexibility moving forward.

Before I close out my comments on 2021, I would also like to highlight that from an accounting and controls perspective, we continue to make significant progress. I'm incredibly pleased to report that our team has fully remediated the remaining material weakness in our internal controls. This result is reflective of the strong efforts of our finance, accounting and operating teams across the organization, to which I'm extremely proud.

Please turn to Slide 13. As we look forward to 2022, we are optimistic about the long-term underlying demand for our products and feel our company is well positioned to meet our customers' growing needs. In the short term, we expect the ongoing impact of supply constraints, chassis availability and inflation to continue. And as we manage in this environment, we look to balance short-term cost management with the investment in our future and our ability to deliver future growth. As the market conditions continue to evolve, we expect financial performance to be softer for the first half of the year while seeing a more acute impact in the first quarter. First quarter margins are expected to be approximately breakeven, followed by acceleration in Q2 and a much stronger second half as we see the environment stabilizing.

Notwithstanding further supply chain-related deterioration, we are pleased to provide our 2022 guidance as follows. We expect revenue to be in the range of $1.05 billion to $1.25 billion, representing 16% year-over-year growth at the midpoint. Adjusted EBITDA of $90 million to $110 million, inclusive of approximately $30 million for EV development, which we have accelerated given the progress made to date on the program and the optimism we are hearing from our customers. Excluding this EV investment, our guidance implies a 13% growth rate at the midpoint for the core business, which is expected to achieve between $120 million and $140 million.

Adjusted EPS of $1.57 per share to $1.99 per share, which includes $63 million per share of EV development costs. We expect capital expenditures in the year of approximately $35 million, including $10 million to $15 million of investments in EV as we look to start production heading into 2023.

Looking back on 2021, it was an exceptional year for the Shyft Group, driven by the resiliency of our team, the nimble approach we took to address industry challenges and the expression of innovation that is core to our DNA. And while we enjoy the success of the past year, we cannot afford to stand still. We will continue to innovate and expand our leadership across the industries we serve, energized for another year of strong financial performance.

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

Daryl Adams: Thank you, Jon.

Please turn to Slide 11. Our record results in 2021 reflect the success of our long-term growth strategy and the efforts of our amazing team. Our longstanding commitment to quality, execution, innovation and operational excellence is generating improved sales and order growth. Our new products, including the Velocity and our exciting new EV solution combined with our strong customer relationships enable us to achieve our strategic vision.

I'm proud of the way the team came together to manage the broader inflationary and supply chain challenges in '21 and ensure that we will deliver for our customers and shareholders. While we enjoy the success of the past year, we remain driven to grow not just in our core business, but also in the electric vehicle space as well.

Looking ahead to 2022, our backlog is evidence that market demand remains very strong for all of our products. We'll continue to take a nimble and creative approach to maintain our flexibility in managing our supply chain and production processes while investing in our people, our new products and technology and in operational excellence that will drive our future growth by providing customer-centric chassis and truck body solutions for the customers.

Before turning the call back to the operator, I'll pass it back to Jon for a quick announcement.

Jon Douyard: Thanks, Daryl.

I'd like to quickly take the opportunity to acknowledge Juris' contributions to the company over the past six years. He has been a great partner to me and to Daryl and to the entire leadership team here at Shyft, and we wish him all the best as he transitions into a well-deserved retirement in the coming months. During his tenure, Juris was a key leader in the transformation of the company, and he navigated through all the change admirably.

You will certainly be missed. Congratulations, Juris, and best of luck, and we look forward to announcing his replacement shortly. With that, operator, we're now ready for the Q&A portion of the call.

Questions and Answers

Operator: Thank you. (Operator Instructions) Our first question today will come from Steve Dyer with Craig-Hallum Capital Group.

Ryan Sigdahl: Ryan on for Steve. And congrats, Juris, as well. First question. I think I caught it in the commentary on Q1 guidance, but did you say breakeven for Q1? And if so, can you give some more detail there on what's going into it?

Jon Douyard: Yes. No, you certainly heard that correctly. And I would point to a couple of things, with the biggest piece being around chassis availability and what we've seen in terms of planned as well as unplanned shutdowns from an OEM perspective, which really provides us with -- we still have volume flowing through our plants, but it limits the mix of vehicles that we're able to build on. A couple of examples of this, the Stellantis factory down in Saltillo, Mexico has been down for a month, planned shutdown for a month and a half as they retool that plant, impacting upfit and Velocity timing.

But we're also seeing it in our service body business, which Daryl made the comment in his remarks. But we are starting to see improvement here in March and into Q2 from that perspective as well. And so there's some challenges there. I think there are some discrete items that we would also point to that we can say will improve as the year progresses, one being our Pennsylvania facility, which has been down for the first quarter just given some delays from contractors and permitting and those types of things, which is now operating. And so we will continue to see that, and we have record backlog in the truck body business today.

Also, just from a Velocity perspective, some of the timing of the orders and the chassis deliveries on that, be a bit softer in Q1. And so there's some specific items we would point to where we've certainly got the backlog, and our teams are ready to execute when chassis present themselves.

Ryan Sigdahl: And just to clarify, is that an EPS or an EBITDA comment?

Jon Douyard: It was an EBITDA comment.

Ryan Sigdahl: Okay. Moving on to the EV investments of $30 million this year. I appreciate the breakout there. It's helpful. How should we think about that over the next several years? Is that an upfront investment this year and probably into next year before the commercial launch and then it scales back? Or is that kind of steady run rate and then you just get better leverage through it as you start getting the volumes and the revenue coming in?

Jon Douyard: Yes. I'll start, and maybe, Daryl, you can jump in here. But I think as we look at the overall framework for the investment that we laid out, we're still in line with what our expectations were. We have accelerated investment, as I mentioned, just given some of the excitement that we've seen around the product as well as the progress the team has been able to make in an incredibly short period of time, so we will see.

What we had initially thought would be more balanced between '22 and '23. We plan to have more upfront investment there to get that vehicle really production ready by the end of the year and in customers' hands starting in 2023, which at that point, you would have the revenue and profit supporting the business.

Ryan Sigdahl: Last one for us. Just following up on the EV opportunity. What are you hearing from customers? I realize you're not taking orders yet. But what's kind of the early indication from either wanting to beta test or potentially even wanting to put in orders, but you guys are not accepting them yet?

Daryl Adams: Yes. Ryan, this is Daryl. I'll take this one. So I've been in a number of customer meetings with dealers. And these are dealers that, as you can imagine, have tried to get their hands on any EV they can. So we've had them out. They looked at the vehicle. They've seen the chassis. They're excited. They're all going to be done at the NTEA Truck Show in early March two weeks from now. And we're hearing from our traditional last-mile delivery parcel customers.

They're hearing the buzz as well. And I think you've seen we're not putting out in front any of the orders or anything that we're taking. We want to wait until we get to the truck show. We want to show the product and let everybody see it before we start taking any orders in or even talking about it. But it has gotten out, and the -- all the customers are excited. We actually have them calling us asking for the -- when can they get the product. And we've not gone to them yet because we want to unveil it first.

So we're seeing a lot of excitement. The waves are starting to pick up, and we're excited to meet with everybody at the truck show in two weeks.

Ryan Sigdahl: If I can sneak one more in quick here. Just on the other side. Do you think when the competitive EV chassis comes to market, you think that impacts your supply from Ford and others as you look to get e-transits and do work for them?

Daryl Adams: Yes. Thank you. No, we thought long and hard about that at the beginning. And that's why we went into the Class III space, because most of their vehicles will be in the Class II because we didn't want to disrupt any of that current relationship that we had with them. And there right now, none of them play in the Class III space. So we believe we're -- I don't want to say isolated, but we feel we still have a great relationship with them in the Class II space.

Operator: Our next question today will come from Felix Boeschen of Raymond James.

Felix Boeschen: Juris, congratulations. I wanted to follow up on the EV here and specifically around the $30 million into next year. I think originally, the entire cost of project, you all pegged at $50 million to $75 million at all. And I was under the impression the split was going to be roughly 50-50 between R&D and Capex. Has that split changed at all, or that all in, call it, $75 million number? What I'm really trying to figure out is, it sounds like you guys did $6 million in '21 and then another $30 million. So that gets you already to 50% of the $75 million just on R&D costs alone. Just trying to think through that, Jon.

Jon Douyard: Yes. Yes, I think the framework is close. I think we said 50-50, potentially closer to 60-40 from a net expense standpoint. So as you think about that, we are planning to have a developed vehicle here at the end of the year. And so from an expense standpoint, our expectation is that a majority of the cost will be more upfront than potentially the level loading that we had indicated previously.

Felix Boeschen: Okay. So put another way, I'm not asking for exact guidance into '23, but it sounds like that $30 million into 2023 should be materially lower as you guys start producing the actual vehicles.

Jon Douyard: I think that's fair specifically for the Class III vehicle. And I think you'll start to see some of the capital expenditures pick up here in late '22 and into '23 as we get into production.

Felix Boeschen: Okay. And then I also wanted to touch a little bit on the announcement earlier in the week on the share buyback authorization. Curious if you guys could talk a bit about capital allocation in general and maybe, Daryl, as part of that, how you're thinking about the M&A pipeline at this point, or frankly, if you think buying back stock, is just a better use of capital right now.

Jon Douyard: Daryl, you [mind if I] go first? Yes. I mean, I think I'll start on the M&A piece as well. I mean, I think M&A continues to be the #1 priority for us. We've been active in a with the number of target companies here over the last couple of months. But at the same time, we're not going to reach particularly for returns that don't make sense to our business.

And so in the absence of that, we really wanted some flexibility from a capital allocation standpoint, particularly as we sit here debt-free at the end of the year. And so it was nice to see that our board was supportive of that flexibility. But again, we'd like to invest in ourselves as well as continue down the M&A path as well.

Daryl Adams: And Felix, I would only add a little bit on the M&A piece to what Jon talked about is we continue to be active in the market. In our space, there's not a lot out there, but we are spending a lot of time on outreach. We're also looking maybe, if you will, to bringing in some more fab, so maybe an acquisition in a larger fab facility as we continue to grow. We're seeing benefit of insourcing that. And if we get a fab facility it'll let us to move some of our current equipment out of our plants, get more production out of them and have a separate plant to do the fab. So we're looking at a number of alternatives. And I think, as Jon said, we're active and we're hoping this year we can close one. So it's got to be the right one. And we're not going to reach and it's going to be something where we think we get the right synergies out of to make it accretive to the company instead of impacting it negatively.

Felix Boeschen: Okay, that's helpful. And then Jon, just quickly following up on the share repo. Is any of that embedded in the EPS guidance for 2022?

Jon Douyard: Not beyond what we did in January.

Felix Boeschen: Okay. And then just my last one. Just curious if you could talk about just the EBITDA cadence through the year, Jon. What gives you confidence in the 2H ramp going from, say, break even in 1Q? And does that break even assumption assume that sales would be down year-over-year, presumably on chassis constraints?

Jon Douyard: We'll see. When you look at the first quarter, we'll see -- we'll likely see units down will be offset by some of the pricing actions that we took in the year. But I think we see clarity to grow up into the second quarter and the second half. I touched on some of those with our truck body facility in Pennsylvania, which will be in production, was not in production here up until this week really. And we're sitting on a record backlog from that perspective.

Velocity, just the timing of the orders as well as how the OEMs have laid out chassis timing. Part of that was due to the Stellantis shutdown, but we'll start to see those chassis flow here shortly, which gives us confidence in a Q2 ramp as well. And so I think if you look at -- you look at the year from a profitability perspective, it's certainly back-end loaded. You're probably in the 30% to 40% range in the first half, and then it ramps in the second half.

Operator: Our next question today will come from Mike Shlisky of D.A. Davidson.

Mike Shlisky: I wanted to start on some of your nonparcel and nonfinal mile vehicles, your Royal Truck Body, your Magnum, stuff like that. Can you give me just some sense as to how those are going? I'd be curious if you could share with us if there are any particular locations that are standing out besides, obviously, the final mile piece.

Daryl Adams: Maybe I'll start, Mike, on the product side and let Jon talk about the sales side. From a product standpoint in our strategy, we're seeing progress, as I mentioned, geographically between the DuraMag product coming from the Northeast and transitioning that into both Florida and Kansas City area and into the California area. Nice progress there. We're also seeing it come back the other way with the Royal product moving across the country. We were just down at our board meeting down in -- took a tour of the Strobes plant. And we saw the service bodies there. They're already mounting them with some of the landscape body. So from a strategic standpoint, our strategy is working.

We're seeing growth in both of the two product lines and look forward to continuing to move that. This new dealer that we -- distributor that we picked up for the Magnum Headache Racks is going to be, we think, exciting. We get more distribution across the country with that as well. I don't know, Jon, you want to talk about the performance of those two plants?

Jon Douyard: Yes. I think when you look at it from a top-line standpoint, the businesses have performed incredibly well and potentially moving faster than our expectations when we acquired them. And I think that's the testament to the things that Daryl talked about in terms of our ability to execute on the value creation strategies of geographic expansion and continued product launches. We've got the shift through with GM picking up here in Q1, which will be a nice add. So really picking that brand nationally.

I think in terms of locations, I think those businesses are relatively broad. We speak to it more in the infrastructure space, although we have seen some benefit from higher oil prices down in our Texas branches as well, but it's a pretty broad-based customer base.

Daryl Adams: And I think --

Mike Shlisky: Got it.

Daryl Adams: Mike, if we look at the FVS side, we're seeing much more customer, let me say, diversity when we're seeing their growth, too. It's not all in parcel, which is nice. We have some food and beverage. We have some laundry and linen. We actually have some food coming into there, some grocery, and there's some energy. So we're seeing a nice maybe broad type of expansion on the FVS backlog as well.

Mike Shlisky: So if I could sum it up, it does sound pretty strong across the board.

Daryl Adams: Yes. For sure.

Mike Shlisky: Great. Great.

Daryl Adams: I think the point there is that our underlying strength of our products is strong. We've seen the backlog. Customers want it and they're willing to wait. Right now, we got some chassis supply issues that the industry has to work through.

Mike Shlisky: Got it. And speaking of supply, I want to touch on another topic, a tough day to be on earnings on a day like this, but a lot of the global aluminum supply does come out of Eastern Europe, Russia, Ukraine area. Have you seen any issues or changes with some of the quoting of that commodity? Are you prepared or looking to find ways to make sure that you can work through any issues that any armed conflict might cause here?

Daryl Adams: Jon, you want to walk through the strategy that FVS has put in place on the --

Jon Douyard: Yes. I think I can talk to a couple things. I mean, obviously, we'll see how this plays out. But the expectation of continued inflation, both from an aluminum commodity and fuel standpoint, I think is likely. I think our team continues to do a nice job of being able to lock in material, and we are locked for a significant portion of our volume for the year for both sheet and extrusion. And so we'll continue to do that. But the environment does remain dynamic, and our teams are staying really close to it.

Operator: Our next question today will come from Matt Koranda with ROTH Capital.

Matt Koranda: I'll add my congrats to Juris as well. On the fleet vehicles order flow, I'm just curious, is this high $200 million implied order flow that we're running at a comfortable range to be in for the next several quarters? Do you think there is room for that to tick up with some of the diversity of demand that you've mentioned in truck body and other elements of fleet vehicles beyond Velocity?

And then maybe I also was curious if you could speak to price. You said a couple of interesting things in the prepared remarks around taking price, but also going back and renegotiating at some of the price that's in the backlog. And just wondered if you could speak to sort of the stickiness of that order flow -- or those embedded orders that you go out and take price on that that were already in the backlog and how that's impacting the movements in backlog? That's my first question.

Jon Douyard: Sure. Yes. I mean, I think when you look at really the last five quarters, I think you would see FVS order flow in that mid to high $20 million range. Daryl alluded to it as well. We continue to see really strong orders here through the first quarter, first two months of the first quarter. And so the trend continues. And I think this is clearly not a demand issue that we're staring at here.

I think we do continue to diversify the backlog, to your point, I think truck body continues to be really strong for us. We feel like we're well positioned there to be taking share, and then the underlying parcel piece as well.

When you look at the repricing that we did from a backlog perspective, it was actually, I think, pretty well received and understood. I think it's no secret what's happening from an external environment standpoint. So when you think about the stickiness of it, we have very little fallout, single digit millions of fallout from that exercise. And so we've got to stay on top of it and continue to be proactive there as the environment continues to evolve.

Matt Koranda: Okay, got it. And then when we think about the outlook for the year and the back half weighted year here, it does look like, just looking at the FVS backlog and the guidance that you provided that you'll be probably delivering on a good portion of the existing backlog that you've got at the moment.

So I was curious about capacity to deliver on that backlog as we move into the back half of the year, just given that you guys are suggesting a pretty big uptick in production rates in the back half. What are some of the gating items that we should be thinking about? I mean, obviously, chassis is always top of mind for folks. But are there any other gating items that we should be thinking about as it pertains to your ability to deliver on the FVS backlog, maybe labor or other kind of production constraints?

Daryl Adams: Maybe I'll take it, Jon, the beginning and let you jump in on the end. So Matt, from a facility standpoint, we don't -- right now, we don't see any road blocks. We're planning for it. We're making some changes. We actually have some very timely automation that's getting put in. It's a little delayed. It was supposed to be in last year, but late last year it delayed due to components and supplier issues. So those are, I believe, being set up right now, which will help with our expansion. We've seen the backlog grow. A few years ago, we were looking at maybe four to six months. Now it's out to about a year. So we've seen it coming, and we've made plans from a manufacturing standpoint.

Now some of the -- you mentioned one of them. Other than chassis, you mentioned labor. So it is something that continues to be challenging. But as we did in '21 and '20, we're able to find enough labor to help us build the products. We believe we have a good formula, and the team is right now making efforts to get people on board to take that ramp. Over the last number of years, we've had that muscle memory of really building hard Q2 and Q3, and then Q1 and Q4 are a little bit less. So we continue to try to get our customers to level load that, but they continue to stay with their typical patterns. So we've gained some muscle memory, and the team is ready to hire. So we believe we'll have success there. Jon, I don't know if you have anything else to add.

Jon Douyard: No. I think you got it.

Matt Koranda: Okay, great. And then just wondered, maybe, Jon, if you could help put a finer point on the EBITDA margin bridge that you embedded into guidance for '22. It looks like the chart was helpful where you stripped out the EV development costs, and it does look like you expect the underlying EBITDA margin in the business to expand slightly relative to '21.

Can you just talk about some of the puts and takes around mix and price cost and the underlying movements there so we can understand a little bit more about what you're assuming for the year in '22 EBITDA?

Jon Douyard: Sure. I think from a mix perspective, it's a couple of things. I think as our truck body business grows, it has historically been a mix negative for us. The other thing I would point to there is we've got the USPS truck body, or the passthrough from a chassis perspective in there as well, which is 20 to 30 basis point headwind for us.

From a pricing and inflation standpoint, we were actually -- in Q4, we were basically neutral from a price cost standpoint, so good progress by the team. We expect that to improve as we get into '22. But we're not going to get, necessarily, the margin uplift there given just the dynamics of how the calculations work. And so those more or less offset each other from a rate perspective, but certainly covered from a dollar standpoint.

And we continue to push productivity and those types of things. But certainly, the EV investment is a headwind when you include that. And so overall, I think relatively flat from a guidance standpoint with some of the mix pressures that we talked about.

Matt Koranda: Okay. Very helpful. And then last one for me. Maybe I'll just ask the M&A pipeline question in a slightly different way, which is this. Have there been any resets and expectations from some of the targets you've looked at in terms of valuation, just given some of the public market volatility we've seen? Obviously, that takes a little bit of time, I think, to filter into the private markets and other stuff that you might be looking at that's smaller. But any opportunities that may shake loose or that may be coming faster than the pipeline now that we've got a bit more public market volatility here?

Jon Douyard: I think when you look at the deals we've been involved in they continue to be very highly competitive. So there is -- the markets are flush with cash ready to deploy, which has made them competitive. And as we've alluded to, some of the multiples that we've seen are at levels that we're not willing to extend ourselves to. And so we continue to go out and do our own cultivation and research in identifying companies and looking for those right opportunities for us. And we feel like there are actionable deals at reasonable multiples out there.

Operator: (Operator Instructions) Our next question today will come from Chris McGinnis of Sidoti & Company.

Chris McGinnis: Congrats, Juris. I just had one question just around the chassis issues in Q1 you expect. And just given the backlog, is there any risk of losing out on any of the sales given the disruption you expect in Q1?

Daryl Adams: We don't think it -- go ahead, Jon. No, go ahead.

Jon Douyard: I was going to say, we don't view it necessarily as lost sales. I think it's really timing. Unfortunately, it is industrywide. I think where we benefit is our ability, particularly, with the Velocity platform to expand and build on multiple chassis and deliver walk-in vans on multiple chassis. And so as we free that up, it does give us some flexibility as we get into Q2 and later in the year. But it's really -- I would think of it as a delay from a backlog perspective versus loss.

Daryl Adams: And the only thing I would add, Chris, is we were watching very closely when we took our pricing up based on inflationary items in '21. And as Jon mentioned, we lost only single digit in the millions of sales. So I think if they were going to back away, they would have done it then. The market, right, as we continue to talk about, the demand is still there. There's growth, all the e-commerce and other growth going on in infrastructure. So what they don't want to do is get out of line because then they go to the back of the line. So they're going to -- our view is they're going to stick in it and wait for the chassis to come. So to me, it's all about the timing.

Operator: Ladies and gentlemen, this will conclude our question-and-answer session. And at this time, I'd like to turn the conference back over to Juris Pagrabs for any closing remarks.

Juris Pagrabs: Thank you, Allison, and thanks to everybody for participating in today's call. Thank you for the kind comments. Unfortunately, you have to see me a couple more times over here in the next month. We have some conferences and events. At Raymond James next week or actually two weeks, March 7, we'll be doing one-on-ones at a group presentation. And then as we alluded to earlier, on March 9 at the NTEA show we'll unveil the EV vehicle. And then we have the Roth conference coming up March 13 and 15. So stay tuned. We look forward to seeing you and wish you all the best.

Operator: The conference has now concluded, and we thank you for attending today's presentation. And you may now disconnect your lines.