**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

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# FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2021.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________

Commission File Number 001-33582

**THE SHYFT GROUP, INC.**
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Michigan** | **38-2078923** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **41280 Bridge Street** **Novi, Michigan** | **48375** |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number, Including Area Code: **(517) 543-6400**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock | SHYF | NASDAQ Global Select Market |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller Reporting Company | ☐ |
| Emerging Growth Company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at April 30, 2021 |
|---|---|
| Common Stock | 35,319,651 shares |

**THE SHYFT GROUP, INC.**

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## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains some statements that are not historical facts. These statements are called “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve important known and unknown risks, uncertainties and other factors and can be identified by phrases using “estimate”, “anticipate”, “believe”, “project”, “expect”, “intend,”, “predict”, “potential”, “future”, “may”, “will”, “should” and similar expressions or words. The Shyft Group, Inc.’s (the “Company”, “we”, “us”, or “our”) future results, performance or achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (“Risk Factors”) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include the risk factors listed and more fully described in Part I, Item 1A – Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on March 25, 2021, subject to any changes and updates disclosed in Part II, Item 1A – Risk Factors below. Those risk factors include the primary risks our management believes could materially affect the potential results described by forward-looking statements contained in this Form 10-Q. However, these risks may not be the only risks we face. Our business, operations, and financial performance could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. In addition, new Risk Factors may emerge from time to time that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, although we believe that the forward-looking statements contained in this Form 10-Q are reasonable, we cannot provide you with any guarantee that the results described in those forward-looking statements will be achieved. All forward-looking statements in this Form 10-Q are expressly qualified in their entirety by the cautionary statements contained in this section, and investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company undertakes no obligation to update or revise any forward-looking statements to reflect developments or information obtained after the date this Form 10-Q is filed with the Securities and Exchange Commission.

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**Item 1. Financial Statements**

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**
(In thousands)

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 10,049 | $ 20,995 |
| Accounts receivable, less allowance of $115 and $116 | 83,610 | 64,695 |
| Contract assets | 20,648 | 9,414 |
| Inventories, net | 58,543 | 46,428 |
| Other receivables – chassis pool agreements | 24,998 | 6,503 |
| Other current assets | 8,274 | 8,172 |
| **Total current assets** | 206,122 | 156,207 |
| **Property, plant and equipment, net** | 51,560 | 45,734 |
| **Right of use assets – operating leases** | 41,470 | 43,430 |
| **Goodwill** | 49,177 | 49,481 |
| **Intangible assets, net** | 55,553 | 56,386 |
| **Other assets** | 2,026 | 2,052 |
| **Net deferred tax asset** | 5,625 | 5,759 |
| **TOTAL ASSETS** | $ 411,533 | $ 359,049 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 76,470 | $ 47,487 |
| Accrued warranty | 6,320 | 5,633 |
| Accrued compensation and related taxes | 14,758 | 17,134 |
| Deposits from customers | 463 | 756 |
| Operating lease liability | 7,228 | 7,508 |
| Other current liabilities and accrued expenses | 10,547 | 8,121 |
| Short-term debt – chassis pool agreements | 24,998 | 6,503 |
| Current portion of long-term debt | 221 | 221 |
| **Total current liabilities** | 141,005 | 93,363 |
| **Other non-current liabilities** | 5,406 | 5,447 |
| **Long-term operating lease liability** | 34,992 | 36,662 |
| **Long-term debt, less current portion** | 23,304 | 23,418 |
| **Total liabilities** | 204,707 | 158,890 |
| **Commitments and contingent liabilities** | | |
| **Shareholders' equity:** | | |
| Preferred stock; 2,000 shares authorized (none issued) | - | - |
| Common stock; 80,000 shares authorized; 35,308 and 35,344 outstanding | 90,171 | 91,044 |
| Retained earnings | 116,791 | 109,286 |
| **Total The Shyft Group, Inc. shareholders' equity** | 206,962 | 200,330 |
| Non-controlling interest | (136) | (171) |
| **Total shareholders' equity** | 206,826 | 200,159 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 411,533 | $ 359,049 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**
(In thousands, except per share data)

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Sales | $ 197,888 | $ 176,948 |
| Cost of products sold | 157,902 | 140,647 |
| **Gross profit** | **39,986** | **36,301** |
| | | |
| Operating expenses: | | |
| Research and development | 782 | 1,541 |
| Selling, general and administrative | 24,537 | 21,400 |
| Total operating expenses | 25,319 | 22,941 |
| | | |
| **Operating income** | **14,667** | **13,360** |
| | | |
| Other income (expense): | | |
| Interest income (expense) | 170 | (731) |
| Interest and other income (expense) | 183 | (510) |
| Total other income (expense) | 353 | (1,241) |
| | | |
| Income from continuing operations before income taxes | 15,020 | 12,119 |
| Income tax expense | 3,490 | 377 |
| Income from continuing operations | 11,530 | 11,742 |
| Income (loss) from discontinued operations, net of income taxes | 81 | (3,864) |
| Net income | 11,611 | 7,878 |
| Less: net income attributable to non-controlling interest | 35 | 67 |
| | | |
| **Net income attributable to The Shyft Group Inc.** | **$ 11,576** | **$ 7,811** |
| | | |
| **Basic earnings (loss) per share** | | |
| Continuing operations | $ 0.33 | $ 0.33 |
| Discontinued operations | - | (0.11) |
| Basic earnings per share | **$ 0.33** | **$ 0.22** |
| | | |
| **Diluted earnings (loss) per share** | | |
| Continuing operations | $ 0.32 | $ 0.33 |
| Discontinued operations | - | (0.11) |
| Diluted earnings per share | **$ 0.32** | **$ 0.22** |
| | | |
| Basic weighted average common shares outstanding | 35,312 | 35,401 |
| Diluted weighted average common shares outstanding | 36,191 | 35,664 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
(In thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| **Cash flows from operating activities:** | | |
| Net income | $ 11,611 | $ 7,878 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 2,571 | 2,801 |
| Non-cash stock based compensation expense | 1,642 | 2,132 |
| Deferred income taxes | 134 | 11,396 |
| Loss on sale of business | - | 2,138 |
| (Gain) on disposal of assets | (142) | - |
| Changes in accounts receivable and contract assets | (30,149) | (16,380) |
| Changes in inventories | (12,115) | (3,686) |
| Changes in accounts payable | 27,472 | 472 |
| Changes in accrued compensation and related taxes | (4,736) | (6,140) |
| Changes in accrued warranty | 686 | (538) |
| Change in other assets and liabilities | 1,723 | (17,141) |
| **Net cash used in operating activities** | (1,303) | (17,068) |
| | | |
| **Cash flows from investing activities:** | | |
| Purchases of property, plant and equipment | (5,914) | (2,433) |
| Acquisition of business, net of cash acquired | 404 | - |
| Proceeds from sale of business | - | 55,000 |
| **Net cash provided by (used in) investing activities** | (5,510) | 52,567 |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from long-term debt | - | 16,000 |
| Payments on long-term debt | - | (30,000) |
| Payment of dividends | (889) | - |
| Purchase and retirement of common stock | (3,348) | - |
| Exercise and vesting of stock incentive awards | 104 | 55 |
| **Net cash used in financing activities** | (4,133) | (13,945) |
| | | |
| **Net increase (decrease) in cash and cash equivalents** | (10,946) | 21,554 |
| **Cash and cash equivalents at beginning of period** | 20,995 | 19,349 |
| **Cash and cash equivalents at end of period** | $ 10,049 | $ 40,903 |

Note: Consolidated Statements of Cash Flows include continuing operations and discontinued operations for all periods presented.

See accompanying Notes to Condensed Consolidated Financial Statements.

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)**
(In thousands)

| | Number of Shares | Common Stock | Additional Paid In Capital | Retained Earnings | Non-Controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | 35,344 | $ 91,044 | $ - | $ 109,286 | $ (171) | $ 200,159 |
| Issuance of common stock and tax impact of stock incentive plan | 3 | (2,255) | - | - | - | (2,255) |
| Dividends declared ($0.025 per share) | - | - | - | (983) | - | (983) |
| Purchase and retirement of common stock | (100) | (260) | - | (3,088) | - | (3,348) |
| Issuance of restricted stock, net of cancellation | 61 | - | - | - | - | - |
| Non-cash stock based compensation expense | - | 1,642 | - | - | - | 1,642 |
| Net income | - | - | - | 11,576 | 35 | 11,611 |
| Balance at March 31, 2021 | 35,308 | $ 90,171 | $ - | $ 116,791 | $ (136) | $ 206,826 |

| | Number of Shares | Common Stock | Additional Paid In Capital | Retained Earnings | Non-Controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2019 | 35,344 | $ 353 | $ 85,148 | $ 86,764 | $ (518) | $ 171,747 |
| Issuance of common stock and tax impact of stock incentive plan | 4 | - | 55 | - | - | 55 |
| Issuance of restricted stock, net of cancellation | 127 | 1 | - | - | - | 1 |
| Non-cash stock based compensation expense | - | - | 2,132 | - | - | 2,132 |
| Net income | - | - | - | 7,811 | 67 | 7,878 |
| Balance at March 31, 2020 | 35,475 | $ 354 | $ 87,335 | $ 94,575 | $ (451) | $ 181,813 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollar amounts in thousands, except per share data)**

## NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

For a description of key accounting policies followed, refer to the notes to The Shyft Group, Inc. consolidated financial statements for the year ended December 31, 2020, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 25, 2021.

*Nature of Operations*

We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific upfit segments) and recreational vehicle industries. Our products include walk-in vans and truck bodies used in e-commerce/parcel delivery, upfit equipment used in the mobile retail and utility trades, luxury Class A diesel motor home chassis and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture. Our operating activities are conducted through our wholly-owned operating subsidiary, The Shyft Group USA, Inc., with locations in Novi and Charlotte, Michigan; Bristol, Indiana; Waterville, Maine; Ephrata, Pennsylvania; North Charleston, South Carolina; Pompano Beach and West Palm Beach, Florida; Kansas City, Missouri; Montebello, Carson and McClellan Park, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Saltillo, Mexico.

The accompanying unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are necessary for the fair presentation of our financial position as of March 31, 2021, and our results of operations and cash flows for the three months ended March 31, 2021. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2020. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results expected for the full year.

*Recent Developments*

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19"). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The pandemic has had a significant impact on macroeconomic conditions. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines. While the Company's plants continued to operate as essential businesses, starting March 23, 2020 certain of our manufacturing facilities were temporarily suspended or cut back on operating levels and shifts as a result of government orders. Since the third quarter of 2020, all of our facilities were at full or modified production levels. However, additional suspensions and cutbacks may occur as the impacts from COVID-19 and related responses continue to evolve within our global supply chain and customer base. The Company is taking a variety of measures to maintain operations with as minimal impact as possible to promote the safety and security of our associates, including increased frequency of cleaning and disinfecting of facilities, social distancing, remote working when possible, travel restrictions and limitations on visitor access to facilities.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this filing. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future periods.

On October 1, 2020, the Company acquired substantially all of the assets and certain liabilities of F3 MFG Inc. through the Company's subsidiary, The Shyft Group DuraMag LLC ("DuraMag"). DuraMag is a leading aluminum truck body and accessory manufacturer, and DuraMag operations include aluminum manufacturing, finishing, assembly, and installation of DuraMag contractor, service, and van bodies, as well as Magnum branded truck accessories including headache racks (also known as cab protection racks or rear racks). DuraMag operates out of Waterville, Maine and that location is expected to continue to serve as the business' primary manufacturing and assembly facility for both product lines. The addition of DuraMag aluminum bodies to the Company's product offerings follows the Company's 2019 acquisition of Royal Truck Body ("Royal"), a West Coast and Southwestern U.S. steel truck body maker. Combined, these acquisitions elevate the Company to a leading position as a national service body manufacturer. DuraMag is part of our Specialty Vehicle segment and continues to go to market under the DuraMag and Magnum brands.

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollar amounts in thousands, except per share data)**

*Recently Adopted Accounting Standards*

Effective January 1, 2021, we adopted ASU 2019-12 and all related amendments, which simplifies the accounting for income taxes by removing certain exceptions to the general principles of Topic 740 and improving consistent application of Generally Accepted Accounting Principles ("GAAP") for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of the provisions of ASU 2019-12 did not have a material impact on our consolidated financial position, results of operations or cash flows.

*Supplemental Disclosures of Cash Flow Information*

Non-cash investing in the first quarter of 2021 included $2,899 of capital expenditures. The Company has Chassis Pool Agreements, where it participates in a chassis converter pool that is a non-cash arrangement and is offsetting between current assets and current liabilities on the Company's Consolidated Balance Sheets. See "Note 5 – *Debt*" for further information about the Chassis Pool Agreements.

## NOTE 2 – DISCONTINUED OPERATIONS

On February 1, 2020, we completed the sale of our emergency response vehicle ("ERV") business for $55,000 cash subject to certain post-closing adjustments. In September 2020, the Company finalized the post-close net working capital adjustment and subsequently paid $7,500 on October 1, 2020. The Company recognized a loss on sale of $2,138 in the three months ended March 31, 2020, which is a portion of the Income (loss) from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2021 and 2020, respectively. The ERV business included the emergency response chassis operations in Charlotte, Michigan, and operations in Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania. The results of the ERV business have been reclassified to Income (loss) from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2020. We continue to have an open Transition Services Agreement with the buyer for the provision of certain transition support services, which may continue for certain services into 2022.

The Loss from discontinued operations presented in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2021 and 2020 consisted of:

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Sales | $ - | $ 19,167 |
| Cost of products sold | - | 18,678 |
| Gross profit | - | 489 |
| Operating expenses | - | 4,123 |
| Operating loss | - | (3,634) |
| Other income (expense) | 109 | (2,138) |
| Loss from discontinued operations before taxes | 109 | (5,772) |
| Income tax (expense) benefit | (28) | 1,908 |
| **Net income (loss) from discontinued operations** | $ 81 | $ (3,864) |

Total depreciation and amortization and capital expenditures for the discontinued operations for the three months ended March 31, 2021 and 2020 were as follows:

| | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Depreciation and amortization | $ - | $ 284 |
| Capital expenditures | $ - | $ 84 |

(Dollar amounts in thousands, except per share data)

## NOTE 3 – ACQUISITION ACTIVITIES

On October 1, 2020, the Company acquired substantially all of the assets and certain liabilities of F3 MFG Inc. through the Company's subsidiary, The Shyft Group DuraMag LLC ("DuraMag"). DuraMag is a leading, aluminum truck body and accessory manufacturer, and DuraMag operations include aluminum manufacturing, finishing, assembly, and installation of DuraMag contractor, service, and van bodies, as well as Magnum branded headache racks (also known as cab protection racks or rear racks). The Company paid $18,203 in cash, subject to a net working capital adjustment. The net working capital adjustment was finalized in January 2021, resulting in a decrease to the purchase price of $404. The acquisition was partially financed by borrowing from our existing line of credit, as described in "Note 5 – *Debt*". DuraMag is part of our Specialty Vehicle segment.

*Purchase Price Allocation*

The DuraMag acquisition was accounted for using the acquisition method of accounting with the purchase price allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. Identifiable intangible assets include customer relationships, DuraMag and Magnum trade names and trademarks, unpatented technology and non-competition agreements. The preliminary excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired of $5,697 was recorded as goodwill, which is expected to be deductible for tax purposes.

The fair values of the net assets acquired were based on a preliminary valuation and the estimates and assumptions are subject to change within the measurement period. The Company will finalize the purchase price allocation for adjustments related to accrued warranty and certain other liabilities that we believe to be insignificant as soon as practicable within the measurement period, but in no event later than one year following the acquisition date.

As of March 31, 2021, the preliminary allocation of purchase price to assets acquired and liabilities assumed is as follows:

| | |
|---|---|
| Accounts receivable | $ 2,230 |
| Inventories | 3,659 |
| Other current assets | 15 |
| Property, plant and equipment | 2,949 |
| Right of use assets-operating leases | 8,469 |
| Intangible assets | 5,590 |
| Goodwill | 5,697 |
| Total assets acquired | 28,609 |
| | |
| Accounts payable | (1,662) |
| Accrued compensation and related taxes | (434) |
| Current operating lease liabilities | (644) |
| Other current liabilities and accrued expenses | (241) |
| Long-term operating lease liability | (7,825) |
| Long-term debt | (4) |
| Total liabilities assumed | (10,810) |
| | |
| Total purchase price | $ 17,799 |

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollar amounts in thousands, except per share data)**

*Goodwill and Intangible Assets Assigned*

Intangible assets totaling $5,590 have provisionally been assigned to customer relationships, trade names and trademarks, unpatented technology and non-competition agreements as a result of the acquisition and consist of the following (in thousands):

| | Amount | Useful Life |
|---|---|---|
| Customer relationships | $ 2,200 | 15 Years |
| Trade names and trademarks | 2,420 | Indefinite |
| Unpatented technology | 540 | 9 Years |
| Non-competition agreements | 430 | 6 Years |
| | $ 5,590 | |

The Company amortizes the customer relationships utilizing an accelerated approach and unpatented technology and non-competition agreements assets utilizing a straight-line approach. Amortization expense, including the intangible assets, recorded from the DuraMag acquisition is $70 for the quarter ended March 31, 2021.

Goodwill consists of operational synergies that are expected to be realized in both the short and long-term and the opportunity to enter into new markets which will enable us to increase value to our customers and shareholders. Key areas of expected cost savings include an expanded dealer network, complementary product portfolios and manufacturing and supply chain work process improvements.

Due to its insignificant size relative to the Company, supplemental pro forma financial information of the combined entity for the prior reporting period is not provided.

## NOTE 4 – INVENTORIES

Inventories are summarized as follows:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Finished goods | $ 5,797 | $ 4,200 |
| Work in process | 2,989 | 1,908 |
| Raw materials and purchased components | 55,427 | 46,576 |
| Reserve | (5,670) | (6,256) |
| Total inventories, net | $ 58,543 | $ 46,428 |

## NOTE 5 – DEBT

Short-term debt consists of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Chassis pool agreements | $ 24,998 | $ 6,503 |
| Total short-term debt | $ 24,998 | $ 6,503 |

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Dollar amounts in thousands, except per share data)**

*Chassis Pool Agreements*

The Company obtains certain vehicle chassis for its walk-in vans, truck bodies and specialty vehicles directly from the chassis manufacturers under converter pool agreements. Chassis are obtained from the manufacturers based on orders from customers, and in some cases, for unallocated orders. The agreements generally state that the manufacturer will provide a supply of chassis to be maintained at the Company’s facilities with the condition that we will store such chassis and will not move, sell, or otherwise dispose of such chassis except under the terms of the agreement. In addition, the manufacturer typically retains the sole authority to authorize commencement of work on the chassis and to make certain other decisions with respect to the chassis including the terms and pricing of sales of the chassis to the manufacturer’s dealers. The manufacturer also does not transfer the certificate of origin to the Company nor permit the Company to sell or transfer the chassis to anyone other than the manufacturer (for ultimate resale to a dealer).

Although the Company is party to related finance agreements with manufacturers, the Company has not historically settled any related obligations in cash, nor does it expect to do so in the future. Instead, the obligation is settled by the manufacturer upon reassignment of the chassis to an accepted dealer, and the dealer is invoiced for the chassis by the manufacturer. Accordingly, as of March 31, 2021 and December 31, 2020, the Company’s outstanding chassis converter pool with manufacturers totaled $24,998 and $6,503, respectively and the Company has included this financing agreement on the Company’s Condensed Consolidated Balance Sheets within *Other receivables – chassis pool agreements* and *Short-term debt – chassis pool agreements*. Typically, chassis are converted and delivered to customers within 90 days of the receipt of the chassis by the Company. The chassis converter pool is a non-cash arrangement and is offsetting between Current assets and Current liabilities on the Company’s Condensed Consolidated Balance Sheets.

Long-term debt consists of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Line of credit revolver | $ 22,400 | $ 22,400 |
| Finance lease obligation | 421 | 473 |
| Other | 704 | 766 |
| Total debt | 23,525 | 23,639 |
| Less current portion of long-term debt | (221) | (221) |
| Total long-term debt | $ 23,304 | $ 23,418 |

*Line of Credit Revolver*

On August 8, 2018, we entered into a Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank National Association (the "Lenders"). Subsequently, the Credit Agreement was amended on May 14, 2019, September 9, 2019 and September 25, 2019 and certain of our other subsidiaries executed guaranties guarantying the borrowers’ obligations under the Credit Agreement. Concurrent with the close of the sale of the ERV business and effective January 31, 2020, the Credit Agreement was further amended by a fourth amendment, which released certain of our subsidiaries that were sold as part of the ERV business. The substantive business terms of the Credit Agreement remain in place and were not changed by the fourth amendment.

As a result, at March 31, 2021, under the Credit Agreement, as amended, we may borrow up to $175,000 from the Lenders under a secured revolving credit facility which matures August 8, 2023. We may also request an increase in the facility of up to $50,000 in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20,000 and swing line loans of up to $30,000, subject to certain limitations and restrictions. This revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 1.38% (or one-month LIBOR plus 1.25%) at March 31, 2021. The credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At March 31, 2021 and December 31, 2020, we had outstanding letters of credit totaling $525 related to our workers’ compensation insurance.

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**(Dollar amounts in thousands, except per share data)**

Effective April 20, 2021, the Credit Agreement was further amended by a fifth amendment, which increased the swing line loans availability to $40,000, subject to certain limitations and restrictions. The substantive business terms of the Credit Agreement remain in place and were not changed by the fifth amendment.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $125,951 and $125,836 at March 31, 2021 and December 31, 2020, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At March 31, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

## NOTE 6 – REVENUE

The tables below disclose changes in contract assets and liabilities for the three months ended March 31, 2021 and 2020.

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Contract Assets | | |
| Contract assets, beginning of period | $ 9,414 | $ 10,898 |
| Reclassification of the beginning contract assets to receivables, as the result of rights to consideration becoming unconditional | (8,977) | (10,623) |
| Contract assets recognized, net of reclassification to receivables | 20,211 | 14,370 |
| Contract assets, end of period | $ 20,648 | $ 14,645 |
| | | |
| Contract Liabilities | | |
| Contract liabilities, beginning of period | $ 756 | $ 2,640 |
| Reclassification of the beginning contract liabilities to revenue, as the result of performance obligations satisfied | (567) | (2,384) |
| Cash received in advance and not recognized as revenue | 274 | 835 |
| Contract liabilities, end of period | $ 463 | $ 1,091 |

The aggregate amount of the transaction price allocated to remaining performance obligations in existing contracts that are yet to be completed in the Fleet Vehicles and Services (“FVS”) and Specialty Vehicles (“SV”) segments are $589,604 and $76,896 respectively, with substantially all revenue expected to be recognized within one year as of March 31, 2021.

In the following tables, revenue is disaggregated by primary geographical market and timing of revenue recognition for the three months ended March 31, 2021 and 2020. The tables also include a reconciliation of the disaggregated revenue with the reportable segments.

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**(Dollar amounts in thousands, except per share data)**

| | Three Months Ended March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | FVS | SV | Total Reportable Segments | Other | Total |
| Primary geographical markets | | | | | |
| United States | $ 129,079 | $ 66,196 | $ 195,275 | $ - | $ 195,275 |
| Other | 2,594 | 19 | 2,613 | - | 2,613 |
| Total sales | $ 131,673 | $ 66,215 | $ 197,888 | $ - | $ 197,888 |
| | | | | | |
| Timing of revenue recognition | | | | | |
| Products transferred at a point in time | $ 9,757 | $ 39,337 | $ 49,094 | $ - | $ 49,094 |
| Products and services transferred over time | 121,916 | 26,878 | 148,794 | - | 148,794 |
| Total sales | $ 131,673 | $ 66,215 | $ 197,888 | $ - | $ 197,888 |

| | Three Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | FVS | SV | Total Reportable Segments | Other | Total |
| Primary geographical markets | | | | | |
| United States | $ 132,897 | $ 41,075 | $ 173,972 | $ - | $ 173,972 |
| Other | 2,791 | 185 | 2,976 | - | 2,976 |
| Total sales | $ 135,688 | $ 41,260 | $ 176,948 | $ - | $ 176,948 |
| | | | | | |
| Timing of revenue recognition | | | | | |
| Products transferred at a point in time | $ 22,257 | $ 24,734 | $ 46,991 | $ - | $ 46,991 |
| Products and services transferred over time | 113,431 | 16,526 | 129,957 | - | 129,957 |
| Total sales | $ 135,688 | $ 41,260 | $ 176,948 | $ - | $ 176,948 |

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are summarized by major classifications as follows:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Land and improvements | $ 8,721 | $ 8,721 |
| Buildings and improvements | 41,045 | 40,077 |
| Plant machinery and equipment | 41,954 | 41,054 |
| Furniture and fixtures | 16,512 | 16,259 |
| Vehicles | 2,571 | 2,404 |
| Construction in process | 14,076 | 8,724 |
| Subtotal | 124,879 | 117,239 |
| Less accumulated depreciation | (73,319) | (71,505) |
| Total property, plant and equipment, net | $ 51,560 | $ 45,734 |

We recorded depreciation expense of $1,741 and $1,814 during the three months ended March 31, 2021 and 2020, respectively.

(Dollar amounts in thousands, except per share data)

## NOTE 8 – LEASES

We have operating and finance leases for land, buildings and certain equipment. Our leases have remaining lease terms of one year to 19 years, some of which include options to extend the leases for up to 15 years. Our leases do not contain residual value guarantees. Assets recorded under finance leases were immaterial (See "Note 5 – *Debt*").

Operating lease expenses are classified as Cost of products sold and Operating expenses on the Condensed Consolidated Statements of Operations. The components of lease expense were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Operating leases | $ 1,954 | $ 1,596 |
| Short-term leases(1) | 38 | 16 |
| Total lease expense | $ 1,992 | $ 1,612 |

(1) Includes expenses for month-to-month equipment leases, which are classified as short-term as the Company is not reasonably certain to renew the lease term beyond one month.

The weighted average remaining lease term and weighted average discount rate were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Weighted average remaining lease term of operating leases (in years) | 9.3 | 8.3 |
| Weighted average discount rate of operating leases | 3.1% | 3.8% |

Supplemental cash flow information related to leases was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flow for operating leases | $ 1,914 | $ 1,641 |
| | | |
| Right of use assets obtained in exchange for lease obligations: | | |
| Operating leases | $ 60 | $ - |
| Finance leases | $ - | $ 136 |

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Maturities of operating lease liabilities as of March 31, 2021 are as follows:

| | |
|---|---|
| Years ending December 31: | |
| 2021(1) | $ 5,630 |
| 2022 | 6,700 |
| 2023 | 6,511 |
| 2024 | 6,356 |
| 2025 | 5,676 |
| Thereafter | 17,817 |
| Total lease payments | 48,690 |
| Less: imputed interest | (6,470) |
| Total lease liabilities | $ 42,220 |

(1) Excluding the three months ended March 31, 2021.

## NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of the Credit Agreement we have the ability to issue letters of credit totaling $20,000. We had outstanding letters of credit totaling $525 at March 31, 2021 and December 31, 2020 related to our workers' compensation insurance.

At March 31, 2021, we and our subsidiaries were parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of our businesses. In the opinion of management, our financial position, future operating results or cash flows will not be materially affected by the final outcome of these legal proceedings.

*Warranty Related*

We provide limited warranties against assembly/construction defects. These warranties generally provide for the replacement or repair of defective parts or workmanship for a specified period following the date of sale. The end users also may receive limited warranties from suppliers of components that are incorporated into our chassis and vehicles.

Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. Infrequently, a material warranty issue can arise which is beyond the scope of our historical experience. We provide for any such warranty issues as they become known and are estimable. It is reasonably possible that additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. An estimate of possible penalty or loss, if any, cannot be made at this time.

Changes in our warranty liability during the three months ended March 31, 2021 and 2020 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Balance of accrued warranty at January 1 | $ 5,633 | $ 5,694 |
| Provisions for current period sales | 824 | 565 |
| Cash settlements | (814) | (548) |
| Changes in liability for pre-existing warranties | 677 | (556) |
| Balance of accrued warranty at March 31 | $ 6,320 | $ 5,155 |

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
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**(Dollar amounts in thousands, except per share data)**

*Spartan-Gimaex Joint Venture*

In February 2015, the Company and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the Spartan-Gimaex joint venture. In June 2015, the Company and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. In February 2017, by agreement of the parties, the court proceeding was dismissed with prejudice and the judge entered an order to this effect as the parties agreed to seek a dissolution plan on their own. In late 2019, the Company initiated additional court proceedings to dissolve and liquidate the joint venture. In April of 2020, as a result of a default judgment, the Company was appointed as liquidating trustee of the Gimaex joint venture, but no dissolution terms have been determined as of the date of this Form 10-Q. Costs associated with the wind-down will be impacted by the final dissolution terms. In accordance with accounting guidance, the costs we have accrued so far represent the low end of the range of the estimated total charges that we believe we may incur related to the wind-down. While we are unable to determine the final cost of the wind-down with certainty at this time, we may incur additional charges, depending on the final terms of the dissolution. Such charges are not expected to be material to our future operating results.

*EPA Information Request*

In May 2020, the Company received a letter from the United States Environmental Protection Agency (“EPA”) requesting certain information as part of an EPA investigation regarding a potential failure to affix emissions labels on vehicles to determine the Company’s compliance with applicable laws and regulations. This information request pertains to chassis, vocational vehicles, and vehicles that the Company manufactured or imported into the U.S. between January 1, 2017 to the date the Company received the request in May 2020. The Company responded to the EPA’s request and furnished the requested materials in the third quarter of 2020. An estimate of possible penalties or loss, if any, cannot be made at this time.

## NOTE 10 – TAXES ON INCOME

Our effective income tax rate was 23.2% and 3.1% for the three months ended March 31, 2021 and 2020, respectively.

The effective tax rate of 23.2% for the three months ended March 31, 2021 is higher than the U.S. statutory tax rate of 21% primarily because of state income taxes at their statutory rates partially offset by a discrete tax benefit of $468 related to the difference in stock compensation expense recognized for book purposes and tax purposes upon vesting.

The effective tax rate for the three months ended March 31, 2020 reflects the favorable impact of certain provisions of the CARES Act upon the income tax expense as computed based on current statutory income tax rates. Enacted on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act amended certain provisions of the tax code to allow the five-year carryback of tax basis net operating losses (“NOL”) incurred in the years 2018 through 2020. The closing of the sale of the ERV business during the first quarter of 2020 put the Company into a tax basis NOL position for the year as a result of the reversal of deferred tax assets that were recorded in 2019. Under the CARES Act, the Company will carry the NOL back to offset taxable income incurred in years prior to 2018 when the federal corporate income tax rate was 35%, as compared to the 21% tax rate at which the deferred tax assets were originally recorded. Based upon the accounting guidance, which requires that the impact of tax law changes be recorded in continuing operations, the Company recorded a $2,610 current period tax benefit resulting from the rate difference as a component of Income tax expense in the first quarter of 2020.

## NOTE 11 – BUSINESS SEGMENTS

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision maker to assess segment performance and allocate resources among our operating units. We have two reportable segments: Fleet Vehicles and Services and Specialty Vehicles.

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We evaluate the performance of our reportable segments based on Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and it is calculated by excluding items that we believe to be infrequent or not indicative of our underlying operating performance, as well as certain non-cash expenses. We define Adjusted EBITDA as income from continuing operations before interest, income taxes, depreciation and amortization, as adjusted to eliminate the impact of restructuring charges, acquisition related expenses and adjustments, non-cash stock-based compensation expenses, and other gains and losses not reflective of our ongoing operations.

The accounting policies of the segments are the same as those described, or referred to, in "Note 1 – *Nature of Operations and Basis of Presentation*". Assets and related depreciation expense in the column labeled “Eliminations and Other” pertain to capital assets maintained at the corporate level. Eliminations for inter-segment sales are shown in the column labeled “Eliminations and Other”. Segment loss from operations in the “Eliminations and Other” column contains corporate related expenses not allocable to the operating segments. Interest expense and Income tax expense (benefit) are not included in the information utilized by the chief operating decision maker to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

**Three Months Ended March 31, 2021**

| | Segment | | | |
|---|---|---|---|---|
| | FVS | SV | Eliminations and Other | Consolidated |
| Fleet vehicle sales | $ 124,875 | $ - | $ - | $ 124,875 |
| Motor home chassis sales | - | 35,268 | - | 35,268 |
| Other specialty vehicle sales | - | 26,879 | - | 26,879 |
| Aftermarket parts and accessories sales | 6,798 | 4,068 | - | 4,068 |
| Total sales | $ 131,673 | $ 66,215 | $ - | $ 197,888 |
| | | | | |
| Depreciation and amortization expense | $ 641 | $ 1,587 | $ 343 | $ 2,571 |
| Adjusted EBITDA | 18,210 | 7,016 | (6,055) | 19,171 |
| Segment assets | 179,218 | 197,374 | 34,941 | 411,533 |
| Capital expenditures | 4,779 | 2,368 | 292 | 7,439 |

**Three Months Ended March 31, 2020**

| | Segment | | | |
|---|---|---|---|---|
| | FVS | SV | Eliminations and Other | Consolidated |
| Fleet vehicle sales | $ 123,973 | $ - | $ - | $ 123,973 |
| Motor home chassis sales | - | 22,602 | - | 22,602 |
| Other specialty vehicle sales | - | 16,786 | - | 16,786 |
| Aftermarket parts and accessories sales | 11,715 | 1,872 | - | 13,587 |
| Total sales | $ 135,688 | $ 41,260 | $ - | $ 176,948 |
| | | | | |
| Depreciation and amortization expense | $ 800 | $ 1,190 | $ 527 | $ 2,517 |
| Adjusted EBITDA | 21,736 | 3,721 | (7,081) | 18,376 |
| Segment assets | 154,897 | 130,844 | 102,807 | 388,548 |
| Capital expenditures | 890 | 1,130 | 329 | 2,349 |





**THE SHYFT GROUP, INC. AND SUBSIDIARIES**
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**(Dollar amounts in thousands, except per share data)**

The table below presents the reconciliation of our income from continuing operations to Adjusted EBITDA. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income. Adjusted EBITDA may have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. In addition, although we have excluded certain charges in calculating Adjusted EBITDA, we may in the future incur expenses similar to these adjustments, despite our assessment that such expenses are infrequent and/or not indicative of our regular, ongoing operating performance. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or infrequent items.

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2021** | **2020** |
| Income from continuing operations | $ 11,530 | $ 11,742 |
| Net (income) attributable to non-controlling interest | (35) | (67) |
| Add (subtract): | | |
| Interest (income) expense | (170) | 731 |
| Depreciation and amortization expense | 2,571 | 2,517 |

| | | |
|---|---|---|
| Income tax expense | 3,490 | 377 |
| Restructuring and other related charges | - | 992 |
| Acquisition related expenses and adjustments | 143 | 93 |
| Non-cash stock based compensation expense | 1,642 | 1,991 |
| Adjusted EBITDA | $ 19,171 | $ 18,376 |

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The Shyft Group, Inc. was organized as a Michigan corporation on September 18, 1975, and is headquartered in Novi, Michigan. We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific upfit segments) and recreational vehicle industries. Our products include walk-in vans and truck bodies used in e-commerce/parcel delivery, upfit equipment used in the mobile retail and utility trades, service and vocational truck bodies, luxury Class A diesel motor home chassis and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture. Our operating activities are conducted through our wholly-owned operating subsidiary, The Shyft Group USA, Inc., with locations in Novi and Charlotte, Michigan; Bristol, Indiana; Waterville, Maine; Ephrata, Pennsylvania; North Charleston, South Carolina; Pompano Beach and West Palm Beach, Florida; Kansas City, Missouri; Montebello, Carson and McClellan Park, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Saltillo, Mexico.

Our vehicles, parts and services are sold to commercial users, original equipment manufacturers ("OEMs"), dealers, individual end users, and municipalities and other governmental entities. Our diversification across several sectors provides numerous opportunities while reducing overall risk as the various markets we serve tend to have different cyclicality. We have an innovative team focused on building lasting relationships with our customers by designing and delivering market leading specialty vehicles, vehicle components, and services. Additionally, our business structure is agile and able to quickly respond to market needs, take advantage of strategic opportunities when they arise and correctly size and scale operations to ensure stability and growth. Our expansion of equipment upfit services in our Fleet Vehicles and Services segment, and the growing opportunities that we have capitalized on in last mile delivery as a result of the rapidly changing e-commerce market, are excellent examples of our ability to generate growth and profitability by quickly fulfilling customer needs and operating efficiently.

*Recent Developments*

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”). On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The pandemic has had a significant impact on macroeconomic conditions. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines. While the Company’s plants continued to operate as essential businesses, starting March 23, 2020 certain of our manufacturing facilities were temporarily suspended or cut back on operating levels and shifts as a result of government orders. Since the third quarter of 2020, all of our facilities were at full or modified production levels. However, additional suspensions and cutbacks may occur as the impacts from COVID-19 and related responses continue to evolve within our global supply chain and customer base. The Company is taking a variety of measures to maintain operations with as minimal impact as possible to promote the safety and security of our associates, including increased frequency of cleaning and disinfecting of facilities, social distancing, remote working when possible, travel restrictions and limitations on visitor access to facilities.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this filing. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the nature of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future periods.

On October 1, 2020, the Company acquired substantially all of the assets and certain liabilities of F3 MFG Inc. through the Company’s subsidiary, The Shyft Group DuraMag LLC (“DuraMag”). DuraMag is a leading aluminum truck body and accessory manufacturer, and DuraMag operations include aluminum manufacturing, finishing, assembly, and installation of DuraMag contractor, service, and van bodies, as well as Magnum branded truck accessories including headache racks (also known as cab protection racks or rear racks). DuraMag operates out of Waterville, Maine and that location is expected to continue to serve as the business’ primary manufacturing and assembly facility for both product lines. The addition of DuraMag aluminum bodies to the Company's product offerings follows the Company’s 2019 acquisition of Royal Truck Body ("Royal"), a West Coast and Southwestern U.S. steel truck body maker. Combined, these acquisitions elevate the Company to a leading position as a national service body manufacturer. DuraMag is part of our Specialty Vehicle segment and continues to go to market under the DuraMag and Magnum brands.

*Executive Overview*

- Revenue of $197.9 million in the first quarter of 2021, an increase of 11.8% compared to $176.9 million in the first quarter of 2020.
- Gross Margin of 20.2% in the first quarter of 2021, compared to 20.5% in the first quarter of 2020.
- Operating expense of $25.3 million, or 12.8% of sales in the first quarter of 2021, compared to $22.9 million, or 13.0% of sales in the first quarter of 2020.
- Operating income of $14.7 million in the first quarter of 2021, compared to $13.4 million in the first quarter of 2020.
- Income tax expense of $3.5 million in the first quarter of 2021, compared to $0.4 million in the first quarter of 2020.
- Income from continuing operations of $11.5 million in the first quarter of 2021, compared to $11.7 million in the first quarter of 2020.
- Diluted earnings per share from continuing operations of $0.32 in the first quarter of 2021, compared to $0.33 in the first quarter of 2020.
- Order backlog of $666.5 million at March 31, 2021, an increase of $321.8 million or 93.4% from our backlog of $344.7 million at March 31, 2020.

We believe we are well positioned to take advantage of long-term opportunities and continue our efforts to bring product innovations to each of the markets that we serve. Some of our recent innovations, strategic developments and strengths include:

- The introduction of the Velocity F2, Class 2 walk-in van built on a Ford Transit chassis. The Velocity F2 combines nimbleness, comfort, and fuel efficiency with the cargo space, access, and load capacity similar to a traditional walk-in delivery van. The Velocity F2 gives parcel delivery fleets the flexibility they need to activate a large driver pool, service more customers, and maintain longer routes, consistent with increased demand.

- The introduction of the Velocity M3 walk-in cargo van which is built on a Mercedes-Benz Sprinter cab and chassis, blends the fuel efficiency, driver ergonomics, and safety provisions of a cargo van cab and chassis with the expansive cargo space of a traditional walk-in van. The Velocity M3 builds upon advancements from the Utilimaster Reach®, with a lighter body design, improved payload, better fuel efficiency, and maximized cargo space, punctuated with a game-changing automatic access system that opens, closes, and locks interior and exterior doors—without keys or manual effort—for unequaled ease and stop-by-stop efficiency gains.

- Our continued expansion into the equipment upfit market for vehicles used in the parcel delivery, trades and construction industries. This rapidly expanding market offers an opportunity to add value to current and new customers for our fleet vehicles and vehicles produced by other original equipment manufacturers.

- Electric vehicle ("EV") walk-in van demo units have made their way into customer testing for leading parcel delivery companies. The electrified, traditional walk-in vans will be built on a medium-duty chassis—an industry proven lightweight body design that is advantageous to an EV powertrain. With a gross vehicle weight rating of 19,500 pounds, 900 cubic feet of cargo space, and a payload capacity of 6,000 pounds, this new vehicle will be comparable in size and payload to standard internal combustion engine vans currently in production by Shyft's Utilimaster brand. The EV's initial range is expected to be up to 120 miles between charges—depending on use characteristics and conditions—and may be enhanced based on feedback from customer testing.

- The introduction of Royal Truck Body's new Severe Duty body, built to fit General Motors' medium duty truck class, which includes more standard features than any other service body on the market. With its Fortress five-point lock system, 10-gauge steel and Line-X'd box tops, 3/8″ tread plate steel floors, and more, this work truck is built to last and is ideal for contractors and business owners who put their work truck fleets to the test.

- The introduction of our refrigeration technology, which demonstrates our ability to apply the latest technical advancements with our unique understanding of last-mile delivery optimization. Utilimaster's Work-Driven Design™ process provides best-in-class conversion solutions in walk-in vans, truck bodies, and cargo van vehicles. The refrigerated van is upfitted to optimally preserve cold cargo quality while offering customizations such as removable bulkheads and optional thermal curtains. The multi-temperature solution requires no additional fuel source, so it can serve a wide variety of categories from food and grocery to time and temperature sensitive healthcare deliveries.

- The introduction of the K4 605 chassis. The K4 605 is equipped with Spartan Connected Coach, a technology bundle featuring the new digital dash display and keyless push-button start. It also features Spartan's Advanced Protection System, a collection of safety systems that includes collision mitigation with adaptive cruise control, electronic stability control, automatic traction control, Spartan Safe Haul, factory chassis-integrated air supply for tow vehicle braking systems, tire pressure monitoring system with integrated controls with Spartan Connected Coach's digital dash display, Premier Steer steering assist system, woodgrain and leather SMART steering wheel with integrated radio controls and a Passive Steer Tag Axle, and Cummins Connected Diagnostics.

- The strength of our balance sheet and access to credit through our revolving line of credit.

The following section provides a narrative discussion about our financial condition and results of operations. Certain amounts in the narrative may not sum due to rounding. The comments should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes thereto included in Item 1 of this Form 10-Q and in conjunction with our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 25, 2021.

**RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, the components of the Company's Condensed Consolidated Statements of Operations as a percentage of sales (percentages may not sum due to rounding):

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2021** | **2020** |
| Sales | 100.0 | 100.0 |
| Cost of products sold | 79.8 | 79.5 |
| Gross profit | 20.2 | 20.5 |
| Operating expenses: | | |
| Research and development | 0.4 | 0.9 |
| Selling, general and administrative | 12.4 | 12.1 |
| Operating income | 7.4 | 7.6 |
| Other income (expense), net | 0.2 | (0.7) |
| Income from continuing operations before income taxes | 7.6 | 6.8 |
| Income tax expense | 1.8 | 0.2 |
| Income from continuing operations | 5.8 | 6.6 |
| Income (loss) from discontinued operations, net of income taxes | 0.0 | (2.2) |
| Non-controlling interest | 0.0 | 0.0 |
| Net income attributable to The Shyft Group, Inc. | 5.8 | 4.4 |

*Sales*

For the quarter ended March 31, 2021, we reported consolidated sales of $197.9 million, compared to $176.9 million for the first quarter of 2020, an increase of $21.0 million or 11.8%. This increase reflects a sales volume increase of $21.0 million including acquired business.

*Cost of Products Sold*

Cost of products sold was $157.9 million in the first quarter of 2021, compared to $140.6 million in the first quarter of 2020, an increase of $17.3 million or 12.3%. Cost of products sold increased $18.7 million due to higher sales volumes including acquired business, $2.3 million due primarily to Velocity pre-production costs, partially offset by favorable product mix of $2.2 million and other productivity and cost reductions of $1.5 million.

*Gross Profit*

Gross profit was $40.0 million for the first quarter of 2021, compared to $36.3 million for the first quarter of 2020, an increase of $3.7 million, or 10.2%. Gross profit increased $5.0 million due to higher sales volumes including acquired business, $1.5 million due to productivity and other cost reductions, partially offset by unfavorable pricing and mix of $0.4 million and pre-production costs of $2.3 million.

*Operating Expenses*

Operating expense was $25.3 million for the first quarter of 2021, compared to $22.9 million for the first quarter of 2020, an increase of $2.4 million or 10.4%. Research and development expense in the first quarter of 2021 was $0.8 million, compared to $1.5 million in the first quarter of 2020, a decrease of $0.7 million. Selling, general and administrative expense was $24.5 million in the first quarter of 2021, compared to $21.3 million for the first quarter of 2020, an increase of $3.2 million or 14.7%, primarily driven by $1.1 million in increased professional fees and expenses incurred by the acquired business.

*Other Income (Expense)*

Interest income was $0.2 million for the first quarter of 2021, compared to interest expense of $0.7 million for the first quarter of 2020, driven by lower borrowings and interest support more than offsetting periodic expense. Other income was $0.2 million in the first quarter of 2021 compared to Other expense of $0.5 million for the first quarter of 2020 driven by costs associated with a transition service agreement.

*Income Tax Expense*

Our effective income tax rate was 23.2% in the first quarter of 2021, compared to 3.1% in the first quarter of 2020. The effective tax rate for 2021 reflects the impact of current statutory income tax rates on our Income before taxes partially offset by a discrete tax benefit of $0.5 million related to the difference in stock compensation expense recognized for book purposes and tax purposes upon vesting.

The effective tax rate for the three months ended March 31, 2021 compares unfavorably to the comparable period in 2020 due to a favorable adjustment recorded in 2020 because of provisions of the CARES Act allowing the carryback of tax net operating losses (“NOL”) incurred in the years 2018 through 2020 for five years. The sale of our ERV business in 2020 placed the Company into a tax NOL position because of the reversal of certain deferred tax assets recorded in 2019. As a result, this NOL will be carried back to offset taxable income in years when the federal corporate income tax rate was 35%, as opposed to the 21% rate in effect at the time the deferred tax assets were recorded. The resultant favorable tax rate differential allowed us to record a $2.6 million current year tax benefit as a discrete item.

*Income from Continuing Operations*

Income from continuing operations for the quarter ended March 31, 2021 decreased by $0.2 million, or 1.8%, to $11.5 million compared to $11.7 million for the quarter ended March 31, 2020. On a diluted per share basis, income from continuing operations decreased $0.01 to $0.32 in the first quarter of 2021 compared to $0.33 per share in the first quarter of 2020. Driving this decrease were the factors noted above.

*Income (Loss) from Discontinued Operations*

Income from discontinued operations, net of income taxes for the quarter ended March 31, 2021 increased by $4.0 million, or 102.1%, to $0.1 million compared to Loss from discontinued operations of $3.9 million for the quarter ended March 31, 2020 due to the completion of the sale of the ERV business in February 2020.

*Adjusted EBITDA*

Our consolidated Adjusted EBITDA in the first quarter of 2021 was $19.2 million, compared to $18.4 million for the first quarter of 2020, an increase of $0.8 million or 4.3%.

The table below describes the changes in Adjusted EBITDA for the three months ended March 31, 2021 compared to the same period of 2020 (in millions):

| | | |
|---|---|---|
| Adjusted EBITDA three months ended March 31, 2020 | $ | 18.4 |
| Sales volume including acquired business | | 5.0 |
| Sales pricing and mix | | (0.4) |
| Productivity and other cost reductions | | 1.5 |
| Pre-production costs | | (2.3) |
| General and administrative costs and other | | (3.0) |
| Adjusted EBITDA three months ended March 31, 2021 | $ | 19.2 |

*Order Backlog*

Our order backlog by reportable segment as of March 31, 2021 compared to March 31, 2020 is summarized in the following table (in thousands):

| | March 31, 2021 | March 31, 2020 |
|---|---|---|
| Fleet Vehicles and Services | $ 589,604 | $ 302,236 |
| Specialty Vehicles | 76,896 | 42,419 |
| Total consolidated | $ 666,500 | $ 344,655 |

Our Fleet Vehicles and Services backlog increased by $287.4 million, or 95.1%, which reflects strong demand for vehicles across the Company's product portfolio. Our Specialty Vehicles segment backlog increased by $34.5 million, or 81.3%, due to increased motor home chassis and service truck body orders.

The segment backlog at March 31, 2021, totaled $666.5 million, up 93.4%, compared to $344.7 million at March 31, 2020, which reflects strong demand for vehicles across the Company's product portfolio.

Orders in the backlog are subject to modification, cancellation or rescheduling by customers. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions, supply of chassis, and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period-to-period is not necessarily indicative of eventual actual shipments.

*Reconciliation of Non-GAAP Financial Measures*

This report presents Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP financial measure. This non-GAAP measure is calculated by excluding items that we believe to be infrequent or not indicative of our underlying operating performance, as well as certain non-cash expenses. We define Adjusted EBITDA as income from continuing operations before interest, income taxes, depreciation and amortization, as adjusted to eliminate the impact of restructuring charges, acquisition related expenses and adjustments, non-cash stock-based compensation expenses, and other gains and losses not reflective of our ongoing operations. Adjusted EBITDA for all prior periods presented has been recast to conform to the current presentation.

We present the non-GAAP measure Adjusted EBITDA because we consider it to be an important supplemental measure of our performance. The presentation of Adjusted EBITDA enables investors to better understand our operations by removing items that we believe are not representative of our continuing operations and may distort our longer-term operating trends. We believe this measure to be useful to improve the comparability of our results from period to period and with our competitors, as well as to show ongoing results from operations distinct from items that are infrequent or not indicative of our continuing operating performance. We believe that presenting this non-GAAP measure is useful to investors because it permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate our historical performance. We believe that the presentation of this non-GAAP measure, when considered together with the corresponding GAAP financial measures and the reconciliations to that measure, provides investors with additional understanding of the factors and trends affecting our business than could be obtained in the absence of this disclosure.

Our management uses Adjusted EBITDA to evaluate the performance of and allocate resources to our segments. Adjusted EBITDA is also used, along with other financial and non-financial measures, for purposes of determining annual incentive compensation for our management team and long-term incentive compensation for certain members of our management team.

The following table reconciles Income from continuing operations to Adjusted EBITDA for the periods indicated.

**Financial Summary (Non-GAAP)**
**Consolidated**
**(In thousands, Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2021** | **2020** |
| Income from continuing operations | $ 11,530 | $ 11,742 |
| Net (income) loss attributable to non-controlling interest | (35) | (67) |
| Add (subtract): | | |
| Interest expense | (170) | 731 |
| Depreciation and amortization expense | 2,571 | 2,517 |
| Income tax expense | 3,490 | 377 |
| Restructuring and other related charges | - | 992 |
| Acquisition related expenses and adjustments | 143 | 93 |
| Non-cash stock based compensation expense | 1,642 | 1,991 |
| Adjusted EBITDA | $ 19,171 | $ 18,376 |

*Our Segments*

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision maker to assess segment performance and allocate resources among our operating units. We have two reportable segments: Fleet Vehicles and Services ("FVS") and Specialty Vehicles ("SV").

For certain financial information related to each segment, see "Note 11 – Business Segments", of the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q.

*Fleet Vehicles and Services*

**Financial Data**
**(Dollars in Thousands)**
**Three Months Ended**
**March 31,**

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Amount** | **Percentage** | **Amount** | **Percentage** |
| Sales | $ 131,673 | 100.0% | $ 135,688 | 100.0% |
| Adjusted EBITDA | 18,210 | 13.8% | 21,736 | 16.0% |

Sales in our FVS segment were $131.7 million for the first quarter of 2021, compared to $135.7 million for the first quarter of 2020, a decrease of $4.0 million or 3.0%. This decrease was due to a sales volume decrease of $1.2 million and a product pricing and mix decrease of $2.8 million.

Adjusted EBITDA in our FVS segment for the first quarter of 2021 was $18.2 million compared to $21.7 million in the first quarter of 2020, a decrease of $3.5 million. This decrease was due to $0.3 million in lower sales volumes, $0.2 million unfavorable pricing and mix, $2.3 million due to pre-production costs and $1.6 million of increased operating expense, partially offset by other productivity and cost reductions of $0.9 million.

*Specialty Vehicles*

| | Financial Data (Dollars in Thousands) Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Amount | Percentage | Amount | Percentage |
| Sales | $ 66,215 | 100.0% | $ 41,260 | 100.0% |
| Adjusted EBITDA | 7,016 | 10.6% | 3,721 | 9.0% |

Sales in our SV segment were $66.2 million in the first quarter of 2021, compared to $41.3 million in the first quarter ended 2020, an increase of $24.9 million or 60.5%. This increase was due to a sales volume increase of $24.8 million including acquired business and product pricing and mix increase of $0.1 million.

Adjusted EBITDA for our SV segment for the first quarter of 2021 was $7.0 million, compared to $3.7 million in the first quarter of 2020, an increase of $3.3 million or 88.6%. This increase was due to $3.4 million in higher sales volumes including acquired business, $0.1 million in lower operating expense, partially offset by $0.2 million unfavorable mix.

## LIQUIDITY AND CAPITAL RESOURCES

*Cash Flows*

Cash and cash equivalents decreased by $11.0 million to $10.0 million at March 31, 2021, compared to $21.0 million at December 31, 2020. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance our foreseeable liquidity and capital needs, including potential future acquisitions.

*Cash Flow from Operating Activities*

We used $1.3 million of cash for operating activities during the three months ended March 31, 2021, a decrease in cash used of $15.8 million from $17.1 million of cash used by operating activities during the three months ended March 31, 2020. Cash flow from operating activities increased due to a $26.3 million increase in the change in net working capital (primarily driven by the net change in payables and other assets and liabilities partially offset by the net change in receivables and contract assets, and inventories) partially offset by a $10.5 million decrease in net income adjusted for non-cash charges to operations.

*Cash Flow from Investing Activities*

We used $5.5 million of cash for investing activities during the three months ended March 31, 2021, an increase of cash used of $58.1 million from $52.6 million of cash provided by investing activities during the three months ended March 31, 2020. Cash flow from investing activities decreased primarily due to a $3.5 million increase in purchases of property, plant and equipment and a $55.0 million decrease in proceeds from the sale of the ERV business.

*Cash Flow from Financing Activities*

We used $4.1 million of cash for financing activities during the three months ended March 31, 2021, a decrease of cash used of $9.8 million from $13.9 million of cash used by financing activities during the three months ended March 31, 2020. Cash flow from financing activities increased primarily due to a $30.0 million decrease in payments on long-term debt, partially offset by a decrease of $16.0 million in proceeds from long-term debt and a $3.3 million increase in the purchase and retirement of common stock.

*Contingent Obligations*

*Spartan-Gimaex Joint Venture*

In February 2015, the Company and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the Spartan-Gimaex joint venture. In June 2015, the Company and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. In February 2017, by agreement of the parties, the court proceeding was dismissed with prejudice and the judge entered an order to this effect as the parties agreed to seek a dissolution plan on their own. In late 2019, the Company initiated additional court proceedings to dissolve and liquidate the joint venture. In April of 2020, as a result of a default judgment, the Company was appointed as liquidating trustee of the Gimaex joint venture, but no dissolution terms have been determined as of the date of this Form 10-Q. Costs associated with the wind-down will be impacted by the final dissolution terms. In accordance with accounting guidance, the costs we have accrued so far represent the low end of the range of the estimated total charges that we believe we may incur related to the wind-down. While we are unable to determine the final cost of the wind-down with certainty at this time, we may incur additional charges, depending on the final terms of the dissolution. Such charges are not expected to be material to our future operating results.

*EPA Information Request*

In May 2020, the Company received a letter from the United States Environmental Protection Agency (“EPA”) requesting certain information as part of an EPA investigation regarding a potential failure to affix emissions labels on vehicles to determine the Company’s compliance with applicable laws and regulations. This information request pertains to chassis, vocational vehicles, and vehicles that the Company manufactured or imported into the U.S. between January 1, 2017 to the date the Company received the request in May 2020. The Company responded to the EPA’s request and furnished the requested materials in the third quarter of 2020. An estimate of possible penalties or loss, if any, cannot be made at this time.

*Debt*

On August 8, 2018, we entered into a Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank National Association (the "Lenders"). Subsequently, the Credit Agreement was amended on May 14, 2019, September 9, 2019 and September 25, 2019 and certain of our other subsidiaries executed guaranties guarantying the borrowers’ obligations under the Credit Agreement. Concurrent with the close of the sale of the ERV business and effective January 31, 2020, the Credit Agreement was further amended by a fourth amendment, which released certain of our subsidiaries that were sold as part of the ERV business. The substantive business terms of the Credit Agreement remain in place and were not changed by the fourth amendment.

As a result, at March 31, 2021, under the Credit Agreement, as amended, we may borrow up to $175.0 million from the Lenders under a secured revolving credit facility which matures August 8, 2023. We may also request an increase in the facility of up to $50.0 million in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20.0 million and swing line loans of up to $30.0 million subject to certain limitations and restrictions. This revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 1.38% (or one-month LIBOR plus 1.25%) at March 31, 2021. The credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At March 31, 2021 and December 31, 2020, we had outstanding letters of credit totaling $0.5 million related to our workers’ compensation insurance.

Effective April 20, 2021, the Credit Agreement was further amended by a fifth amendment, which increased the swing line loans availability to $40.0 million, subject to certain limitations and restrictions. The substantive business terms of the Credit Agreement remain in place and were not changed by the fifth amendment.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $126.0 million and $125.8 million at March 31, 2021 and December 31, 2020, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At March 31, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

*Equity Securities*

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock in open market transactions. At March 31, 2021 there were 0.4 million shares remaining under this repurchase authorization. If we were to repurchase the remaining 0.4 million shares of stock under the repurchase program, it would cost us approximately $14.5 million based on the closing price of our stock on April 30, 2021. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

*Dividends*

The amounts or timing of any dividends are subject to earnings, financial condition, liquidity, capital requirements and such other factors as our Board of Directors deems relevant. In August 2020, the Board of Directors approved the change of the frequency of dividend payments from semi-annual to quarterly. We declared dividends on our outstanding common shares in 2020 and 2021 as shown in the table below.

| Date dividend declared | Record date | Payment date | Dividend per share ($) | |
|---|---|---|---|---|
| Feb. 15, 2021 | Feb. 25, 2021 | Mar .25, 2021 | $ | 0.025 |
| Nov. 6, 2020 | Nov. 18, 2020 | Dec. 18, 2020 | $ | 0.025 |
| Aug. 6, 2020 | Aug. 18, 2020 | Sep. 18, 2020 | $ | 0.025 |
| May 8, 2020 | May 18, 2020 | Jun. 18, 2020 | $ | 0.050 |

**EFFECT OF INFLATION**

Inflation affects us in two principal ways. First, our revolving credit agreement is generally tied to the prime and LIBOR interest rates so that increases in those interest rates would be translated into additional interest expense. Second, general inflation impacts prices paid for labor, parts and supplies. Whenever possible, we attempt to cover increased costs of production and capital by adjusting the prices of our products. However, we generally do not attempt to negotiate inflation-based price adjustment provisions into our contracts. Since order lead times can be as much as nine months, we have limited ability to pass on cost increases to our customers on a short-term basis. In addition, the markets we serve are competitive in nature, and competition limits our ability to pass through cost increases in many cases. We strive to minimize the effect of inflation through cost reductions and improved productivity. Refer to the *Commodities Risk* section in Item 3 of this Form 10-Q, for further information regarding commodity cost fluctuations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

*Interest Rate Risk*

We are exposed to market risks related to changes in interest rates and the effect of such a change on outstanding variable rate short-term and long-term debt. At March 31, 2021, we had $22.4 million in debt outstanding under our variable rate short-term and long-term debt agreements. An increase of 100 basis points in interest rates would result in additional interest expense of $0.2 million on an annualized basis. We believe that we have sufficient financial resources to accommodate this hypothetical increase in interest rates. We do not enter into market-risk-sensitive instruments for trading or other purposes.

The interest rate charged on our outstanding borrowings pursuant to our credit facility is currently based on LIBOR, as described in Part 1, Item 1, "Note 5 – *Debt*" of this Form 10-Q. On July 27, 2017, the Financial Conduct Authority in the U.K. announced that it would phase out LIBOR by the end of 2021. On November 30, 2020, the ICE Benchmark Administration Limited (ICE) announced plans to delay the phase out of LIBOR to June 30, 2023. The U.S. Federal Reserve is considering replacing U.S. dollar LIBOR with a newly created index called the Secured Overnight Funding Rate (SOFR), a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. Our credit facility provides for the transition to a replacement for LIBOR, and it also provides for an alternative to LIBOR, as described in Part 1, Item 1, "Note 5 – *Debt*" of this Form 10-Q. If LIBOR ceases to exist, our interest expense may increase. It is also possible that the overall financing market may be disrupted as a result of the phase-out or replacement of LIBOR with SOFR or any other reference rate. Increased interest expense and/or disruption in the financial market could have a material adverse effect on our business, financial condition, or results of operations.

*Commodities Risk*

We are also exposed to changes in the prices of raw materials, primarily steel and aluminum, along with components that are made from these raw materials. We generally do not enter into derivative instruments for the purpose of managing exposures associated with fluctuations in steel and aluminum prices. We do, from time to time, engage in pre-buys of components that are impacted by changes in steel, aluminum and other commodity prices in order to mitigate our exposure to such price increases and align our costs with prices quoted in specific customer orders. We also actively manage our material supply sourcing and may employ various methods to limit risk associated with commodity cost fluctuations due to normal market conditions and other factors including tariffs. See Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part 1, Item 2 of this Form 10-Q for information on the impacts of changes in input costs during the three months ended March 31, 2021.

We do not believe that there has been a material change in the nature or categories of the primary market risk exposures or in the particular markets that present our primary risk of loss. As of the date of this report, we do not know of or expect any material changes in the general nature of our primary market risk exposure in the near term. In this discussion, "near term" means a period of one year following the date of the most recent balance sheet contained in this report.

Prevailing interest rates, interest rate relationships and commodity costs are primarily determined by market factors that are beyond our control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "Forward-Looking Statements" before Part I of this Quarterly Report on Form 10-Q for a discussion of the limitations on our responsibility for such statements.

## Item 4. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting that was disclosed in the Annual Report on Form 10-K for the year ended December 31, 2020.

Notwithstanding the identified material weakness, management has concluded that the condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in accordance with U.S. generally accepted accounting principles.

### Remediation

We are executing against the remediation plan previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2020. The material weakness will not be considered remediated until the applicable control operates for a sufficient period of time and management has concluded, through testing, that the control objective is achieved. We are currently tracking to our action plan for remediation of this material weakness prior to the end of fiscal 2021.

### Changes in Internal Control over Financial Reporting

Other than the remediation efforts discussed above, there have been no changes in our internal control over financial reporting that occurred during the first quarter of fiscal 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the “Risk Factors”). There have been no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2020 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

**Issuer Purchases of Equity Securities**

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock in open market transactions. During the quarter ended March 31, 2021, 0.1 million shares were repurchased under this authorization.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Number of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| January 1 to January 31 | - | $ - | - | 508,994 |
| February 1 to February 28 | 45,496 | 32.76 | 45,000 | 463,994 |
| March 1 to March 31 | 120,184 | 35.03 | 55,000 | 408,994 |
| Total | 165,680 | | 100,000 | 408,994 |

(1)This column reflects the number of shares that may yet be purchased pursuant to the April 28, 2016 Board of Directors authorization described above.

During the quarter ended March 31, 2021, 65,680 shares were delivered by associates in satisfaction of tax withholding obligations that occurred upon the vesting of restricted shares.

**Item 6. Exhibits.**

(a) Exhibits. The following exhibits are filed as a part of this report on Form 10-Q:

| Exhibit No. | Document |
|---|---|
| 31.1 | Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350. |
| 101.INS | Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101) |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 6, 2021 THE SHYFT GROUP, INC.

By /s/ Jonathan C. Douyard
Jonathan C. Douyard
Chief Financial Officer

**EXHIBIT 31.1**

**CERTIFICATION**

I, Daryl M. Adams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Shyft Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Daryl M. Adams
Daryl M. Adams
President and Chief Executive Officer
The Shyft Group, Inc.

**EXHIBIT 31.2**

**CERTIFICATION**

I, Jonathan C. Douyard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Shyft Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 6, 2021

/s/ Jonathan C. Douyard
Jonathan C. Douyard
Chief Financial Officer
The Shyft Group, Inc.

**EXHIBIT 32**

**CERTIFICATION**

Each of the undersigned hereby certifies in his capacity as an officer of The Shyft Group, Inc. (the “Company”), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition at the end of such period and results of operations of the Company for such period.

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|---|---|
| Dated: May 6, 2021 | /s/ Daryl M. Adams |
| | Daryl M. Adams |
| | President and Chief Executive Officer |
| | |
| Dated: May 6, 2021 | /s/ Jonathan C. Douyard |
| | Jonathan C. Douyard |
| | Chief Financial Officer |