10-Aug-2015

Horizon Global Corp. (HZN)

Q2 2015 Earnings Call

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A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer

David G. Rice
Chief Financial Officer

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, welcome to the Horizon Global Second Quarter 2015 Conference Call. My name is Jackie, and I will be your operator for today's call. As a remainder, today's conference is being recorded for replay purposes.

I will now turn the call over to the Vice President of Investor Relations, Maria Duey. Maria, you may begin.

Maria Duey
Vice President, Investor Relations & Communications, Horizon Global Corp.

Thank you, Jackie, and good morning to everyone. Welcome to the Horizon Global's second quarter 2015 earnings call. Joining me on our call today are Mark Zeffiro, President and CEO of Horizon Global; and David Rice, our Chief Financial Officer. Our second quarter earnings release and the presentation slides that we will refer to during the call are available on the Investor Relations portion of our website.

Following our prepared remarks, the call will be opened for analysts' questions. As a reminder, we would appreciate it if you would limit yourself to one question with one follow-up. If you are unable to take your question during the call, please feel free to call me directly at 248-593-8810.

Turning to slide two, I would like to remind you that today's statements or the statements in today's presentation will include our views about Horizon Global's future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. We've described these risks and uncertainties in our risk factors and other disclosures in the company's registration statement filed on Form S-1 that we've filed with the Securities and Exchange Commission.

Today's presentation also includes non-GAAP financial measures. Any references to operating profit, earnings per share or cash flow on today's call will be as adjusted, unless otherwise noted, with the reconciliation of these adjusted measurements to GAAP in our quarterly press release and presentation slides in the Investor Relations segment of our website at www.horizonglobal.com.

With that, I will now turn the call over to our President and Chief Executive Officer, Mark Zeffiro. Mark?

A. Mark Zeffiro

Co-Chairman, President & Chief Executive Officer

Thank you, Maria. Good morning to all. Today is a momentous occasion for the Horizon Global team and all of our stakeholders. I welcome you to our first earnings call for our new company Horizon Global. We will review with you the recent performance of our company and more importantly, we will share our view as to the remainder of 2015.

As you know, our company spun off from TriMas Corporation at the end of June. For these past several months, many of our colleagues went above and beyond to ensure the spin-off was completed successfully. I wanted to personally thank all involved and their efforts and dedication to this positive outcome. It is from this point in time which we will measure the performance of our company and celebrate our successes.

Much effort was expanded to get us to the starting line. Now begins the marathon of continuous improvement and execution efforts to make Horizon Global a vibrant successful company. If you would please flip to slide four in the deck, I would like to start this call by sharing the vision, mission, and objectives of the company.

Our products enrich lives. That's who we are. We enrich lives through better products. But you can't just have a vision, you have to have a mission that supports it. Our mission is utilize forward-thinking technology to develop the best-in-class products for our customers, engage with our employees, and realize value creation for our shareholders. We're taking an outside view of our company, focusing on the markets and our customers first. The enablers are strategic advantages needed to be leveraged to deliver heightened levels of performance. It just means that the next evolution in terms of global reach and product development and channel expertise is really how we're going to differentiate going forward.

Moving onto slide five, we have assembled a responsible, capable, and dedicated executive team. Our cultural imperatives are important to delivering profitable growth. The C-Suite, which I consider my corporate executive council is responsible for developing and delivering the vision of the enterprise. This management team has a strong track record and has been stress-tested multiple times through down cycles.

The organizational culture that supports that is an open team-oriented culture. A team that holds each other accountable, not just me holding them accountable, but them holding me accountable to what I said the enterprise is going to be. This accountability is cascaded down through all of the objectives of our organization. We have to be thoughtful in our risk-taking efforts. This is all built on the foundation of being socially responsible. We are a company that has a leisure component to it. It has a play element to it. And our consumers, our users expect us to be socially responsible. We have to be committed to our neighborhoods in the areas of the world in which we operate and build our products every day.

Please flip to slide six. We are laser-focused on our top three priorities. Improving margins, this is our 10%-10% plan, which is supported by several specific initiatives expected to result in our business getting the 10% operating profit as an enterprise, with steps to accomplish this along the way. We are keenly focused on improving the capital structure and leverage levels of our business with a goal of approximately two times leverage for us as a company. This will come through our committed reductions in debt, coupled with our expected increase in profits. For us, a healthy company acts differently and is a better supplier to our customers and being a better employer. The third priority is organic growth, which will be supported by more thoughtful new products, better supply chain performance, and our improved cost position as a company.

Now on to slide seven, and I'll summarize the performance in the second quarter. Dave Rice, our CFO, will then go deeper in his review of our performance. And then to wrap up, I will share with you our views of 2015 expected performance and our guidance.

During Q2, we had many successes and challenges to our performance. This is a transition quarter for us as a company with remnants of our former parents cost structure still in place. Going forward, our statements will be pure and representing our successes and challenges as an enterprise.

Business performance was mixed for us in the quarter with Americas retail business and the APEA business showing growth and profitability increases in their business. This was offset by performance in the aftermarket business in the Americas. We're experiencing a lower level of demand as a result of distributor consolidation and associated inventory reductions.

This outside market effect, which we believe is largely complete at this point, was coupled with an action we have taken as a company to eliminate certain value disruptive commercial programs, resulting in volume pressure in the quarter. We believe that this commitment to value and fulfilling our customer needs when needed will normalize demand to better link with ultimate market demand. In our efforts to make this a better business, we've acted on many fronts to build a cost structure for the company to be successful.

To-date, we have taken actions totaling more than $10 million on an annual run-rate basis. Immediately on the announcement of Horizon Global spin-off, we acted on a program which we expect to result in nearly $5 million of annual savings from restructuring of the Americas business. This effort was the first step in positioning the business for a successful integration and is already complete. These savings are expected to be realized in the back half of 2015.

We announced the closure of Juarez manufacturing facility and other facilities, consolidating it into our existing footprint. These moves, which we expect to complete in the front half of 2016, are anticipated results in nearly $6 million per year and reduce cost for us as a company.

In every consolidation of this nature, the risk in execution comes from the preparedness of the pitching and catching teams' efforts. This catching team already has the skill and confidence needed to manufacture this product set. That is moving and is ready to receive this new level of capacity.

Structural and performance actions taken in various acquisitions completing during 2000 to 2014 resulted in what shows to be an annual improvement on a run-rate basis of approximately $2 million.

And lastly, plant productivity continues to be on the upswing. We've achieved double-digit standard cost productivity increases, realizing the benefits of more mature plants, producing more efficiently through their intense focus on continuous improvement. We continue to make good progress on localizing suppliers to better position the supply chain in Mexico. This margin improvement will be realized as our new low cost inventory is used to fulfill consumer and customer demand.

These are immediate actions taken by our executive team, demonstrate our commitment to making this a better business. We have additional strategic efforts that will create value for the company, which have longer lead times with significant value to be realized.

So our performance in the quarter was mixed, with the Americas retail business and the APEA business doing well and the aftermarket business a bit more challenged.

We view this as a transition quarter as we separate from our former parent and begin to be a stand-alone company. We have a positive outlook for the back half of 2015 that I will share with you after Dave walks you through our detailed performance in the quarter.

I will now turnover the call to Dave Rice, our CFO. Dave?

David G. Rice
Chief Financial Officer

Thank you, Mark. Slide nine presents the summary of our Q2 results. Sales decline in Q2 of 2015 relative to 2014 by 11% or 7.1% before currency translation. Driven both by internal and external factors impacting the U.S. aftermarket channel. Sales in our Cequent APEA segment increased 4.8% in local currency. However, currency translation negatively impacted the reported sales of this segment by $6.3 million.

While the decline in sales negatively impacted our operating profit and EPS in the quarter, we were encouraged by the results of margin improvement programs to which Horizon has committed. My comments over the next few slides will highlight the impact of these programs, which I will then summarize later on the presentation.

As a reminder, the corporate cost line represents the non-cash charge of overhead allocated to us. We are in the process of developing our stand-alone cost structure and anticipate a run-rate of approximately 2% of sales, once fully established. Our tax rate in the quarter of 51% was impacted by certain spin-related liabilities, which are reflected as additional tax expense but for its – the tax sharing agreement associated with the spin thus now require us to fund.

Effective June 30, the date of our spin, Horizon had total debt of $210 million with a leverage ratio of 3.8 times, well within our maintenance covenant of 5.25 times. Year-to-date, we have generated approximately $15 million more in free cash flow than the same period last year. Improved receivable management and increased accounts payable were the most significant contributors to this result. For more detail around the results of our quarter, I will spend a few minutes on the two segments.

On slide 10, we look first at our Americas segment. Within the Americas segment, sales were $119 million, a decline of 11.5%, primarily in the aftermarket channel. The two main elements of this decline are one, customer warehouse consolidations, which reduced inventory in the channel, and two, our decision to discontinue the use of certain promotional incentives that did not enhance our value proposition over time. We believe the impact of these factors, well not yet complete, will be less disruptive to the balance of the year.

The retail channel in contrast continue to grow with an increase of 5% in the quarter versus the prior year. We continue to win new business in this channel, as we focus on providing value and service in the retail space.

While SG&A costs were essentially flat in the quarter versus Q2 2014, actions were taken that we expect to benefit the back half of the year and future results. Examples of these actions include the completion of our early retirement offer and the continued rationalization of our manufacturing and distribution footprint.

Operating margins for Q2 were 10% in 2015 as compared to 13.6% in Q2 of 2014. Offsetting the effect of the volume shortfall, we experienced continued progress on the margin initiatives to which we're committed.

Productivity continues to improve in the Mexico manufacturing operations, with an increase of 9.4% in our Reynosa metal plant and 12.5% across all the Mexico locations, as compared to the second quarter of 2014. The benefit of this productivity was offset by higher costs in our retail warehouse incurred to handle the influx of products following the conclusion of the West Coast port strike. The Americas segment will continue to focus on productivity in our Mexico facilities and the successful integrations of business into one operating unit.

Turning to the Cequent APEA segment on page 11, sales in this segment increased 4.8% in local currencies with our business in South Africa approximately doubling versus Q2 of 2014. That business continues to launch in ramp-up of new OE programs. Reported in U.S. dollars, the growth in this segment was negatively impacted by currency translation to the U.S. dollar by $6.3 million relative to Q2 of 2014.

Operating profit margins in the APEA businesses improved by 100 basis point as compared to Q2 2014. This performance resulted from continuing gains in productivity, ongoing performance improvement in the acquisitions, and a focus on controlled spending. Of note, the acquisitions in Europe and Africa made positive contributions in the current quarter with triple-digit operating profit increases.

The APEA segment will continue to focus on winning new programs for the European and African businesses and retain a focus on productivity in the more established jurisdictions.

As Mark mentioned earlier, our number one value creation priority is the improvement of our operating margins. On slide 12, the six specific programs that are the focus of our efforts and on which we will continue to update our stakeholders. These projects are ordered roughly in their level of attainment, with the performance of our Reynosa metal plant as the most mature project and our brand strategy as the earliest in the cycle. We are well on our way to achieving our objectives in the first two projects and have considerable effort ahead of us on the last two projects.

As an example, productivity in the Reynosa metal plant is measured on a cost per earned hour basis, with cost being the entire incurred manufacturing [ph] possible (16:35). As we progress to the localization of supply chain or increased throughput in the facility, this metric improves. On a year-to-date basis, productivity in Reynosa metal has improved 16.3% before considering the devaluation of the peso, which only enhanced the cost of manufacturing for the period.

At the other end of the spectrum is the brand consolidation strategy. This program is expected to take three years or so, but the planning phase is well underway. Additionally, the team has selected the first brands to rationalize and is presently ironing out the mechanics to complete the deemphasizing or eliminating those selected by the end of 2016.

We will continue to present the results of our progress on these six projects in future communications. They underpin our plans to achieve a 10% segment operating margin level initially, with a longer term goal of an enterprise operating at 10% operating margin.

Finally, on slide 13 is a view of our leverage and liquidity. As of June 30, the date of our spin, we had nearly $90 million of liquidity, made up of $17 million of cash on book and $70 million of availability on our ABL. We expect to continue to generate cash in the back half of the year, which aligns with our normal seasonal cash flow cycle.

Leverage was 3.8 times as of spin date, as compared to our covenants of 5.25 times. We expect to see a slight increase in this ratio through Q3, as we incur cost to develop our corporate structure. But the cash generated by the business is projected to position Horizon with a lower leverage ratio by year-end.

At this point, I'll turn it back to Mark who will cover our guidance and performance, summarize our longer term goals and wrap up our prepared comments. Mark?

A. Mark Zeffiro

Co-Chairman, President & Chief Executive Officer

Excellent. Thank you, Dave. So, let's move on to slide 15. In terms of the back half of the year, we're providing guidance as to how we expect to perform. For the six months ended December 1, 2015, our revenues are expected to be between $285 million and $300 million. We believe we will grow in spite of the anticipated foreign currency translation headwinds of approximately $5 million to $10 million in the back half of 2015.

We expect to increase operating profit by 50% to 75% for the back half of 2015 or approximately 200 basis points. It's sort of tied to between $12 million and $16 million in profit for the business. We recognize the importance of cash flow on the capital structure, and we'll be providing guidance to you on this in the future. EPS for the full year is expected to be between $1 and $1.20 per share.

On slide 16, you can see that the longer term view, our value creation goals remain the same. Our financial priorities of margin improvement, debt reduction, and top line growth will allow us to achieve these goals. We have a balanced view to sharing what we're doing to make the business better today, but also have a clear expectation that we need to make efforts to be a vibrant, successful company for the years to come. The actions we have already taken, combined with the pipeline of other related actions or improvements we need to make, support this view.

As a leader of this organization, combined with my corporate executive council members, we need to move with purpose and speed to make this a better business. Metering the change at the right pace is a delicate balance we deal with each day. We are optimizing the business, which have been the benefactors of critical investments, which we all expect, in fact, demand to generate better returns for the company.

I would like to wrap up on page 18 – excuse me, 17. As of the third quarter 2015, we begin our life as a stand-alone company. We looked to trends in the market. We see really positive growth in new vehicle sales with a lot of that coming in trucks and SUVs. Gas prices have remained low, driving sales of boats, RVs, outdoor activities on the play side of our business. Currency continues to be a challenge, but our sales continue to grow in local currencies.

For the longer term, we are aligning a few key market and customer initiatives. These initiatives when combined with a culture of commitment to operational excellence will drive value creation over the long term. As we progress in the development of these areas, we will share a more complete view of strategies and activities to make them a reality.

The focus areas are eCommerce. We plan to further develop our processes and capabilities to support our customers and users of our product. This has been the fastest growing segment of our business. OE, being a globally oriented capable supplier to our OE customers, including industrial and vehicle producers. Latin America development, further enhancing our position and driving the development of users and products for the local markets. This is combined with supporting our customer's based in and growing into this region. China, this is an emerging market with a promising use profile of our products. Operational excellence, reinforcing our commitment to deliver the goal of 2% to 3% gross productivities for our margins, investments needed to grow the business and make our business better.

We will continue to focus on creating value in short and long term for all of our stakeholders. I would like to mention that we'll be presenting at the Jeffries conference this week on August 13 and that will be webcast. In addition, we'll be hitting the road in September to meet with investors.

In closing, I want to thank our dedicated employees for all that they do every day to satisfy our customers. Thank you to our stakeholders for their support in our marathon. Our marathon to making Horizon Global a better company. At this point, we will gladly take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Walter Liptak with Global Hunter Securities.

Walter Scott Liptak
Global Hunter Securities
Q

Hi, good morning, everyone.

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Good morning, Walt.

David G. Rice
Chief Financial Officer
A

Good morning, Walt.

Walter Scott Liptak
Global Hunter Securities
Q

Want to ask first about the channel problems that you had during the quarter and why you guys didn't talk about these channel problems back in June prior to the spin-off?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Well, we did. And we actually even had that conversation in our Q1 earnings release as well. It was also outside in if you were to look at the consolidation of certain of our customers from a distribution perspective, those have been obviously in the press here for the last four months. So it's something that I specifically referred to in Q1 and as such, also advised during our discussions around Q2 and addressed that volume consideration.

Walter Scott Liptak
Global Hunter Securities
Q

Okay. Well, I think in the discussion that you had, you could have highlighted it a lot more then. Obviously, we weren't expecting the kind of revenue level that you put up. Can you talk to us about how we know that these channels issues are done, any data points that you've gotten in July?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer

A

For certain, well, when you look at the volume and the order volume that we experienced in July, we're off to a very strong start to the Q3, both from a distribution perspective as well as from a retail perspective. The volumes have supported, and it bounced back as a result of not putting those commercial programs that I made mention of as value destructive commercial programs and better aligning [ph] the fill (24:57) outside in demand to the actual pool of product into the channels.

Walter Scott Liptak
Global Hunter Securities

Q

Okay. When we look at the 200 basis points of margin improvement that you're talking about for the back half of the year, can you tell us about what base you're working off of, is that an adjusted number or is that the reported number, now that you have your S1?

David G. Rice
Chief Financial Officer

A

It's an adjusted number Walt. And the reason we gave that guidance the way that we did is we recognized that our historical financial performance isn't available yet. It's the first time you can see what our carve-out statements look like for Q2 was in this press release. So that's on an adjusted basis.

Walter Scott Liptak
Global Hunter Securities

Q

Okay. Can you give us what the margin or the EBITDA level was that you're working off of?

David G. Rice
Chief Financial Officer

A

For the back half of the year?

Walter Scott Liptak
Global Hunter Securities

Q

Yeah. What's the comparison that you want us to use in the back half of 2015 versus 2014?

David G. Rice
Chief Financial Officer

A

Walt, I think we were in mid-single digits from an operating profit margin in the back half of last year on an adjusted basis. So we're still in single digits, but higher in the mid-single digits than we were in the back half of last year.

Walter Scott Liptak
Global Hunter Securities

Q

Okay. And what EBITDA are you looking for for this year? We have the guidance, the $1 to $1.20. What does that equate to for you on an EBITDA basis?

David G. Rice
Chief Financial Officer

A

I got to do math on that. Walt, I don't have that readily available, sorry.

Walter Scott Liptak
Global Hunter Securities
Q

Okay. Okay, thank you.

Operator: [Operator Instructions] Our next question comes from the line of Rudy Hokanson with Barrington Research.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Thank you. Several questions. One, could you talk a little bit more about your eCommerce effort? Because if I understand it, that's fairly new. And could you give us an idea of how important or what scale it is right now and what your plans are on maybe one year or two years, how you see that ramping up?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Well, the e-commerce activities that we've had as a company are now equates to about 10% of the volume of overall company, whether it's through our retail partners in terms of supporting them with bricks and clicks or through our most traditional eCommerce customers in that context. The reality is, as we've entered this space, we've learned most efficiently how to satisfy the one-at-a-time shipment and as such, be able to support our customers in terms of their own growth initiatives. So part of it was the investment that we made in terms of those engagements, whether it's your most traditional forms of order fulfillment or whether or not it's outside the U.S., other areas that are much more directly aligned with users.

So as such, different markets have evolved differently. And as such, we continue to just hone in on how we support our installers, support our users of our product, but also support our distribution and retail customers through our eCommerce activities that simplify how they can do business with us and also support them with their own goals as well.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay.

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

So what I see it happening here is that – and like I said, certain markets are developing differently, and I'm not talking about just the U.S. market in this respect, I'm talking about other places, for example in case of Brazil, the UK, and others that are much more eCommerce affected.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay. And just to limit my questions as we sort of stay in queue. Have you come up with or do you think you will have an idea as to when you'll hit your objectives on operating profit over the next several years? Back at the Analyst Day, TriMas was giving three-year, 2018 targets. And you didn't give a specific date or year where you expected things to happen. Do you have a feeling for how we could benchmark your progress on margin improvement?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Absolutely, Rudy. When I put out things like this in terms of targets, it needs to be a path in which we can see it in our strategic plan horizon, which is basically the next three years. So where we're headed is the first step is to get our businesses to on a segment operating profit level over the next 24 months to 10%, with ultimately the company being there in approximately three years.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay. So in other words, the segments before corporate expenses can have them there in 2017 and then for the whole company by 2018, understanding this is a transition year?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Exactly.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay. Thank you.

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Absolutely, Rudy.

Operator: Our next question comes from the line of Matt Koranda with ROTH Capital Partners.

Matthew Butler Koranda
ROTH Capital Partners LLC
Q

Good morning, guys. Thanks for taking my questions.

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer
A

Good morning, Matt.

Matthew Butler Koranda
ROTH Capital Partners LLC
Q

Just wondering if you could put some of your international markets into context for us, just given some of the macro headlines that we've been seeing. So maybe you could just run through China and Brazil and what you guys are seeing there, what you saw during the quarter and kind of just a more granular outlook for the rest of the year here?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer

A

I would tell you this. Let's talk about Brazil in the context of – it's been a battered market for us in this respect. The good news is being the largest provider of products in that market space, it's given us an ability to engage different customers along the way, as well as we're able to fill our product sets more effectively. But this is a market that we've chased down here for the past basically 24 months. And I think we've finally restructured the business to the point where it's a breakeven enterprise, with an effort to actually bring new products in from our other manufacturing locations, whether they be China or Mexico to be able to add product sets to Brazil.

So it's kind of a flattish market. I think we've in essence found bottom. At least that what is the [ph] trails on (31:57) associated with it in early days in terms of volume. It feels like we've appropriately positioned that business.

I would tell you that the – Australia is another market that's material to us as a company. You hear a lot of people talk about, well, the mining activities in mineral portion of this economy is providing significant headwind to a lot of industries. I wouldn't say we're excluded from that, but I would tell you that it's been somewhat muted in that respect. So we have less of a headwind in that respect and been able to offset it with growth in South Africa as Dave mentioned, doubling the size of that business.

So those are the pieces that I think are most relevant to us and that doesn't mean that the UK and Germany are unimportant. I would consider that those are business is that are performing as expected in those markets and a little bit of a delay in the market launch in terms of the UK that we experienced in Q2 in terms of volumes there, but I don't think that's a long-term related consideration. I think it was just temporary in nature.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Okay, very helpful. Shifting gears really quickly to Cequent Americas and the channel issues you guys have had there. With some of this distributor consolidation mostly over, is there any expectation that we could start to see an inventory build over the next few quarters or is it going to be relatively steady, do you think?

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer

A

Now, as a point of clarity, Matt, inventory build for them or inventory build for us?

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Yeah, inventory build for them. Sorry about that.

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer

A

No, I just wanted to make sure we have clarity. As you could tell, we ended the period with slightly higher inventories. You'll see that in the coming detailed Q here shortly. But most importantly, we feel like there is a good opportunity as they've shuttered certain warehouse locations, and we've felt the impacts of that already. They've also announced the advance of possibly new locations and new warehouse locations, which should give us the opportunity here to actually do some fulfillment in Q3.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Got it. Okay. Very helpful. Last one, just on the balance sheet, could you remind us again the leverage targets for year end and sort of how you're tracking against that, what's the plan for debt repayment over the remainder of the year, could you just walk us through a bit of that?

David G. Rice
Chief Financial Officer

A

Sure. Well, we've got a naturally amortizing component to our term loan, and the – so that will just happen at $2.5 million a quarter automatically. The other piece of it is the AVL, where we think that our back half cash generation will allow us to pay down on the AVL. So combine that with greater EBITDA generation, we still will be above three times by the end of the year, but we will be lower than we are today. And we haven't issued exact guidance on that yet, as we build out our corporate structure. But clearly, focusing cash on debt reduction is our number one capital allocation priority right now.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Okay. Got it. I'll jump back in queue guys. Thank you.

Operator: And that was our final question. I'd like to turn the floor back over to Mark Zeffiro for any additional or closing remarks.

A. Mark Zeffiro
Co-Chairman, President & Chief Executive Officer

Thanks, Elisa. Matt if you had another question, hop back on. I'll give it 10 seconds. Okay, I wanted to thank everybody for their attention. Our Q should be released here in the next hopefully 24 hours. It's obviously our first version of this, and I think relatively we are proud of the document that we'll issue. It's got great discussions around in terms of MD&A and the activities here. So in closing, I wanted to thank everybody for their attention on Horizon Global. It is indeed a momentous day for us as company, being our first earning release. And I want to thank all the employees for all of their efforts in the quarter and for the remainder of the year. Thank you everyone and good bye.

Operator: Thank you. This concludes today's conference call. You may now disconnect.