Corrected Transcript

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Horizon Global Corp. (HZN)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Maria C. Bringer Duey
Vice President-Investor Relations & Strategic

Thank you, Cristal and good morning to everyone. Welcome to Horizon Global's fourth quarter 2015 earnings conference call. Joining me on our call today are, Mark Zeffiro, President and CEO of Horizon Global; and David Rice, our Chief Financial Officer. Our fourth quarter earnings release and the presentation slides that we will refer to during the call are available on the Investor Relations portion on 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 we 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'd like to remind you that 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 and other reports that we filed with the Securities and Exchange Commission.

Today's presentation also includes non-GAAP financial measures. Any references to operating profit, earnings per share, 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 section of our website at www.horizonglobal.com.

With that, I'll 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 and thank you for joining us today. The end of the fourth quarter of 2015 completes Horizon Global's first six months as a stand-alone independent public company. We're beginning to see the advantages of taking Horizon Global public, establishing a focused vertical leader, with the rare opportunity to participate in a market where we are a leading designer and manufacturer.

We've accomplished many things in our first six months as a public company. We built a corporate infrastructure for the enterprise with all functions necessary to run the company including governance requirements and system support for the enterprise. We launched the restructuring of the company, which we expect to result in an appropriate cost structure going forward. This focus on delivering a more efficient cost structure is in its early days. But it's already begun to show results including the closure of four facilities, consolidating duplicative organizational structures, substantially exiting the transition services agreement with our former parents and aligning our global leadership with our strategic initiatives, all of which we believe will result in more than $15 million in savings for the company and help us reach our goal of 10% operating profit at the enterprise level.

I'm proud of what the team has accomplished in our six months as a public company. As I've said before, this is a marathon, not a sprint, and our focus remains on the business, executing against our priorities and living and breathing a culture of continuous improvement.

If you please look to slide four in the deck, I'd like to start this call by discussing some of the trends we're seeing both in our business and in our industry. We see the eCommerce business growing and continuing to grow with our partners expanding and becoming more capable over time. While retail was a bit softer in the quarter, as our retail partners managed their year-end inventory, we see continued growth in this channel. The distribution consolidation that we experienced in the first half of the year continues to stabilize. We continue to watch the global economic trends, particularly trends of auto manufacturers or OE, building more vehicles on global platforms with greater needs for technology included in our applications. We believe these trends continue to support long-term growth for Horizon.

With that backdrop, our fourth quarter results were strong. Our team continues to focus on the execution of the three priorities. With a 100% improvement in our EPS and expansion in operating margin by 440 basis points to 3.3%, we're showing significant improvement in the earnings power of the company in a seasonally slower period for us.

On a segment basis, our operating margin was 8.2% excluding special items. The actions we've taken and the plans we have in place are driving margin improvement. Operating cash flow of $27 million year-to-date converted better from net income as compared to 2014. Our sales in the quarter were flat on a constant currency basis. While we're feeling significant headwinds from foreign currency translation over $6.6 million in the quarter, we're pleased that our businesses are growing in local currency. Dave will talk more of the details by region and segments for the company in his remarks.

With that in mind, please flip to slide five. We remain focused on three financial priorities for value creation; improve our margins, which I call 10% & 10%; improve capital structure with a leverage level less than two times; and driving sales growth of 3% to 5% on an organic basis.

On slide six, you'll see how we executed against these priorities. This shows our report card for the back half of 2015, our first six months of standalone performance. This time period most clearly reflects the initial implementation of our strategic priorities. With the actions we've taken thus far, we delivered on adjusted segment operating margin of 9.3%, an improvement of 460 basis points for the back-half of the year. Our expectation is to get to a segment operating margin on an annual basis of 10% in the next y ear.

South Africa continues to ramp production and gain leverage of new volumes in its plants. The efforts surrounding the Americas, where the consolidation of facilities or the streamlining of our organization, are well underway and support a new level of profitability for the business. As it relates to the consolidation of manufacturing facilities, the movement to Reynosa well underway and production already in place and completion of these efforts coming in the next few months.

Sourcing of some of our products to our Chinese suppliers has slipped a month, but we anticipate these efforts will provide margin growth in the year. We're also keenly focused on improving the capital structure and leverage levels of the business, with the goal of approximately two times leverage for us as a company. We improved our leverage ratio in the back-half by half a turn, with working capital in the low teens as a percent of sales.

Our outstanding debt has been reduced by $21.6 million since June 30, and we ended the year with $24 million in cash on the balance sheet, after principal and interest payments. Our cash flow was strong for the quarter and we are able to achieve nearly a 164% cash conversion from net income at year end.

We've posted 2% sales growth then in the back half of the year on a constant currency basis. Our Cequent Americas' eCommerce business saw continued strong growth as at our businesses in Australia, New Zealand and South Africa in local currencies. Our aftermarket business recovered in the fourth quarter versus our run rate in the third quarter and our global OE business continues to grow.

Our focused efforts to grow with and support our global OE customers is paying off with more than 20 new program wins in 2015, which on a full run rate basis, should represent more than $20 million in new sales for the company. Our retail business was down in the quarter, as our retail partner's managed inventory in the quarter is driven by seasonal demand performance. We're up off to a strong start in 2016, with orders rebounding nicely though.

Foreign currency translation impact slowed its effect in the third quarter of 2016, as we lapped some of those significant changes. For the first six months of Horizon Global, we've been active and focused on outcomes. We made real progress on all three of our financial priorities demonstrating the organizational focus and alignment that will result in business improvement.

Moving onto slide seven. This chart is familiar as it highlights the programs which are [indiscernible] (09:30) to deliver the margin improvement. The programs range in nature from normal operating excellence efforts, for example, the productivity in our key plants to the restructuring of the business to be more streamlined and our efforts to convert ideas into successful customer support with a more focused brand offering.

They remain consistent, and well coordinated across the company. We'll add additional programs over time, as these either become completed or just part of our normal operating culture of the business. Most importantly, they are on track to deliver improvement in 2016 and beyond.

With that, please turn to slide eight, then I'll turn it over to Dave Rice, our CFO, who'll go a little deeper into a review of our performance in the quarter. Then, I will be back for you to wrap up and share our outlook for 2016.

David G. Rice
Chief Financial Officer

Thanks, Mark. In commentary to follow, I will be addressing our performance in the quarter and for the full-year on an excluding special items basis. Cash flow and balance sheet commentary will be on as-reported basis.

Now, please turn to slide nine which represents the summary of our Q4 results. As Mark noted in his business summary, the fourth quarter results included a significant improvement in operating margins, both at a segment and enterprise level.

Sales on a constant currency basis were flat compared to Q4 of 2014, however, segment operating profit margin improved 750 basis points over the same period ending at 8.2% of sales, with both of our reporting segments generating meaningful improvements. On an enterprise level, operating profit margin improved 440 basis points to 3.3% of net sales from a loss of 1.1% in the prior year.

In the fourth quarter, we incurred standalone corporate expenses as compared to the allocations from our former parent presented for the same period in 2014. We continue to incur costs under our transition services agreement, but they represented approximately 5% of the total corporate expense in the fourth quarter. With very minor exceptions around some system support and tax activities, we closed out the transition services agreement as of the end of 2015.

Year-to-date operating cash flow nearly reached the 2014 level, even with the incremental $8 million of interest cost we incurred under our new capital structure, as working capital turned to a source of cash this year versus a use in the prior year. Since the date of our spin, our total debt has been reduced by $21.6 million to $189 million. Our net leverage after considering $13 million of domestic cash has been reduced to 3.3 times. Of particular note, our operating cash conversion relative to net income improved to 164% from 152% in 2014. This result reflects the improved profitability in working capital management of the business more than offsetting the cash impact of our new capital structure.

Slide 10 is a view of our full-year performance. For the full-year, 2015 sales lagged 2014 by 1.5% on a constant currency basis, primarily as a result of the consolidation of customer distribution centers in our North American market – in North American aftermarket channel, and the impact of lower activity in the energy and the agricultural end markets affecting our industrial channel.

The impact of our margin improvement projects and lower product input costs led to segment operating profit of 8.4% for the year, exceeding our 2014 segment operating profit by 140-basis points. Segment operating profit levels continued to improve as 2015 progressed. With our back half segment operating profit of 9.3% presented in the appendices, significantly exceeding the 4.6% level achieved in the back-half of 2014.

Furthermore, segment operating profit for the six months ended December 31, 2015 improved a 160-basis points over the front half 2015 level of 7.7%. This improvement is notable, given that our profitability is historically weighted toward the front half of the year due to the seasonality of our North American market.

Corporate costs for 2015, the first six months of which were an allocation of cost from our former parent, totaled $18.3 million. Excluding an international holding company structure that predates our spin, our standalone corporate costs, including charges under our transition services agreement, ended at just under 3% of sales. We expect the ongoing run rate of these standalone cost to approximate 2.75% of sales moving forward.

I'll now discuss in more detail our segment performance beginning with Cequent Americas on slide 11. While Q4 sales for our Americas segment declined slightly from the 2014 level, the real story is around operating profit performance, which improved by $7.5 million to 9.1% of sales. This performance is comprised of favorable input cost of approximately $4 million, $2 million of which is attributable to material cost.

The balance in the improvement is comprised of plant productivity and the benefits of the integration of the Americas business, started in the late Q2. The Americas segment continues to focus on productivity in our Mexico facilities, the completion of the Juarez consolidation and the successful integration of our Cequent Americas businesses.

Performance in our APEA segment, is highlighted on page 12. Q4 sales for our APEA segment were $39.6 million on a constant currency basis, up 5.3% as compared to Q4 2014. As Mark mentioned in his comments, our team's execution of a global OE strategy has led to many new program awards in this segment. In the quarter, our South African business continues to ramp up new OE programs and finish the full year up 51% over 2014 sales level.

Australia experienced 13% growth in the quarter, while the rest of the group was fairly flat, with the exception of Thailand, which is still in the midst of launching new programs to offset the volume declines in the plant's original program award. Operating profit for the APEA businesses improved $1.6 million to 5.7% of sales as compared to 0.9% sales in Q4 2014. About half the improvement in operating profit can be attributed to cost savings associated with restructuring in Australia and operational improvements made in South Africa, Australia and Thailand. The other half relates to a tooling recovery received in Thailand. Both of these factors more than offset the increased cost in Australia for inputs designated in Thai Baht and U.S. dollars and the volume based reduced margin from Thailand as new OE programs ramp towards full volume.

The APEA segment will continue to focus on OE program launches in Asia-Pacific and South Africa, while continuing to integrate the commercial and operational activities of our European locations. Manufacturing productivity will continue to be a significant effort at all locations.

Slide 13 is a view of our leverage and liquidity. As of December, we had a $114 million in total liquidity, made up of $24 million of cash on hand and $19 million of availability under our ABL and bank facilities. Since we became an independent public company, we have reduced outstanding debt by nearly $22 million. We accomplished this during our first six months, while satisfying a final obligation to our former parent, incurring interest payments, creating a corporate structure, and most importantly, developing, deploying and investing in our strategic vision.

Our net leverage ratio declined from 3.8 times at June 30, the date of our launch, to 3.3 times at December 31, well below our covenant level. Our improved balance sheet was made possible by the hard work of our entire team executing our financial priorities.

In closing, I'd like to leave you the three takeaways from our financial performance; first, the number one financial priority of margin expansion is the focus that every level of our organization backed up by specific projects that are now reading through our results.

Second, we see commercial opportunities in all the regions in which we operate and are committed to achieving our organic growth initiatives. And finally, cash generation driven through enhanced operating performance and consistent working capital management will continue to drive improvement in our capital position.

At this point, I'll turn it back to Mark, who will cover our long-term goals, 2016 guidance and wrap up our prepared remarks. Mark?

A. Mark Zeffiro

Co-Chairman, President & Chief Executive Officer

Thank you, Dave. So let's move on to slide 15. We'd like to introduce our long-term strategic goals. The Horizon Global team is committed to building a best-in-class business that supports customers and users of our products, while providing employees with the opportunity to develop and grow. We structured ourselves with differentiated growth and efficiency. We're growing the business to something much larger than it is today.

We see the threshold set out on this page as an expression of the direction of the company. Increased profit and substantial cash flow to support continued growth, all while growing faster than the market and being an employer of choice.

Achievement of these milestones will afford us the opportunity to grow beyond the products and services we provide today and expand our relevance to our market set through new technologies and adjacent opportunities.

If you turn to slide 16, we have the core values in place laying the foundation for operational and organizational excellence to achieve ongoing substantial growth. We believe the core values that we embody will allow us to deliver on that mission and execute on our three strategic priorities. This is critical to our growth and you'll continue to hear us talk about this, as it is important to our customers, our employees and our shareholders.

Our vision is to enrich lives through great product, that's who we are. It's what allows us to deliver these results. We've created team-oriented, open and respectful culture, that fosters risk-taking and decision making with a high level of social and physical accountability.

So with that, let's turn to slide 17 and our guidance for 2016. We continue to expect to grow at approximately 3% to 5% on a constant currency basis, gaining share and winning programs along the way. We expect to see increased segment operating profit by more than 100 basis points over 2015, achieving the first of our 10% operating profit goals at a segment level set forth when we launched the company. This income growth will offset our full-year net level of interest, cost, and more normalized tax rate for 2016.

We recognize the importance of cash flow and believe that we will be able to convert operating cash in excess of net income. Our capital expenditure should be about 2.5% of sales, supporting margin accretive investments in our business. Our tax rate for planning purposes is 20%, but is expected to be a little lower in 2016 as certain unrecognized tax benefits favorably impact that rate. Our 2016 guidance demonstrates progress on all three of our financial priorities, whether it'd margin, leverage or growth, in an efforts to continue to create value in the company.

Wrapping up on slide 18, as we complete our first six months as a public company, we're proud of our accomplishments. 2015, showed real improvement in sustainable profitability for our business. Cash converted better year-on-year with significant incremental cash payments resulting from building a new standalone business. We remain committed to increasing shareholder value as demonstrated by our guidance and the underlying performance improvement therein.

Our team is aligned and engaged at all levels to deliver this performance. I'd like to thank our dedicated teammates for their outstanding efforts in closing out 2015. There were many things that we accomplished together, and for all that they do every day to satisfy our customers.

Thank you to our stakeholders for their support in making Horizon Global a better company. We're excited about the opportunities and what lies ahead.

At this point, we will gladly take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Matt Koranda with ROTH Capital Partners.

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

Good morning, Matt.

David G. Rice
Chief Financial Officer A

Good morning, Matt.

Matt Koranda
ROTH Capital Partners Q

Good morning. Maybe we could just start off with some of the commentary that you guys had in the prepared remarks regarding some of your channels. So it sounded like Cequent Americas, it looked like the aftermarket and OE showed a little bit of strength this quarter relative to retail and industrial, and just wondered if you could just comment. Is that mainly a seasonal factor that shifts back towards strength in retail in 2016? And if you could just kind of take each channel one by one, that'd be really helpful.

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

For certain. When you think about retail, that was in an effort for our retail partners to manage some inventory out of the system as they faced some lack of demand for some of the seasonal products that they had in-house, not our stuff, but other stuff, and they were squeezing inventory overall out of the system. This is a normal kind of event as things ebb and flow in that business, but what we've seen is out of the gate, we've seen good retail orders to be able to support our customers coming back to us with volume.

From an industrial perspective, oil and gas continues at lower overall levels. I don't expect to see a next level down in terms of that volume to us. But what I would expect to see is a stability here. And then when you think about it, our distribution customers in the aftermarket channel at large, they went through some pretty sizeable consolidations of warehouses and taking inventory out of the system in 2015. That obviously should be stabilized for us in 2016. So I'm expecting to see reasonable growth out of that section of our business.

Outside of the U.S., we see continued strength and growth in South Africa. We should see stabilized volumes as a result of the economic situations in Brazil. And Australia continues to perform well in terms of the relative volume in that market space. So, those are areas that I think are most relevant to us. That doesn't mean Europe is not. Europe is I think more stable with the opportunities of growth there really focused around OE and OE support.

Matt Koranda
ROTH Capital Partners

Q

Okay. Great. Very helpful, Mark. Just wanted to dig into the 2016 outlook for a moment, could you try to quantify in any way to the extent that you can what headwind you will be facing in terms of the revenue outlook? I know you guys had 3% to 5% growth on a constant currency basis, but when we model it out what should we be thinking about in terms of the headwind you will be facing on an FX basis?

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

A

Generally, you'll see continued headwinds in Q1, Q2 with it starting to vein in Q3 as we start to lap the big – the sizeable down-tick in some of those currencies, most notably the Aussie dollar. Dave, could you add a little more detail there.

David G. Rice
Chief Financial Officer

A

Yeah. I would say the big effect that we felt from a year-on-year comparison in 2015 happened in the front half, and then those rates sort of stabilized, as Mark mentioned, after Q3. So right now, we're expecting the rates to kind of hold in the range that they are right now. And that's what our U.S dollar-based guidance would be based on.

Matt Koranda
ROTH Capital Partners

Q

Okay. Great. And then one more here from me. In terms of your adjusted segment operating profit outlook, it looks like an increase of more than 100 basis points year-over-year. But just with the margin improvement programs you guys have in place currently and the performance you guys have shown over the last couple of quarters as a standalone, I mean this quarter 750 basis points of segment operating margin improvement, last quarter, I think more than 200 basis points. That 100 basis points just seems like it has a healthy element of conservatism factored in to me. But could you just talk a little bit about what went into that 100 basis points of improvement? And are there any headwinds that you're factoring in here and just a little color there would be great?

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

A

Yeah. For sure, Matt. When you think about there is a good portion of our efforts that have flushed through our inventory levels and there was a pretty sizable step-down in terms of the inventory conversion costs that you saw in our Reynosa facility, and that's really a good tailwind for us in 2015. And that inventory level was obviously more normalized here as we entered 2016 in terms of production levels.

We've also contemplated some level of inefficiencies as we've gone into the consolidation of Juarez into Reynosa and the cost therein. So there's some headwinds that we're going to experience there as the team gets up to speed in terms of running those products at a much more efficient level. And quite honestly, we've fought through each one of the programs and each one of the programs that are ahead of us with regards to operating margin improvement and that's the reason why we said, more than 100 basis points, we feel comfortable in that guidance, based upon those set of facts. Dave, do you want to add anything else to that.

David G. Rice
Chief Financial Officer

A

No, I think, you captured everything I would have said as well. Thank you.

Matt Koranda
ROTH Capital Partners

Q

Okay. Great, guys. I'll jump back in queue. Thanks.

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

A

You bet.

Operator: Your next question comes from the line of Walter Liptak with Seaport Global.

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

A

Hi, Walt.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Good morning, guys. Hi. Good work on the cash flow and the margins. I want to ask a follow-on to the last question, just to maybe get a little bit more specific on America's revenue outlook versus international. And maybe a way to start on it is, in APEA, are you looking for lower revenue growth and stronger growth in North America? And I was wondering about the comment you made about new programs. I think you held out $20 million in new programs and is that weighted towards one geographic region? And maybe the timing of – are there 17 or 18 programs or is it some $20 million that we'll realize in 2016?

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

A

Great. That's a great question, Walt. So, thank you for asking that. Those 20 – more than 20 programs really are in terms of volume basis, evenly distributed in terms of North American-centric versus outside of North America. So, it's going to help both sides of the business. And the programs are probably more hefty in the concentration in revenue in the Americas than it is outside the U.S. But that's where the revenue is coming from.

We'll see obviously a good launch of some of those things in 2016, but there is some stuff that we'll obviously on a full run rate basis roll to 2017, as we realize the full implementation of those model, [indiscernible] (29:22) new production. So, when you think about it, there's things that I think help us in terms of relative performance outside the OE discussion for a moment, and that's really related to the Americas should see that lack of consolidation of certain of certain warehouses of our customers, and therefore should see better, relative growth in 2016 as compared to the way it felt in 2015, obviously.

The realities of growth outside the U.S., Australia continues to show us really tremendous performance in its local currency, but we're going to still continue to feel some translation headwinds here for the front-half of 2016. So, on a local currency basis, if you think about it, Australia was high-single digits in Q3, and again in Q4, in terms of local currency growth, the team is doing a tremendous job in terms of expanding its product set and supporting our customers there. But we're going to feel some headwind in terms of that currency translation here on a reported basis.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay. So, maybe backing up just a little bit and thinking about Americas, are we expecting to see more growth, like a faster growth rate in Americas versus APEA?

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

A

I would tell you, yes.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay. All right. Fair enough. So then, I wanted to ask a cash flow question. If I look at your working capital accounts, you made good progress with the receivables and with payables, and throughout the year, you did a good job with inventory. But in the fourth quarter, there was an inventory – you held more inventory. And I wonder are we done now with inventory? What kind of cash inflow can you get with inventory, and I guess with the rest of the working capital accounts in 2016?

David G. Rice
Chief Financial Officer

A

Yeah, well, the two things affecting inventory at the end of the year really are, one, positioning ourselves to satisfy customer demand with items that we purchase overseas. We want to make sure that we get stuff in in front of the Chinese New Year.

The second thing is really related to the inventory cushion built around the Juarez move to Reynosa. So, if you think that through the way that I'm thinking about working capital is basically landing in that low 12% range from working capital perspective. I'm thinking that percentage stays roughly consistent for the end of the year. So, as I think about this, I'm thinking about working capital being a use of cash in 2016 of maybe $2 million to supporting the level of sales growth that we've got.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay, sounds good. And I'll get back in queue after this one. When I look through my model, the corporate expenses were a couple of million dollars, $2.5 million higher than I was expecting in the fourth quarter. And I know you went through this in your prepared remarks, but I wonder if you could give us more detail about corporate expense, what was – was there any incremental expenses this quarter that you can call out. And then just want to make sure I've got the corporate expense number right, it looks like you would have been at about $15.8 million run rate of corporate expense in 2015 and there might be some one-time items from becoming a public company from splitting from TriMas? If you could go over kind of the details, so you started talking about and help me understand what 2016 corporate expenses are going to look like?

David G. Rice
Chief Financial Officer

A

Yeah, as I look at 2016, I think your number is in the range of what we're thinking from a percentage perspective. To that, you need to add the international holding structure that I talked about, it's a carry-over from our old structure, supports our international cash operations. So that's probably another $1.5 million on top of that. That would be the total as I think about it for next year. Really, it's hard to comment on a change year-over-year, because the first half really is not real expense to us. It was just an allocation. So I would focus on as you talk about modeling 2016.

Walter Scott Liptak
Seaport Global Securities LLC
Q

Okay. In the fourth quarter, was there one-time expenses that you can call out to that you recognized that were related to the delta, the $2.5 million that we're looking for?

David G. Rice
Chief Financial Officer
A

Nothing one-time in the context of something we would identify as a special item. But it was basically, the cost associated with putting systems in place, setting our variable comp structure around the business to match our new – our leadership structure, things like that. There was nothing unusual from an occurrence perspective perhaps from a timing perspective, as we got things sort of settle down in Q4. We may have – recognized more expense in the period than one would normally recognize on a normal run rate basis.

Walter Scott Liptak
Seaport Global Securities LLC
Q

Okay. And as we're remodeling corporate expense, shouldn't we just take that rate throughout the year or is there going to be more corporate expense building as we go through the year?

David G. Rice
Chief Financial Officer
A

I would take that dollar spend and model it evenly throughout the year as opposed to the rate, because it's not going vary with sales. It's more of a fixed cost.

Walter Scott Liptak
Seaport Global Securities LLC
Q

Okay. Great. All right. Thank you.

Operator: Well, if you have another question, we'll take it now before we move on.

Walter Scott Liptak
Seaport Global Securities LLC
Q

You would like me to ask you another one?

Operator: No, if you had – you said you were going to get back in queue, I just want to make sure.

Walter Scott Liptak
Seaport Global Securities LLC
Q

Oh you're kicking me off. Okay, fine. Thank you.

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

A

No, no.

Operator: No.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay. You would like me to ask you another question?

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

A

If you had one. Yeah.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Yeah. I would like to – it seems like you got a handicap on the weak energy and ag markets, which you called out as continuing to be bad? What percentage of revenue does that represent? And then [indiscernible] (35:38) construction exposures maybe being bigger than energy and ag and construction continues to be a good sector, I wonder if you can comment on that?

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

A

Yeah. Construction is a good growth here, but I would tell you the quotas, and obviously, the shale-related activities and that oil-related field structure was pretty heavily hit, and I would tell you that between that and ag, we're talking sort of 10% of sales on a total basis.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay. And the expectation kind of flat [indiscernible] (36:17) not a headwind in 2016, is that the way we should think?

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

A

In large part, we should feel less of the velocity and the downside to that than we felt in 2015.

Walter Scott Liptak
Seaport Global Securities LLC

Q

Okay, great. Okay. Thanks, guys.

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

A

Thanks, Walt.

Operator: Your final question comes from the line of Rudy Hokanson with Barrington Research.

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

Good morning.

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

A

Good morning, Rudy.

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

I have a couple of – and could you give us an idea with the margin improvement, understanding that there's certainly volume leverage involved, but should we see margins improving throughout the year sort of in and out themselves or will some of the margin improvement only be is much more seasonally dependent? I'm not sure if I am explaining that, but, yeah.

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

A

Let me take a crack at the question, Rudy. What's interesting is that, if you look at, we're normally less profitable in the back half of a year than we are in the front half of the year. So that gives you a sense as to what kind of percentage of margin that we're expecting to see in the front-half of 2016. Because you see that natural profitability continue to grow and the leverage associated with that.

So, what's interesting is in Dave's comments is, he talked through the concept of what a big segment profitability it was, you should see that continued level of margin performance in the front half of 2016. There weren't any what I would consider one-time effects within the margin rates that are material in nature that should affect us.

So, you should see that continued leverage and leverage impact here for 2016 in the front half. And then we get to a normal comp in the back-half in terms of the margin rates that we delivered. Hence why..

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

Okay. Thank you.

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

A

I feel pretty confident, obviously, [indiscernible] (38:34) with a segment operating profit of more than 10% for 2016. Dave, do you want to add anything there?

David G. Rice
Chief Financial Officer

A

The only thing I'd say is the hedge in this a little bit is the timing of the final Juarez closure and the recognition of the benefits of that.

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

Yeah.

David G. Rice
Chief Financial Officer — A

And that really kind of depends on the way that inventory turns. So, I'd expect to see a benefit, an incremental benefit for that in the back-half of 2016. The question is, do we see it right away in Q3 or does it push later into the quarter, before we see it.

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

Yes. Typically, Rudy, it takes us about a quarter to burn through an inventory level.

David G. Rice
Chief Financial Officer — A

Right.

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

Assuming again, natural volume production.

Rudy A. Hokanson
Barrington Research Associates, Inc. — Q

Okay. Thank you. And this is just a clarification on Walt's discussion about corporate expense, because several numbers were being thrown around. Dave when you said, just take the absolute number for 2016 rather than in the percent, could you give us what that absolute number was that you were referring to?

David G. Rice
Chief Financial Officer — A

Yeah. Walt threw out a number of run rate of about $15.8 million. And I said that's about the range we're thinking about corporate expenses, before the whole company structure which is about $1.5 million on top of it.

Rudy A. Hokanson
Barrington Research Associates, Inc. — Q

Okay. And then could you say that's going...

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

It's already $17.50 million.

David G. Rice
Chief Financial Officer — A

$17.50 million, yeah.

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

$17.50 million.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay. Thank you. And then in your remarks, Dave, as we look out past 2016, did you say that the implied run rate looking at a percentage would be 2.75%?

David G. Rice
Chief Financial Officer
A

That's the benchmark we're using. I mean, obviously the costs in our corporate structure are not variable. So, I would expect to see that percentage come down as we grow. But right now, with what we see in front of us, that's what we're using to plan with.

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

Yeah.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay. Thank you.

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

Yeah, Rudy, one of the things that and I've talked about pretty openly is, I'd like to see us in the low-2%s as a percent of sales. Recognize that we walked away from some pretty sizable volumes [indiscernible] (40:54) translation effect here in 2015. That gives a bit of headwind in terms of the percentage.

David G. Rice
Chief Financial Officer
A

Right.

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

So, as Walt was driving the point is, you don't just manage percent, you also manage the cash, it goes out the door. So hence that $17.5 million number is a good number to use and we're going to continue to work on this obviously as a result of efficiencies and the like in our corporate structure.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Okay. Could you talk a little bit more – thank you. Could you talk a little bit more about the consolidation of brands and how you see that impacting your various end markets? Or is that something that's just going to be very subtle and we'll be finding that on your website that there will be fewer and fewer labels as time goes on? Or is there something more that you're looking at for 2016?

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

A

2016, most definitely will have three brands that we exit. We have approximately 600 SKUs that will either re-transition to one of the shoulder brands, whether it's Reese or Draw-Tite. So that's our first effort of rationalizing brands and the customers that were affected have been – otherwise been supportive, once they understood what we're trying to accomplish. And that's underway here as we transition those products here in 2016.

The importance here is that some of these brands obviously have brand equity albeit different in nature in terms of the different markets in which they serve. But – so we're going to take our time to be able to do this and do this wisely. And the way in which we'll see this is the way you characterize it. This will be a long-term project, as I've said, whereby we're going to continue just to be very thoughtful in how we transition those because we obviously want to make sure we've contemplated the appropriate things from a customer perspective, but also from a channel and channel differentiation perspective.

So, let's say 2016, we'll see more efficiency in our manufacturing facility as a result of this and I'm not going to quantify what that feels like, because I think what we have to do is actually experience it. And we'll see less material in the network as a result of that base, you've get better planning associated with higher volumes on lower number of SKUs. So we're going to feel that operational efficiency over time. Now, one of the other things that we'll do is we'll take some of these brands that we've acquired over time and we'll start that natural transition and it will be brand A produced by Reese, and then over time it would be Reese. It will then transition to a Reese lead or a Draw-Tite lead, as its most appropriately it will – absorbed in the market for whatever that channel may require, whether it's Bulldog or otherwise.

So it's going to be a long-term project. I'm sorry for the wondering response, but 2016, we should see more efficiency on our SKUs, number one, and it's going to be a long-term project.

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

Okay. Thank you. And then the geography, I mean you've talked a lot about Australia and have given enough [indiscernible] (44:24) to South Africa. I mean you did mention Thailand earlier, I was just wondering is Thailand where you wanted to be right now, and are there any other geographies that you are turning your attention to.

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

A

Yeah, Thailand is in a – what I would consider is at a point of inflection for us, in a positive sense, not a negative sense. We were fortune enough to earn a significant program that basically give us the cash flow and the demand to be able to create manufacturing enterprise and a low-cost manufacturing enterprise in Thailand and expand our product sets as a result of customers believing our ability to engineer the right product.

Now what they've done is, they've diversified as that program lapsed and they have a whole bunch more programs that are otherwise coming to fruition and are launching and growing in Thailand.

So I think I really like where Jason Kieseker and the team are with regards to the diversification away from a dominant single customer for that facility to more than a dozen customers. That's the right answer and it's a good healthy answer for us as a company.

I would tell you the same is true in terms of Europe and our ability to continue to earn volume whether it's in our OE business based out of Germany or whether it's in our aftermarket and e-commerce activities based out of the UK.

These two businesses really do have an opportunity here to put some – put some good numbers up as a result of the wins that they've gotten from an OE perspective and that's – that was a purposeful effort on our part to actually engage the smaller OEs Pan Europe and our ability to be able to support them with local programs, local content and local engineering. So, it feels really good in terms of what the team has been able to achieve, and Paul Caruso and [indiscernible] (46:27) have done a tremendous job in terms of getting us best prepared for implementation in Europe.

Brazil, if I were just to drive by here on these countries, Brazil, this team has done yeoman's effort here. They took a situation whereby – they're basically about half the volume that they were just a few – less than few years ago. And the team has put together a structure whereby they're profitable at that volume. They've done a tremendous job restructuring the business and engaging customers and making things more efficiently. So, when this market ultimately gets a little bit healthier, I look forward to seeing the margin expansion and the increased profitability out of that business over time.

Rudy A. Hokanson
Barrington Research Associates, Inc. Q

Okay, thank you. And then finally, on the eCommerce side, where are you relative to what you envision on eCommerce in terms of internally a business model and the way that you're operating at, not just in terms of demand, but in terms of how you had it set up and how you had it ready in order to be a more fulfilling channel?

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

Yeah, [ph] preferred (47:55). That's a good one there, Rudy. When you think about it, eCommerce comes with a lot of flavors for our customers, whether it's our eCommerce support for bricks-and-clicks or it's eCommerce customers that are naturally just that kind of channel. I would tell you that we continue to make good headway on – but I would tell you, we're still early innings. We're – I wouldn't call us the best-in-class here, I would consider us in a good position with regards to supporting our customers in an appropriate way.

And in certain jurisdictions around the world, we've done the efforts to actually grow on a direct basis as warranted by those market spaces. That's not necessarily appropriate everywhere with the customer sets that we have. But I would tell that I like what it means in terms of some of those developing markets for us and what that can mean in terms of our ability to support those consumers of our products.

Rudy A. Hokanson
Barrington Research Associates, Inc. Q

Okay. Thank you. Those were my questions.

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

Thank you, Rudy.

David G. Rice
Chief Financial Officer A

Thanks, Rudy.

Operator: Your final question, comes from the line of Matt Koranda with ROTH Capital Partners.

Matt Koranda
ROTH Capital Partners

Q

Hey guys, just had a quick follow up. You did mention Juarez closure and the timing there, potentially being a swing factor in your operating margin outlook. So I just wondered if you could maybe discuss some of the factors that could swing that potentially later than you expect and I believe it was Q3 that you mentioned were timely shut downs, but could you just give us that marker there too?

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

A

Let's put a couple of toll gates here Matt, so that everybody is clear on our goals here. We would like to see ourselves producing all the product that was intended to be produced in Reynosa out of the Juarez facility by the end of Q1. We also have certain of those products that are now going to be with our Chinese partners in – with pre-established Chinese partners in terms of them manufacturing more product for us in their particular factories. That portion has slid a bit and that's probably within Q2 that that'll happen and happen efficiently.

So what we'll see is, we'll see the first portion start to generate incremental profitability as a result of the efficiencies as we burn through those temporary inventories that we made referenced to by the end of hopefully Q2, we'll start to see that produced volume start to generate efficiencies in the back half, and the source product, you'll start to see that towards the end of the year.

Matt Koranda
ROTH Capital Partners

Q

Got it. Okay, that's clear, thank you. And then lastly, nobody asked about the long-term goals that you guys rolled out in the presentation. So I just wanted to take a crack at that $1 billion in total sales and maybe you could just discuss sort of what the relative time horizon is here for those long-term strategic goals? When do we reach that $1 billion level? And what's kind of the mix between organic growth that we see and acquisitive growth to achieve that?

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

A

Yeah, thank you for asking. You know Dave Rice and Maria, both said, Mark you realize that if we put this out there, they're going to want to know by when. And being a former CFO myself, I knew that that would be the case. And what the intent here, Matt, is to put out there is a company goal. A company goal in terms of making us think more innovatively around how we go to market, more innovatively in terms of how we develop products. If you just say, hey, listen, we just want to grow at 3% a year, and you do that organically, the need to innovate and drive change in this enterprise and change in this market space, somebody else will do it for us.

So, the goal here for me is pretty simply this, just put the thresholds out there and keyword, thresholds, that I see us as a $1 billion company. That doesn't mean we carry all the resources today to be a $1 billion company, but it says that we'll get a good portion of the way there organically and we're going to have to use that cash flow that we're going to generate to be inquisitive along the way as well to be able to get to that billion dollar threshold.

Now, do I have a goal to be there in 36 months or translate that in terms of number of weeks? The answer is no. What I want it to be is a rally cry for us to be more significant in the market in which we compete. I want us to be more innovative in the products that we bring and I want us to be more creative when it is comes to the go -to market solution that we provide to our customers. And that forces us to think a little differently. Now, that opens a can of worms, if you will. And that can of worms, are you willing to grow at the expensive margin? Well, no, very clearly no. We are absolutely focused on the 10% & 10% initiative, and you can see that as part and partial of those goals.

So I don't see us giving up on margin first, because margin is the value creator for us for the next 2.5 years, as we step towards being a 10% operating profit level as an enterprise. So, this was an effort to really focus the team on what should we be, what products should we be at. If you were to take a half step back and say, think about what people want to do as a towing and or trailering solution set in five years or in 10 years, what should we be investing in, in terms of how we think about our go -to-market and our products set, that was the intent to that.

Matt Koranda
ROTH Capital Partners

Q

Got it, very helpful. Thanks, guys.

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

A

Absolutely. Thank you, for asking, Matt. Excellent. Turn it back to me.

Operator: Yes, sir.

David G. Rice
Chief Financial Officer

A

Thank you, Crystal.

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

Thank you, Cristal. I just wanted to reiterate, we're excited about the opportunities that are ahead of us. We're excited about more than 20 wins from an OE perspective and what that means to us and that's the realization of real investments that we made to be relevant in that space, and we're just getting started.

We're getting started to be in enterprise that is proud of what we deliver to our customers, we are proud of our employees in the development that they feel. And you know it's an exciting time to be part of Horizon Global. So I want to thank everybody for their attention, and I look forward to keeping you updated over time as we show continued progress to our top-three objectives that being margin expansion, capital structure improvement and good organic growth process [indiscernible] (54:53). Thank you and have a great day.

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