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Horizon Global Corp. (HZN)

Q3 2015 Earnings Call

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David G. Rice
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, welcome to the Horizon Global Third Quarter 2015 Conference Call. My name is Jackie, and I will be your operator for today's call. As a reminder, 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 C. Bringer Duey
Vice President-Investor Relations & Communications

Thank you, Jackie, and good morning to everyone. Welcome to Horizon Global's third 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 third 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 today's 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 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 section 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, and good morning to all. The third quarter of 2015 marks Horizon Global's first quarter as a stand-alone independent public company. The advantage of taking Horizon Global public was about the opportunity to establish a vertical focused leader, which is a rare opportunity of participating in a market in which we are the leading designer and manufacturer.

We've accomplished many things in our first 90 days of being independent. In addition to successfully taking the company public on July 1, we built a corporate infrastructure for the enterprise including recruiting and staffing a leadership team, my corporate executive council, and the board of directors.

We've developed and rolled out our vision, mission, and objectives throughout the entire organization. We structured the company towards an appropriate cost structure, established priorities and financial direction of the enterprise, and built the financial infrastructure separate and distinct from our former parent to prepare financial statements we'll discuss on this call.

I'm proud of what the team has accomplished in the first 90 days 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 would please turn to slide four in the deck, I would like to start this call by discussing some trends we are seeing both in our industry and our business. In terms of what we're seeing in the marketplace, the U.S. dollar remain strong and we don't believe that will change in the near future. Steel, which is our largest buy remain stable. We see retail and eCommerce continuing to grow globally, although we're heading into our seasonally slower months of the year.

The distributor consolidation which we experienced in the first half of the year appears to have stabilized during the third quarter. Our IP brands in scale are our competitive advantage, but we think that distributors will continue to look for economies of scale, so there may be more consolidation to come. As we watch the economic trends relevant to our market, we see some softness particularly outside of North America going into the fourth quarter.

In terms of industry trends, we just attended the SEMA Show in Las Vegas, the largest trade show in our industry. The attendance, both exhibitors and attendees, was very strong this year, indicating a healthy industry with many new products and services. This Show demonstrates how fragmented our industry remains. There were hundreds of small participants, many in product categories adjacent to ours.

Even with all that competition, in our first quarter as a public company, our results exceeded our expectations. Our team is going full throttle to execute on three priorities, and it's showing in the results. Our operating margin improved 210 basis points to 7.6% on a segment basis. Our operating margin was 10.1%, excluding special items. The actions we have taken and the plans we have in place are driving margin improvement. Dave will talk more about that in a little bit.

In addition, our sales were up 2.6% on a constant currency basis. While we're feeling a significant headwind from foreign currency translation, over $9 million in the quarter, we were pleased that we're growing in local currency. And excluding special items, we delivered a 56% improvement in earnings per share, a great feat for our first quarter as a public company.

Against that backdrop, please turn to slide five. There, I'll remind you of the three financial priorities for value creation: improve our margins, what I call, 10%-10%; improve the capital structure to less than two times lever; and drive sales growth which is 3% to 5% organic growth.

On slide six, you'll see how we executed against those priorities in the third quarter. Given all the actions we have taken, we were able to get to a segment operating margin of 10.1%, excluding special items. Our expectation is to get to a segment operating profit on an annual basis of 10% in the next year. We also doubled our operating profit dollars in South Africa, as that business continues to grow and perform well for us. We continue to achieve nearly double digit, standard cost productivity increases as a result of the plant integrations and core performance efforts. We're realizing the benefits of a more mature plant producing more efficiently through their intense focus on continuous improvement.

We are also in the process of closing our Tekonsha Michigan facility and establishing a center of excellence, an engineering center of excellence in Plymouth, Michigan. With this focus, we will generate engineering productivity while eliminating the long-term fixed cost of the Tekonsha facility. This should be complete by the end of this year.

We are also keenly focused on improving the capital structure and leverage levels of the business, with a goal of approximately two times lever for us as a company. We improved our leverage ratio in the quarter to 3.6 times, better than we expected when we went public in July. Our cash flow was strong in the quarter and despite having to make our first interest and amortization payments, along with nearly a $10 million payment to our former parent for a tax obligation, we're able to achieve nearly 130% cash conversion of net income.

Our Cequent Americas retail business and eCommerce business saw a continued strong growth, as did our business in Australia and South Africa in local currencies. Other parts of the globe were more challenged, as our UK, Thailand, and Brazil businesses all experienced some declines. We continue to feel the pressure of foreign currency headwinds, while recent distributor consolidation and inventory reductions have stabilized. We continue to see an evolving marketplace regarding customer consolidations, as evidenced by the most recent announcement of Bridgestone-Pep Boys

Despite some of these pressures, we feel we are well-positioned to continue to grow in this environment, because of the culture we're building at Horizon Global. As you can see on slide seven, our vision is to enrich lives through great products. That's who we are, and we have a mission to support that vision with an outside view to our company focusing on the markets and the users first. The enablers are the strategic advantages to deliver heightened levels of performance and the core values that we embody allow us to deliver on that mission and execute our three strategic priorities.

This is critical to our growth as a new public company and you'll continue to hear us talk about this, as it is important to our customers, to our employees, and to our shareholders. It is what allows us to deliver these results.

With that, please turn to slide eight and I'll turn it over to Dave Rice, our CFO, who will go a little deeper on our performance in the quarter. Then I will be back to wrap up and share our views for the balance of 2015. Dave?

David G. Rice

Chief Financial Officer

Thanks, Mark. Please turn to slide nine, which presents a summary of our Q3 results. Sales decline in Q3 of 2015 relative to 2014 by 3% to $153.3 million on a reported basis. Considering currency headwinds of $8.7 million primarily in our APEA segment, sales improved on a constant currency basis by 2.6%.

Segment operating profit, before special items, improved to 10.1% of sales, or 220 basis points, over the same period in 2014 as plant productivity, input costs, and consolidation benefits in the Americas segment were reflected in our results. We present segment operating profit as we focus on achieving initially a 10% target at that level, followed by 10% enterprise operating profit. For Horizon in total, we closed Q3 of 2015 at 7.6% of sales as compared to 5.5% in Q3 of 2014.

For the third quarter, we incurred stand-alone corporate expenses as compared to the allocations from our former parent presented in all previous periods. We continue to incur cost under our transition services agreement, but they represented less than 15% of the total. We continue to develop the organization's capabilities with the goal of being positioned to operate without the support as of year-end. During our Q2 call, we communicated the intention of running a corporate expense structure approximating 2% of sales. During the quarter, we were slightly under 2.5% and believe we are on track to achieve our goal once the TSA concludes.

The tax rate for the quarter was a credit of 98% and reflected losses in jurisdictions with higher tax rates and the reversal of certain unrecognized tax contingencies, following the expiration of applicable statues of limitations. As a reminder, we use a planning tax rate of 20% based on jurisdictional earnings, and expect to end 2015 at a full-year rate well below that. As a result of operational improvements and the favorable tax rate, both net income and earnings per share improved more than 50% over 2014.

Year-to-date cash flow is up 90% over 2014 and our leverage ratio improved to 3.6 times. This leverage improvement is important given the cost incurred to develop our cooperate structure, satisfy our obligations from the spin, and service our capital structure. On the next two slides, I'll provide additional color on the performance of our two segments.

Turning to slide 10, Q3 sales for Americas segment were $116.5 million representing sales growth of 2.6% over Q3 2014. On a constant currency basis, sales grew at 3.5% from Q3 of 2014. The retail channel continues to [indiscernible] (12:54) performance with growth of almost 10% over Q3 2014, the majority of which comes from demand from the home hardware customer group. We have continued to see softness in our industrial channel, as the agricultural and oil and gas end markets continue to operate at lower levels than in the prior year.

After two quarters of difficult to predict demand in the aftermarket, Q3 reflected more normalized patterns. Mark mentioned a stabilization of these order patterns in his comments. We continue to monitor the evolution in our customer set in the retail and aftermarket channels. The good news is that our brands and product offering provide Horizon a strong competitive position as the market changes.

Segment operating margins for Q3 improved to nearly 12% in 2015, versus nearly 8% in Q3 of 2014. This performance was favorably impacted by reduced input costs, as a result of improved raw materials and plant operating productivity. Actions taken in the first half to integrate the Americas businesses also provide benefits in the back half. If you remember, we initially took $5 million in annual run rate costs out of the business in May.

As Mark mentioned, additional actions aimed at integrating our businesses in the Americas continue, an example of which is the process of closing the Tekonsha facility. The Americas segment continues to focus on productivity in our Mexico facilities and the successful integration of business into one operating unit.

Performance in our APEA segment is highlighted on page 11. Q3 for our APEA segment – Q3 sales for our APEA segment were $36.8 million as compared to $44.3 million in Q3 of 2014. Our sales were essentially flat on a constant currency basis, as compared to the prior-year quarter when considering the effect of $7.5 million of translation headwinds. In the quarter, our South Africa business grew 29% in local currency and is up over 65% year-to-date. We expect this business to grow 50% in 2015 versus 2014 and another 50% in 2016 versus 2015, as awarded OE programs are anticipated to achieve full production.

Australia, our largest business in this segment, grew 9% in local currency versus Q3 of 2014. Thailand volume is down quarter-over-quarter, however, new program awards continue to launch in this region, offsetting the volume decline associated with the loss of the plant's original program award. Finally, sales in our European businesses were slightly lower in local currency, as unplanned equipment repairs and supply constraints on a specific purchased component prevented the businesses from satisfying full customer demand.

Operating profit for the APEA business declined in the period by $1.8 million. This was primarily driven by the impact of strengthening Thai baht and U.S. dollar-denominated input costs in Australia and the unplanned equipment repairs and supply constraints in Europe. Offsetting these headwinds, South Africa continued to generate profit growth in the quarter and SG&A across the group remained relatively flat, balancing inflation pressure.

The APEA segment will continue to focus on winning new programs for the European and African businesses, aligning and integrating our European businesses, and focusing on productivity in the more established jurisdictions.

On slide 12, we update – we provide an update of the six specific programs that are the focus of our margin improvement efforts. These projects represent the first six major margin improvement programs on which we are focused. They're ordered roughly in their level of maturity with the productivity in our manufacturing facilities as an ongoing project and our brand consolidation in the early stages of its life cycle. We are achieving our objectives in the first few projects and have considerable work ahead of us on the projects listed at the bottom.

We've renamed the first project, plant performance, from its previous name, Reynosa plant performance, to signal a focus on productivity in all of our facilities. As we implement consistent measures across the businesses, we plan to update our stakeholders on performance to plan, but for now, productivity in Reynosa has been and remains our major focus.

On a year-to-date basis, the plant is approximately 9% more productive than in 2014, before taking into account the effect of the stronger dollar. As expected, we are getting the benefits of the initial activities to integrate the Americas and continue to work on additional initiatives, including the implementation of a common ERP system and the closure of our Tekonsha facility.

Our European businesses had challenges this quarter that prevented the region from achieving its sales and margin targets. Unexpected equipment downtime in both the UK and Germany combined with the limitation of supply on a critical component negatively impacted performance. We continue to execute plans to operate in this region as an integrated entity, stabilize supply of critical components, and accelerate growth.

At the bottom of the list 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 it's presently ironing up the mechanics to complete de-emphasizing or eliminating these brands by the end of 2016. We're not ready to publically share which brands those are as we work through customer communications, but we expect a reduction of more than 600 SKUs as a result of this first phase. That represents a meaningful reduction in the [indiscernible] (18:30) we will have to maintain going forward, even before considering the impact the project will have on simplifying operations and distribution.

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

My last slide 13 is a view of our leverage and liquidity. As of September 30, we had nearly $100 million in liquidity made up of $20 million of cash on hand and $70 million of availability on our ABL. We expect to continue to generate cash through the balance of the year which aligns with our normal seasonal cash flow cycle. As I noted on the first slide of my presentation, our leverage ratio declined sequentially from 3.8 times at June 30, to 3.6 times at September 30. We accomplished this along with increasing our cash on hand from $17 million to $28 million in a quarter when we made a cash payment of approximately $10 million to our former parent under a tax sharing agreement and fulfill the initial obligations under our capital structure totaling $6 million.

In addition, for the first time, we incurred stand-alone corporate expenses as opposed to a non-cash allocation. Our leverage ratio and cash balance was made possible by the hard work of our operations and finance teams as they executed margin improvement initiatives and manage working capital needs.

At this point, I'll turn it back over to Mark who will cover our guidance and performance for the balance of the year, review our longer-term goals, and wrap up our prepared comments. Mark?

A. Mark Zeffiro

Co-Chairman, President & Chief Executive Officer

Thanks, Dave, and we're going to give him a chance to get his voice back here before we get started a little bit. So, let's move on to slide 15, in terms of the back half of the year, we're providing performance guidance. We will continue to look at the six months ended December 31, 2015, as it covers the months we have been of public company. We adjusted our revenue guidance slightly to be between $275 million and $285 million, mainly due to the foreign currency headwinds being stronger than we expected at the end of the second quarter.

We continue to expect to increase operating profit by 50% to 75% for the back half of 2015 or approximately 200 basis points, this would equate to between $12 million and $16 million in profit for the business. We continue to recognize the importance of cash flow on the capital structure, and believe that we'll be able to convert cash in excess of net income which is our longer-term expectation, and we expect to generate $20 million to $30 million in operating cash flow as a business. EPS for the full year is expected to be between $0.95 and $1, slightly lower than what we expected on our last call due to volume shortfalls which are largely market-driven outside the United States.

On slide 16, you can see that longer term, 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.

Wrapping up on slide 17, as of the third quarter 2015, we begin our life as a stand-alone company. We delivered a strong performance against our financial priorities, improving margins at a segment level to 10.1% excluding special items, bringing our leverage ratio down to 3.6 times and growing sales at 2.6% on a constant currency basis. Our cash flow and working capital management in the quarter were excellent, as we begin making interest and amortization payments along with $10 million tax obligation to our former parent and ended the quarter with nearly $30 million worth of cash on book.

We talked a fair amount about currency pressure and we think it will continue to be a headwind going into 2016. We will remain vigilant in sensing market trends as we close the year. At our fourth quarter earnings release, we will share guidance for 2016 and continuing the news about our progress on our strategic platforms for growth and value creation.

We are the only one in our peer group with the global scale and flexible manufacturing footprint. Our broad product portfolio gives us different ways to satisfy customers, many of which, we have long-term relationships with; multiple avenues for top line growth, the 10%-10% margin initiative, which we expect to drive long-term value creation for our shareholders; and strong anticipated cash flow generation, which with 80 million shares outstanding would translate into a significant amount of cash per share.

We recognize the need for speed in delivering business improvement and we have a balanced approach for focused objectives for the company. Metering this change to the business and the organization is the challenge for our corporate executive council, as we optimize the business for long-term value creation.

I would like to thank our dedicated colleagues for all that they do every day to satisfy our customers. Thank you to your stakeholders for their support and making Horizon Global a better company, and a special thank you to all our veterans as we honor them on Veterans Day. We, at Horizon thank you for all that you do to serve our country and preserve our freedoms. We wish you all a happy and healthy holiday season.

At this point, we will gladly take your questions.

QUESTION AND ANSWER SECTION

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

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Morning, guys. Thanks for taking the questions.

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

A

Absolutely, Matt. How are you?

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Good. Good. How are you guys?

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

A

Good.

David G. Rice
Chief Financial Officer

A

Good.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

So, just want to start out with the implied Q4 outlook. Could you maybe just put a little bit of color on that $0.90 to $0.95 for the year that you guys see? It seems to imply flat to $0.05 in Q4. Maybe you could just walk us through some of the segment assumptions in terms of revenues and margins that go into that, just for Q4 specifically?

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

A

Well. Let's start with the full back half whereby we're still guiding 50% to 75% increase in segment profitability, so that's still the foundation of that math. The other factor considered obviously is the natural seasonality of the U.S.-dominated business in terms of the natural seasonality for Q4. So, there is some volume implications obviously in terms of this is our smallest quarter of the year. So, to that end, those are key factors that obviously go into our assessment, but we're expecting to see profitability, we're expecting to see improvement in those businesses within the fourth quarter pretty significant.

Dave, if you'd like to add any additional color, that would be helpful.

David G. Rice
Chief Financial Officer

A

Yeah. Sure. I mean, what I would definitely say is that the margins achieved – that we expect to achieve in Q4 will not be to the level – at a segment level that we got in Q3 just driven on volume, but the improvements that we cited in our guidance, we expect to get. So, we'll be better than last year, but it will still be our slowest quarter of the year.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Okay. Got it. And then just shifting gears to the Americas segment, I know that last call we talked a bit about a major distribution customer that was consolidating some of their distribution facilities, but it does sound like consolidation was completed in Q3 at that large customer and also it sounds like they maybe opening some larger distribution centers that begin to take product in Q4. So, maybe you could just to help us understand, does that present any meaningful opportunity for you guys and obviously with the understanding of the Q4 is definitely seasonally slower for the Americas segment, but a little color there would be great.

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

A

Yeah, for sure. We felt that – within the quarter, we felt the stabilization and the return to purchasing by the customer. And that was – as I said in my commentary, I'll believe it when I see the orders start to come and they have started to come, which is good news. Means that they're downsizing side of it should be largely behind us. And you're right, Matt, they're anticipating two additional locations here. Sometimes things happen faster, sometimes things happen a little slower, but we expect to see some activity here in Q4 that will help us.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Okay. Got it. One more here from me, just if I may. In terms of – I think you guys mentioned Pep Boys and Bridgestone at the beginning of the call. Maybe you could just help us understand, is there any significant revenue exposure for you guys to Pep Boys and just what's the latest you guys are hearing in terms of how that may impact your sales into Pep Boys?

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

A

Yeah, that's a very early days situation for us. I would tell you that no customer represents more than 10% of our sales. Pep Boys isn't – is an important customer, but I wouldn't say is a top 10 customer for us as an enterprise. So, that gives you a sense as to how important they are to us. They're important to us because they've been a good partner over time. So, I would say that, as Bridgestone decides what they want to do with that retail footprint, it may provide more opportunity for us versus less. And we're obviously going to mind that opportunity as completely as we can and be as helpful to Bridgestone as we can in that process.

Matthew Butler Koranda
ROTH Capital Partners LLC

Q

Got it. Okay. That's very helpful and I'll jump back in queue. Thanks, guys.

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

A

You bet.

David G. Rice
Chief Financial Officer

A

Thank you, Matt.

Operator: [Operator Instructions] Our next question comes from the line of Walter Liptak with Seaport Global.

Walter Liptak
Seaport Global

Q

Hi, thanks. Good morning, guys.

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

A

Good morning, Walt.

David G. Rice
Chief Financial Officer

A

Hi, Walt.

Walter Liptak
Seaport Global

Q

Hi. Well, congratulations on getting out with your first quarter, it looks good. And I want to ask about the revenue guidance, and just make – and kind of a follow-on to the last one about consolidations. It sounds like you're taking the revenue guidance down because of foreign currency and not because of any kind of distributor consolidation. One, I just want to make sure that's correct. And then, we had a disruption last quarter and I just want to make sure I understand your cautionary tone about distributor consolidation. Is there something specific that you can point to or are these kind of general comments that kind of in the future, there might be more consolidation that happens?

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

A

Great question, Walt. It's not because – the revenue guidance is largely on the back of foreign currency translation, and a bit of a slow start to some of the season that we're seeing outside of the U.S. So that – it's largely on the back of foreign currency translation. There isn't additional distribution consolidation pressure that we're feeling, that run rate's already in place. So, I think we're okay in that respect.

And my cautionary words around – what we see is we see retail customers growing very nicely. We see eCommerce growing very nicely as a customer set for us. And obviously, that presents pressure [indiscernible] (30:56) growing faster than market in its totality. So, that's providing pressure somewhere. So, we're trying to be as supportive as we can to some of our longer term distribution customers to make sure that we're being as thoughtful as we can around how they go to market as well. But they're going to be looking for efficiencies, of course, and we've seen it through the consolidation that we've seen so far. I can't anticipate more consolidation at this point in time, because I don't run those companies.

But I would say this, is that I think it's going to be a natural outcome that we see that happen. And as a result of that, I think we have an opportunity to be yet even more important to certain of these distributors, because of our breadth of products, because of our breadth of brand capabilities and quite honestly, our IP. So, it's a matter of making sure that we provide them the efficiencies that they need to be as competitive in the overall go-to-market spaces as possible.

Walter Liptak
Seaport Global

Q

Okay. Great. Yeah, thanks for that color. That kind of leads to a second question, the strong retail channel growth that you had, the 9.8%. Was that related to channel fill or eCommerce, or is that just kind of the base of what you're getting your retail market to grow?

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

A

Yeah. When you think about that there's – let me characterize a little bit differently. We're seeing the eCommerce guys grow at double-digits. It's obviously a segment what we very much value their the relationships with us, and we're going to be as helpful as we can in that. Because, quite honestly, more than 80% of people look at stuff online before they decide to buy. So, this is a natural trend that, I think, it will continue ahead of us. Now, the answer to your question most specifically, was it fill in the quarter, there was only $1 million worth of fill in the quarter, the rest of it was organic growth and share take as a result of our activities.

So, I'll tell you that the team there in the retail business is doing a fantastic job, and they're supporting customers. And part of it, Walt, is remember a year ago, these businesses had a devil of a time fulfilling their needs, because of the transition we had happening down in Mexico. And I'll tell you now that they're filling fulfillment rates that are on a consistent basis. So, it gives them a competitive advantage and the like to be able to be – make meaningful moves in the market space.

Walter Liptak
Seaport Global

Q

Okay. Great. Sounds good. I want to ask just a couple of kind of modeling type questions. The fourth quarter, is there another tax benefit, Dave? Are we expecting another $3 million, or can you quantify it for us?

David G. Rice
Chief Financial Officer

A

Yeah. So, I can't really quantify whether we expect specific benefit or not, but I will say that you can see the rate that we had in Q3 and our rate year-to-date is basically zero. We still expect to be well below the 20% planning rate just because of jurisdictional income.

Walter Liptak
Seaport Global

Q

Okay.

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

A

But the events that otherwise transcribe, remember, we had very high tax rates in Q1 and Q2 as a result of how things were accounted for in the overall transition, [ph] Walt. (34:30) So, this is a natural outcome of balancing that for the year. So, there's clearly some advantage that we had in Q3, but our planning rate always remains back to that 20% and that's kind of where we are.

Walter Liptak
Seaport Global
Q

Okay. Got it. Okay, I'll get back in queue. Thanks, guys.

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

You bet.

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

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

Good morning, Rudy.

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Thank you. Good morning, Mark. I was wondering if you could just talk a little bit more about why you changed the initiative from the Mexican plant to plant performance. And it looks like you're fairly well along the line of accomplishing what you want to do. The name change implies there are other things you want to be doing, but the little arrow looks like you're pretty well done. Could you maybe talk a little bit more about that?

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

Yeah. Rudy, what I see happening here is that this is becoming just natural, it's like breathing. The business in Reynosa is performing very well. The plant – remember, that's not only plant location we have, right. And the plant location in Australia is performing really well. This becomes just a natural cadence of being operationally excellent, operationally efficient. And as such, I think the step function that we've incurred in relative improvement of that plant is getting to the end of its step function need, right. So, now it becomes just a day-to-day slugging it out, generating good productivity each and every day that this business operations team really understands quite well.

Ultimately what I see happening, Rudy, is that that initiative will come off the page because it will just be part and parcel of who we are and what we expect. We'll still talk about plant productivity. We'll still talk about the efficiencies in our manufacturing facilities, but the next initiative that's going to drive a step function change will be something else that'll get added to this list, and then we'll have that kind of transparency around that kind of project with our stakeholders.

Does that answer the question?

Rudy A. Hokanson
Barrington Research Associates, Inc.
Q

Yeah, no, it does. And I was just wondering is that sort of the way to view where you're going to be on the next step with the consolidation of the Americas, that it would be an ongoing sort of operational improvement issue rather than something major?

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

A

Yeah. I would tell you that the integration of the Americas, it's going to tailwind to itself, right? There is lots of things that John Aleva and the team are focused on being more efficient and effective. We're going to start to make sure that we just don't continue to throw new stuff in that bucket. We're going to put the big projects that he's working on that haven't made the list yet as part of filling the bottom at of this page.

So, we're going to show things that will affect the business in the future. It could be things like distribution consolidation in terms of our own distribution network and reorienting that. There is going to be other things that hit the list, but the activities once we've completed those that we've noted in the Americas consolidation, that will come off the list. And then there'll be things like backroom consolidation as an enterprise, that will come on the list. And we're just going to cross these sectors off the list as we continue to show profit improvement and maintained profit improvement as a result of changing that profitability profile as a company.

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

Okay. And then finally, and off the same slide, I understand how you don't want to get too specific about which brands you're going to be consolidating or what you're going to be doing with them. But you do have a lot of brands and when you look at a slide especially when you were first going public as a stand-alone, the number of symbols or brands was almost overwhelming.

Do you have an idea as to what the final number may be? Are you going to down to like – is it going to be like four, five brands; is it going to be by product line; or is it going to be by geography? Because again some of those brands may have [ph] cache (39:03) in certain geographies. Can you give some idea as to what's making you think about how to bring the brands' number down?

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

A

Yeah, for sure. There is a couple things that go into that, Rudy, and the first element is making sure that our customers are being appropriately served and that the market is being appropriately served with the right brand positioning and right kind of value proposition for those brands. So, the first step is for us to decide where and how we want to go to market and how we're going to use those brands.

If you remember, there's more than 30 brands that we had in front of us. Basically, this ends up being about a 10% reduction and we're not taking just small ones off the table initially. The team's really focused on making a meaningful change as witnessed by the more than 600 SKUs that are going to be either transitioned, replaced, or eliminated.

So, what I would say as is this, it's way too early for me to say that it's going to be three; it's way too early for me to say that it's going to be 10. But it's somewhere between those numbers that I think ends up being the right kind of number in terms of where we need to land as a company and being brand efficient that will ultimately allow us to be more operationally efficient as well.

Does that help?

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

Okay. Thank – yeah, no, very much so. Thank you for explaining it.

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

A

Yes. Absolutely.

Rudy A. Hokanson
Barrington Research Associates, Inc.

Q

That's it from me.

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

A

Thank you, Rudy.

David G. Rice
Chief Financial Officer

A

Thanks, Rudy.

Operator: Thank you. I would now 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

Excellent. Excellent. I appreciate everybody's attention and then focus on Horizon Global. It's an exciting time for us. In the last 90 days, we had tons of firsts, whether it's our first board meeting, our first real earnings call, our first whatever it may be. The team has been wholly focused on making us the better company. The team is engaged and aligned with regards to our priorities, as we've been very clear as to what those are. So, I appreciate all of your interest in Horizon Global and remain available to talk to you in the future. Thank you, all.

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