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Horizon Global Corp. (HZN)

Termination of Brink Acquisition Agreement Call

CORPORATE PARTICIPANTS

Christi Cowdin
Director-Corporate Communications & Investor Relations, Horizon Global Corp.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

OTHER PARTICIPANTS

Matt Koranda
Analyst, ROTH Capital Partners LLC

Richard Magnusen
Analyst, B. Riley FBR, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Horizon Global's Investor Conference Call. My name is Laurie, and I'll be your operator for today's call. All participants will be in a listen-only mode until we reach the question-and-answer session of the conference call. This call is being recorded at the request of Horizon Global. If anyone has any objections, you may disconnect at any time.

I would now like to introduce Ms. Christi Cowdin, Director of Corporate Communications and Investor Relations for Horizon Global. Ms. Cowdin, you may proceed.

Christi Cowdin
Director-Corporate Communications & Investor Relations, Horizon Global Corp.

Thank you, Laurie. Good morning, everyone, and welcome to today's investor conference call and webcast. On the call today are Carl Bizon, Interim President and CEO of Horizon Global and also David Rice, our Chief Financial Officer.

Earlier this morning, we issued a press release to provide a business update on the company. The release is available on many news sites as well as in the Investor Relations section of our website at horizonglobal.com.

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 have certainly described these risks and uncertainties and our risk factors and other disclosures in the company's most recent Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission.

With all of that being said, I would now like to turn the call over to our Interim President and Chief Executive Officer, Carl Bizon. Carl?

Carl Bizon

Interim President & Chief Executive Officer, Horizon Global Corp.

Thank you, Christi. Thanks to all of you for joining me today. This is my first public investor call as Interim President and CEO of Horizon Global. I'm glad to be sharing my views with you 44 days into my new role at the company. I've had the privilege of being part of this set of businesses since 2008 with much of that time spent running the operations of Asia-Pacific and Europe-Africa. I look forward to properly introducing myself in the near future to those of you who I have not yet met. But I would like to give you just a little bit of color on my background for those of you who don't know me.

I've been an operations guy for the bulk of my professional career, working on turnaround and growth initiatives for several different companies. I'm fortunate to have deep manufacturing experience, having been in manufacturing leadership roles during my career. I'm absolutely dedicated to driving execution across the organization. Most recently and before rejoining Horizon Global, I was serving as CEO at Jayco Corporation, Australia's largest manufacturer of camper trailers, caravans and motorhomes. My time in the CEO role there has also given me valuable experience for my current assignment.

Before discussing in more detail the challenges facing Horizon Global, one of the most important takeaways for me as an operations guy is that our challenges are surrounding execution, not the fundamental foundation or structure of the business. With time and solid execution, we will do what we need to do to restore performance. Just as I will hold myself 100% accountable, I expect the same effort and rate of success from the leaders in our business. When speaking with the team, [ph] I liken it to (03:25) parts of the business having a short-term illness, but this is clearly not an epidemic. We will get through this and we will get better.

Our board of directors has entrusted me with an important set of tasks and the latitude needed to achieve them. We are already fixing and will continue to fix short-term issues as we attack them daily. Whether the word interim is in front of my title or not, I am completely committed to success and will work with the team to meet and eventually exceed the expectations of our customers, employees, and shareholders.

We have several goals for today's call. First, I will follow up on our announcement last Friday to terminate the Brink Group acquisition agreement. Second, over the last several weeks, I've had the opportunity to visit and spend time in each of our three business segments, view the operations up close, meet with their management teams and review their plans and outlook, and providing an assessment of our global business is something we want to share with the investment community without having to wait until our Q2 earnings call in early August.

Some of our learnings are already driving actions in the businesses. We are clearly not in wait mode. We are already moving and taking action. Third, I would like to provide a brief update on some of our Action Plan initiatives as we discuss the business review. Then, Dave will spend a few minutes providing an overview of key financial items, reviewing current business conditions, and updating the status of our guidance.

We believe it is important that we set the tone for the back half of 2018 and beyond. We aim to be clear, open, consistent, and as timely as possible with our investor communications. I'm sure you all had a chance to see the important announcement we made last Friday regarding our previously planned acquisition of the Brink Group.

In that press release, we announced that Horizon Global and H2 Equity Partners had mutually agreed to terminate the Brink Group acquisition agreement, effective June 14, 2018. The original acquisition agreement detailed a range of potential break fees under certain conditions. As part of the termination agreement, Horizon Global agreed to pay a break fee to the Brink Group in the amount of €4.75 million.

While I cannot go into specific details about the termination agreement, I can share that the teams from Horizon Global and H2 parted ways on a positive and amicable note. We have great respect for both the Brink Group and H2. We would not have entered into the original acquisition agreement, if we did not soundly believe in the many benefits of bringing our two companies together.

The acquisition was under regulatory review in both Germany and the UK. The acquisition has been withdrawn from consideration in both countries. While both regulatory authorities have published reports regarding the acquisition, I'm not going to comment on those reports. Importantly, the team here at Horizon Global views the termination of this agreement as an opportunity to bring greater focus to our core business. Our efforts will be centered on operational improvements and our most profitable geographies, most important sales channels and longstanding loyal customers around the world.

Turning to a review of our operations today. And over the next several quarters, we are committed to being clear, informative and insightful regarding our operations, assessing where we are, determining where we can go and estimating how long it will take for us to get there. We addressed this in our press release earlier this morning, but I want to underscore it again because of its importance to our view of the business.

Our company has a very positive foundation under the operational challenges that we are facing today. We have a fundamentally good business. We have great brands, great product lines, deep engineering resources, solid manufacturing capabilities, strong customer relationships, a solid supply chain, and we are a global leader in the towing and trailering industry. In short, all the ingredients for success are here, even if they are not being executed effectively today.

I would also be remiss if I do not provide my view of the company's longer-term financial goals. The foundational strength of Horizon Global gives me confidence that our longer-term goals of 3% to 5% organic annual revenue growth and 10% consolidated operating margin are ultimately achievable, even if the path may be longer than we anticipated.

The broad takeaway from our review is that the issues faced today by Horizon Global, while in some ways complex, relate primarily to execution. These issues will benefit from our efforts to simplify the business and focus our teams and resources. In the Americas, these businesses mostly relate to transitional changes in our logistics network.

In Europe-Africa, the issues refer to prior business decisions and the related ongoing consolidation activities. These are operating problems and very fixable given the right focus, skill set and opportunity. Some of these fixes are shorter term and some longer, but combining the right leadership with a strong management skill set can resolve a great deal of our current operating challenges.

As I discuss our operations, I'm going to combine my regional business assessments with updates to some of our Action Plan initiatives as they are quite closely linked. I recently spent time in Asia-Pacific and my assessment of that region is probably as anticipated. The business is our most profitable segment and is performing well by almost any measure. Our manufacturing facilities are meeting demand and our distribution facilities are operating smoothly. Sales, marketing and product development efforts are combining to deliver sales and earning forecasts for the year.

Regarding the Americas, several initiatives are nearing completion. The consolidation of the Solon, Ohio and Mosinee, Wisconsin facilities into the company's Plymouth, Michigan facility is on track for completion during the third quarter. The de-layering of the Americas organization is nearing completion and by the end of Q2 will be approximately 90% complete. The Reynosa manufacturing facility is meeting operational targets and will be coming off the Action Plan as a complete item after Q2 reporting.

Kansas City is a remaining initiative that still requires a good deal more attention. Shipping rates have increased, approaching twofold during quarter two. Whilst this is a great improvement, the DC is still operating at lower than required fulfillment rates. Our efforts are focused on sustaining the improvements we have made thus far and getting the shipping levels where we need them to be.

We had an unshipped order backlog of around $20 million at the end of last week and we expect that backlog to come down meaningfully to a more acceptable level as we progress through the third quarter. Notably, this backlog signals that our customers are still with us. We are quite fortunate to have customers that are resilient and patient, with many of these customers having experienced similar issues in their own businesses at one time or another. The bottom line is that things have improved and are continuing to improve every day. And we have the right facility leadership in place to close the gap on expectations.

Turning to the assessment of Europe-Africa and an Action Plan update. Having reviewed the European operations in detail over the past month, I believe that from an operational perspective, several actions taken in the region following the Westfalia acquisition will ultimately not benefit the business in either the short or long term.

Decisions made regarding manufacturing consolidation, production sourcing, and related logistics have overcomplicated this business. Moves that were made to improve margins and increase productivity were not effectively executed and are having a short-term adverse effect on our results. We expect to greatly benefit from leadership that is more operationally focused in Europe-Africa. One of our new Action Plan initiatives is the addition of a Vice President of Operations for the region. A search is already underway to fill this role.

We may have steep challenges in this business segment, but they are still operational in nature. In short, the business is not broken. It needs to be simplified and would need strong, focused leadership for the region that is dedicated to execution. We are not missing some essential capability, but efforts to consolidate manufacturing facilities and gain efficiencies have not gone as well as planned and have significantly affected our current performance outlook in this segment.

Most importantly, we are taking additional action to improve performance in Europe-Africa. First, Jason Kieseker, the current President of our Asia-Pacific segment will be assuming responsibilities for Europe-Africa and will also maintain his oversight of the Asia-Pacific segment.

Not long ago, we operated with a shared leadership oversight of these regions, a leadership role I served in before Horizon Global became a publicly traded company. The Asia-Pacific segment is our most well-tuned business, and Jason brings with him a solid track record of success. In order to support Jason and ensure we keep the Asia-Pacific business high performing, we will have an internal promotion from within the region to fulfill the role of Regional General Manager, Asia-Pacific.

Paul Caruso will be aiding the leadership transition through the end of July. We appreciate Paul's many efforts on behalf of Horizon Global and his time with the company's businesses under the former parent. With Jason

Kieseker in the leadership role for Europe-Africa, I will have a proven leader who is prepared to address and fix operational challenges head-on.

I should note we are no longer going to be speaking of synergies related to Westfalia. Our focus is on the overall Europe-Africa business and we'll be changing our discussions to productivity improvements, simplifying the business, and focusing on our core markets, brands and products. We do expect to make solid headway before year's end. However, our efforts in Europe-Africa will not be limited to 2018. It will require hard work and time to get there. But we believe we can achieve the operating efficiencies necessary to reach our goal of double-digit operating margin performance in this division.

I'm now going to turn the call over to Dave Rice who will take you through a few of the financial items from today's press release.

David G. Rice

Chief Financial Officer, Horizon Global Corp.

Thanks, Carl. Carl just shared the meaningful progress being made on our Action Plan. However, this progress has not fully offset the challenges we faced in the quarter. The delay in realizing certain benefits, specifically with respect to the ramp up of Kansas City coupled with continuing margin pressure in Europe-Africa, is expected to lead to financial performance in Q2 falling short of our projections.

In the Americas, we view this anticipated shortfall in the quarter as a matter of timing. Our Kansas City distribution center improved average daily shipments by more than 70% during May and June, with further improvements continuing to be achieved as the facility advances to required throughput levels. Order rates have remained stable, and we expect to exit June with approximately $20 million in shippable backlog.

In contrast, Europe-Africa's expected second quarter result requires us to reevaluate our outlook for that segment's performance for the remainder of the year. As Carl discussed, the team is focused on simplifying the business and more efficiently managing operational initiatives to drive improved performance in the back half of the year and beyond.

We will discontinue presenting synergy savings related to the Westfalia integration, which have in large part been offset by other margin headwinds in the segment. Instead, we will focus on operational cost savings and productivity going forward. The leadership change in this segment is expected to enhance alignment between effort and outcome to improve the business.

As a consequence of the anticipated performance of Europe-Africa in the quarter, together with our expectations for that segment's performance for the balance of the year, we anticipate needing to perform an interim impairment test of intangible assets, including goodwill, for the third consecutive quarter. This evaluation may result in a further non-cash impairment of goodwill and potentially other intangible assets. In response to these performance challenges, we have taken steps to control discretionary spending and continue to critically review SG&A that is not directly in support of servicing our customers, strengthening our control environment, or meeting our governance obligations.

Ultimately, these actions will not be enough to offset operational headwinds in the quarter, resulting in our projected performance for Q2 falling short of current analysts' consensus. In light of the delay achieving required shipping levels from our U.S. distribution network and the changes necessary to improve the focus of Europe-Africa on delivering results, we believe it is prudent to withdraw our guidance for 2018. This decision in no way diminishes the commitment of the entire organization to continue addressing our challenges with effort and urgency, and we look forward to updating investors on the progress of our Action Plan.

With that, I'll turn it back over to Carl to wrap up our prepared remarks.

Carl Bizon

Interim President & Chief Executive Officer, Horizon Global Corp.

Thanks, Dave. In the near and medium term, my focus and that of the entire Horizon Global team is centered on managing through evolving business conditions and executing the company's Action Plan, which we believe will improve performance in our existing Horizon Americas and Europe-Africa operations.

As I said before, I'm convinced that the bulk of our operational issues require short-term intense focus to fix. Some things may take a few quarters to get fully back on track, but we will get where we need to be in order to position our company for financial progress in the longer term.

Before turning to questions, let me reiterate my confidence in Horizon Global's underlying business and its clear leadership role in an ever-consolidating industry. We will be focused on making progress against our Action Plan. We will also expand initiatives of that Action Plan, particularly in Europe-Africa as new leadership takes hold and we move through the third quarter. Our team's efforts are on simplifying the business and focusing on execution. Near-term performance improvements will help position the company for future success.

My first in-depth review of the business has indicated a great deal of work remains to be done. Importantly, there is nothing in our Action Plan that is terribly intimidating. As I said before, this is a case of time and solid execution regarding our Action Plan initiatives. Intense, focused efforts will help us deliver expected results, and we will continue to move quickly to drive forward progress.

I will now turn the call to the operator so we can take questions from analysts. Operator?

QUESTION AND ANSWER SECTION

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

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Hey guys, good morning.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Good morning.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Good morning, Matt.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Just wanted to start off with a question based in the U.S. So, could you just comment on – I mean, I guess, you commented on order flow from your aftermarket and retail channels in the Americas, but maybe could you talk about fill rates and sort of whether your initiative to push inventory into some of the regional DCs [ph] would help (21:29) retain some of your aftermarket customers in kind of the midseason here.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Hi, Matt. Look, I think that's part of the operational day-to-day activities that we do. The regional warehouses are being fulfilled either directly from our manufacturing facilities or via the distribution center, and that happens in the ordinary course of activities. So, it's part of our normal cadence of operations.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

But just in terms of whether your customers are getting the fill rates that they need to sort of maintain to continue ordering with you guys. I mean that's kind of ultimately what I'm looking for.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

In general, the answer is yes.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Yeah. And that's why we talked about the past due order logs. So, one of the metrics that we look for for success is outbound shipping exceeding inbound orders. And the fact that that hasn't consistently happened yet tells us that our order intake rate has remained fairly consistent at expected levels. And we talked about Kansas City's outbound shipping to those customers continuing to improve, but not quite where we need it, but it hasn't yet resulted in any decline in order rates.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Okay. All right. That's helpful, guys. And then, just in terms of the $20 million in past due, I mean, how does that compare to sort of normal past dues in a typical quarter for you guys? And is that a good rule of thumb sort of for the revenue shortfall that we should expect versus consensus? I mean, just a little color on sort of how much of a shortfall are we looking at in Q2 will be helpful.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Yeah. So, we can't really discuss the quarter since we haven't closed it yet. But to answer the first part of your question, a normal backlog for us in this point in the season is probably somewhere between $3.5 million and $5 million between retail and aftermarket. And it's usually a few days past due, that's probably a good rule of thumb.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Yeah. It's probably the best way to think about it, Matt, is we would normally carry one or two days' worth of sales in backlog through normal operational matters.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Got it. Okay. So, we're looking at sort of more like four to five times the normal sort of past dues that you have in a typical quarter?

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Yeah. That's a reasonable assessment.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Yeah.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Okay. Got it. Help us with the implications, I guess, then for margins in Q3. If you've got past dues, are there any implications for sort of how we should be modeling margins in the Americas segment in the upcoming quarter, given some of the past dues and some of the penalties that you may incur for that?

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Until we close the quarter and consider how it will impact the future periods, we're not prepared to comment on that yet.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Okay. Got it. Just one more, I guess, for me then. So, in Europe-Africa, I guess just longer term, I mean it sounds like – you alluded to in your prepared remarks probably 2019 you'll still be doing some integration in the Europe-Africa segment. But I guess you're still confident sort of hitting double-digit operating margins in that segment in the long run. I mean, is there any reason that you couldn't sort of contain most of the operational fixes to sort of 2018, early 2019 in that segment? Anything longer term that you would see or structural that we need to take into account for modeling the margins in that segment out into 2020 when we start thinking about that?

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Matt, I think we're – I guess, the ongoing improvements of manufacturing and distribution footprint in Europe have a number of operational challenges and we're working through those as these issues are identified from time to time. Some of them relating to manufacturing footprint, supply chain, they take some time to fix. So, I think that we're going to fix the ones we can as fast as we can. But some of those projects will inevitably flow into 2019.

But like any manufacturing and distribution business, you never stand still. And I think when I look at the European business, it's a combination of facilities and operational capacity that needs to be optimized in relation to the needs of the market. So, these things whilst there's a lot to do early, the process never really stops. You never really stand still in operations. It's a constant process of fine-tuning, reassessing, and recalibrating these things on an ongoing basis, part of what we do operating a company like this.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

And, Matt, I would just add a little color to that in that we have, as Carl mentioned, new leadership coming into the segment. Jason will need to evaluate where things stand. But our initial plan was that the integration would take through 2019. It was always viewed as a three-year plan. So, we'll need Jason's view on that as he comes in and gets up to speed, but that's what we know today.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Got it. But nothing expected to necessarily linger into 2020 is ultimately what I'm getting at as well.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

At this point, we really don't have anything new to add to what we've already talked about with respect to that integration plan.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Okay.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Okay? And that...

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Got it. Can I just sneak one more thing in just on the leverage covenant? I guess, if you're removing the synergy guidance, are the add-backs that are sort of allowed and calculated as part of the leverage covenants, are those still intact? How should we think about those as it pertains to sort of the net leverage covenants that you guys have on the term?

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Yeah. So, the term loan contemplated that the add-backs would relate to the first 12 months post acquisition. [ph] We have gone (27:26) to the first 18. But either way, we're past that time, so the calculation is based on the performance of the business now without additional add-backs for synergy benefits or anything like that.

Matt Koranda
Analyst, ROTH Capital Partners LLC

Q

Got it. Very helpful, guys. Thank you. I'll get back in queue.

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Thanks, Matt.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Thanks, Matt.

Operator: Your next question comes from the line of Josh Nichols of B. Riley FBR.

Richard Magnusen
Analyst, B. Riley FBR, Inc.

Q

Thank you for taking my call. This is Richard Magnusen in for Josh Nichols. And I was just wondering...

David G. Rice
Chief Financial Officer, Horizon Global Corp.

A

Hi, Richard.

Richard Magnusen
Analyst, B. Riley FBR, Inc.

Q

Hi. Could you provide us with any details on how you will proceed to pursue possibly other bolt-on acquisitions?

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

A

Richard, I think to be clear, we are focused on operating the business as it stands today. I think we've got an Action Plan in place. Certainly, our short- and medium-term focus is on improving the profitability of this company and the cash generation. I think any potential acquisitions are something that we may contemplate in the future, but it's not on my target right now. We've got plenty to do. We've got an Action Plan in place. We're focused on fixing the business we've got now.

Richard Magnusen
Analyst, B. Riley FBR, Inc.

Q

Okay. Well, thank you very much.

Operator: Thank you. At this time, I would like to turn the call back over to Mr. Carl Bizon.

Carl Bizon
Interim President & Chief Executive Officer, Horizon Global Corp.

Okay. Well, again, thanks everybody for joining the call today and I look forward to further discussing the company in time to come. Thanks, everyone.

Operator: Thank you for participating in today's conference call. You may now disconnect.