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CORPORATE PARTICIPANTS

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Josh Nichols
Analyst, B. Riley FBR, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to Horizon Global Second Quarter 2019 Conference Call. My name is Jamie, and I will be your operator for today's conference. 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 objections, you may disconnect at any time.

I would now like to introduce Mr. Jeff Tryka with Lambert IR, Horizon Global's Investor Relations firm. Mr. Tryka, you may proceed.

Jeff Tryka
Independent Investor Relations Consultant, Lambert Edwards & Associates, Inc.

Thank you, Jamie. Good morning and welcome to Horizon Global's second quarter 2019 conference call and webcast. On the call today are Carl Bizon, President and CEO of Horizon Global; and Jamie Pierson, Chief Financial Officer. Earlier this morning, we announced our second quarter 2019 results. This release is available on many news sites as well as the Investor Relations section of our website at horizonglobal.com.

Turning to slide 2, 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 most recent annual report on Form 10-K, quarterly reports on Form 10-Q, and other filings with the Securities and Exchange Commission.

Today's presentation also includes non-GAAP disclosures. These disclosures are reconciled to GAAP in the appendices of our quarterly press release and presentation, both of which are available in the Investor Relations section of our website at horizonglobal.com.

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

Carl Bizon

President, Chief Executive Officer & Director, Horizon Global Corp.

Thank you, Jeff, and good morning to all of you on the call today. This morning, we will review our results for the second quarter 2019. I'll provide an update on our operations including our ongoing efforts to refine our global operations and return our company to historical levels of performance. Following my comments, Jamie Pierson, our recently appointed CFO would take us through the operational performance of the business and our current financial position. After that, we will open the call to questions from our covering analysts.

Allow me to take a moment to formally welcome Jamie to the team. We are fortunate to have him join Horizon Global and the transition has been quick and smooth. We expect to leverage his talent and experience in operational improvement as we continue our turnaround efforts. Our team is intently focused on providing industry-leading towing and trailing products achieving the quality and service levels demanded by our customers, and improving financial results that will drive shareholder value.

The multiyear turnaround we began just over 12 months ago was designed to be flexible and responsive to changing events and market conditions. This flexibility allows us to refine our actions and develop additional business improvement initiatives as conditions warrant. Our leadership team and business unit heads continually evaluate every aspect of our business to identify incremental actions we can take to further our turnaround efforts.

Slide 4 should be familiar as it outlines our strategic vision. Throughout our efforts to transform our business and improve our operations, we have remained one team focused on delivering best-in-class products to our customers and end users across all distribution channels. This driving strategic vision forms the basis for everything we do and we will continue to shape our actions to drive future performance. We have strong and well-established brands and favorable end markets as tradespeople and contractors utilize our products as they work and consumers continue to utilize our products as they play.

Turning to slide 5. During second quarter, we made progress in a number of key areas. As we have previously discussed, we are committed to reducing our first-lien term loan by $100 million. To address this commitment, we retained an investment bank to review various financial alternatives and decided to explore the potential sale of our Asia-Pacific business unit. We are engaged in this process and have attracted a number of interested parties. We will provide an update when appropriate.

To further our business objectives, we have hired a COO for the Americas business and a new President for our Europe-Africa business, both of whom bring deep operational and automotive experience. With Jamie onboard as our new CFO, we believe we now have the right team in place to lead Horizon Global.

In the Americas, sales were effectively flat despite a soft start to the prime selling season. Europe show a consistent operational progress in the quarter as aftermarket stock availability improved from the prior year. However, customer volumes do not yet reflect that improvement.

The Asia-Pacific business continued to post strong margins in the quarter driven by operational efficiencies. We continue to control SG&A costs at the business unit and corporate, but we recognize that the more meaningful opportunity lies in growing sales and gross margins over the long-term.

In the Americas, our Kansas City aftermarket distribution center performed well and the new automated stock retrieval system is now fully operational. We expect this new system when fully utilized will provide enhanced efficiency and labor productivity, enabling the team to build on their recent gains in delivering customer orders on time and on budget. We are confident in our team's ability to meet the peak seasonal demand in the Americas and position us well for future growth.

The Americas posted slightly lower gross margins in the second quarter compared to a year ago, as our price increases were offset by high input cost resulting primarily from tariffs. The Americas team continues to balance pricing initiatives with input costs and the ever evolving competitive environment. Please also keep in mind that while we remain consistent in passing on the impact of tariff-related cost to end customers, the process is not easy and the timing is often not aligned.

Despite the Kansas City distribution center costing more to operate than its predecessor footprint, the Americas team was still able to decrease SG&A expenses. This improvement was primarily the result of cost savings and synergies resulting from our previous efforts surrounding the restructuring actions plan that were completed over the past year. Given the foundation that is now in place, any incremental volumes for this facility should result in improved operating leverage.

In Europe-Africa, sales were adversely impacted by the weaker euro and improvements in OE sales partially offset decreases in aftermarket volumes. Gross margins were lower during the quarter due to higher input costs and the mix shift in the business. On a positive note, we saw improvements in SG&A costs as the impact of our previous restructuring efforts begin to show results.

Asia-Pacific remained a solid contributor to our overall results for the quarter despite slightly softer sales for the quarter compared to the prior year. The team was able to generate improvements in gross margins through operating efficiencies.

Let me now turn to our business improvement initiatives and the next steps we are taking. When we started our turnaround efforts just over a year ago, we recognized that the path to improve performance might not be direct and that we could expect challenges that might alter that path. Throughout the process, we remain flexible and responsive to changing conditions leading us to where we stand today. We have made progress on our business improvement initiatives in Europe-Africa as well as the action plan we completed in the Americas. But we realize that more needs to be done to return our business to historical levels of profitability.

These initiatives were focused initially on optimizing our cost structure which was an essential priority at the start of this process. As our turnaround evolves and the journey continues, we are moving beyond cost cutting and indirect cost productivity enhancements to customer service and sales enhancement. We are taking a hard look at our customer relationships and what actions we can take to strengthen these relationships. Now that we have stabilized our operations, we are working diligently to reassure our customers that we still have the best product in the market and are still the best partner to supply their towing and trailering needs.

We continue to invest in new products, technologies and innovations that address the emerging demands of our customers and end users. I want to emphasize that as we move into the next phase of our business improvement initiatives, our business unit leaders and their respective teams will continue to develop and implement specific and measurable goals for improving their financial results. As we refine these plans, the singular focus of that team is the effective, efficient and profitable operation of our business.

Similar to our efforts to improve the European business, our overarching theme for all of our efforts is a core focus to simplify the operations and unwind unnecessary and unprofitable complexity across all of our business.

As we have said consistently, we remain convinced that the operating challenges in our business are ultimately fixable and we continue to renew and refine our focus on these turnaround efforts. As we embark on the next phase of our business improvement initiatives, we are confident that we will establish a global business that is fundamentally stronger with the potential for higher and more profitable growth in the longer term.

If we turn now to slide 6, Jamie will take us through the financials and segment results.

Jamie G. Pierson

Chief Financial Officer, Horizon Global Corp.

Thanks, Carl, and good morning, everyone. Before I get started, having been here for all of seven weeks at this point, I simply want to share with everyone what an honor it is to be part of such a proud organization. I have been blown away by the pride and care that the frontline employees taking the products in which they design, engineer, build in, finish, distribute and/or sell. It's no wonder why the brands are as revered as they are.

Now, that doesn't mean that we're performing as we should. Obviously, we are not. However, we absolutely as Carl said earlier have the foundation on which to build. We just need to get the swagger back in our step and perform like we did just two short years ago.

With that preamble out of the way, let me bore you to some of the numerical rendition of what you've probably already read and by the way what an unfortunate name for our conference call operator to also be named Jamie. This is actually Jamie Pierson, the CFO, not Jamie the conference call operator if you go through this, just keep that in mind.

Page 6 of the presentation, I will walk you through the company's consolidated results for the second quarter. We reported consolidated net sales of $223.2 million, down $10.2 million from the $233.3 million reported in the second quarter of 2018. This decrease was primarily due to $7.2 million of unfavorable foreign currency translation. On a constant currency basis, net sales only decreased $3 million or 1.3% and outside of currency impacts, the decrease in net sales was primarily related to lower aftermarket volumes when compared to the second quarter of 2018.

In terms of consolidated operating results, we reported operating profit at $7.1 million compared to an operating loss of $64.1 million in the prior year comparable period. Our 2019 second quarter operating profit of $7.1 million included $3 million in adjustments as compared to $77.9 million in the same period last year. This quarter's adjustments primarily comprised of $1.4 million in support of the APAC disposition and another $1.6 million in other costs primarily related to professional fees, supporting a debt issuance and other costs. The prior year comparable period adjustments consisted of $55.7 million due to loan impairment charge in the Europe-Africa segment, $9.1 million of our Brink transaction and termination expenses and a collection of other non-recurring expenses that we've covered in previous calls. Accounting for these items, our adjusted operating profit was $10.1 million for 2Q 2019, compared to $13.8 million in 2Q 2018. The decline was mainly driven by lower sales volumes, the impact of sales mix on margins partially offset by SG&A savings that were realized from the prior-year restructuring activities.

Now, if you'd turn to page 7, we can talk about some of the segment performance. Net sales in the Americas segment was essentially flat compared to the prior-year comparable period. The price increases we are able to achieve were almost offset by lower unit volumes. Lower net sales in the retail and aftermarket segments, along with the industrial channel declined $7.6 million on a combined basis. These decreases were mostly offset by higher e-commerce and OE net sales which increased $4.9 million and $3.9 million respectively when compared to the same period in 2018.

The Americas segment reported an operating profit of $9.8 million which is $800,000 lower than the $10.6 million reported in the second quarter of 2018. The decline was mainly driven by revenue mix and related margin impacts I previously mentioned, partially offset by SG&A savings related to prior-year restructuring efforts.

The $7.1 million decrease in net sales in Europe-Africa segment for the quarter was driven primarily by unfavorable currency translation. On a constant currency basis, revenue only declined 2%. The vast majority of the principal decrease was primarily related to a $1.5 million decrease related to the company's divestiture of a non-core business in 1Q 2019. Unlike the Americas, channel mix shift unfavorably impacted gross margin. However, lower SG&A expense resulting from the restructuring activities initiated during 2018 mostly offset the gross margin decrease. After adjusting for the items I previously mentioned, the Europe-Africa segment reported an adjusted operating profit for the second quarter of this year of $1.6 million, down $1 million from the $2.6 million reported during the prior year comparable period.

The Asia-Pacific segment reported lower net sales during the quarter which was impacted by unfavorable currency translation as well. And on a constant currency basis, net sales decreased 6.2% when compared to the comparable period in 2018. The fundamental decrease was primarily result of lower shipment volumes in the OE channel.

The net sales decrease was offset by operational efficiency improvements and other cost savings initiatives. As a result, the operating loss was mitigated and was only down $200,000 from the second quarter of 2018. Conversely, adjusted operating margin actually improved from 14.1% of net sales in 2018 to 15.4% this quarter. As has been the case for some time now, the APAC segment continued to deliver very strong operating margins.

And moving on from the operating segment performance to the balance sheet related items on page 8, debt increased $41 million from $364.5 million at the end of the year to $405.5 million at the end of the second quarter this year. The increase reflects the addition of our second lien term loan of $53.2 million an increase in local borrowings in other credit facilities offset by approximately $10 million less outstanding on our ABL. On a gross basis, our total debt was $448.2 million at the end of this quarter.

Turning to working capital, it increased $38.9 million to $141.7 million at the end of the quarter when compared to the end of the year. This increase is driven by higher DSO and a reduction in past due accounts payable as we made some catch up payments after closing the second lien debt rate earlier in the year. Our total liquidity at the end of the second quarter which includes the borrowing availability under our ABL and cash on hand was $45.7 million which was down $7.1 million from the end of the year.

And now before turning it back over to Carl, let me close with a few thoughts. Let me start with repeating my opening salvo to say how blown away I am by the pride that the frontline employees taken what they do. After visiting a couple of the company's larger facilities, it's become clear to me that they proudly wear the company's brand as a badge of honor. Secondarily, it is no secret that we are not performing to the levels that we're not only capable of, but at levels that we've actually performed at in the recent past. As most, if not all of you know, turnarounds of this nature are not linear and do not and you do not turn a battleship on a dime which is to say our journey and it will absolutely be a journey, will not be a nice smooth line, but will follow more of a stair-step trajectory and it's almost – it's also to say that the company is a battleship and it's a force to be reckoned with in this industry.

Finally, let me say thanks. I'm honored to be a part of this team and look forward to locking arms with them and seeing what we can do.

With that, I'll turn the call back over the Carl for his closing comments.

Carl Bizon

President, Chief Executive Officer & Director, Horizon Global Corp.

Thanks, Jamie. Turning to slide 9, we recognize the difficult work ahead of us and our team is intensely focused on managing the areas we can control in order to accomplish our strategic goals. Despite the challenging market conditions to start the year, we remain confident in our underlying business, our products and brands and our team. Since I became CEO, we have made significant progress in transforming our business and setting the stage for long-term growth. We have removed complexity and simplified our business, enhancing productivity and efficiency. We restructured our operations to reduce operating costs and eliminate waste. These efforts are at the core of our multiyear turnaround effort as we work diligently to return our company to historic levels of profitability.

Our team is aligned as one team with one goal. We have the right leadership team in place with the necessary drive and determination to overcome past actions and deliver long-term success for all of our stakeholders.

I will now turn the call over to the operator, so that we can take questions from our covering analysts. Operator?

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, we'll begin the question-and-answer session. [Operator Instructions] Our first question today comes from Josh Nichols from the B. Riley FBR. Please go ahead with your question.

Josh Nichols

Analyst, B. Riley FBR, Inc.

Q

Yeah. Thanks for taking my question and welcome to the team, Jamie.

Jamie G. Pierson

Chief Financial Officer, Horizon Global Corp.

A

Thank you, Josh.

Josh Nichols

Analyst, B. Riley FBR, Inc.

Q

No problem. Just want to ask good to see the actual sales increase in the Americas and holding the operating profits strong in Asia-Pacific. Could you talk a little bit about what the trends you're seeing in 3Q across the different segments and then for the business as a whole given that 3Q is another key quarter for the company?

Carl Bizon

President, Chief Executive Officer & Director, Horizon Global Corp.

A

Yeah. So I'd say that we're actually probably holding strong in the segments that have been performing well year-to-date which is mainly in the Asia and the Europe-Africa areas, a little bit softer in the Americas side of the equation, especially in the aftermarket and retail play, strong in OE.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

And then I want to ask – I'm sure it's going to come up, but the tariffs, the new tariffs. Could you talk about the impact? And I know you mentioned that there is a lag. But could you help us kind of quantify how much that could be to the company in the near term before that's passed along?

Jamie G. Pierson
Chief Financial Officer, Horizon Global Corp.

A

Yeah. So, on new tariff it's very negligible. The vast majority of the impact that we've had has already come through or actually is coming through. The incremental 10% affected a very, very small piece of our business. I wouldn't – I wouldn't say – I would say it's not meaningful at all, Josh.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

Right. Perfect. And then I guess – I was a little bit – I was expecting the inventory to decrease, but I saw that number bump up a little bit quarter-over-quarter. Could you talk about the trends that you're going to see there and the expectations for working capital? How that is going to impact cash flow for the remainder of the year?

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

A

Josh, I think where we tend to build inventory at the beginning of the season to align with our expectations. As the season unfolds, we will constantly correct our inventory levels to ensure that we have what we believe an appropriate inventory level by the time we exit the main selling seasons at the back end of the third quarter and ultimately into the fourth. So, I would expect that to be aligned in the ordinary course over the next couple of quarters.

Jamie G. Pierson
Chief Financial Officer, Horizon Global Corp.

A

If I could add, if you talk about working capital as a more holistic piece, Josh, I'd say that we've got a fair amount of cash that we can clip off the balance sheet. As you can see it on the slide that shows the – what is that, slide 8, shows working capital actually gone up. DSO is increased on a year-over-year basis to a point where it's probably is the highest it's been in the company's history. I'm just getting in there, if we can start digging apart, get into the root cause of what it is. I feel confident that we can actually drive that number down at least on a DSO basis on the aggregate by the end of the year, but it's too early to tell what that number will be right now.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

Thanks. And then last question for me, I don't expect you to provide too much detail about it since it's undergoing. But if you could talk a little bit about the strategic alternatives and potential sale of the Asia-Pacific business, at least how far along are you in that process? Is it early stage or is that something that you think could be wrapped up in the next quarter?

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

A

Josh, I think as we've mentioned before we will provide an update when it's appropriate. The process has kicked off. We have a number of interested parties in that business that is obviously a high quality business that has attracted interest from a number of elements of the community, the business community and we expect that transaction will follow its normal course and we'll provide an update when appropriate.

Josh Nichols

Analyst, B. Riley FBR, Inc.

Q

Great. And then last question for me regarding the APAC businesses. Great to see that the operating margins are actually improving. But could you provide a little bit more info on the 6% decrease in sales on a constant currency basis and really what's driving that and is that expected to kind of continue? What's the update for the region?

Carl Bizon

President, Chief Executive Officer & Director, Horizon Global Corp.

A

It really gets down to our exposure to new vehicle sales and there is – there has been a short-term, but recent softening of new motor vehicle sales, both in Australia and in New Zealand which are our key trailering markets. Again, seasonality, environmental conditions, the underlying strength of that business is clear for everyone to see. That business has gone through a number of cycles through its history and retains its key market positions and strong operating performance. Obviously, the top line is one impact to that business' profitability but the team has always shown a way of leveraging its operations to deliver bottom line result that is always quite pleasing.

Jamie G. Pierson

Chief Financial Officer, Horizon Global Corp.

A

And Josh, if I can add, I think some of it is a comping issue as well as 2018 probably was one of the best volume markets that New Zealand has ever had. So if you think about this going you know from the second quarter of 2018 to second quarter of 2019 it's not the second quarter of 2019 was so soft, it may have been that the second quarter of 2018 was strong as it was and add to that, that all of Easter fell in April this year in Australia which was a holiday issue which was not the case in 2018. So I would – I'd put a pin in that one and wait for us to come back and see how that third quarter performs. But I think it's less about 2019 not being as strong as it was 2018 maybe be historic highs.

Josh Nichols

Analyst, B. Riley FBR, Inc.

Q

Thanks. That makes sense. I'll hop back in the queue, guys.

Carl Bizon

President, Chief Executive Officer & Director, Horizon Global Corp.

A

Thanks Josh.

Operator: Thank you. At this time we have no further questions. I'd like to turn the conference call back over to Mr. Carl Bizon.

Carl Bizon

President, Chief Executive Officer & Director, Horizon Global Corp.

Thank you to all on the call today, and I look forward to speaking with you again soon. Thank you.

Operator: On behalf of Horizon Global, I would like to thank you for joining us today and we look forward to you joining us on our third quarter conference call in three months. You may now disconnect your lines.