16-Mar-2020

Horizon Global Corp. (HZN)

Q4 2019 Earnings Call

CORPORATE PARTICIPANTS

Jeff Tryka
Senior Consultant, Lambert & Co.

Terrence G. Gohl
President, Chief Executive Officer & Director, Horizon Global Corp.

Dennis Edmond Richardville
Chief Financial Officer, Horizon Global Corporation

OTHER PARTICIPANTS

Josh Nichols
Analyst, B. Riley FBR, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the Horizon Global Fourth Quarter 2019 Earnings Conference Call and Webcast. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there'll be an opportunity to ask questions. [Operator Instructions] Please also note, today's event is being recorded.

At this time, I like to turn the conference call over to Jeff Tryka, Investor Relations. Sir, please go ahead.

Jeff Tryka

Senior Consultant, Lambert & Co.

Thank you, operator. Good morning and welcome to Horizon Global's fourth quarter 2019 conference call and webcast. On the call today are Terry Gohl, Horizon Global's Chief Executive Officer; and Dennis Richardville, Horizon Global's Vice President of Finance. Earlier this morning, we announced our fourth quarter 2019 results. The release is available on many news sites as well as in the Investor Relations section of our website at horizonglobal.com.

Turning to slide 2, I'd like to remind you that the statements in today's presentation will include our views about Horizon Global's future performance, which constitute forward-looking statements. These statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. We've described these risks and uncertainties in our Risk Factors and other disclosures in the company's 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 to 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 Horizon Global's Chief Executive Officer, Terry Gohl. Terry?

Terrence G. Gohl

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

Thank you, Jeff, and good morning, everyone. I'd like to start by thanking each of you for taking the time to join us for this morning's call. We have a great deal to review with you in a short amount of time. So, let's get right into it.

Starting on page 5, as many of you will remember, the Q3 2019 earning call was my first with the company and was conducted very early in my tenure. At that time, I highlighted my initial observations of the company, the issues driving its poor performance, and defined our immediate focal points. I'm here this morning to reinforce that those observations were correct and to define that we've identified significant further opportunities for improvements as we dug deeper into the company.

So what we had seen was that our company had a disjointed SG&A structure with ineffective processes, critical open positions, high turnover level, which led to a depletion in talent throughout the organization. We had manufacturing systems and processes that were underperforming. We had product offerings, i.e. SKU management that were not being managed effectively toward brand strengths and alignment. We had poor operating metrics relative to customer satisfaction inclusive of quality and delivery and our fill rate scores. We were a company that was reactionary for the most part.

We have begun in earnest with corrective action deployment to address these deeper issues, those issues which were negatively impacting the company's operating and financial performance. The team has been relentless and driving continuous improvement across all aspects of our company. Our goals are clear and fairly simple. We will return the company to double digit margin performance it had just 24 months ago. Our manufacturing and distribution operations will operate under industry-leading methods and generate industry-leading results. Simply put, we will ensure that we are the number one supplier of choice to our customers, the number one customer of choice to our suppliers, and the number one employer of choice to our employees.

Turning to page 6. As you all recognize to have a great company you need a great team. In Q4 2019, we assessed the effectiveness of our organizational structure and the strengths and weaknesses of our team. I'm pleased to report that we have made major changes in both structure and staffing. We are extremely fortunate to have welcomed highly qualified and industry recognized leaders on to this team. We have assembled a formidable team that in extremely short amount of time has implemented meaningful and substantial changes throughout the company. Our Chief Operating Officer, through his leadership and his newly assembled team is driving improvements at a pace that is unprecedented for what I have seen during my career, this, at a global level.

Our Chief Administrating Officer has completed a full assessment of everything from business systems, program management systems, employee development methods, and has addressed gaps and deficiencies in the supplier management process, again all of this on a global level. We have restaffed purchasing, commercial, logistics, finance and manufacturing operations. I would stack our new Reynosa Metal's management team against any team out there. They're absolutely outstanding and are setting the bar for the rest of our global operations. Further, in Europe, our leadership team has stabilized the business and is driving meaningful improvements throughout the region. I would be remiss if I didn't acknowledge the individuals sitting next to me right now.

I'm extremely pleased to announce to you that this morning Dennis Richardville has been appointed to the position of Chief Financial Officer of the company. Dennis had led us recently through the successful refinancing effort and has demonstrated outstanding leadership in command. Dennis has significant automotive experience and most recently served as CFO for IAC. With Dennis' appointment, we have rounded out our leadership team and now is committed to executing our short- and long-term strategic initiatives. Congratulations to you, Dennis.

With respect to Q4 2019 results, we recognize that they're unacceptable. Throughout this call, you will hear the actions we've taken to resolve the underlying performance issues seen in the quarter and how those actions are impacting Q1 of 2020. Q4 2019 represented the new team's assessment period, the time of framing of our action plans and the acceleration of those improvement measures that will bring us to double digit margin levels that we have targeted for 2022.

These actions have started. You will hear about some of them today and more in the future, but most importantly, you'll see the impact that these initial, but comprehensive actions have had on our performance metrics and to our outlook for our Q1 financials. We have also successfully refinanced our North American ABL, which Dennis will present the details up to you in a moment.

Prior to Dennis taking to you through the Q4 and full year 2019 results, I'd like to share a quick reference as to what our Q1 2020 outlook is. While these details are covered in the later slides, I thought it's important to highlight the go-forward view as we leave the Q4 2020 (sic) [2019] in our rear-view mirror.

We expect to generate between $4 million and $5 million in adjusted EBITDA in Q1 alone. This would reflect the $5 million to $6 million improvement over Q1 in 2019 and an improvement of more than $20 million over Q4 of 2019.

So with that, Dennis, take it away.

Dennis Edmond Richardville

Chief Financial Officer, Horizon Global Corporation

Thank you, Terry. Good morning, everyone, and thank you for joining us. Please turn to slide 7 for an update on our refinancing. On March 13, 2020, we refinanced our revolving credit facility with Encina Business Credit. The facility provides for a principal amount of $75 million, it may be increased by up to $25 million in increments of $5 million. The revolver is secured by inventory and receivables in the US and Canada. But unlike our prior facility, the new facility is not secured by any collateral in Europe.

The interest rate is LIBOR plus 4% with a 1% LIBOR floor in a term of up to three years. The revolver is covenant-light with only a limit on capital expenditures, which provides us flexibility to execute our strategic plan. The proceeds were used to repay the outstanding balance of the existing ABL facility. The new credit facility generates increased liquidity to support the business and our strategic initiatives.

Please turn to slide 8 for a review of the company's consolidated results for the fourth quarter of 2019. As a reminder, our results will be on a continuing operations basis. As a result of the company's sale of its APAC segment in the third quarter of 2019, APAC is classified as discontinued operations for all periods presented in Horizon Global's financial statements. Therefore, they are not included in the discussion of ongoing results. Consolidated net sales were $142.3 million, an increase of $4.5 million or 3.3% from the prior year comparable period.

Net sales continued to be suppressed by the impacts of currency translation. On a constant currency basis, net sales increased $7 million or 5.1%. The net sales increase was primarily attributable to $8.8 million of higher automotive OEM and OES sales in both our Americas and Europe-Africa segments. This increase reflects the $3.2 million impact of the first quarter 2019 divestiture of our non-core business in Europe-Africa.

We reported an operating loss of $33.7 million compared to an operating loss of $34.3 million from the prior year comparable period. Increased gross profit was more than offset by higher SG&A in the quarter. That increase was attributable to a one-time $6.5 million charge due to the abandonment of an automated stock retrieval system, operating lease in our Kansas City distribution center.

For adjusted EBITDA, we reported a loss of $16.5 million, which is $1.2 million worse than the $15.3 million loss reported in the prior year comparable period. A lower adjusted EBITDA was due to the Americas operational results in the quarter, more than offsetting performance improvement in Europe-Africa.

Now, let's turn to slide 9 to review the segment performance for the quarter. Net sales in the Americas were $72.1 million, which is $1.2 million higher than the prior year comparable periods. This was primarily due to higher sales volumes in our automotive OEM and e-commerce channels, which increased $2.8 million and $2.6 million, respectively. The higher volumes in automotive OEM and e-commerce were partially offset by a combined $4.2 million decrease in sales related to lower volumes in the retail, industrial and aftermarket channels.

Net sales in the Americas also reflects a decrease in fines and penalties related to customers and shipments. We also experienced a reduction in sales discounts and allowances related to retail channel fines and penalties compared to the prior year comparable period.

We reported an operating loss of $16.2 million compared to an operating loss of $11.6 million in the prior year comparable period. The higher loss was primarily driven by higher SG&A within the region. The higher SG&A was attributable to the previously mentioned abandonment of an operating lease in our Kansas City distribution center.

Transitioning to our Europe-Africa's operating segment, net sales for the segment increased $3.4 million or 5.1% to $70.2 million compared to the prior year comparable period. This increase was primarily due to increased net sales from higher volumes in automotive OEM and OES and aftermarket sales totaling $7 million. Europe-Africa net sales were impacted by unfavorable foreign currency translation. All said, after adjusting for the impacts of currency translation and removing the divested non-automotive business mentioned earlier, net sales increased $8.9 million or 14%. We reported an operating loss of $12.2 million compared to an operating loss of $16.5 million from the prior year comparable period. The reduced loss was primarily attributable to SG&A support cost reductions realized through prior year restructuring and footprint rationalization.

On slide 10, we show full year consolidated results. In 2019, we reported consolidated net sales of $690.5 million, which is down $23.5 million from the $714 million reported in the prior year. On a constant currency basis, removing $19.3 million of unfavorable currency translation impacts, net sales decreased only $4.3 million or negative 0.6% from the prior year. Net sales in aftermarket, retail and industrial were down a combined $36.9 million in the Americas. However, global OEM and OES sales were strong for the full year, increasing $23.4 million compared to the prior year with both Americas and Europe-Africa contributing significantly to the higher sales volumes.

We reported an operating loss of $57.2 million compared to an operating loss of $190.6 million from the prior year. As a reminder, 2018 included a $126.8 million non-cash goodwill and intangibles impairment charge. Removing that charge, operating loss improved by $6.6 million from the prior year primarily as a result of full year SG&A and cost savings.

Full year results from our operating segments appear on slide 11. Net sales in the Americas were $372.7 million, which is $18 million lower than the prior year primarily due to lower shipping volumes in certain of our non-OE channels. While OEM and e-commerce volumes were up $8.7 million and $11.5 million, respectively compared to the prior year aftermarket, industrial and retail channels were lower by $17.5 million, $9.4 million and $10 million respectively.

We reported an operating loss of $10.4 million compared to an operating loss of $6.8 million from the prior year. Lower gross profit was primarily due to decreased sales and inefficient operating performance more than offset lower SG&A compared to the prior year.

Moving on to Europe, net sales for the Europe-Africa segment decreased $5.5 million to $317.7 million compared to the prior year. Lower aftermarket, e-commerce and other sales more than offset higher sales volumes in our automotive OEM and OES channels. However, net sales within the segment continue to be impacted by unfavorable currency translation. On a constant currency basis, net sales increased by $13.2 million or 4.1%. We reported an operating loss of $12.1 million compared to an operating loss of $148.6 million from the prior year. The improvement in operating loss reflects a reduction in SG&A from operational cost saving initiatives as well as the previously mentioned prior year goodwill and impairment change that did not reoccur in 2019.

Moving on from the segment results to our balance sheet and liquidity position on slide 12. Total trade working capital totaled $89.6 million at the end of 2019, which represented a decrease of $5.2 million as compared to the fourth quarter of 2018 and a decrease of $22.1 million compared to the third quarter of 2019. Specifically, accounts receivable decreased $23.5 million to $71.7 million from the prior year. Days sales outstanding was 40, a decrease of 4 days from the prior year. Inventory decreased $15.6 million to $136.7 million from the prior year. Days on hand inventory was 84 days, a decrease of 8 days from the prior year. Accounts payable decreased $23.9 million to $78.5 million from the prior year. Days payable on hand was 48 days, a decrease of 14 days from the prior year.

Turning to capitalization and leverage, as a result of the APAC transaction in our liquidity management, gross long-term debt decreased by $145.7 million from $382.2 million in the prior year to $236.6 million in 2019. Taking all that into consideration, we have significantly decreased our leverage on a year-over-year basis. As for liquidity at the end of 2019, it totaled $44.9 million, which was comprised of $33.1 million of availability under our ABL facility and cash on hand of $11.8 million. We believe we are well-positioned as a company to deliver on our operational improvement initiatives especially given the new ABL structure that gives us operational flexibility into the future.

With that, I will turn the call back over to Terry for closing comments.

Terrence G. Gohl

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

Thank you, Dennis, and let's continue on starting on page 14. This page provides a 40,000 foot level of our plan for the year. The summary is included for you to see that we have a well-structured planning process in place that covers a lot of ground. The following slides will address these in detail. So, let's follow up and go on to page 15.

To quantify the work plan established by the team thus far, please refer to the pie chart on this page. What we are presenting is that in three to four months, our team has attacked the issues discussed earlier and has defined quantifiable continuous improvement projects totaling $63 million and looked at an annualized basis. These projects capture improvements across the company and are heavily loaded to internal controllable elements tied to our manufacturing and distribution operations, our overhead structure relative to SG&A and our logistics modeling and costs. The quantity of projects continues to increase each and every day as we look towards our plan for 2022. We are well ahead of that plan.

To page 16, I want to highlight again that we are ahead of our plan and operating at a solid pace towards improvement initiative implementation. The scope and scale of our already defined projects covers the targeted improvement portion for both 2020 and 2021. We truly are front-loading our action plans into place. As stated earlier, these actions and pace that which we are implementing is providing a solid foundation for year-over-year and quarter over quarter improvements of roughly $5 million and $20 million, respectively. This is a good start.

Moving on to page 17. On this slide, we are highlighting the breadth of actions that we as a team have addressed during the past quarter. Our activities were extensive and on paper, present a bit of an eye chart to you, but we're presenting them in this way to highlight the following. One, that our activities are cross-functional inclusive of both internal and external actions. Two, for you that know me, you would expect a significant amount of focus and results for manufacturing operations.

With the leadership of our team, we drove dramatic improvements across the shop floors across Horizon Global's total sites. Our operational excellence's lean transformation development has been aggressive and effective. Efficiencies are up. Internal capacity has been improved, and our performance metrics with our customers has improved dramatically. I'll highlight the specifics of these on the next slide.

We streamlined the complexity of our SG&A and overhead structure driving out excess costs on the salary level and an outside service level. We are doing more in a more efficient way with less. Strong leadership and associate empowerment are generating results that we are looking for. We assessed our portfolio and have defined that we will exit underperforming product line and we've coordinated with the affected customers in a positive way. We have also reduced our SKU count in North America by 21% during 2019 through brand overlap confusion and duplication eliminations. These actions represent a renewed focus that we are taking towards our core products and to the quality of our sales. We expect that our sales will remain positive year-over-year even after these actions are taken. We are driving increased penetration of our core products and backing it up with significant operational improvements leading to improved product availability.

And finally, we have reapplied focus and emphasis on new product implementation. In Q4 2019 alone, we introduced and launched 47 new products globally. We continue to focus on the future and to providing our customers with the absolute best products reflective of the iconic brands that we represent.

So, what do we have to show for all this? Highlighted on page 18 is the sampling of performance measures to gauge the effectiveness of our actions. Please remember that we're talking about improvements generated after roughly three months in 2019 for this new management team. Customer performance metrics have improved significantly. PPMs have improved by [ph] 98% (00:25:10) Q4 2018 versus Q4 2019. Customer fines and penalties improved by 80%, again over that same period. Fill rates, a critical metric that the company struggled with in the past, improved to 92%, representing a 500 basis points improvement from Q1 2019 to Q4 2019 alone.

As noted earlier, we addressed our SG&A and overhead structure as represented by the roughly 5% head count reductions we completed during the period. We also reduced reliance upon and generated better terms with our contract suppliers in North America. These actions are driving efficiency, accountability and cost improvement throughout the organizations.

Our manufacturing operational improvements beyond improving customer metrics are yielding significant capacity improvements as well. Production yield improvements were targeted and have been implemented via a lean method deployment and are generating the following, an 88% improvement in daily yield in our North American hitch capacity in Reynosa, Mexico; a 344% improvement in daily yield in our North American heavy duty production sales again in Reynosa; and a 15% improvement in daily yield in our hitch capacity at our Rheda, Germany site.

We also completely reassessed our in-house coating processes in our Reynosa facility. Once again, through lean method deployment, we increased capacity and we're able to eliminate costly outsourced processes and completed an initiative in late 2019 to in-source coating for approximately 350,000 units on a full year run rate.

We went to work on our logistics efficiencies and methods. We have been able through this first wave of actions inclusive of manufacturing improvements I just mentioned and through route and contract improvements to implement actions that will drive our logistics costs down by roughly 10% year-over-year. These are big changes with big impacts, but we believe they only represent the beginning of where we're going.

Turning to page 19. For those of you who've been covering our company for some time, you will remember that the ASRS system in Edgerton, there's been a lot of discussion and defined underperformance of the system in these calls over the past two years. In Q4, after thoroughly reviewing the performance and risks associated with the system versus opportunities tied to alternate methods of warehouse management, we decommissioned the unit and began moving forward with a revised warehouse configuration.

With this action, we mitigated the risk associated with reliability and serviceability, we significantly improved fill rate performance, and we drove down costs. This action further increased our flexibility in supporting the changing demands in our market and positioned us far better to support our customers. A critical aspect of our recovery and long-range plan is to be at the forefront of product development and launch performance.

On page 20, we highlight that we are moving ahead effectively and aggressively with launching a new pipeline of products, those that are core. In total, we launched 47 new products during the quarter. 89% of those launches were in aftermarket, but note that their penetration into high-growth truck, SUV, and crossover vehicles on our OE segment was significant. North America accounted for 68% of the launches during the quarter.

This is the pace that we look to continue on as we go forward. Also, for the first time, we addressed our advanced development in R&D on a global level so we could combine the strengths of our North American and European brand market knowledge with our engineering capabilities globally. We are extremely proud and excited for what this collaboration will bring to the market in a short time.

Turning to page 21. Following up on the engineering reference made on the previous page, we wanted to remind you of the history of our brands and to the intellectual property that comes with that history. We have a great deal when it comes to intellectual property and with the shifting to a global approach on product development, we look to further extend that base substantially. While we will continue to market our new product, we will not lose sight of the value of the intellectual property we have had in this company in the past.

On page 22, we are highlighting our current position relative to the COVID-19 pandemic. Let me first say that we are addressing the ever-changing situation with a focus on our employees, our customers and our shareholders. I will touch more on the following page, but at present, we have been on top of the situation from the beginning.

Our planning for the traditional scheduled Chinese holiday coupled with the targeted growth that we had in our plan resulted in us buying forward prior to the shutdown period. This strengthened our inventory position prior to the outbreak. Once the impact was being seen in China, we addressed our critical supply base and began monitoring, implementing contingency planning, relative material supply levels and coordination with our customers.

At present, we have had no impact on our sales tied to the COVID-19 virus. We have, however, coordinated with certain OEs to retain certain build cadences to ensure that they would see no interruptions due to our supply. The first occurrence would be seen later in April and we are working to mitigate that. We procure roughly $120 million of goods from China annually. Of that, roughly 93% of it comes from 22 suppliers. To date, 100% of those suppliers are operational and are on an average of 80% of capacity. This is improving daily. We have enacted policies relative to travel and hygiene across our facilities that are reflective of sound workplace initiatives. We have prepared remote worksite plans for our administrative activities and have recently implemented site-by-site reporting relative the impact of traceability.

On page 23, we wanted to address what is certainly on all of your minds. With the fluidity of the situation regarding the virus and its rapid spread, it is truly impossible for us to define the range or the impact that this possibly could have, but a few points to reference. Our orders are actually going up. Demand on travel options tied to trailering looks to be strengthening. That being said, the scale of impact of further expansion of the epidemic can range from: first, the impact of an individual reporting an illness at one of our sites, of which to-date we have none, would have on our work force availability would be significant, as you can understand.

The government actions that are being developed at a local, state, regional and national level continues to evolve and are out of our control. An impact of any of our customers changing their operating patterns due to illness, again even though nothing has occurred to-date, is impossible for us to predict. What we are doing is to ensure that we have a well-defined operating plans to address any shutdowns, which may occur. We are also staying on top of governmental assistance programs as they emerge to ensure that if we are impacted, we have prepared properly for qualification.

Moving back to Q1 2020 and our outlook. We see this as the inflection point for the company and to our return to the positive adjusted EBITDA we project. This is expected to occur in Q1. Our outlook for adjusted EBITDA performance is between $4 million and $5 million for the quarter. This represents a solid year-over-year improvement and an extremely solid performance versus Q4 2019. As previously stated, we expect more than $20 million improvement in adjusted EBITDA from Q4 2019 to Q1 2020. This anticipated improvement is based on an expected increase of approximately $35 million of incremental sales period over period, which reflects excellent conversion and highlights the incremental cost improvement actions that our team has taken.

In summary, we presented quite a lot to you today. We are addressing our business on all fronts. While pleased with the progress that we are making, we have much more to accomplish. Remember, the company posted double digit margins roughly 24 months ago. The issues that caused the decline have been identified and are being rectified. Our results in Q1 2020 should reflect to you that our efforts are taking hold.

Thank you for your attention and I will now turn it back to the operator for questions.

QUESTION AND ANSWER SECTION

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

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

Yeah. Thanks for taking my question and good to see the debt refi here that we have for the new revolver. As of today, could you kind of walk us through a little bit what the balance sheet looks like, what you're expecting go-forward on like the interest expense, debt maturities, covenants, things of that nature?

Dennis Edmond Richardville
Chief Financial Officer, Horizon Global Corporation

A

Well, it is covenant-light. So, we don't have any covenants going forward except for a capital expenditure covenant, which is a three-year total, which gives us enough room to be able to execute the plan. On an interest rate level, it's LIBOR plus 4%. So, it's about 100 basis points higher than the previous.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

And do you have any debt maturities coming up? What does that look like over the next like 12 to 24 months?

Dennis Edmond Richardville
Chief Financial Officer, Horizon Global Corporation

A

We have the term loans, which one matures in June of 2021 and the other one in September of 2021.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

And then could you talk a little bit about what you're seeing both from the supply and demand standpoint now going forward and how things have changed just over the last few weeks in Europe and North America?

Terrence G. Gohl
President, Chief Executive Officer & Director, Horizon Global Corp.

A

Yeah. Let's start with North America. North America, there's some slight softening in the OE side, but it is light and it hasn't been defined as being impacted by the COVID virus up to this point in time. But the opposing side is that we've seen a strengthening of our aftermarket business and even through last Friday, indicators coming in from our primary customers were that sales were going to increase from them, representing increased demand for the towing market.

So, in North America, we see a little bit of an offset, right? We're going to get a higher concentration of – and a favorable mix when it comes to aftermarket business. In Europe, the softening is primarily. We've seen some softening in the – albeit, small in terms of overall impact for the quarter. We've seen some softening in our JOEM business in Europe, which is the OE business, but again being offset by stronger aftermarket business. But overall, a little bit about a lightning in overall sales in Europe, but offset with increased sales in North America.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

Thanks. It's helpful to provide some additional color. And then, could you talk about what are the guiding $4 million to $5 million of EBITDA in the first quarter, what are the assumptions regarding like potential impact to COVID-19, this is assuming none or how do you get to that $4 million to $5 million number?

Dennis Edmond Richardville
Chief Financial Officer, Horizon Global Corporation

A

Well, remember, we got maybe 15 more shipping days left in the month. We have backlog orders that are quite strong to carry us through that month to meet those numbers. So unless there is a shutdown of commerce or transactional work or transportation restrictions, we feel pretty good about the quarter.

So, going on beyond that and any further initiatives or restrictions like I said either local, state, regional or national, I can't predict that. We haven't had anything laid on us yet and there hasn't been a directive taken yet. So we are continuing to produce and actually we're producing hard right now. We're looking to build so as we have inventory available to address the increased demand that's being projected by our aftermarket customers.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

And then last question for me then I'll hop back in the queue. So, what could you say about the company's ability or prospects for generating like material kind of free cash flow this year if you're going to be doing $4 million to $5 million of EBITDA in 1Q and what has to happen? Is there many levers that you could pull with working capital or anything else?

Terrence G. Gohl
President, Chief Executive Officer & Director, Horizon Global Corp.

A

Yeah. We've got – for example, when we look at just the sheer impact of the contributing elements, so we have relatively flat capital expenditures on a year-over-year basis. To me, this is really kind of a capital-light business. But we have flat capital so that stays there. We have improvements in our inventory that we've been making. And we will continue to make that will lead towards or lead to our projected positive cash flow outlook for the year. We have significantly dropped our past due receivables in a dramatic way as this new management team and the business practice have come in. And we look at reversing with stronger operating practices and results to drive our payables or our DPOs up as well, all part of the plan. So, these are all things that we've got built into it to lead to a good strong positive cash flow for the year.

Josh Nichols
Analyst, B. Riley FBR, Inc.

Q

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

Operator: And ladies and gentlemen, at this time, we will end today's question-and-answer session. I'd like to turn the conference call back over to management for any closing remarks.

Terrence G. Gohl
President, Chief Executive Officer & Director, Horizon Global Corp.

Well, I'd like to thank everyone for joining us today. Like I said at the beginning, we've got a lot going on in this company and we're going to continue to be providing you some pretty aggressive updates as we go through the year, and we look forward to your continued involvement and interest in the company. Thank you very much.

Operator: Ladies and gentlemen, that does conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.