Q1 2019 HC2 Holdings Inc Earnings Call

McLean May 8, 2019 (Thomson StreetEvents) -- Edited Transcript of HC2 Holdings Inc earnings conference call or presentation Tuesday, May 7, 2019 at 9:00:00pm GMT

TEXT version of Transcript

Corporate Participants

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* Garrett Edson

* Michael J. Sena

HC2 Holdings, Inc. - CFO

* Philip Alan Falcone

HC2 Holdings, Inc. - Chairman, President & CEO

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Conference Call Participants

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* Kurt M. Hoffman

Imperial Capital, LLC, Research Division - MD of Institutional Research Group

* Sarkis Sherbetchyan

B. Riley FBR, Inc., Research Division - Associate Analyst

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Presentation

Operator [1]

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Q1 2019 HC2 Holdings, Inc. Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded for replay purposes.

It is now my pleasure to hand the conference over to Mr. Garrett Edson, Senior Vice President of ICR. You may begin.

Garrett Edson, [2]

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Thank you, Brian, and good afternoon. We'd like to thank you for joining us to review HC2's first quarter 2019 earnings results. With me today are Phil Falcone, Chairman, President and CEO of HC2; and Mike Sena, HC2's Chief Financial Officer.

This afternoon's call is being webcast on our website at hc2.com in the Investor Relations section. We also invite you to follow along with our webcast presentation, which can be accessed on HC2's website, again, in the IR section. A replay of this call will be available approximately 1 hour after the call. The dial-in for the replay is 1-855-859-2056 with the confirmation code of 2062747.

Before I turn the call over to Phil, I'd like to remind everyone that certain statements and assumptions in this earnings call, which are not historical facts, will be forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are subject to certain assumptions and risk factors that could cause HC2's actual results to differ materially from these forward-looking statements. The risk factors that could cause these differences are more fully discussed in our filings with the SEC.

In addition, the forward-looking statements included in this conference call are only made as of the date of this call and as stated in our SEC reports. HC2 disclaims any intent or obligation to update or revise these forward-looking statements except as expressly required by law.

During the call, management will provide certain information that will constitute non-GAAP financial measures under the SEC rules, such as but not limited to adjusted EBITDA, insurance adjusted operating income, and insurance pretax adjusted operating income. Certain information required to be disclosed about these non-GAAP measures, including reconciliations with the most comparable GAAP measures, is available in the most recent earnings press release, which is also available on our website.

And finally, as a reminder, this call cannot be taped or otherwise duplicated without the company's prior consent.

Now I'd like to turn the call over to HC2's Chairman, CEO and President, Phil Falcone. Phil?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [3]

Thank you and good afternoon everyone. Thanks for joining us today. As we did last quarter, I'm going to deliver a more high-level overview of the quarter and then focus in detail on a couple of particular areas about which investors have been inquiring. Our CFO, Mike Sena, will then discuss the quarter's financial performance in more detail and then we'll open up the call for your Q&A.

First, I want to take a couple minutes to speak about where we are today. As part of living and breathing everything about this company day in and day out, knowing what needs to be done, understanding what we can do and not do, we also realize that sometimes we may need to provide the market with important details regarding our strategy, which we hope to be able to today.

Maximizing the value of our underlying assets and improving our balance sheet for the benefit of all stakeholders clearly remains our top priorities. Most important, however, is that we stay the course as we go down the path and not act hastily and be shortsighted when managing the underlying asset base, which continues to appreciate in value.

Keep in mind, in just 4.5 years, we built a diversified permanent capital platform with 7 value drivers. We started this from a shell with $40 million of cash and a discontinued telecom operation that was losing %4 million a year and have built it into a platform with nearly $2 billion in sales and growing.

I want to emphasize that this is not something we inherited and not something we just stepped in and have been turning around. We created this platform through a pointed acquisition and build strategy and finance the growth with your help, and continue to believe that we will benefit from this diversified portfolio that we have in place. Over time, it will clearly provide us with multiple paths to realized incremental value.

I also want to note that we are keenly aware of the frustration out there with respect to our valuation and hence, our stock price. Quite frankly, no one is as frustrated as I am. Despite the fact that our portfolio continues to increase in value, our stock price unfortunately has not responded accordingly.

I think about this each and every day that I come into the office, and as a team, we are very focused on eliminating this disconnect. And as I noted in our prior call, we continue to believe, however, in our hybrid strategy of strong, steady cash flowing assets, while seeking to unlock an additional value through our growth vehicle and targeted investment opportunities, and are confident that this strategy will be a differentiating value factor for us over the long-term.

However, from a near term perspective, we fully recognize the need to close the valuation gap between our NAV and market price, and that means lowering our cost of debt, which I've talked about over and over. I want shareholders and bondholders alike to understand, however, that building a great business can take time. Sometimes there are challenges we must overcome that have a significant near term impact, but we must ensure that we act with great prudence to alleviate the issue and keep us positioned to succeed over the long-term.

We greatly appreciate your patience as we work hard to improve our overall balance sheet, which we believe will allow for investors to take a fresh look at the value we have built, as well as the opportunity for significant long-term value creation.

So first of all, let me now address a topic that's been on everybody's minds and that's liquidity. As you know, given the holdco, opco structure of our organization, we pull cash from our subsidiaries to our holding company throughout the year. And let me walk you through where we currently stand and the levers we are pulling this year.

To summarize first quarter activity, we received $5.3 million of dividend and management fees from PTGI and CGI respectively. Subsequent to first quarter end, we announced the completion of a $15 million revolver, of which $5 million was drawn, leaving $10 million of availability.

In addition, we also received $3.1 million of management fees net in April and this is related to the first quarter activity but is not inclusive in the first quarter. This was an expected increase from the $1.8 million that we received in the first quarter insurance management fees, which again are related to the fourth quarter 2018 and this increase is, of course, a result of the Humana transaction.

So if you look at the first 3 months, again, just to summarize because I know this is a very important topic for people, we received the $5.3 million of dividends. And subsequent to that, again, we structured the revolver and received an additional $3.1 million of management fees.

Today, our construction segment announced that it will be paying a $15 million dividend this month, of which, HC2 will receive approximately $14 million. In addition, we also expect to receive $10 million of cash this month through the DBMG tax share arrangement that we've had in place since inception.

All in, this will be over $30 million of dividends, management fees, and tax sharing payments received by holdco in the first 5 months of 2019, not inclusive of any funding from the revolver draw. So the bulk of this funding and the bulk of the $30 million will be coming in this month. And again, that's the $15 million dividend that was just announced today and the tax sharing arrangement.

Looking into the second half of 2019, you'll recall that we expect to receive $9 million from the BeneVir escrow. We also note that our cash needs from corporate expenses are typically more weighted towards the first half of the year, which is one of the reasons we put in place the revolving credit facility.

For the full year 2019, we are expecting to receive $69 million to $79 million in cash from dividends from DBM and PTGI, the construction tax share, and net management fees from CGI, inclusive of the $9 million from BeneVir, but not of the $15 million on the revolver. So how you have to think about this is $69 million to $79 million of cash from dividends, tax share, management fees, inclusive of the $9 million from BeneVir that is in escrow. And then of course, we have the availability on the revolver. We clearly appreciate your support as we continue to work on delevering the company and significantly reducing our interest expense.

Now, let's take a quick look at the overall performances as I hope this quick summary that I've given answers questions around the liquidity. As of course, from the summary you should be able to discern that we feel very comfortable where we are today.

Overall, we had a successful first quarter from an operational standpoint, including core operating subsidiaries adjusted EBITDA growing 52% from the prior year period to $14.3 million led by a solid performance from our construction segment. And excellent first quarter from our insurance segment, which generated pretax adjusted operating income of $28.7 million. A very nice number from insurance.

A solid performance from our energy segments, buoyed by the increasing CNG revenue. This is a segment where we continue to believe there are solid opportunities present and potential for significant upside in the longer-term.

And we continue to expand our Broadcasting segment through select acquisitions in key markets and I will touch on this momentarily. Regarding Global Marine and the ongoing sales process. As a reminder, as part of our strategy of monetizing assets, we embarked on a process in October to sell Global Marine inclusive of the HMN JV where Huawei Technologies is a 51% holder along with our 49% interest.

Despite the strong operating performance HMN, the recent events and press around Huawei, of course unrelated to global, has affected the timing. As such, we've taken measures to separate the HMN JV from Global Marine so as to provide potential buyers the option of acquiring Global Marine either with or without HMN. Consequently, we've continued down the path of a sale and are expecting the bidding process to accelerate as we believe the optionality will expand the field of interest.

As in the prior quarter, we cannot comment further or answer questions at this time given it is still an active and ongoing process. But important to note that we've addressed what the market told us they were concerned about as it relates to the sale and that was the Huawei relationship and the Huawei JV, and took some time to work on the separation of HMN. But the structure now I think will give buyers that option of either with or without the HMN JV, which we couldn't do prior to the separation.

Beyond our first quarter performance, I want to take a few minutes this quarter to go into more depth about the long-term opportunity we see at Broadcasting. For those of you new to the HC2 story as well as investors that have been with us for some time. We believe this segment has enormous potential to drive value creation over the long-term.

So Broadcasting. We recognized a few years ago that the changing dynamics of media viewing and acceleration of cord cutting could prove to be an attractive time to start acquiring broadcast stations and build out an over the air distribution platform. Before I go into too much detail, I'd like to give people some background on this.

Across the United States, there are 210 DMAs or designated market areas, number 1 being New York Metro, number 210 being Glendive, Montana, essentially ranked by population. In each of these DMAs, there are a limited number of broadcast licenses, which they are not making more of, which encompass the right of the holder to broadcast over the air television using 6 megahertz of broadcast spectrum that they hold.

And just to refresh your memory, there was a recent broadcast auction where broadcasters had the option to sell their license spectrum, i.e. their 6-megahertz block for each license to bidders who would use the spectrum for wireless mobile. As I've mentioned previously, this spectrum is prime spectrum and is in the very high quality low band area.

Hence, prior to 2017, there were 49 licensed channels. At the auction, 14 of those licensed channels in each DMA were acquired for over $19 billion by the likes of T-Mobile, Dish, et cetera. And those who use the spectrum and will be using the spectrum for wireless communication.

Post-auction and amidst the ensuing dislocation and subsequent repack, we stepped in and started buying up the licenses that were remaining with the intent to ultimately cover greater than 75% of the population in the United States, and hence be able to broadcast content nationwide.

The key, again, is broadcast nationwide, focusing on regions or specific cities. We believe that having one or a few stations would be difficult to attract quality content providers but having near nationwide coverage would change that dynamic, which we are beginning to prove out.

In short, our Broadcasting strategy is all about building a platform for eyeballs. With consumers cutting the cord, certain cable networks without distribution platforms like CBS, NBC, ABC, and Fox, which have all utilized platforms around their owned and operated stations and affiliates, would have no alternative but to compete on the internet in a search environment.

With the proliferation of over-the-top startups, this strategy is proving to be phenomenally competitive, competing with the likes of Amazon, Netflix, Google, et cetera for eyeballs on the internet, which again is a search strategy rather than a push strategy, which our over the air broadcast platform embraces.

Our strategy and distribution platform is all about distributing content to the home via over the air. This is back to basics. With our platform, we are providing and have a pipe to the home. Granted, the viewer has to have the rabbit ear antenna, but this is quite frankly where it gets incredibly interesting.

Over the air viewership has accelerated over the past number of years up to over 17 million households or more than 35 million people with no signs of slowing down. In some major cities, such as Dallas and Minneapolis, over 20% of the population of that DMA now watches television over the air. So our strategy is not about replacing broadband, or replacing the internet, or replacing somebody's OTT play. This is about complementing the providers -- the content providers' existing strategy and getting that content in front of as many additional viewers as possible by distributing their content on one of the limited remaining broadcast stations that we now own going into the home versus attempting to compete via an OTT search platform.

Having a platform with broad geographic coverage thus will make us more and more attractive to content providers and we are already seeing that happened. Of similar importance has been recent digital technology advances. Instead of the massive antenna placed on the roof of homes that was needed for reception back in the early days of broadcast, today you can capture HD reception with a small $25 antenna that you can get at a Best Buy, making it clearly much more simple to capture OTA transmission and supplement as necessary with streaming or OTT services that you would get on your broadband, such as Netflix, Amazon Prime, Hulu.

This is what is happening in the market today and when people are looking at cord cutting, they're cutting cable and going to broadband and over the air. So where are we with our station count today? Because as I mentioned, the broad geographic coverage is critical. After closing our first deal in the Fall of 2017, and again, we had to wait until the auction was completed because there was a lot of dislocation, within a span of 2 years and including some pending transactions that we have to -- that we will be closing, we have acquired 186 operational stations, which includes 15 full power stations, 61 Class-A stations, and 110 low power TV stations.

And what we've done with all these acquisitions is we've placed them all under 1 umbrella called the Station Group. Today, we are situated in 9 of the top 10 DMAs in the United States and our existing operational footprint already covers over 60% of the U.S. population. We also hold licenses and permits for over 350 additional stations throughout the U.S.

We are in the final planning stages now of the build-out with the intent on expanding the geographic coverage to 80%, which would provide us and give us the largest over the air distribution platform in the U.S. We've made phenomenal strides in just 2 years and we've been able to make these acquisitions very opportunistically at relatively low cost, by being early in our strategy.

The capital spent to date on these acquisitions, inclusive of working capital, is approximately $200 million, which quite frankly I'd be hard-pressed to think you could even come near reproducing what we have today for anywhere close to that number. The other key point that I want to emphasize and I've noted before is each license owned or controlled represents 6 megahertz of spectrum within a DMA. In a digital world that means the license allows the owner to stream or broadcast multiple channels within a DMA, which is about 5 to 6 channels. And without getting too complicated, you could ultimately get to 10 channels.

Put another way, you can create 5 to 6 and possibly 10 revenue streams with just 1 license. Again, it is potentially a massive opportunity as OTA viewing continues. And this has changed from, again, the early days of analog to now digital, which we -- which the market saw the changeover in 2009 to this digital platform.

This of course ties into our 3-step broadcast strategy we developed to monetize our platform and generate growing and sustainable profitability. So when you think about our platform, which will be -- which is approximately 186 operating stations today, and inclusive of 15 full powers in very key markets, we have a couple of different options to monetize.

And that is, one, leasing capacity to third-party content providers and collect an ongoing fee, like a tower company. You essentially adopt or adapt a tower model. With OTA households continuing to increase, pricing is following along as we are seeing an upward trend of historic OTA lease rates in recent months.

Second, early on, we acquired Azteca America, a leading Spanish-language network that delivers content to Hispanic American audiences. As we own the network, we are able to generate ongoing advertising revenue by broadcasting this content and placing this content onto our network, and expanding from when we acquired the Azteca network onto more stations, of course, because of the number of stations that we own.

Third, we would be open to a revenue sharing agreement with a major content provider should that come to pass. And quite frankly, there are opportunities out there that we are reviewing. You're not held captive by any one of these opportunities, which is the beauty of it. You could lease capacity on a station. You could broadcast on that same station with additional capacity and even create an additional strategy on that same channel or on that same station with a revenue-sharing agreement.

So you're not held hostage by any 1 of these 3 strategies and you can even go as far as incorporating all 3 on 1 station because keep in mind, again, you do have that capacity.

In the near-term, we believe the leasing strategy, however, will provide the best path forward to grow revenue and adjusted EBITDA. To be clear, this is not a content-based strategy. We're not getting into the business of producing our own content. We are fully satisfied acting as a plug-and-play option for content providers and in that, we are truly agnostic. What matters to us are the growing revenue streams that we can develop and of course the content that we put on these streams is there and available in the marketplace today.

Turning that revenue ultimately into net profits and growing margins is a function of technology, and due to the massive advances in technology, stations in various markets can now be operated remotely and centrally. One of the other things that we're doing, we are in the process of moving from our media Gateway Center in Little Rock to the cloud. Once completed, we'll be able to significantly lower the operating cost of our stations and essentially the cost structure will be almost fixed.

This is something that could not be done as recently as 10 to 15 years ago, but thanks to technology, we'll be able to accomplish that. So I guess the long and short of it is you don't necessarily have to have a satellite platform to receive content or to deliver content. You see those big satellite dishes in certain markets that receive the content and then go along landline.

Once completed, we'll have an enormous over the air distribution platform, operated centrally, and primarily with fixed costs. It is a recipe for a significant margin expansion in the longer-term and building a platform comparable to ours these days, given the scarce amount of licenses available, would require incredible amounts of capital given the value of the stations today, and providing us, quite frankly, with a de facto barrier to entry for others to attempt this strategy.

As an example, and what I mean by this, a recent acquisition by another company of a single full power unaffiliated station, or [STICK] as we say, in West Palm Beach, Florida, the 37th largest DMA in the U.S., traded at a $25 million price.

We have a number of stations in the top 20. So when people start talking about valuation, and value, and asset value, I think it's pretty easy and pretty straightforward to walk through how valuable our asset base is in Broadcasting.

In short order, we have executed well on step 1 of our broadcast strategy, which is coming to a completion within the next few quarters to a year as we begin winding down our acquisitions. Also during step 1, we signed up a few content providers for our current platform, including a major entity that is taking up capacity in 23 of our markets. And this is what I was talking about earlier as strategy 1, which is a lease capacity deal. We have entered into a deal with a major entity that is taking up capacity in 23 markets.

Additionally, we completed the restructuring of Azteca America in order to reduce ongoing costs, as many of you saw certain losses in 2018 in Broadcasting. The bulk of these were around Azteca America and the network. And we've done -- and I should say the team has done -- we've done a phenomenal job of cleaning that thing up.

We're now getting ready to embark on step 2. This will be more of a focus on building out the silent licenses that we have, which is, again, 180 silent licenses, and turning them into fully operational stations. On average, these stations, or these licenses to convert into an operational station, depending of course on colocation, et cetera, is around $200,000 to $250,000 per station. This will all be financed at the broadcast entity and not at the HC2 holding company, which I think is very important for all of you to understand.

We're currently in the marketplace to finance this step at the Broadcasting level, with up to a recently announced $100 million debt deal, of which we are in the process of completing and working to consummate the transaction in a timely fashion.

So that step 2 that I mentioned of building out up to 180 silent licenses does not include potential opportunities and potential JVs, or even potential sales of the construction permits that we have, and whatever licenses that we feel like we do not need in our build out plan. So we have a pretty incredible portfolio. Fortunately, our timing was very good and we picked up a number of these and completed a number of these acquisitions early on.

There was another recent acquisition or another transaction that took place in markets in DMA 113 and DMA 115 that was announced yesterday. It included 2 full powers and 2 low powers granted their affiliate status. But those stations alone traded for -- at a valuation of $165 million.

Again, I think it's indicative of what's happening in broadcast land and quite frankly, the valuation and the value of our existing asset base, if stations like that can trade that are north of 113 DMA and 115 DMA trade at that kind of price.

Looking to the longer-term and as a result of being more opportunistic in terms of our acquisitions in the back half of 2018, and what I mean by this is we kind of stepped up our acquisition game towards the end of the year, we've extended the time needed to integrate these new stations into our platform. And as a result, we noted on our prior call adjusted breakeven, EBITDA breakeven had been pushed out to future quarters. But the good news is that the numbers have been improving and have improved dramatically.

We clearly remain confident on our overall strategy and once the platform is fully built, we will have nearly 2000 channels that are available for content. As over the air viewing continues to increase, we should be able to attract more and more and higher and higher quality content providers given the competition that all of these guys are facing in today's markets on cable land and on the internet.

Given the low cost of running the platform once it's built out, that should equate to a rapidly growing sustainable annual revenue and adjusted EBITDA, which will ultimately add significant value to shareholders.

Finally, our results in the quarter show progress and we hope we've mapped out our cash sources and uses for the year. We clearly remain well positioned to take advantage of our hybrid portfolio strategy of strong cash generating businesses, such as Construction Insurance and meaningful value creation at what we're doing at some of our other entities, including Global Marine, Broadcasting, and Life Sciences.

With that, I'll now turn the call over to our CFO, Mike Sena, who will discuss some of our first quarter 2019 financial highlights. Mike?

Michael J. Sena, HC2 Holdings, Inc. - CFO [4]

Thank you, Phil and let's get right into our first quarter performance. Consolidated total net revenue for the first quarter of 2019 was $491.4 million, an 8.3% increase from $453.7 million in the prior year period, driven by higher revenues from our Construction Insurance and Marine Services segments.

Net loss attributable to common and participating preferred stockholders for the first quarter of 2019 was $1.6 million or $0.04 per fully diluted share, compared to a net loss of $35.7 million or $0.81 per fully diluted share in the prior year period.

At the company's core operating subsidiaries, which comprises HC2's Construction, Marine Services, Energy, and Telecom segments, adjusted EBITDA for the first quarter of 2019 grew 52% to $14.3 million compared to $9.4 million in the prior year period, driven by improved year-over-year performance at our Construction and Marine Services segments.

Total adjusted EBITDA, which excludes our Insurance segment, was $2.8 million in the first quarter of 2019 compared to an adjusted EBITDA loss of $6.9 million in the prior year period. Improvements in year-over-year adjusted EBITDA were mostly spread throughout the portfolio. Now, let's just take a couple of minutes to go into a bit more detail at our largest segments.

At construction, we recorded adjusted EBITDA for the first quarter 2019 at $12.4 million, up 24% from the prior year period. Construction continues to perform well for us, driven by several large-scale DBM global commercial fabrication and erection projects in the Western U.S. Most notably, the LA Rams/Chargers stadium and Google Bayview projects, as well as including a full quarter of GrayWolf performance at the segment.

As of March 31, 2019, backlog was $559 million, comprised of $494 million of backlog at DBM and $65 million of backlog at GrayWolf. Adjusted backlog, which takes into consideration awarded but not yet

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signed contracts at DMB Global and GrayWolf was approximately $678 million, which comprises $575 million of DMB and $103 million at GrayWolf.

Meanwhile, at Insurance, we generated pretax adjusted operating income of $28.7 million for the first quarter of 2019, driven by higher net investment income and policy premiums from the addition of Humana's long-term care business and higher net investment income related to the legacy CGI block of business.

As of March 31, Insurance had cash and invested assets of $4.3 billion, total GAAP assets of $5.4 billion, and an estimated $310 million of total adjusted insurance capital base. We are pleased with Insurance's performance in the quarter and continue to expect it would be a strong driver of cash flow for HC2 moving forward.

Finally, at Marine Services, we recorded adjusted EBITDA for the first quarter 2019 of $0.1 million, a $2.5 million improvement from the prior year period. We had noted on our prior call certain projects that had shifted out of 2018 would not begin until the second quarter of 2019 and thus, adjusted EBITDA was going to be impacted for the first quarter.

With the delayed projects now about to commence and with a robust backlog of approximately $455 million as of March 31, 2019, including a significantly larger install backlog on a year-over-year basis, we continue to believe Marine is positioned well to grow adjusted EBITDA over time.

As of March 31, 2019, HC2 had consolidated cash, cash equivalents, and investments of $4.3 billion, which includes cash and investments associated with HC2's Insurance segment. Excluding the Insurance segment, consolidated cash was $47 million.

Finally, we reaffirmed guidance at our Construction segment for the full year 2019 of adjusted EBITDA between $75 million and $80 million.

We thank you for your time today and I'd now like to open the call up for your questions. Operator?

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Questions and Answers

Operator [1]

(Operator Instructions) Our first question will come from the line of Sarkis Sherbetchyan with B. Riley FBR.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [2]

Thanks for the outline for all the liquidity drivers. I think you mentioned you expect to receive between $69 million and $79 million in cash just from the various components you outlined in the summary. Can you maybe help us understand when you'd be able to call up the cash from the insurance segment?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [3]

Those are -- when we talk about $69 million to $79 million, it's dividends, tax sharing, and management fees. The management fees are typically paid in the first month of the quarter. So for instance, in the first quarter -- and then there's a lag time. So we received $1.8 million of a management fee in January of 2019, which was for fourth quarter activity. In April, we received $3.1 million and again that's net of a management fee for the first quarter and that fee is - that increase in the fee was because of the Humana -- as a result of the Humana transaction.

And of course, as you see assets continuing to increase with hopefully additional acquisitions along down the road, which we are always working on, this management fee is just kind of a standard fee that's paid the first month of the quarter.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [4]

Understood. So I think if we look at it on a pro forma basis, assuming you don't acquire anything else from the insurance side, $12 million seems to be, like, a baseline number that you can call up from the Insurance segment.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [5]

Yes, (inaudible) number and that could move around a little bit. But also, too, keep in mind that we are not at peak on the assets of the insurance. We're collecting premiums daily or monthly and even if we didn't do another transaction, you'll see this portfolio increase in size and hence, large management fee as a result.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [6]

Got it. And it's nice to see that you're able to pull a dividend from DBM. Saw the press release this afternoon. I guess if we look at just kind of the reiterated guidance, anything to think about as far as seasonality for EBITDA generation?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [7]

Listen, the one thing that we've seen is good consistency from that team. They're probably the best operators around in that business and are as solid as one can get. First quarter is typically - has been typically kind of ho-hum and we saw that last year and saw that the year before and the year before that. So we feel just based on the backlog of what Russ and team have under their -- under wraps today. No reason to believe that there's any issue with hitting their projection.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [8]

Understood. And if I shift gears to Global Marine, it looks like pretty negligible contribution to EBITDA and I think you mentioned some factors. Can you maybe give us a breakout as to the impact for 1Q given those delayed projects?

And then what's the order of magnitude? Maybe we see EBITDA jump here in 2Q or 3Q as those projects get delivered.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [9]

I'll let Mike give the details on that. But the one thing with Global that considering the scope of the projects and the dynamic around the projects is there continues to be lumpiness in this marketplace.

That being said, it's still a very good business. They've been around for ages. Their backlog, as Mike has indicated, continues to improve. And listen, there have been some fits and starts over the first few years. But I think the company is very well positioned right now. And of course, with the new vessels that we've been able to acquire with these various -- or to add to the portfolio with these various acquisitions, I think there was a little bit of pain that we experienced in the earlier years, especially last year. We're going to benefit or the company is going to benefit from that going forward.

And so I think despite that lumpiness and despite the kind of seasonality, we feel pretty good about it. But Mike can kind of walk through the details from a numbers perspective.

Michael J. Sena, HC2 Holdings, Inc. - CFO [10]

Yes, Sarkis, I think when you look at where it comes from, typically in the first quarter in the winter, GMSL typically tends to be slower. If you look at where the income and loss came from, if you look at the equity method, investments, i.e. the joint ventures, they had a loss of $3.8 million for the quarter, where the core business had a profit of $3.9 million. And that's sort of where you get to the breakeven.

So we know that HMN had some projects that slipped into the latter part of the year and that's what we were trying to explain, combined with the normal sort of seasonality of the Global Marine business. Does that make sense?

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [11]

Yes, so just to be clear -- go ahead.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [12]

And just to note on this, the one great thing about Global Marine is these telecom -- these maintenance contracts. That's a phenomenal business and it gets a little bit masked from an overall perspective. But that in and of itself is a very, very, very valuable aspect to the business that we're very, you know, continue to be excited about and any potential buyers should be excited about. So what was your question?

Operator [13]

Our next question will come from the line of Kurt Hoffman with Imperial Capital.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [14]

I wanted to make sure I understood the liquidity discussion. It sounds like excluding the BeneVir payment, which is obviously one-time in nature, we'd expect the holdco to see $60 million to $70 million of cash flow from the subsidiaries versus about $85 million of corporate costs, if I think about $60 million of interest expense at the holdco and $25 million of G&A. So there is an embedded shortfall the way the company is currently situated. Am I missing anything there?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [15]

Not necessarily, but keep in mind, there's bonus payments, bonus cash payments that you have to think about that could fluctuate from time to time. And also too, when you think of $69 million to $79 million of dividends, management fees, tax sharing, without going into detail on global - on DBM, that entity is, in our projections, $75 million to $80 million of EBITDA. There's not a lot of CapEx there. There's a lot of cash that we could pull out and keep in mind, there's flexibility there.

So when we talk about $60 million to $70 million to $69 million to $79 million, we're not squeezing the last couple nickels together.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [16]

Do you intend to draw on the remainder of that MSD revolver to pay the bond coupon coming up June 1?

Michael J. Sena, HC2 Holdings, Inc. - CFO [17]

We will draw on it. We plan to.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [18]

And during the last conference call, you talked about the ability to take a distribution from the insurance entity of about I think you said 10% of its surplus. Is that still a lever you can pull and is there any sort of regulatory approval that would be required before you could do that?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [19]

One of the things when we signed up and did these deals, there was a dividend -- there was a structure around the dividends where we couldn't take out dividends. Clearly, when you're dealing with regulatory entities such as insurance companies, you have to -- there's a regulatory process. There's no question. There's a regulatory process in nearly everything you do with an insurance entity.

So yes, but the beauty of it is that that possibility is there today where 5 months ago it wasn't because of restrictions around it.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [20]

But maybe it's more of a last resort given you have to hop through those hurdles.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [21]

Yes, but we're not even, quite frankly, contemplating it right now because we don't need to.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [22]

And when I look at the DBM performance, $10 million of EBITDA in the first quarter versus $12.5 million in the first quarter of '19. But the first quarter of '18, you didn't have the benefit of GrayWolf, which I think is about a $20 million EBITDA business. So in theory, all else equal, I think we would have hoped to see DBM coming in at more like $15 million. Is there anything material going on there or is it just kind of timing?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [23]

Just timing. If you saw the numbers so far to date for the quarter, you wouldn't be asking the question.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [24]

And then lastly on the Broadcasting side, the debt deal you're looking at, is there still an intercompany loan running to the holdco from that entity and would that debt deal contemplate that loan being repaid?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [25]

Yes, there is still an intercompany loan.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [26]

What was that number again?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [27]

30.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [28]

And do you anticipate that getting repaid as part of a deal down there?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [29]

Not in the short-term. Not in this deal. There's no need to.

Operator [30]

(Operator Instructions) Ladies and gentlemen, this concludes our question and answer session for today. I will now hand the conference back over to Mr. Falcone.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [31]

Okay. Thank you everyone again for joining us today. We hope that we provided some clarity on the liquidity and we're happy to give you the numbers for the quarter. And as always, if you have any questions, feel free to follow-up at your convenience. Thanks again for your time and hopefully, we'll be all talking soon. Thanks.

Operator [32]

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude our program and we may all disconnect. Everybody have a wonderful day.