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Q3 2019 HC2 Holdings Inc Earnings Call

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TEXT version of Transcript

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Corporate Participants

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* 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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* Adrian Doria Medina

* Anton Anikst

* Joshua Nahas

* Kurt M. Hoffman

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

* Nicholas Brown

Zazove Associates, LLC - Partner, Convertible Bond Analyst & Senior Research Analyst

* Sarkis Sherbetchyan

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

* Garrett Edson

ICR, LLC - SVP

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Presentation

Operator [1]

Greetings. Welcome to HC2 Holdings Third Quarter 2019 Earnings Call. (Operator Instructions) Please note, this conference is being recorded.

I'll now turn the conference over to Garrett Edson, Senior Vice President of ICR. You may now begin.

Garrett Edson, ICR, LLC - SVP [2]

Thank you, and good afternoon. I'd like to thank you for joining us to review HC2's Third 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 the HC2's website, again, in the IR section. A replay of this call will be available approximately 1 hour after the call. Dial-in for the replay is 1 (844) 512-2921, with confirmation code of 13695394.

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 being 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]

Great. Thank you, Garret, and good afternoon, everyone. Thank you for joining us. I'm going to provide a high-level run-through of our third quarter performance, and then we'll discuss our recent announcements with respect to Global Marine and Broadcasting. 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.

While we made significant progress with respect to the Global Marine sale process, I would be remiss if we didn't first highlight what was a very solid performance from our portfolio for the quarter. And while we remain committed to deleveraging, the story continues to take shape within our business segments, which is a great sign for HC2 over the long term.

Adjusted EBITDA for our core operating subsidiaries increased by 30% to $34.2 million, led by another strong quarter from our Construction segment, which we generated a 22% year-over-year increase in adjusted EBITDA. We also signed improved performance for Marine Services, as previously delayed projects are now fully engaged and from Energy, which produced a 130% increase in adjusted EBITDA, driven by its acquisition last quarter of 20 CNG stations. Total adjusted EBITDA increased 72% from the prior year period to $23.6 million.

In addition to the improvement from our core segments, we have been successful impairing losses and broadcasting, while reducing expenses at corporate, partially offset by increased expenditures at Life Sciences following the recent fundings at MediBeacon in R2.

As a reminder, we will be ramping up R&D at both MediBeacon and R2 as they attempt to reach commercialization. However, while that may have an impact on total EBITDA going forward, it will have no impact on overall cash as these investments are already funded.

And our Insurance segment continues to perform well, having another strong performance and solid capital levels for the platform. We reported net income for the quarter of $10.5 million in pretax adjusted operating income of $13.5 million. That brings our year-to-date September net income to $74.6 million and pretax operating income to $75.2 million. Considering our initial investment in this segment was just 4 years ago, this is a real testament for the quality of execution being accomplished by the entire Continental team.

Before moving forward, a quick update on liquidity at the holdco level, as we noted consistency -- consistently, given the structure of our business, we have the ability to pull cash from our segments up to our holding company throughout the year. We've received a BeneVir escrow payment in September and as of September 30, we have approximately $8 million in cash. Thus far in the fourth quarter, we've received $2.6 million in net management fees from Continental and a $1 million dividend from telecom. Later in the quarter, we expect to receive another distribution from our Construction segment, just as we did back in the second quarter of this past year. As a result, we've remained comfortably covered to meet our December interest payment.

With that out of the way, we are keenly aware that our investors have been very interested in the ongoing Global Marine process. We have been very clear for some time that our #1 priority is to delever our balance sheet at the holdco level, and last week's announcement was an important step toward accomplishing that goal. We appreciate everyone's patience and we are very pleased we've completed the first step in the process with an agreement to sell Global Marine's group's stake in the HMN joint venture to Hengtong Optic-Electric Company.

HMN was valued at $285 million, which values the Global Marine's 49% stake at approximately $140 million. Global Marine is selling 30% ownership of HMN to Hengtong at closing and will retain a 19% interest under a 2-year put option agreement, which it will be able to exercise in 2022 at the greater of the current $285 million equity valuation or fair market value at that time. Hengtong will become 81% owner of the JV after it completes its purchase of Huawei's full stake and ultimately, will own 100% of the JV upon the exercise of Global Marine's put option.

The sale is expected to be completed during the first quarter of 2020, subject to customary closing conditions with proceeds then delivered to Global Marine. We are extremely pleased at this outcome for the HMN joint venture. We appreciate our long-term partners with whom we've enjoyed a strong working relationship to grow the joint venture over the past 5 years and wish them well.

Moving forward, our focus has completely shifted to our majority stake in Global Marine. We noted on our last call that we've been seeing a much more robust sales process than in the past, receiving multiple bids from high-quality acquirers. We are now further along in the sales process for Global Marine and believe we will be approaching the culmination of the process as we move through the balance of the quarter. Assuming we are able to announce an agreement for a majority stake, we would expect that after satisfaction of any pending obligations and in concert with the HMN sale, HC2 share of net proceeds from both sales will be utilized to reduce our debt at the HC2 holdco level and of course, any consolidated indebtedness of Global Marine will be eliminated with the sale. This should ultimately allow us to significantly reduce our interest expense and our cost of capital over the longer term. We've noted consistently that we need to execute on our strategic goals, and we are excited to be able to deliver on part of that promise. We make no mistake, we know we are only part of the way there and still need to fully execute on this next step.

As I noted on our last call, what Global is clearly at the forefront of this process to delever, we continue to evaluate additional paths with our other portfolio companies for additional monetization, if appropriately valued. As we showed progress in improving our balance sheet, we believe investors will be able to see the value we are creating and the benefits of a diversified portfolio.

As in prior quarters, beyond my remarks here, we cannot comment further or answer questions at the time on the sale of standalone Global Marine, given it is still a very active and ongoing process. Along with the positive news on the Global Marine front, we've recently completed an important refinancing at the Broadcasting segment with the issuance of 79 million of newly privately placed notes by HC2 Broadcasting. These have a blended pick coupon rate of 9.6% and mature in October 2020. Net proceeds from the financing were used to retire HC2 Broadcasting's existing notes due 2019 as well as fund pending acquisitions, working capital and general corporate purposes.

With his financing package completed, our focus returns to the further buildout of our stations for our Broadcasting distribution platform as well as upgrading our technology and infrastructure.

We talked about broadcasting strategy at length on a conference call earlier this year and suffice to say, since that time, we are even more confident that our strategy has enormous potential to drive long-term value-creation. Some of you may be following the large cable and satellite operators and have seen the steady losses in subscriber counts on a quarterly basis.

This past quarter, we saw a very rapid acceleration of cord cutting from American consumers as 4 of the largest cable and satellite providers noted that they have seen over 1.7 million subscribers leave their platforms in just the third quarter of 2019 alone. Cord-cutting phenomenon not only is here to stay, it is occurring more rapidly in real time than we had anticipated. This bodes very well for our over the air, or OTA distribution platform strategy. We now have 184 operating stations residing in 9 of the top 10 DMAs and a host over 70 different networks, including our own Azteca America on this platform. With the completion of the financing, we're well on our way toward reaching our goal of 80% plus of U.S. homes with our OTA platform, which will allow us to broadcast content nationwide and further enable us to attract quality networks and content providers that wish to reach this growing OTA viewership.

With the financing now complete, we are winding up step 1 of our broadcast strategy through closing our pending acquisitions and are now firmly moving to step 2, which is upgrading infrastructure, technology and building out some of the 150 silent licenses and some of the 200 construction permits we hold and turning them into fully operational stations over the next few years. We are continuously analyzing our portfolio of these licenses and permits, and we may look to acquire trade or self-stations in certain circumstances to optimize our geographic breadth and depth. Once completed within the next 18 to 24 months, we expect to reach our goal of 80% plus household coverage, which would provide us with the largest over the air distribution platform in the U.S.

As a reminder, we have a couple of core elements of our Broadcasting strategy to monetize our distribution platform and generate growing and sustainable cash flows. Today, we have approximately 1,100 channels on these 182 stations available to deliver content. This number will of course increase as we increase our station count. Leasing these channels to third-party content providers, which we are now doing with over 70 different networks, is a core part of our revenue generation. We've also discussed various revenue-sharing agreements with major content providers.

Additionally, we have our own network, Azteca America, a leading Spanish-language network that delivers content to Hispanic-American audiences that we are currently broadcasting. As we own the network, we are able to generate ongoing advertising revenues. But keep in mind, the amount of effort and capital that we've utilized in building this platform over the last 2 years. Given the rising value of OTA stations and fewer licenses available, it would require incredible amounts of capital to build a similar platform in the future, providing us with a de facto barrier to entry for others to attempt this strategy. Beyond the rapid revenue growth, we believe we can achieve, once our platform is fully built, we are in the midst of completing the move of our media Gateway Center to the cloud. This will allow us to operate our broadcast network remotely and centrally. Once completed, we will be able to significantly lower the operating cost of our stations, essentially the cost structure will be almost completely fixed, which will allow us the potential for significant and rapid, long-term margin expansion as we sign up additional providers billing up our capacity. That should equate to rapidly growing and sustainable annual revenue and adjusted EBITDA, which will ultimately add significant long-term value for shareholders. We're very excited to see everything coming together.

We're obviously very excited and quite confident in HC2's future, but we're also very pleased with the present results from our ongoing operations. Our construction segment has had a strong 2019 thus far, a strong project execution and contribution from the GrayWolf acquisition continue to bolster results. Importantly, Construction continues to maintain a healthy adjusted backlog. In fact, adjusted backlog at quarter end was just over $830 million, which is a record. And GrayWolf has been almost fully integrated in all aspects of DBM's operation over the past year. Rustin and his team have done a great job of executing, and we look favorably on the segment's potential in the years to come.

We also still expect that Construction will hit its target of $75 million to $80 million in adjusted EBITDA for the full year 2019. Additionally, as I noted before, Insurance has been a wonderful contributor for us this year in the third quarter with no exception. Our Construction and Insurance segments are approved for the value inherent in the HC2 platforms, and as we continue to build and grow our energy and broadcast segments and unlock value at Life Sciences, we're strongly positioned to create significant value for our shareholders over the long-term.

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

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

Thank you, Phil. Let's review our third quarter performance. Consolidated total net revenue for the third quarter of 2019 was $475.7 million compared to $501.4 million in the prior year period, as lower revenues in Construction, Telecommunications and Broadcasting segments were partially offset by increases in revenue from the Insurance segment out of eliminations as well as from the Energy and Marine Services segments.

Net loss attributable to common and participating preferred stockholders for the third quarter of 2019 was $7.5 million or $0.16 per fully diluted share compared to net income of $152.8 million or $2.97 per fully diluted share in the prior year period. It's important to note, prior year period results benefited from approximately $171 million of onetime gains related to the KIC acquisition at Insurance and from our investment in Inseego Corporation.

At the company's core operating subsidiaries, which comprises HC2's Construction, Marine Services, Energy and Telecom segments, adjusted EBITDA for the third quarter of 2019 increased 30% to $34.2 million compared to $26.3 million in the prior year period, a strong improved year-over-year performance at our Construction, Marine Services and Energy segments more than offset a decline at Telecom.

Total adjusted EBITDA, which excludes our Insurance segment, increased 72% to $23.6 million in the third quarter of 2019 compared to adjusted EBITDA of $13.7 million in the prior year period. Year-over-year adjusted EBITDA was driven by the improvement at the core segments as well as reduced losses at Broadcasting and nonoperating corporate.

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 third quarter of 2019 of $19.4 million, up 22% from the prior year period. Construction has been a strong performer throughout 2019, driven by certain large-scale DBM global commercial fabrication and erection projects as well as contributions from GrayWolf Industrial.

As of September 30, 2019, reported backlog was $475 million, comprised of $357 million of backlog at DBM and $118 million of backlog at GrayWolf. However, adjusted backlog, which takes into consideration awarded, but not yet signed contracts at DBM Global and GrayWolf, was a combined $833 million, a record amount, comprising of $538 million at DBM and $295 million at GrayWolf. As a comparison point, GrayWolf's adjusted backlog at year-end 2018 was $147 million, effectively doubling in 9 months. This is a testament to the quality of Construction's brand recognition, its consistently strong project execution as well as the ability to cross-sell to our client's ongoing servicing, maintenance and repair. And importantly, this provides us with significant visibility into 2020 and 2021.

Meanwhile, at Insurance, we generated pretax adjusted operating income for the third quarter and year-to-date 2019 of $13.5 million and $75.2 million, respectively. The improvement from the prior year was driven by incremental net investment income and policy premiums from the addition of Humana Long-term Care business and higher net investment income related to the legacy CGI block of business. In addition, there was a decrease in policy benefits, changes in reserves and commissions related to current peer reserve adjustments, driven by higher mortality and policy terminations, an increase in policy cancellations or modifications as a result of improved rate increases and favorable developments in claims activity. This was partially offset by an increase in selling, general and administrative expenses, primarily attributable to headcount additions related to the KIC acquisition.

As of September 30, Insurance had cash and invested assets of $4.5 billion, total GAAP assets of $5.6 billion and an estimated $334 million of total adjusted capital. Insurance continues to be an excellent value creator for HC2.

Finally, at Marine Services, adjusted EBITDA for the third quarter 2019 grew 48% to $11.7 million compared to $7.9 million in the prior year period. As the core GMSL business benefited from increased levels of project work across most of the service lines and the benefit of improved vessel utilization. We note that of the $11.7 million in adjusted EBITDA, the HMN JV incurred a slight loss of $200,000. While in Q3 of 2018, HMN contributed approximately $7.3 million of adjusted EBITDA.

When we look at Global -- the Global Marine business, excluding HMN, adjusted EBITDA for the 9-month period ended September 30, 2019, was $19 million, compared to $13.6 million for the 9-month period ended September 30, 2018, and $20 million for the full-year 2018. It was a strong return to form for Global Marine and we continue to expect improved adjusted EBITDA performance in the fourth quarter of 2019.

With the robust backlog of approximately $399 million as of September 30, 2019, including approximately $103 million of installed backlog, which is $70 million greater than the prior year, we continue to believe Marine is positioned well to grow adjusted EBITDA over time.

As of September 30, 2019, HC2 had consolidated cash, cash equivalents and investments of $4.6 billion, which includes cash and investments associated with HC2's insurance segment. Excluding the insurance segment, consolidated cash was $80 million.

Finally, we once again reaffirmed the 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 like to now open up the call for your questions. Operator?

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Questions and Answers

Operator [1]

(Operator Instructions)

Our first question comes from the line of Sarkis Sherbetchyan with B. Riley.

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

First, wanted to touch on Global and the sale of the HMN JV. Can you walk us through maybe the reasoning behind retaining the 19% interest in HMN? Why not monetize the entire stake at the stated valuation upfront?

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

Well, we can't go into particular details. But quite frankly, that's -- that was the buyer's desire to structure along those lines. I mean, clearly, as we've always stated, we want to do what we can to get as much cash upfront on these transactions. But there are a number of different nuances relating to this. And that's the dynamic that we were dealing with the 19%.

But that being said, we believe it's a fantastic structure because we know what our downside is on this and quite frankly, we also know what the backlog is and see the backlog. So I think we're in a pretty good position there.

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

Got it. And just remind me, who retains the 19% stake, right? Is it Global, is it HC2 or the potential buyer of Global? Just kind of walk me through that.

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

No. It will remain with the entity. It won't be part of the -- a sale of Global. That being said, it doesn't mean, you can't monetize it. So -- but that 19% will essentially remain with the surviving entity, with the surviving shell.

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

Got it. That's helpful. And I guess, assuming the HMN JV transaction closes in 1Q '20, and excluding the JV, can you kind of help us understand what the EBITDA run rate is or the contribution for the remaining global business? Mike, I think you tried to kind of give us a carve-out of the 9-month period, but also, it seems like that business has been kind of depressed relative to its history. Just kind of want to understand what the go-forward run rate is of global ex the JVs?

Michael J. Sena, HC2 Holdings, Inc. - CFO [7]

Right. So I mean what I did in the prepared remarks was tell you what the 9-month period ended September '19, was $19 million for the GMSL business without HMN compared to $13.6 million for the 9-month period last year and the full-year '18 was $20 million. So you can get to an LTM with those 3 -- with those numbers.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [8]

I do have to say though that I think any buyer that's coming into this, understands the lumpiness of it, and the key for any buyer is and should be, the backlog and how that will play out. So I think we're in a pretty good position there.

Michael J. Sena, HC2 Holdings, Inc. - CFO [9]

Yes. I mean it's an LTM of just over $25 million as of 9/30 for the business without HMN.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [10]

Got it. That's helpful. And Phil, you did mention the backlog at Marine. It looks like the number was 399 if my memory serves correct on this call. So that's just Global, not including the JVs, right?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [11]

That is correct. That's a pretty big number.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [12]

Okay. That's helpful. And I'll switch gears here. Just trying to look at the run rate, nonoperating corporate overhead expense, it seems like it maybe ticking down here in the last quarter or 2. Just kind of help us understand, what's the run rate going forward for that operating expense bucket and do you have plans to kind of prune in those expenses?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [13]

Well. I think there's obviously ebbs and flows depending on what acquisitions or divestitures you're dealing with and if there's any accounting -- extra accounting analysis that needs to be done via third-party. But I mean, clearly, our objective is to get this as low as possible. And yes, there's always room for pruning. We think that we've done a decent job of getting it down from where it was and we clearly would like to see it continue to chip away on it. It's not a point that goes lost here amongst the team. So from a run rate perspective, I don't think you can extrapolate. We don't want to give forward projections on it, but you can kind of extrapolate from the numbers that we've seen over the last couple of quarters and hopefully, we're going to continue do -- doing what we can with this. But we have been managing it more aggressively, and feel pretty good about the progress that we've made. To not like where we're spending money in places where we shouldn't be, it's when you have an operation, like we do, you just have to have an accounting team and legal team, and whether you have on business or 10 businesses, you got that infrastructure. And we're trying to manage and do our best to keep that within line. And obviously, we're going to keep our finger on that button as close as we possibly can.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [14]

Got it. That's helpful. And I guess if you can kind of step out and talk about Life Sciences unit. You mentioned R&D is expected to ramp up, given MediBeacon and R2's respect funding, do you kind of have an anticipated level of spend? Or kind of ramp trajectory in mind that you could share?

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

No. We haven't given projections on that, but I think the important thing is, it's not a cash EBITDA issue for us because of the way we're accounting for it. The fact that they got some additional funding, there's some additional expenses as we get towards sending the final testing analysis to the FDA as it relates to MediBeacon, that cost some money. But again, it's noncash for us. It's unfortunately, a line item as it relates to how we account for it. But we -- I guess the short answer to your question is, we haven't given projections on that. It's not going to be anything outrageous. But we just thought it was important to highlight that, but again, it is noncash. You can't look at it as a cash negative for us.

Operator [16]

(Operator Instructions) The next question is from the line of Nick Brown with Zazove Associates.

Nicholas Brown, Zazove Associates, LLC - Partner, Convertible Bond Analyst & Senior Research Analyst [17]

One question about the distribution of proceeds from HMN sale. Is there any reason why it can't be dividended to you and the other Global Marine shareholders before the entire Global marine is sold?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [18]

No. There isn't. And quite frankly, if it closed tomorrow, I think we would expect to get that dividend. We think that there's going to be some convergence on timing between the 2, but as soon as they close, whichever closes first, will get the dividend.

Nicholas Brown, Zazove Associates, LLC - Partner, Convertible Bond Analyst & Senior Research Analyst [19]

Okay. I took the wording in the press release to suggest that you wouldn't get any dividends until the entire Global Marine was sold, but thank you for clarifying that.

Operator [20]

The next question is a follow-up from the line Sarkis Sherbetchyan with B. Riley.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [21]

I know you mentioned the satisfaction of any pending obligations upon the kind of the sales of Global there. Can you maybe outline what those potential obligations are right. I mean, could it be the pension, could it be kind of the debt level, just remind us what those are?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [22]

Yes. I mean it's combination of the 2. They're not outrageous, but they are something that we have to take into consideration when looking at the net proceeds. I mean you can kind of take a look at the balance sheet of global and the information that we provided to get an idea as to how we're thinking about it.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [23]

Got it. And in the prepared remarks, you also mentioned evaluating some other potential monetization opportunities on the portfolio, given the appropriate evaluation. What -- I don't know if you'll be willing to share any more ideas or thoughts around that, like what would that be?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [24]

Well, I think the point is that we've heard from people and clearly, we're not happy with where our stock price is. And I think, in this day and age, from a leverage perspective, everybody want -- and I personally want to see our leverage down, especially with that coupon. So we have to be opportunistic to look at, and take action when necessary to continue reducing the debt over and above what we do with Global Marine and the culmination of the Global Marine sale and the HMN sales. We -- I can't really go into specifics, but we do have a very attractive pool of assets, whether it's monetizing certain assets or financing accordingly to reduce our holding company debt, is really how we're thinking about it and not taking it lightly. And we are not stopping with, okay, clearly, the HMN sale was a fantastic sale for us as we grind down on Global Marine and get that done, then we got to continue making that move to eliminate what debt we can, obviously, it's dependent on the right valuations and the right strategy with what -- how are you thinking about what we have going forward, but quite frankly, nothing is off the table and we just have to be opportunistic and have to understand what we think is: one, the investor base is interested in; and two, what's going to help our share price. Because I can't stand looking at it at this price.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [25]

Understood. And one last one...

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [26]

As I mentioned, the good thing is, we do have a -- you can just see by the quarter numbers, the results are very solid across the board and very excited about what we're building. But again, we have to think opportunistically and continue zeroing in on doing what we can with that debt load.

Sarkis Sherbetchyan, B. Riley FBR, Inc., Research Division - Associate Analyst [27]

And one last one for me. Regarding the Insurance unit and the ability to take cash from the unit, I think you mentioned the cash flow contribution in the presentation. I believe year-to-date it's about $7.4 million, and I think in the prepared remarks, you mentioned 2-and-change million into 4Q here. Is that kind of the level that you'd expect to clip up in management fees to the holdco? Or do you expect that to grow for 2020?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [28]

Yes. I mean, listen, we think it should be higher. We're working on doing what we can to make certain adjustments with that. Our objective is to keep getting -- to keep -- to see that number keep growing except the lower end and slightly below with what we expected, albeit not dramatic. But again, we are very focused on that and looking at what can be done to turn that around and change that, we don't see it diminishing, of course, absolutely not. But if anything, we do see it going higher. And whether that's additional work on the portfolio and additional discussions with the regulator and additional acquisitions, which we're always working on. I think the combination of those 3. But quite frankly, I'm not happy with where that number is.

Operator [29]

The next question is from the line of Anton Anikst with Knighthead Capital.

Anton Anikst, [30]

Congrats on the M&A progress and very solid quarter. I had 2 quick clarifications, if I may. One is, obviously, on this side, awarded, but not signed backlog, tremendous progress, both year-over-year and quarter-over-quarter. Just maybe looks like some of that -- some of the major headway is obviously happening on the legacy GrayWolf side. Can you sort of compare and contrast the kind of work they're winning today with some of the legacy projects that might be rolling off like the ramp stadium? Obviously, the embedded curiosity is so the margin profile of the work they're winning today versus some of the legacy projects. Because clearly, margins in the DBM segment overall have rebounded very, very nicely. And then I have one other kind of nitpicky question for Mike.

Michael J. Sena, HC2 Holdings, Inc. - CFO [31]

Yes. I think the Rams and Loma Linda were the 2 big projects that kind of are coming to an end, rolling off. They're continuing to sell backlog or sell projects in the legacy business. They've also have a very good success you could see in the prepared remarks that I said at the GrayWolf backlog, adjusted backlog was grown to $295 million, which is up quite significantly since we took over the business. And that's really a product of them being able to cross-sell to their customers to the legacy customers and directly with them. So the team is very excited and very happy with what they've able to do and accomplish. I think margins, they don't expect to be point of sale margins, they don't expect to be much different, but they're very happy with the type of projects that they're getting with GrayWolf and the success that they've had in kind of going to the customers that are very familiar with DBM in the past.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [32]

Yes. I think just to add on that, that's been, I think, an acquisition a lot of people questioned. But I think if you talk to the team at shop for DBM, they're very happy with what's happening there and we never expected a lot of operational synergies. But from a business -- pure business -- or I should say, SG&A synergies, but I think we're finding that there is a decent amount of overlap, and the guys are very excited about it. Because it does shift the business away from being pure construction-based entity to now one where we're moving away from that kind of typical, one-stop operation and it's a really good thing for the company, not only today, but going forward, because it is proving to be very -- a very value-added acquisition for us on -- quite frankly, on both ends.

Anton Anikst, [33]

Yes. That helpful. I appreciate it, Phil. And then I hope this is not too microscopic, but the way I have thought about the EBITDA composition within the Marine segment is, I've tended to take the kind of report adjusted EBITDA figure and then look at income from equity investees, which historically, I've used this proxy for the HMN JV contribution. But what struck me is that now and I was scrolling through 10-Q, while Mike, going through your comments, and income from equity in this quarter and the Marine Services segment was $1.5 million. And I think you called out the HMN JV contribution was actually negative couple of hundred thousand. So am I drawing the right inference that there are other JVs like SBSF, that had a meaningfully positive contribution to segment EBITDA? And if so, are those stakes also being devastated as part of the rest of the GMSL M&A process? I hope that made sense.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [34]

Yes.

Michael J. Sena, HC2 Holdings, Inc. - CFO [35]

Go ahead.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [36]

Yes. That -- you're looking at that correctly. And clearly, again, that's an asset that could be part of the Global Marine sale or could go separately depending on what people want. I think it's not as -- I should say exciting as HMN, but it's clearly a very solid JV that where there is some value there that we think that people will realize and quite frankly are realizing it. So there's a few different paths that we could take and: One, is included with the sale, if somebody wants it; or two, sell it to a third party.

Anton Anikst, [37]

And remind me, you own how much, 49% of the China Mobile JV? Or how much you own there?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [38]

49%.

Operator [39]

Our next question is from the line of Josh Nahas with Foxhill Capital.

Joshua Nahas, [40]

On Insurance, the $297 million is statutory surplus, is there any ability to go to the regulators to get some capital relief there? Or have you thought about that approach that do you any sense of what might be a reasonable, if that were possible, a reasonable number? Or I'm just thinking about possible ways for more deleveraging, if there was a way to get some capital relief in dividend, some of that surplus capital up or not?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [41]

Yes. Listen, in the first, it's a good -- very good, very intuitive point that you're looking at. And clearly, within the first couple of years and I think we talked about this in previous calls, we didn't have any dividend capacity or capability. That 2 years is up. Any dividend, you have to go to the regulator, you just can't unilaterally make that decision, but is there an opportunity to do that, will there be an opportunity? Possibly. We clearly have looked at Insurance in terms of how we can, if necessary, extract capital. But that's a regulatory aspect that we have to deal with. But there -- we haven't addressed it per se yet. But clearly, it's out there as a potential option.

Joshua Nahas, [42]

Would you think there'll be like a lower cost of capital instrument that you could enter -- issue it like an intermediate company based on that surplus capital that you can then use to pay down debt and have a lower cost of funds? Or is that overcomplicating an already complicated corporate structure?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [43]

No. I mean, I think, we're looking at all types of -- all things are kind of open, we're -- these things take a little bit of time. You're clearly not off base on something like that by no means.

The value -- keep in mind, when you first -- our first acquisition with Insurance, it was like $85 million or $86 million of stock capital. With the performance and with the Humana acquisition, as you pointed out, the total adjusted capital now is north of [$300 million]. That's meaningful. We've been doing, and the team has been doing, I should say, a number of things very well, which should give the parties to be a lot of comfort in what we're doing from an operational perspective. So there's a real business there, it's had some real number, and we are kind of -- again, without going into too much detail, looking at things that we could do and things that we couldn't do, clearly we have to stay away from. But we've got alternatives, there's no question.

Joshua Nahas, [44]

Not to beat a dead horse, but just to tick and tie something on the HMN sale. How much cash -- I'm just trying to figure out what they pay, if there was in that [285] or whatever they paid, if there was a bunch of cash there that they were essentially paying cash for cash for it? Just to try and back into what might be a sort of LTM, EV to EBITDA multiple that they pay just to kind of get a sense of what buyers are willing to pay. Was there significant cash there?

Michael J. Sena, HC2 Holdings, Inc. - CFO [45]

So there was -- there was cash there. We nor Huawei has disclosed that cash amount in a couple of years, but they had accumulated about $80 million of cash. Now we've also disclosed that.

GMSL received about $15 million dividends between last year and this year, and that's 49%. So roughly $30 million of cash has come out, and they've had some earnings. So you can kind of ballpark to get to the amount of cash that's in there, I think, by triangulating that way. So I know you're trying to get to a multiple. But you have to look at this business and understand, they had about $500 million of backlog, any given LTM period. To Phil's point earlier, these businesses are very lumpy so the multiple will jump around significantly depending on which period you're looking at.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [46]

And -- yes, keep in mind that, as Mike said, they had the backlog, they had some cash on the balance sheet. And we've talked about that number from time to time, and it hasn't moved much other than for the dividend payment that both we and Huawei took. But if you look at this -- the most recent quarter, the most recent contribution from Huawei and the number, the [285], I think it's kind of indicative of the value that people believe is there in these businesses, not only HMN but Global Marine. It's not just about what they did last quarter. But we haven't -- look, we haven't disclosed kind of the EBITDA multiple but it's a pretty decent number and I think we feel pretty good about that price, put it that way.

Joshua Nahas, [47]

I mean, I just, if -- I think what you guys said earlier was year-to-date HMN had $13.6 million of EBITDA. Did I hear that right?

Michael J. Sena, HC2 Holdings, Inc. - CFO [48]

The year-to-date, they had $2.4 million of EBITDA through September. And that's really net income that goes into our calculation of EBITDA because we consider that sort of more of a proxy of cash but they had very little CapEx.

Joshua Nahas, [49]

Okay. All right. So I'm just trying to -- can you tell us what the LTM EBITDA was at [930] for HMN? Or you can't disclose that?

Michael J. Sena, HC2 Holdings, Inc. - CFO [50]

Yes. I put the details in the queue. So...

Joshua Nahas, [51]

Oh, okay. All right. So we will be able to figure that out.

Michael J. Sena, HC2 Holdings, Inc. - CFO [52]

You can get to it. Yes.

Joshua Nahas, [53]

And just one other thing. The -- there was about, I think -- I haven't looked at the current queue, but there was about $70 million of debt at Global Marine when I added it up. Is that about -- excluding pension, which I don't know, when I look at pension, that's just something a buyer assumes not -- shouldn't be a net to cash. I haven't seen the APA, so I don't know. But with $70 million about the -- I assume that the...

Michael J. Sena, HC2 Holdings, Inc. - CFO [54]

The [930] debt was $66 million. And...

Joshua Nahas, [55]

Okay. So then the cash proceeds that came in, in this first tranche before the put would go to satisfy first that debt. So effectively you're selling...

Michael J. Sena, HC2 Holdings, Inc. - CFO [56]

No, no, no. It's separate. Yes, the HMN sale is independent of what's happening at Global Marine.

Joshua Nahas, [57]

So the $80 million or whatever that we get in this, that is just sitting in escrow until...

Michael J. Sena, HC2 Holdings, Inc. - CFO [58]

It hasn't closed, right?

Joshua Nahas, [59]

No, I know. I'm assuming -- okay, I'm jumping forward in time a little. Assume it closes at the end of Q1, that money would be theoretically available to upstream, though?

Michael J. Sena, HC2 Holdings, Inc. - CFO [60]

Correct.

Joshua Nahas, [61]

And based on all your comments, you would -- I'm assuming that would be upstream if it closed?

Michael J. Sena, HC2 Holdings, Inc. - CFO [62]

Yes, our percentage would be.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [63]

Yes, I mean it's counted as an asset sale, right? So it would be upstream. The one thing that does sit in front of it is the pension, which we would have to negotiate with the pension trustee.

Joshua Nahas, [64]

So it'd be like a buyout or something of the...

Michael J. Sena, HC2 Holdings, Inc. - CFO [65]

Well, no. I don't think it'd be a buyout, but it'd be a negotiating the payment to the pension plan, based on a number of factors. We're not...

Joshua Nahas, [66]

Okay. No, I'm not looking to get that far down in the weeds.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [67]

(inaudible) in contest of a single distribution. When we talk to the pension trustee, we're looking at it in the context of an overall sale and how we would treat it in a sale. So an ultimate buyout GMSL. We treat this as debt, right, so it's a wash in the overall sale. And if you have to pay it out of that distribution versus the overall sale, it's really a wash.

Michael J. Sena, HC2 Holdings, Inc. - CFO [68]

You're not going to see a double dip.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [69]

Right.

Joshua Nahas, [70]

Right. So in the -- there's nothing contemplated, though, in the asset purchase agreement as such that wouldn't allow you to monetize that 19% stake, say, in the sale of the rest of Global Marine. That 19% stake could -- is also monetizable as part of that sale? Or do you have to maintain that for the 2 years to get -- or is that transferable? Or...

Michael J. Sena, HC2 Holdings, Inc. - CFO [71]

I mean there might be opportunity. We haven't gone down that path, obviously, at this point. Right now, we're focused on getting that deal behind us and the overall GMSL sale.

Joshua Nahas, [72]

But that sort of exercise wouldn't happen, it can't happen, your put-right doesn't become realizable until the full 2 years are up, if you were putting it, right? So it s-- there's no interim get extra, it's not exercisable until 2 years from the closing date?

Michael J. Sena, HC2 Holdings, Inc. - CFO [73]

Correct. But it doesn't preclude you from doing something to monetize it.

Joshua Nahas, [74]

Right. Okay. So whether selling that along with the rest of -- or somebody wanting to buy that payment and discount it at whatever they think the risk of -- whatever optics is.

Michael J. Sena, HC2 Holdings, Inc. - CFO [75]

Right.

Operator [76]

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

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [77]

What do you think about the outlook for HC2 today? In the event Global Marine is sold for whatever number you're bracketing internally and the subsequent paydown of hopefully a material chunk of these high coupon bonds, how comfortable are you going to be at the ongoing liquidity situation where the holding company is? Its ability to service the remaining debt, the corporate expenses over an extended period of time with no further Band-Aids? And -- or do you think further steps are going to be required to delever the structure?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [78]

Well, it depends on how you think about delevering. Is it a paydown, is it subsidiary playing a bigger role? Clearly, again, the fact that we are diversified and the fact that we do have other operating subsidiaries, as well as other investments, there are things that we could do, there's no question about it. The ultimate goal that how we think about it is to make sure that our dividends for PAC sharing arrangements or distributions, et cetera, ultimately exceed our expenses at the holding company. So we kind of, as we think about this and think about the structure, we keep that in mind and as a Global Marine, for instance, we like that business a lot. It's -- when you think about exiting that business, we haven't extracted a ton of cash out of it. So it's very accretive from that perspective, when you think about that.

But as I mentioned earlier, we -- this 11.5% coupon is way out of line, especially when you think we can raise money at the subsidiary, like we did at Broadcasting with a [960] blended pick.

So that being said, we have to get -- we don't realize there were 2 things that we needed to do: sell HMN, sell Global Marine. And I think we're going to have other options as we think about going forward. And that's, do we do some sort of creative financing in the -- at the subsidiaries or from an intermediate subsidiary structure? There was discussion and talk about some things that we could do from in and around the insurance company. And that's not the only entity that we have.

So yes, I mean we are very zeroed in on this. We have no reason to believe that we should be concerned about it based on how we're thinking about the business and how we're thinking about the cash flows, but it's on Mike's whiteboard in his office, put it that way. And we're looking at it, right? But we're very happy with this first step.

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [79]

No, it's a great first step and the improvement in the Global Marine numbers -- the core Global Marine numbers away from the JVs was excellent this quarter. So hopefully, it allows you to get a nice number there. But I guess what I'm hearing is, in your mind, you're not looking necessarily at further asset sales in the near term. You're more looking at maybe...

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [80]

No, that's not what I said. I said that we are keeping all options open. And...

Kurt M. Hoffman, Imperial Capital, LLC, Research Division - MD of Institutional Research Group [81]

Okay. It sounded like you're looking for more creative financing solutions.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [82]

No. I'm just saying that in the spectrum of alternatives, it goes from additional asset sales to creative financing at the subsidiary. So nothing is off the table, put it that way.

Operator [83]

The next question is from the line of Ariel Rothman with [Kagan] Capital.

Unidentified Analyst, [84]

Can you hear me?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [85]

Yes.

Unidentified Analyst, [86]

So most of my questions have been answered. Just one quick one. I noticed the kind of a subsidiary financing that you did for broadcast business, the maturities are rather short. What is the thinking there in terms of that? And kind of is there an ability to kind of roll that at next year? Or what is kind of the thought process behind maturity there?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [87]

Yes. Listen, it's a very good question. And how I looked at it is, I just believe that, one, we're going to be in a different position, in a different place in one year's time. And we do have very good relationships with the investors and they understand the asset and we kind of collectively looked at it and said, "Okay, here's the right thing in the short term, how this should be structured and what's needed and what needs to be done." And it was kind of a collective approach where we just came to the conclusion that rather than locking in longer than one year, I wanted flexibility, quite frankly. We were really driving that on our end. Because of the things that we have going on at broadcasting, I know people kind of look at it and say, "What's happening there? What's going on?" We have a number of very exciting things happening. And I didn't want to box ourselves into some 5- or 7-year financing. So that -- having that facility I think is going to be very advantageous for us considering some of the things that we're doing and we're thinking about. So it's not like we were pushed into it. It was kind of a very collaborative process with the lenders and quite frankly, I'm happy that it's only 1 year.

Operator [88]

The next question is from the line of Adrian Doria Medina with Concise Capital.

Adrian Doria Medina, [89]

I just want to get a clarification on what you said, Phil, in the beginning of the call. You -- did you say that Global Marine is in a very active and recent, I guess, progress where we might see a possible sale by the end of the quarter? Did I hear that right?

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [90]

Well, we can't -- it is a -- put it this way, it is a very active process. We're very happy with where we are in that process. We can't talk about the details around closing and the date. But we've been working out this thing for quite some time. We're pleased with where we are right now. And put it this way, I think the HMN asset sale was the difficult one.

Operator [91]

At this time, I'll turn the floor back to management for closing remarks.

Philip Alan Falcone, HC2 Holdings, Inc. - Chairman, President & CEO [92]

Okay. Well, thank you, again, for taking the time. We've heard what people had said. And quite frankly, our stock price has shown it as well that people are concerned about our leverage and we're taking the right steps and we're doing the right things and where we have not left any stone unturned as we think about this. I think there were a lot of questions around HMN and global and could we get that done. I think my hats are certainly off to the team at Global, who negotiated this deal with [Anton], Ian -- Ian Douglas and team. That was a phenomenal effort and a great transaction, especially when people thought that nothing was happening. But we're plugging away, very, very happy about the numbers. And that's one of the great things of, I think, of our structure as we got the diversification and we've got the performance. And I think you're going to continue to see some exciting things and hopefully, we're going to see some things from broadcast kick in and we have high expectations, of course, for ANG. And then we've got recent investments in R2 and MediBeacon. So I think collectively, we've got a very good look of assets and hear everybody that the debt is an issue. And quite frankly, it's an issue for us, too, and that's why we're focused on it.

So thank you, again, for your effort of sticking with us on this call today. And as usual, if you have any additional questions, we're always around to answer, if you didn't get a chance to get in the queue today. But thanks, again, for your time.

Operator [93]

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.