INNOVATE Corp. (VATE) CEO Wayne Barr, Jr. on Q3 2021 Results - Earnings Call Transcript

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INNOVATE Corp. (NYSE:VATE) Q3 2021 Earnings Conference Call November 4, 2021 4:30 PM ET

Company Participants

Anthony Rozmus - Investor Relations

Avie Glazer - Chairman

Wayne Barr, Jr. - President and Chief Executive Officer

Michael Sena - Chief Finance Officer

Rustin Roach - President and Chief Executive Officer, DBM Global

Conference Call Participants

Nitin Sacheti – Papyrus

Operator

Good morning, and welcome to INNOVATE Corporation Third Quarter 2021 Earnings Call. During the presentation, all participants will be in listen-only mode. Afterwards we will conduct a question-and-answer session. [Operator Instructions]. As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Anthony Rozmus, Investor Relations for INNOVATE Corporation. Please go ahead.

Anthony Rozmus

Good afternoon. Thank you for being with us to review INNOVATE's third quarter 2021 earnings results. We are joined today by Avie Glazer, Chairman of INNOVATE. Wayne Barr, Jr. CEO of INNOVATE, Mike Sena, INNOVATE's, Chief Financial Officer and Rustin Roach, DBM Global's President and CEO.

As usual, we have posted our earnings release and our slide presentation on our website at INNOVATECorp.com. We will begin our call with prepared remarks to be followed by Q&A session. This call will also be simulcast and will be archived on our website.

Now for some great disclaimers. During the call, management may make certain statements and assumptions which are not historical facts will be forward-looking and are being made pursuant to the Safe Harbor provisions and the Private Securities Litigation Reform Act of 1995.

Any such forward-looking statements involve risks, assumptions, uncertainties, and are subject to certain assumptions and risk factors that could cause INNOVATE's actual results to differ materially from these forward-looking statements. The risk factors that could cause these differences are more fully discussed in the cautionary statement that is included in our earnings release, and the slide presentation and further details in our 10K and other 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. INNOVATE disclaim any intent or obligation to update or revise these forward-looking statements except as expressly required by law.

Management will also refer to certain non-GAAP financial measures such as adjusted EBITDA. We believe that these measures provide useful supplemental data that while not a substitute for GAAP measures, allow for greater transparency in the review for our financial and operational performance.

At this point, it is my pleasure to turn things over to Avie Glazer.

Avie Glazer

Good afternoon, everyone. And thank you all for joining us. I'm pleased to be speaking to you today on our first earnings call under our company's new name, INNOVATE. INNOVATE embodies vision for our best-in-class assets we believe that each of our segments is primed to unlock significant value. In infrastructure, the Banker Steel acquisition now has been a part of the DBM family for a full quarter. We are encouraged by the expanded footprint we have in the steel erection and fabrication space in the United States. DBM's revenues increased 138% from the prior year quarter, and adjusted EBITDA was up almost 38%.

Moving on to Pansend, one of the most exciting developments this quarter came when R2's Glacial Rx, earned its third FDA indication and unique product code. Glacial Rx is now the first and only class to dermal cooling system FDA-cleared for dermabrasion, scar and acne scar revision, and tattoo removal, permanently changing the aesthetics industry. What this means is that Glacial Rx went from being part of one classification among 100s of other devices to be in place and its very own FDA issued product code. And this significant milestone for R2's will help it further penetrate the $22 billion aesthetic dermatology market.

We invested an additional $15 million R2 to increase our ownership position, we continue to be excited by the opportunity. And finally in Spectrum, the adjusted EBITDA positive for the fourth consecutive quarter, we are continually expanding our nationwide broadcast station footprint and the businesses position to take advantage of the opportunities lies ahead with the rise of OTA broadcast access in homes across the country. We couldn't be more excited for the future prospects of INNOVATE Corporation.

In fact, I'd like to invite everyone to visit our new website, INNOVATECorp.com, and once you're on the site, you can download our latest investor presentation. I think it's a very informative overview of INNOVATE and what we're doing.

And with that, I'm pleased to turn the call over to Wayne Barr, Jr. CEO of INNOVATE.

Wayne Barr, Jr.

Thank you, Avie, and thank you all for joining us today. For the third quarter, we delivered financial results that were in line with our expectations and reflective of the continued progress of INNOVATE's long-term strategy. We picked up right where we left off in the second quarter and further execution in all of our segments. Our team remains energized by the opportunities that lie ahead, especially with our unique set of assets that are currently growing as shown by our third quarter results and our position to unlock future value for our stockholders for years to come.

Turning now to some key accomplishments achieved in the third quarter that in conjunction with our financial results highlight the aforementioned progress made on the execution of our strategy.

As previously mentioned on our last earnings call, we completed the disposition of the Insurance segment Continental General Holdings receiving $65 million of cash at closing and the return of approximately $25 million worth of spectrum securities. Also, as mentioned on the last earnings call, we provided an additional $15 million in Series C funding to R2 Technologies to Pansend or Life Sciences segment.

We also completed our name change to INNOVATE Corp launched our rebranding efforts and began trading under the ticker VATE on September 20, 2021. We are initiating a new feature on our quarterly calls and I've asked Rustin Roach, President and CEO of our Infrastructure segment DBM Global to join us today and walk you through an update on DBM before returning the call back to me to provide updates on Pansend and Spectrum. Rustin?

Rustin Roach

Thanks, Wayne. I'm happy to be joining today to speak to you all about the exciting prospects at DBM. The Banker Steel integration is on track and the company has made an immediate impact to DBM already. Our exposure to commercial industrial services and public sector projects positions DBM well for the post-COVID recovery we are seeing take place in the market today.

With that DBM's total adjusted backlog was $1.9 billion at quarter end, comprised of $1.05 billion in legacy DBM backlog and $839 million of backlog at Banker Steel. Our current backlog level provides us with great visibility into the potential revenue generation in 2022 and beyond.

We continue to keep our pulse on the various federal infrastructure bills as a potential catalysts for our business. We anticipate we would see the impact of potential new projects associated with a bill in the 12 to 18-month period following final passage. In addition to an infrastructure bills direct impacts. We believe the additional infrastructure spending, if focus correctly, we'll add new projects to an already very busy market, which I'm optimistic will continue to relax the downward pressure on margins we've experienced over the past year.

We continue to see point of sale margins improving on new bids. The larger more complex projects have a bit higher margins than the smaller less complex ones. Obviously, this will all be a net positive for DBM. While there remains optimism in the construction industry, we also acknowledge various challenges in both the supply chain with steel prices continuing to rise, as well as in the labor market for our business. While these issues are there, we've continued to find successes in our operational efficiencies and business development efforts as shown by the very large adjusted backlog number of $1.9 billion. We'll continue to monitor both of these elements and the potential impacts to our businesses as we look forward to 2022.

Thank you for the time today, and I'll now turn this back over to Wayne.

Wayne Barr, Jr.

Thanks Rustin. Now turning to Life Sciences, we are encouraged by the recent developments in our Pansend business. As we explained last quarter, we invested an additional $15 million in R2, if it is using to expand its corporate footprint, accelerate U.S. commercialization of Glacial Rx, field global growth and fund further innovation in product development. The infusion of capital will further support R2 prospects, especially with Glacial Rx receiving its third FDA indication and unique product code.

This is a major milestone for R2 in the quarter on the heels of the commercial rollout of its first product earlier in the year. R2 did decide to delay the Chinese launch of the Glacial Spa product, which has been impacted by global supply chain issues. The Glacial Spa and Glacial Rx devices have certain components in common, and at least one of which has been affected by the tightening supply chain.

Given the momentum in ample inventory for the Glacial Rx product, R2 made what we believe was a prudent decision to allocate a greater portion of the shared components to satisfy the commercial demand for R2's Glacial Rx product in the United States, rather than using such components in the Glacial Spa device, resulting in the decision to delay the launch.

At MediBeacon, the company remains in dialogue with the FDA regarding the commencement of its U.S. pivotal study. MediBeacon hopes to begin that study in the fourth quarter, although there is a possibility that it may be pushed into the first quarter of next year. We are closely monitoring the situation and regardless of a potential delay are very excited about the opportunities we see at MediBeacon.

We are happy with the momentum we continue to see at Pansend. We couldn't be more excited about the progress made across this portfolio and are optimistic about our ability to capitalize on the ongoing growth opportunities in this operating segment.

At Spectrum, we have now achieved a full-year of profitability establishing a track record of consistent performance. Adjusted EBITDA grew year-over-year to $1.8 million bringing our last 12 months adjusted EBITDA for spectrum to $6.5 million. We continue to focus on optimizing operations, taking costs out and improving revenue. In the third quarter, specifically, growth in our Station Group OTA revenues help drive profitability.

On the Station Group side, we reached an agreement with Cisneros Media to launch Novelisima on September 1, a new Spanish language network that broadcasts telenovelas in more than 70 markets in the U.S. on our platform. Also, in partnership with beIN Media, we have increased the distribution of the beIN EXTRA Sports networks, which are 24/7 live sports channels offered in both English and Spanish, offering the most comprehensive free ad-supported live sports programming over the year.

Nationwide, we broadcast beIN Sports and more than 120 channels in over 60 markets. Altogether, there are 83 networks using our distribution platform today, sponsored by a broad range of media companies that include CBS, NBCUniversal, Scripps, Weigel, Fremantle, Tegna, and Sinclair among others. We also completed the debt refinancing extension, which allows the company to build profitability and provides more time to execute a longer-term solution to its capital structure.

To provide an update on new station construction, we are targeting 24 new station builds, which are on schedule for completion by the end of the first quarter 2022. Seven of these 24 stations are already built. When completed, these 24 new stations will bring us to a total of 251 stations in the Station Group. We are funding the construction of these new stations with proceeds from non-core asset sales, including construction permit sales last quarter, as well as cash from operations.

Overall, we are seeing the benefits of innovate sharpen focus on our three operating segments, and we closed 2021 and enter 2022 with strong momentum. We continue to make significant progress across all of our assets and believe that our businesses are exceptionally well-positioned to benefit from the growth catalysts that are emerging as part of the new economy.

With that, I'll turn it over to Mike for a review of our financials and capital structure.

Michael Sena

Thanks, Wayne. I'll first review our financial performance, and then I'll walk you through the key changes to our capital structure to help you bridge the quarter and the key transactions that have taken place during the quarter. Consolidated total revenue for the third quarter of 2021 was $394.8 million, an increase of 131.6% compared to $170.5 million in the prior-year period. The increase was driven by our infrastructure segment driven by the contribution from Banker Steel as well as from higher revenues across DBM service offerings attributable to timing of project work under execution and backlog mix.

Net loss attributable to common and participating preferred stockholders for the third quarter of 2021 was $213 million, or $2.75 per share, compared to a net loss of $17.7 million or $0.37 per share in the prior-year period. The loss is primarily driven by the loss on the sale of the insurance company in the quarter. While the cash flow restrictions discussed on previous calls changed our risk versus reward outlook on the insurance company. I wanted to spend a couple of minutes to discuss the U.S. GAAP loss recognition on the sale.

The loss at the insurance company is reflective of the excess book value of a purchase price. Insurance companies value is typically based on a multiple of the statutory capital. The multiple will vary depending on the type of policies and innovates insurance company consisted primarily of long-term care policies. Long-term care books and business typically trade at a discount to the surplus, this reflects the inherent uncertainty and risk associated with the estimates utilized to determine the insurance reserves to fulfill the long-term care insurance policy obligations.

Total adjusted EBITDA, which excludes discontinued operations was $14.3 million in the third quarter of 2021. An increase from adjusted EBITDA income of $7.8 million in the prior-year period. The increase was driven by the contribution from Banker Steel at the infrastructure segment, improvements at the Spectrum segment partially offset by increased expenses at R2 and MediBeacon.

Now under some color for each of our three operating segments. At infrastructure, revenue increased a 138.2% to $383 million from a $160.8 million in the prior-year quarter. As discussed earlier, this increase was due to the acquisition of Banker Steel, resulting in an additional $114.3 million of revenue as well as higher revenues across DBM service offerings.

Infrastructure adjusted EBITDA for the third quarter 2021 increased to $24.4 million from $17.7 million in the prior-year period. The increase is driven by the contribution from Banker Steel, which was offset in part by timing of project work under execution, changes in backlog mix and the continued recognition of backlog with lower point-of-sale project margins.

As of September 30 2021, reported backlog was $1.6 billion, up from $395 million at the end of the fourth quarter 2020. Adjusted backlog which takes into consideration awarded, but not yet signed contracts was $1.9 billion up from $608 million at the end of last year, the Banker Steel acquisition added roughly $839 million of backlogs.

DBMG had another strong quarter on the sales front, so our backlog remains flat, we recognized $383 million in revenue in the quarter. Most importantly, we're starting to see improvement in point-of-sale margins as capacity fills up in the market. We plan to burn off the backlog as we exit 2021 and head into 2022 and beyond.

At Life Sciences, the increase in adjusted EBITDA losses were primarily driven by the continued scaling of operations at our R2 Technologies, including an increase in sales and marketing expense to support sales, revenue growth and further commercialization efforts as well as the continued development of its product platform and an increasing spend at MediBeacon as they prepare for the final pivotal study.

At Spectrum, revenue increased 5.2% to $10.2 million driven by high Station revenues as we launch new customers, include the number of its operating stations, which was partially offset by a decrease in revenue as a result of a sale of four power stations. Spectrum delivered adjusted EBITDA of $1.8 million in the third quarter compared to an adjusted EBITDA loss of $0.2 million in the prior-year quarter.

For the nine-months ended September 30 2021, Spectrum recorded adjusted EBITDA of $5.3 million compared to EBITDA losses in the prior-year. Results reflect improved operations and cost reductions across the platform, the sale of high-cost non-core stations and revenue improvements described above. Station group sales grew revenues by approximately 20% for the nine months ended September 30 2021.

Non-operating corporate adjusted EBITDA losses were $3.8 million for the third quarter of 2021, up from the third quarter of 2020 by $2.1 million. At the end of the third quarter, the company had $55.5 million of cash and cash equivalents compared to $43.8 million as of December 31 2020. On a standalone basis, as of September 30 2021, the Corporate segment had cash and cash equivalents of $31.6 million, compared to $27.5 million at the end of 2020.

During the quarter, we closed on the sale of Continental Insurance. As part of the transaction, we exchanged $16 million of existing INNOVATE Series A and A2 preferred stock, the new series with identical terms and a new redemption date of July 2026. We also modified the $40.9 million of preferred stock at DBMG Intermediate Company.

These securities have previously been eliminated in consolidation prior to all of the insurance company and you will now see them included as mezzanine or temporary equity on our consolidated balance sheet.

In addition, subsequent to the quarter, we extended the maturity on the $52 million of outstanding debt of broadcasting to November of 2022, and repurchased approximately $2 million of debt outstanding at DTV using proceeds from non-core station sales. As of September 30 2021, INNOVATE had total principal outstanding indebtedness of $676 million, up $99.4 million from $576.6 million at the end of 2020 driven primarily by infrastructures financing related to the Banker acquisition.

In conclusion, the third quarter results show consistent improvement across all our business segments. We're still in the early innings of our long-term strategy, which we implemented last year and are committed to driving performance in Infrastructure, Life Sciences and Spectrum in efforts to unlock the value in each of our best-in-class assets. With that, operator, we'd now like to open up the call for questions.

Question-and-Answer Session

Operator

All right, thank you very much. [Operator Instructions] And nobody in the queue at the moment. [Operator Instructions] And our first question comes from the line of Nitin Sacheti with Papyrus. Please go ahead.

Nitin Sacheti

Hi, guys. Nice quarter. Thanks for all the color on the DBM too. So just curious if you could talk about the Continental Insurance sale, and sort of anything on the balance sheet or anything that was sort of a Holdco guarantee that might be gone, that kind of strengthens the overall business now?

Wayne Barr, Jr.

Yes, thanks, Nitin. So yes, there's no guarantee. All obligations or commitments that we may have had prior to the sale are now gone. So there's nothing legacy that hangs over. Of course, as far as guarantee, we do have our preferred shares that you'll see on the balance sheet that I just mentioned, that the insurance company holds both the INNOVATE Series A3 and A4 and the DBMI prep that I mentioned.

Nitin Sacheti

Okay, thanks.

Operator

All right, thank you very much. We have no further questions in the queue at the moment. I'll turn the call back to Wayne Barr for any closing comments.

Wayne Barr, Jr.

Great, thank you, Eric. I'd like to thank everybody for participating this afternoon in the earnings call and we look forward to getting back in front of you next quarter. Have a nice day.

Operator

That does conclude the conference call for today. We thank you for your participation and you may now disconnect your lines.