INNOVATE Corp. (VATE) CEO Wayne Barr Jr. on Q4 2021 - Earnings Call Transcript

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INNOVATE Corp. (NYSE:VATE) Q4 2021 Earnings Conference Call March 9, 2022 4:30 PM ET

Company Participants

Wayne Barr Jr. – President and Chief Executive Officer

Michael Sena – Chief Finance Officer

Anthony Rozmus – Investor Relations

Avie Glazer – Chairman

Conference Call Participants

Brian Charles – R.W. Pressprich

Operator

Good afternoon and welcome to INNOVATE Corp's Fourth Quarter and Full Year 2021 Earnings conference call. All participants will be in a listen-only mode. After prepared remarks and presentation, there will be a question-and-answer session. And please note that this event is being recorded. I would now like to turn the conference call over to Anthony Rozmus with Investor Relations. Thank you. Please go ahead.

Anthony Rozmus

Good afternoon. Thank you for being with us to review INNOVATE's fourth quarter and full year 2021 earnings results. We are joined today by Avie Glazer, Chairman of INNOVATE; Wayne Barr Jr., CEO of INNOVATE; and Mike Sena, INNOVATE's Chief Financial Officer. 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 is also being simulcast and will be archived on our website. During this 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 of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements involve risks, assumptions, and 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 results and in the slide presentation and further detailed in our 10-K and other filings with the SEC. In addition, the forward-looking statements included in this conference call are only made as of this date of the call, and as stated in our SEC reports. INNOVATE disclaims 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 these measures provide useful supplemental data that while not a substitute for GAAP measures, allow for greater transparency in the review of our financial and operational performance. At this point, it is my pleasure to turn things over to Avie Glazer.

Avie Glazer

Good afternoon. And I'd like to thank you all for joining us. I'm incredibly proud of the progress INNOVATE achieved in 2021. In a short period of time, INNOVATE successfully transformed into a business with three best-in-class companies that should benefit from growth trends in the new economy. I'd like to spend a few minutes highlighting our accomplishments. We sharpened our business focus by reducing our number of primary operating segments from five to three, by completing the sale of Beyond6 Clean Energy and Continental Insurance. We both enhanced their capital structure and improved our financial flexibility by refinancing our senior notes and credit facility. We re-branded and changed our name to INNOVATE Corporation in order to align with our core principles along with stakeholder capitalism and sustainable value generation. Our Infrastructure segment acquired Banker Steel, which added an industry leader to DBM and helped expand DBM size and geographic footprint. On the heels of that transaction, DBM entered into a new credit agreement at more favorable term. In Life Sciences, R2 launched its first product, Glacial RX, and invested in R2's business to increase our ownership position.

We are pleased with R2's progress and continue to be excited by the opportunity in that business. Additionally, R2's Glacial RX earned an important FDA indication and unique product code. And with the network largely in place, we saw great interest from both new and existing customers and achieved our first year of adjusted EBITDA profitability in Spectrum for 2021 while at the same time expanding our nationwide broadcast footprint. As you can see, 2021 was an eventful and exciting year for INNOVATE. We believe we are still in the early stage of this transformation and we see much more value to be derived from Infrastructure, Life Sciences, and Spectrum. We remain excited about the opportunities in front of us and look forward to operational excellence in each of our three best-in-class assets in 2022. With that, I'm pleased to turn the call over to Wayne Barr, CEO of INNOVATE.

Wayne Barr Jr.

Thanks, Avie and thank you all for joining us today. As Avie highlighted, 2021 was a major stepping stone for INNOVATE. It's clear that the strategy we put in place over a year ago is coming to fruition in our financial results. We continued to execute that strategy in the fourth quarter, which drove consolidated revenue and adjusted EBITDA growth of 122% and 121% respectively. Once again, this quarter, we were able to extract more value from each of our three best in class assets. Turning now to highlights for each of our operating segments. DBM Global delivered record fourth quarter revenue with increased demand in commercial, industrial services, and public sector projects as a part of the post - COVID recovery. Our total adjusted backlog of $1.9 billion showcases our strong pipeline and visibility into future potential revenue. I would be remiss by not mentioning that Banker Steel has been a great addition to the DBM family.

The integration of Banker Steel is going according to plan and we continue to benefit from their capabilities and presence in key geographic regions, helping build out our national footprint. There has been significant new project activity in our market following the COVID pandemic and this increase in demand is having a positive impact on the margins for our business as capacity begins to saturate the market. There remains optimism in the construction industry and we continue to see significant pipeline, as demonstrated in our backlog number, despite rising steel prices. We also acknowledge various challenges in both the supply chain as well as the tightening of the labor market for our business. However, at this point in time, we believe the risks are being well-managed by the strong team in place at DBM. We will continue to monitor the potential impacts to our business in 2022.

Now, turning to Life Sciences, Pansend continues to make progress in the R2 and MediBeacon businesses. R2 started shipping the Glacial Spa product in China in anticipation of the upcoming launch. The impending Chinese launch of the Glacial Spa product, coupled with the momentum of the Glacial Rx product in the United States, shows the progress that R2 is making in multiple regions around the world. Due to a COVID related delay at the manufacturer of the material that will be used for the pivotal study, MediBeacon is now planning to submit an investigational device exemption application to the FDA for its U.S. pivotal study in the second quarter. This application is a 30-day review process and is the first step toward commencing the pivotal study. Once the IDE application is approved, MediBeacon can initiate its U.S. pivotal study. We are excited about the developments on this front and remain equally as excited about the opportunity in MediBeacon's business.

We are happy with the continued momentum we see at Pansend and are optimistic about our ability to capitalize on the ongoing growth opportunities in this business. At Spectrum, we have now achieved a full-year of profitability establishing a track record of consistent performance. Adjusted EBITDA grew $8.1 million year-over-year to $6.9 million. We continue to focus on optimizing operations, eliminating costs, and improving revenue. In the fourth quarter, specifically, growth in our Station Group OTA revenues help drive profitability. Also on the Station Group side, we renewed carriage agreements with longstanding clients, such as Sony Media's getTV and LATV, among others. We increased distribution by more than a dozen new markets for the English and Spanish versions of beIN SPORTS XTRA. Today, the English Xtra network is carried on 157 of our stations and Spanish Xtra, which launched on September 1, 2021, is now on 135 stations.

beIN SPORTS XTRA and Spanish Xtra are 24/7 networks that offer the most comprehensive, free, ad-supported, live sports programming over the year. Altogether, there are more than 70 networks using our distribution platform today, sponsored by a wide range of media companies that include CBS, NBC, Scripps, Weigel, Fremantle, Curate, Cisneros Media, and beIN Sports. As of December 31, 2021, Broadcasting operated 238 stations, 224 of which are currently connected to our central caste system. In January, we completed the construction of 21 new broadcast stations, adding 12 new designated market areas to our already extensive coverage area. Overall, we saw the benefits of INNOVATE sharpen focus across all three of our operating segments, as we finish 2021 strong and delivered record financial results for the year. For the full-year 2021, consolidated net revenue was $1.2 billion, compared to $716.9 million in 2020.

Total adjusted EBITDA for 2021 was $43.9 million, compared to $25.5 million for the prior year. We continue to make significant progress at all three of our businesses and enter 2022 with excellent momentum. We 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 will first review our financial performance, and then I'll walk you through key changes to our capital structure to help you bridge the quarter, and the key transactions that have taken place in 2021. Consolidated total revenue for the fourth quarter of 2021 was $394.8 million, an increase of a 121.8% compared to $178 million in the prior-year period. The increase is driven by our Infrastructure segment, led by the contribution from Banker Steel, as well as 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 fourth quarter of 2021 was $5.2 million or $0.07 per share, compared to a net loss of $7.1 million or $0.11 per share in the prior-year period.

Total adjusted EBITDA, which excludes discontinued operations was $22.1 million in the fourth quarter of 2021, an increase from an adjusted EBITDA of $10 million in the prior-year period. The increase was primarily driven by the contribution from Banker's structure, revenue increased 129.6% to $383.4 million from a $167 million in the prior-year quarter. As discussed earlier, this increase is due to the acquisition of Banker Steel resulting in an additional $112 million of revenue as well as higher revenues across DBM service offerings. Infrastructure adjusted EBITDA for the fourth quarter of 2021 increased to $28.8 million from $17.4 million from industrial business and Infrastructure, the completion in Q3 of a highly profitable project at the design business, as well as modest SG&A expense increases. DBMG has begun to see improved margins in the legacy fabrication erection business during the quarter as the backlog sold during the pandemic continues to burn off.

However, the industrial business has continued to lag and it's just now starting to see improved sales into backlog. Overall EBITDA margins in the fourth quarter was 7.5% as compared to close to 6% in the second and third quarter. As of December 2021, reported backlog was $1.6 billion up from $395 million at the end of the fourth quarter of 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. DBM has largely maintained backlog levels while recognizing revenue of $383.4 million in the fourth quarter. The backlog at the end of December provides strong visibility for 2022 and beyond. DBMG ended the quarter with $188.6 million of debt, with a significant temporary reduction in their line of credit.

However, we expect the line to increase as they ramp up working capital in some of their larger projects in backlog in 2022. At Life Sciences, the slight increase in adjusted EBITDA losses were primarily driven by the continued scaling of operations at R2 technologies, including an increase in sales and marketing expenses to support the sales revenue growth and further commercialization efforts, as well as the continued development of its product platform and an increase in spend at MediBeacon as they prepare for their final pivotal study. At Spectrum, revenue decreased 2.7% to $10.7 million as a result of lower advertising revenue at the network business. This was partially offset by an expansion in coverage market with new and existing customers as the broadcasting business continues to sell capacity on the network. Spectrum delivered adjusted EBITDA of $1.6 million in the fourth quarter, compared to adjusted EBITDA of $1.2 million in the prior-year quarter.

For the 12 months ended December 31, 2021, Spectrum recorded adjusted EBITDA of $6.9 million compared to EBITDA losses in the prior-year. Results reflect improved operations and cost reductions across the platform, the sale of unprofitable non-core stations and revenue improvements described by Wayne earlier. Our station sales grew revenues by approximately 19.4% for the 12 months ended December 31, 2021. Non-operating corporate adjusted EBITDA losses were $4.5 million for the fourth quarter of 2021, up from the fourth quarter of 2020 by $1.2 million, driven mostly by an increase in bonus expense during the period. At the end of the fourth quarter, the Company had $45.5 million of cash and cash equivalents, compared to $43.8 billion as of December 31, 2020. On a standalone basis, as of December 31, 2021, the corporate segment had cash and cash equivalents of $22 million, compared to $27.5 million at the end of 2020.

As a reminder, in the fourth 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 December 31, 2021, INNOVATE had principal outstanding indebtedness of $630.8 million, up $54.2 million from $576.6 million at the end of 2020, driven primarily by infrastructures, financing related to the Banker acquisition. Our fourth quarter results contributed to a strong 2021 for INNOVATE, which showed clear improvement in the overall business compared to 2020. Our long-term strategy is underway as we look to further unlock the value in each of our best-in-class assets. We look forward to reporting on more success across Infrastructure Life Sciences and Spectrum at this time next year. With that, Operator, we'd now like to open up the call for questions.

Question-and-Answer Session

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] One moment please while we poll for questions. Our first question comes from the line of Brian Charles with R.W. Pressprich. You may proceed with your question.

Brian Charles

Good afternoon, and certainly congratulations on the quarter. I'm wondering if maybe I could get a little bit of color on -- it's nice to see the progress in the Life Sciences businesses too, and I know you've put in another $15 million of incremental financing. I'm wondering if at this point, are those businesses largely self-funding from INNOVATE's perspective, or do you expect more investments in the next couple of years or so?

Michael Sena

Hey Brian, it's Wayne and Mike, hope you're doing well.

Brian Charles

I'm all right.

Wayne Barr Jr.

Good. So from an R2 perspective as we've announced, we did launch, in the United States, the Glacial Rx product and as we indicated there, again, we're getting ready to and have shipped product over to China for the Glacial Spa. We did invest the $15 million in 2021 and we're very happy to do that to really support all of the progress that they've made. At this point, there were no further commitments to R2 that INNOVATE has made.

Michael Sena

I would just say that these businesses will likely need funding. At the point when they do, it would be a decision as to whether it'd be something that we would want to invest in at the time and we obviously are very pleased with the progress of the businesses. So it's going to just depend on the timing and what else is in the works.

Brian Charles

Okay. So it sounds like any incremental investment would be based on sort of opportunity, not capital needs. Is that [Indiscernible]

Michael Sena

Much more articulate than what I expect.

Wayne Barr Jr.

[Indiscernible]

Brian Charles

Okay, that's great. Fair enough. Secondly, I'm wondering -- do you have any color on the scale of incremental financing might draw down at the infrastructure business? You were talking about ramping up the line of credit a bit.

Wayne Barr Jr.

Well, if you look at what happened during the quarter -- during the fourth quarter, they reduced their credit line by approximately $40 million. All I wanted to point out is that that was really a dip in the working capital and as they ramp up, they will go back into that line. We obviously don't give guidance, but I don't want people to think that's a permanent reduction of capital. And that's why I mentioned that. They're going to need to invest in some of these bigger projects as they run off that backlog and that's what I was just getting at because it was $40 million higher just three months ago.

Brian Charles

Okay. That's fair enough. All right, thanks. That's all I've got for now.

Michael Sena

Great. Thank you.

Operator

[Operator Instructions]. At this time there are no further questions and I will now turn the call back over to Wayne for any closing remarks.

Wayne Barr Jr.

Thanks, John. And thank you all for joining us today. As always, we're available for any follow-up. And hope you all have a very nice evening.

Operator

This does conclude today's conference; you may disconnect your lines at this time. Thank your for your participation and have a great day.