INNOVATE Corp. (VATE) CEO Wayne Barr Jr. on Q1 2022 - Earnings Call Transcript

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INNOVATE Corp. (NYSE:VATE) Q1 2022 Earnings Conference Call May 4, 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 First Quarter 2022 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. Please note this event is being recorded. I would now like to turn the conference over to Anthony Rozmus with Investor Relations. Please go ahead.

Anthony Rozmus

Good afternoon. Thank you for being with us to review INNOVATE's first quarter 2022 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 release and 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 this 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 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. INNOVATE has had a positive start to 2022. We are pleased with our first quarter results. In the first quarter, consolidated revenue grew 140% and adjusted EBITDA increased 1,050%. We are seeing momentum across all three of our operating segments; Infrastructure, Life Sciences and Spectrum.

First, let's talk about Infrastructure. The first quarter is historically a slow quarter for DBM. However, for the first quarter of 2022 DBM achieved record revenues of $402.2 million, making strong progress on bigger jobs while maintaining a healthy backlog number. For reference in 2013, the year before we acquired DBM, we recorded $416 million for the entire fiscal year. We are thrilled with the outstanding progress being made in Infrastructure.

In Life Sciences, operations in R2 continue to ramp with 100 machines now in the market, and MediBeacon plans to submit its investigational device exemption or IDE application to the FDA in the near term. This is the first step toward achieving approval to commence the pivotal study. Both of these companies are well-positioned to take advantage of the immense opportunities for their products in each of their respective markets.

And finally, broadcasting has delivered its six straight quarter profitability underscoring the viability depth of this model and its ability to continue to optimize operations and grow OTA revenues. We believe our first quarter performance speaks to the resiliency of our model and our ability to deliver results despite unfavorable broader market conditions that pose challenges to all companies today, such as supply chain constraints and inflation, just to name a few.

I'd like to reiterate that we believe we are still in the early stages of INNOVATE transformation. And we remain excited about the growth prospects across our three operating segments. There's still plenty of runway in each of the respective businesses.

With that, I am 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. 2022 picked up where 2021 left off with terrific momentum across all three of our businesses directly translating to our top line growth. Turning now to highlights for each of our operating segments. As Avie mentioned DBM Global delivered another record quarter. DBM benefited from the progress made on larger scale construction projects as demand has stayed elevated in commercial, industrial services and public sector projects during the post-COVID recovery. Our total adjusted backlog of $1.7 billion showcases our strong pipeline and provides visibility into future potential revenue.

As capacity has begun to saturate the market, DBM has become more selective in terms of new jobs which ultimately, we believe will have a positive impact on point of sale margins in the future. We expect to see gradual margin improvement throughout the year as we continue to wind down some of the projects that were procured in early 2021. The point of sale margins have improved and the expectation is for those improvements to become visible as we work our way through 2022 and beyond.

Now, turning to Life Sciences. The R2 and MediBeacon businesses continue to make good progress. R2 is now shipped 100 Glacial devices to customers globally and those customers have delivered more than 15,000 Glacial treatment cycles, helping patients reach their skin goals by reducing inflammation and revealing younger looking skin with overwhelmingly positive feedback.

Data related to Glacial Rx was presented across two oral presentations during the annual meeting of the American Society of Laser Medicine and Surgery in San Diego last month. And the presentations findings underscored the clinical benefits of control cooling and the dermatological promise of the Glacial Rx platform.

Building upon the strong momentum of Glacial Rx here in the U.S. R2 began shipping its devices to China and launched during the quarter. The launch of Glacial spa coupled with the momentum of the Glacial Rx product in the United States, highlights the tremendous progress the R2 team has made in multiple regions around the world during the first year of commercial sales of the Glacial Rx platform.

MediBeacon has made progress towards developing and commercializing its best in class kidney monitoring technology And as Avie mentioned earlier, MediBeacon plans to submit its IBA application to the FDA for it's U.S. pivotal study. Also innovate through Pansend made an additional $4.5 million investment in [indiscernible] Beacon during the quarter by participating in this capital raise. We protected our ownership stake in MediBeacon as we continue to be excited about the progress made to date and the future prospects of this company. Pansend continues to gain significant traction and we remain optimistic about our ability to capitalize on the ongoing growth prospects in this operating segment.

At Spectrum, adjusted EBITDA improved $0.5 million year-over-year to $1.3 million. We continue to focus on optimizing operations, eliminating costs and improving revenue. In the first quarter 2022 Spectrum completed nearly all of its remaining station builds, adding 22 new stations out of a targeted 24. The remaining two builds in Bangor, Maine, are awaiting Canadian government approval, which is expected shortly. Altogether, broadcasting will own and operate 251 stations that cover 107 DMAs including the two builds in Maine.

In addition, April's National Association of Broadcasters convention in Las Vegas, the first one held in person in three years because of the pandemic had a strong turnout. Spectrum met with both existing network customers and new prospects over the course of four days seeing clear indications of demand for carriage on our platform, which we believe will materialize through the balance of the year. Over the air linear network programming continues to be a profitable arena for broadcasters.

In conclusion, we are pleased to see that the strategic actions we've taken over the last 18 months to sharpen innovates focus on its three core operating segments continue to bear fruit and benefit the company's top and bottom line.

With that, I'll turn the call 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 key aspects of our capital structure. Consolidated total revenue for the first quarter of 2022 was $412.8 million, an increase of 140.3% compared to $171.8 million in the prior period. The increase is driven by our Infrastructure segment led by the contribution from Banker Steel and increases in Infrastructure market demand along with larger projects entering the market.

Net loss attributable to common and participating preferred stockholders for the first quarter of 2022 was $13.6 million or $0.18 per share, compared to net income of $12.2 million or $0.15 per share in the prior period. As a reminder, we recognized a gain of $39.2 million on the sale of Beyond6 in the first quarter of 2021. Excluding the gain, the loss for the quarter in 2021 would have been $27 million.

Total adjusted EBITDA, which excludes discontinued operations was $11.5 million in the first quarter of 2022 an increase from an adjusted EBITDA of $1 million in the prior year period. The increase was primarily driven by the contribution from Banker Steel at the infrastructure segment.

Now, on to some color for each of our three operating segments. At Infrastructure, revenue increased 149.3% to $402 .2 million from $161.3 million in the prior quarter. As discussed earlier, this increase is due to the acquisition of Banker Steel resulting in an additional $136.1 million in revenue as well as higher revenues of the fabrication and erection business which was partially offset by a decrease at the construction modeling and detailed business due to the completion of certain projects in 2021 and the industrials maintenance or repair business.

Infrastructure adjusted EBITDA for the first quarter of 2022 increased to $20.5 million from $11.3 million in the prior year period. The increase is largely driven by the contribution from Banker Steel and increased profit as a result of higher sales at the fabrication erection business, offset in part by lower margins in the industrials maintenance and repair business and the construction modeling and detail business as a result of the completion of higher margin projects in the prior year as well as an increase in G&A expense due to the acquisition of Banker Steel.

While I've seen higher profits due to the volume of revenue [growth], the weakness of margins this quarter is attributed to the continuation of working off lower margin projects in our backlog. The duration of contracts for both chef and banker can be 12 months to 18 months from start to finish.

Even though we have sold work at higher margins, those revenues haven't really started to impact the income statement as we aren't far enough along in those jobs. Again, as we work through 2022 and beyond the earnings as a percentage of revenues should increase. As of March 2022 reported backlog was 1.4 billion down from 1.6 billion at the end of the fourth quarter 2021. Adjusted backlog which takes into consideration awarded but not yet signed contracts was 1.7 million down from 1.9 billion at the end of last year.

DBM has recognized revenue of $402 .2 million in the first quarter. The backlog is down slightly from year end [indiscernible] is still seeing significant demand in the market. In fact, subsequent to the quarter and not included in the backlog the company was informed it was awarded another [non-favorite] contract at JFK Airport.

This current backlog still provide strong visibility for 2022 and beyond. However, as DBM begins to be more selectives and more profitable projects we expect to see backlog come down over the remainder of the year. DBMG ended the quarter with $242.4 million of debt which is an increase of $53.8 million from yearend. The increase is driven by working capital. Considering the size of the projects DBM is currently working on we will continue to see the revolver move up and down based on the company's working capital needs and the timing of the receipt of receivables.

At Life Sciences, the slight decrease in adjusted EBITDA losses were primarily driven by higher income recorded from our investment in [indiscernible] which was partially offset by an increase in spend at MediBeacon as they prepare for their final pivotal study. We continue to be pleased with the progress R2 has made with its launch of Glacial Rx and spa as the business is in the very early stages of building momentum from rollout.

It's worth noting the decline in the quarterly trends is not from a slowdown in sales but rather the buildup of pre-orders sold prior to the launch that we're shipping in the early days. Certain plan sales programs were also strategically launched later in the process to avoid some of the obstacles and are now in full swing.

At Spectrum, revenue decreased 6.7% to 9.8 million as a result of lower advertising revenue with the network business as a result of a decreased footprint mostly in the LA market. This was partially offset by an increase in station revenues as they launched new customers and increase the number of operating stations. Spectrum delivered adjusted EBITDA of $1.3 million for the first quarter compared to adjusted EBITDA of $0.8 million in the prior quarter.

Non-operating corporate adjusted EBITDA losses were $4.6 million for the first quarter of 2022, up from the first quarter of 2021 by $0.6 million, driven mostly by the timing of professional service expenses, accrued discretionary bonus largely due to the anticipation of the mix of bonus between cash and equity, as well as the settlement with the company's former CEO. This was partially offset by decreased legal expenses driven by lower activity in 2021.

At the end of the first quarter, the company had $26.4 million of cash and cash equivalents compared to $45.5 million as of December 31, 2021. On a standalone basis as of March 31, 2022 the corporate segment add cash and cash equivalents of $5.3 million compared to $22 million at the end of 2021.

As of March 31, 2022, INNOVATE had total principal outstanding indebtedness of $684.6 million, up $53.8 million from $630.8 million at the end of 2021 driven primarily by infrastructures expected rise in a line of credit as a result of working capital needs in the first quarter of 2022.

We're off to a strong start in 2022 from an operational and financial standpoint as demonstrated by a strong first quarter results.

Our long term strategy remains intact and we look forward to reporting on more success across Infrastructure, Life Sciences and Spectrum in the next quarter.

With that, operator we'd now like to open up the call for questions. Thank you.

Question-and-Answer Session

Operator

Yes, thank you. As mentioned, we will now will begin the question and answer session. [Operator Instructions] And the first question today comes from Brian Charles with R.W. Pressprich.

Wayne Barr Jr.

Hey Brian.

Brian Charles

Hi, I'm sorry, can you all hear me? I had a little software glitch at my end.

Wayne Barr Jr.

We can now. How are you?

Brian Charles

Okay. Good. Doing well, thanks. Congratulations on the quarter. I was hoping to get a little bit of color on the demand you're seeing at DBMG and in this inflationary environment, how you're navigating that in terms of accepting new contracts and navigating through your completion of current contracts? Thanks.

Wayne Barr Jr.

Sure. So as we've indicated in the release and on the call we're continuing to see very good demand at DBMG. The nature of the work is changing a little bit. And we've actually seen larger projects come into the market which is a pretty significant departure from a year ago or a little bit earlier as the pandemic was starting. And so while we're keeping an eye on inflation, and then rising costs across the couple of our different expense centers, Rustin and the team haven't really experienced a slowdown in the demand for the jobs. And as I indicated the nature of the jobs is changing a little bit in that we're starting to see some of the larger scale projects come back.

Brian Charles

Okay. And as far as like the completion of these projects are as you work through them, are inflationary pressures, a real headwind for you? Are you able to pass on costs, just given the contracts that you've got?

Michael Sena

Hi Brian, it's Mike. I mean, we have not seen a real big impact at this point or anything that has really impacted the cost as we pass them through. Obviously, we locked in steel prices. We also have it's a good part of our labor force is also subject to collective bargaining agreements. So DBM does have pretty good visibility into some of the larger pieces of the cost that they build into their bids.

Brian Charles

Okay. So that is good insulation. Thanks. And let's see away from that. Yes, one other I guess housekeeping question. You got some spectrum debt. I guess you're looking to refi this year. Any progress on that? Or is that something you're addressing just yet?

Wayne Barr Jr.

Yes. We were in the initial stages, obviously, of addressing that. I think we're coming at it from a very good position, just kind of given the results that we've been able to achieve at broadcasting. As we indicated on the call, we continue to see significant demand for the station group in particular. And we're very keen on getting deeper into the refinancing process and look forward to getting that debt refinanced.

Brian Charles

Good to know. And as the, I guess, coming into the year, I was backing into maybe like free cash flow breakeven at the Spectrum business from right about that. And with the launch of the new stations. Is it fair to assume that it's going to be cash flow positive this year?

Wayne Barr Jr.

From the Spectrum business, yes. What you see is last year, we finished the year with $7 million of EBITDA. Right now, understand the biggest costs below the line is your interest, but a current debt is picking. So it is positive cash flowing with what our capital structure is right now.

Brian Charles

Okay, all right. Good to know. Then one final question is just going back to DBMG quickly. If I'm trying to extrapolate an EBITDA trend for the year, I know that first quarter is historically relatively slow and it tends to grow over the year. I am, I think I'm comfortable in thinking that the $20 million year-on-year this year you're more than compensated for the certainly driven largely by the Banker Steel acquisition. But there's more than that. And if I wanted to extrapolate a run rate for the third and fourth quarter, after the Banker Steel acquisition. Is it fair to assume that that's going to be growing at relatively the same rate. So what you earn in the third and the fourth quarter last year, might be a little extra added to it this year.

Wayne Barr Jr.

I think you're right. Especially the past couple of years, the first quarter has been the slower quarter of the rest and the business is built towards the end of the year. We obviously, we don't give guidance, but we do have good visibility into what 2022 will look like based on the current jobs. And I think I don't know that you can just take a percentage increase from what has happened in the last -- the first quarter of the last couple of years and apply that and increase as you work through the year because that really isn't driven so much by seasonality as it is just the timing of the projects that DBM is working on. So it's a little hard to just give you a math number to extract out the last year based on historical trends. If that's helpful.

Brian Charles

All right. That's fair enough. Thanks. And then one last question. I'll get back into queue. Just regarding the backlog it sounds like you're becoming more discerning because you're looking from higher margin projects and it sounds like demand is there that allows you to be discerning and picking new projects. Is that the fair characterization?

Wayne Barr Jr.

Yes. It is. We've been very fortunate that Rustin and his team have historically done a very good job of selecting the projects that they do take on. And they continue to do that through the pandemic. And as we're starting to see the larger projects come about and the demand is getting a little more saturated we do have the benefit of being a little more selective.

Brian Charles

Good to know. Okay. That's it for me for now. Thanks. Appreciate it.

Wayne Barr Jr.

Thank you.

Operator

Thank you. [Operator Instructions] All right, if there is nothing more to present today, I would like to return the floor to management for any closing comments.

Wayne Barr Jr.

Very good. Thank you. We appreciate everybody participating this afternoon. And I look forward to moving forward for through the balance of the year. Have a nice evening. Thank you.

Operator

The conference has all concluded. Thank you for attending today's presentation. You may now disconnect your lines.