INNOVATE Corp. (VATE) CEO Wayne Barr Jr. on Q2 2022 - Earnings Call Transcript

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INNOVATE Corp. (NYSE:VATE) Q2 2022 Earnings Conference Call August 3, 2022 4:30 PM ET

Company Participants

Anthony Rozmus - Investor Relations

Avie Glazer - Chairman

Wayne Barr - Chief Executive Officer

Michael Sena - Chief Financial Officer

Conference Call Participants

Brian Charles - R.W. Pressprich

Operator

Good afternoon, and welcome to INNOVATE Corp.'s Second Quarter 2022 Earnings Conference Call. All participants' will be in a listen-only mode. After preapred 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 second 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 a 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 and 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 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, 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 battle 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. INNOVATE concluded the first half 2022 with strong results, and we are excited by the advancements made during this period. In the second quarter, consolidated revenue grew 61% and adjusted EBITDA increased 86% over the prior year period. We are pleased with this continued momentum, as well as a growing number of opportunities across all three of our operating segments: Infrastructure, Life Sciences and Spectrum.

Infrastructure had another outstanding quarter with revenue growth of 65% in the second quarter and 99% for the first six months of 2022, compared to prior year periods. Our healthy backlog and our visibility into large projects in the pipeline set the stage for continued steady revenue and profitability growth in future quarters.

In Life Sciences, we are thrilled to announce that the FDA accepted MediBeacon's Investigational Device Exemption application, and the company has now commenced its U.S. pivotal study. This is an enormous milestone in the path towards the commercialization of MediBeacon's pioneering kidney monitoring technology. Additionally, R2 continues the global commercialization of its Glacial Rx and Glacial Spa products.

And finally, broadcasting demonstrated resilience against challenging OT market dynamics in both the broadcasting distribution platform and the network business. We will look to leverage the scale of its distribution platform as we execute on our strategy and seek to capitalize on demand for our national distribution platform, while we explore long-term next-generation opportunities to maximize the network's potential and embedded value. We recognize that the broader operating environment has not improved all that budget since we spoke last and that companies across all sectors are still facing a number of macro and geopolitical challenges, both in the U.S. and abroad.

Against this challenging backdrop, I remain proud of the performance across our three businesses, which exemplifies the resiliency and sustainability of each of their respective business models. We remain confident that each segment has plenty of runway for future growth.

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

Wayne Barr

Thanks, Avie, and thank you all for joining us today. During first half 2022, INNOVATE built on the successes of last year and delivered strong financial results. This momentum was indeed welcomed during the second quarter as each of our businesses performed well despite challenging macroeconomic trends that we and so many others presently face.

I would now like to share some highlights for each of our operating segments from the second quarter. DBM Global delivered yet another impressive quarter marked by consistent top line performance. DBM continues to benefit from the increased demand for larger scale construction projects in the commercial, industrial services and public sector. DBM is capitalizing on these market trends and its performance is underscored by its ability to sustain backlog levels, deliver revenue growth and maintain a robust pipeline.

In fact, sales in the backlog were $483 million for the quarter, resulting in an increase to the backlog outpacing revenue recognized during the quarter. The backlog provides clear visibility into future potential revenue at DBM and we have continued confidence in the team's ability to take advantage of the significant opportunities in the market.

While DBM has begun to see increased cost for its consumables, such as welding rod and energy costs, these are a small part of the overall cost of components. And as capacity saturates the market, DBM has become more discerning in its selection of new jobs. We believe that this strategy will lead to better point-of-sale margins over the long-term.

Turning now to Life Sciences. I'd like to elaborate on some of the updates Avie provided. R2 has now fit 171 Glacial devices and continues to receive overwhelming positive feedback from customers on the transformative results of its technology and products. We also see significant upside potential in the global marketplace and we believe that with the help of our strategic partners we will begin to see an acceleration of sales in China.

At MediBeacon, as Avie mentioned earlier, we are excited to announce the commencement of the U.S. pivotal study after its IDE application was accepted by the FDA. The Transdermal GFR Measurement System study targets a total of 140 evaluation subjects over a 90-day period. The study is well underway as over 25% of the subjects have been completed to-date.

We have also submitted a premarket approval or PMA module 3 to the FDA. As a reminder, PMA submissions have five modules. MediBeacon previously submitted two modules during the past year. Module 3, which is device manufacturing, was submitted earlier this month, demonstrating clear progress being made by MediBeacon on this front. This is yet another step closer towards commercializing its pioneering kidney monitoring technology.

Earlier in the year, we participated in MediBeacon's capital raise, thereby protecting our ownership stake in the business. As MediBeacon make strides towards commercializing its product, we feel increasingly bullish on the future prospects of the company and look forward to providing you with additional updates.

Finally, at Spectrum, the financial results in the second quarter reflect a challenging operating environment. On the broadcasting distribution side, softness in the television advertising market this year, particularly in direct response advertising, has slowed revenue growth and the origination of new diginets. We are seeing new revenue opportunities, however, with shopping, news and religious networks.

Our network business, Azteca America, has been particularly challenged by the current advertising markets, along with declining viewership and increased cost for content and post-production services. We have been exploring various strategies to address these challenges and we'll communicate them as they solidify.

We continue to be focused on filling the capacity available on our network, while exploring long-term next-generation opportunities. As mentioned on our last call, we are committed to optimizing operations, decreasing costs and improving revenue at Spectrum over the long-term. All 24 new station builds targeted for 2022 have been completed and are now on air.

Additionally, we are currently completing the build-out of a new station for licensed WKOB-LD in New York City, which was relocated as a result of displacement from the incentive auction. The new site for the station is One World Trade Center and will be on air within the next several weeks, providing a far-ranging robust signal to the New York City market. The actions we are taken on this front will improve Spectrum's overall performance, and we believe that we will begin to benefit from these changes in relatively short order.

Before I turn it over to Mike, I'd like to discuss some corporate governance changes that occurred in the second quarter, as well as some measures that we believe will help to ensure and reinforce the company's alignment with all of our key stakeholders. During the quarter, Directors Michael Gorzynski, Shelly Lombard and Ken Courtis informed the INNOVATE Board that they would not stand for reelection to the Board of Directors at our Annual Meeting of Stockholders that was held in June. Please let me thank them for their service to the company and to our Board over the past few years. At the end of June, we announced the reduction of our Board from six members to five members and the appointment of Brian Goldstein to the Board of Directors to fill one of two vacant board seats.

Brian currently sits on the Board at DBM and brings over 35-years of business and tax expertise to bear, having served as a partner at PwC since 1995 before his retirement last year. At PwC, Brian helped Fortune 500 companies navigate complex business and tax landscapes. We are fortunate to have him join the Board here at INNOVATE and we look forward to his unique perspective.

And just yesterday, we announced the appointment of Amy Wilkinson to fill the remaining vacancy. Ms. Wilkinson is the Founder and CEO of Ingenuity, an entrepreneurship advisory firm for leaders of companies of all sizes, including several Fortune 500 clients. She is also a Lecturer in Management at Stanford Graduate Business School. Amy will join Brian Goldstein and Warren Gfeller on our Audit Committee, thereby enabling us to notify the New York Stock Exchange that we are once again in compliance with the New York Stock Exchange rule requiring a listed company to have at least three independent members on its audit committee.

As previously disclosed, we were not in compliance with this requirement as a consequence of the departure of Ms. Lombard and Mr. Courtis. We are pleased to welcome Amy and Brian to the INNOVATE Board and look forward to working with both of them.

In conclusion, we continue to execute against our strategic framework and delivered strong financial results during the second quarter. We remain optimistic about the future for each of INNOVATE's core operating segments, while continually exploring and implementing measures we believe will help us navigate an increasingly challenging macroeconomic environment.

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 aspects of our capital structure. Consolidated total revenue for the second quarter of 2022 was $392.2 million, an increase of 60.9% compared to $243.8 million in the prior year period. The increase was 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 second quarter of 2022 was $13.6 million or $0.18 per share, compared to a net loss of $23.7 million or $0.31 per share in the prior year period. Total adjusted EBITDA, which excludes discontinued operations, was $12.1 million in the second quarter of 2022, an increase from an adjusted EBITDA of $6.5 million in the prior year period. The increase was primarily driven by the contribution from Banker Steel at the Infrastructure segment, which was acquired in May of 2021.

Now on to some color for each of our three operating segments. In Infrastructure, revenue increased 64.7% to $382.1 million from $232 million in the prior year quarter. As discussed earlier, this increase is due to the acquisition of Banker Steel, resulting in an incremental $105.4 million in revenue, as well as an increase in DBM's commercial structural steel fabrication and erection business, which was partially offset by decreases at the industrial maintenance and repair and construction and modeling detail businesses, due to the completion of certain large projects in 2021.

Infrastructure adjusted EBITDA for the second quarter of 2022 increased to $20.9 million and $13.9 million in the prior year period. The increase was largely driven by the contribution from Banker Steel and increased profit at the fabrication and erection business, offset in part by an increase in G&A expenses, as well as lower profits in the industrial maintenance and repair business and the construction modeling and detailing business.

But we continue to see higher profits due to the volume of revenue we also continue to see lower margins as we are working off lower-margin projects sold in the first half of 2021. As a reminder, duration of contracts for both [Chef] (ph) and Banker Steel projects range from 12 to 18 months from start to finish. We expect to see those projects continue to roll off during the back half of 2022.

As of June 2022, reported backlog was $1.5 billion, slightly down from $1.6 billion as of December 31st, 2021. Adjusted backlog, which takes into consideration awarded, but not yet signed contracts, was $1.7 billion, compared to $1.9 billion at the end of December 2021.

While reported adjusted backlog are down from year-end, Rustin and the team continue to see a robust market. In fact, they have sold $483 million into reported backlog during the quarter, which increased reported backlog, while maintaining adjusted backlog of $1.7 billion, when compared to the first quarter. DBMG ended the quarter with $230.4 million of debt, which is an increase of $41.8 million from year-end, however, down slightly from last quarter.

At Life Sciences, the slight increase in adjusted EBITDA losses were primarily driven by an increase of spend at MediBeacon, as the pivotal study commenced in the second quarter, as well as a decrease in gross margin at R2, due to a change in product mix. This was partially offset by higher income recorded from our investment in Triple Ring.

We continue to be pleased with the progress R2 has made with its launch in Glacial Rx and Glacial Spa as the business is in the very early stages of building momentum from the rollout. At Spectrum, revenue decreased $1.5 million or 14.2% to $9.1 million as a result of lower advertising revenue of the network business as a result of decreased footprint and declines in paid program.

Spectrum delivered adjusted EBITDA of $0.4 million in the second quarter, compared to adjusted EBITDA of $2.7 million in the prior year quarter. The decrease was the result of a decline in network revenues combined with increased content and service costs related to the network business, along with to a lesser extent, higher station costs as a result of new build stations.

Non-operating corporate adjusted EBITDA losses were $3.4 million for the second quarter of 2022, down from the second quarter of 2021 by $2.3 million, driven mostly by a settlement with the company's former CEO approved in the prior year, as well as decreased levo expenses driven by lower activity in 2022.

At the end of the second quarter, the company had $24.9 million of cash and cash equivalents, compared to $45.5 million as of December 31st, 2021. On a stand-alone basis, as of June 30, 2022, the corporate segment had cash and cash equivalents of $3.6 million, compared to $22 million at the end of 2021.

At the end of July, the company utilized the remainder of the corporate credit line. We had expected to receive a dividend from DBMG in July as planned. DBMG's top line growth combined with movements and changes in ongoing projects has resulted in greater than anticipated working capital needs at DBMG in the near-term and has delayed the planned distributions from DBMG.

We also entered into an amendment to increase the available line of credit at the UMB facility at DBMG, along with the change in definition for the fixed charge coverage ratio that will allow for greater capacity to meet working capital needs. While we recognize the cash constraints on our business, we are working through various solutions to free up working capital at DBMG and believe we will have sufficient liquidity and needs in the business.

As of June 30, 2022, INNOVATE had total principal outstanding indebtedness of $669.9 million, up $39.1 million from $630.8 million at the end of 2021, driven primarily by infrastructure's increase in its line of credit as a result of working capital movements.

Finally, as you know, the window to exit our 19% ownership in HMN opened in May for a six-month period we are still working through the mechanics of selling the 19% ownership in HMN. We expect to be wrapped up with the sale by the end of the third quarter and the beginning of the fourth quarter of this year. We finished the first half of 2022 strong and are keenly focused on our operations across the three businesses as we approach the second half of the year in the face of known macro headwinds impacting all companies today. Our long-term strategy remains intact, and we look forward to reporting on more success across Infrastructure, Life Sciences and Spectrum next quarter.

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] We have a question from Brian Charles of R.W. Pressprich. Please go ahead.

Brian Charles

Hi, good afternoon. Thanks for taking my question. A couple of questions, actually. One, just for a little bit of color regarding the DBMG backlog, it's still down a little bit from year-end, but it did increased a bit from the first quarter. And I remember in your -- in the last call, you were talking about being able to be more discerned even in a difficult operating environment and more selective for higher-margin projects going forward as you run off the lower-margin projects from 2021. Is that -- does that still characterize the contracts you signed in the second quarter?

Michael Sena

Yes. Thanks for your question. Yes, I mean, I think in the quarter, they had a couple of big projects such as clippers that really helped drive sales for the quarter. But yes, I mean, they're still seeing improvements in point-of-sale margins, and they are continuing to be selective in their jobs, but they did have some help from some larger projects. The other big one was the JFK terminal that we talked about last quarter. So there were some big things that came in during the quarter that helped bolster the backlog this quarter.

Brian Charles

Okay. Fair to say that the backlog might be pricing at a higher margin now than it did at the end of the year?

Michael Sena

We've said we continue to see improvement in margins. Now they were pretty low in the first half of '21 as you're seeing in our results over the past two quarters. So they are improving, but I just want to make sure we understand where we're coming from. The market has improved -- we're continuing to see.

Brian Charles

Okay. Great, thanks. And then just on general corporate liquidity, I guess you drew down your credit line. Did you draw the full amount, I think, a $20 million credit line at the corporate in the third quarter -- or in July?

Michael Sena

That's right. We did have -- we had $15 million of availability on it. So we drew down the $15 million. We had already drawn $5 million when we took out the preferred last year in '21, so yes.

Brian Charles

Okay. Then for the -- let's see. For the distribution you were expecting from the leased – anticipating from DBMG that you decided to delay just for working capital purposes there. Is that something you would expect to receive later in the year? Or is it something that's just -- you're keeping liquidity at DBMG?

Michael Sena

Yes. Obviously, DBMG is delivering on the results and we're continuing to see success there. We need to ensure they continue to do so. As a -- like you say, it is a timing issue and we're working on ways to repeat the pressure on working capital. These are good problems to have, and we believe we have a way to continue to meet our ongoing obligations.

Brian Charles

Okay, thanks. And then finally, and I'll get back in queue. For the marine residual put that you discussed, you're working on a sale now. Is that -- I'm sorry, is there any way you can give a little color on that in terms of -- is it you exercising the put or you're working on a sale to a third party?

Michael Sena

No, not a sale to a third party. I mean, we're within the window for the put, but we entered into a separate agreement where the same buyer, same terms, everything is the same. We're just working towards the actual closing of the sale. So there are some regulatory approvals, things like that. But we -- like we said, we expect it late in the third quarter or early in the fourth quarter at this time.

Brian Charles

Okay, fair enough. Excellent, thank you. That’s all I got for now.

Operator

Brian, do you have any other follow-up questions?

Brian Charles

No, I'm good for now. Thank you.

Wayne Barr

Thanks, Brian.

Avie Glazer

Thank you.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would like to turn the call back to management for closing remarks.

Wayne Barr

Thank you, operator. We appreciate your participation with us today on this earnings call, and we look forward to keeping you apprised as developments happen across all 3 of our operating segments. Thank you. Have a good afternoon.

Operator

This concludes today's conference. Thank you for joining us. You may now disconnect your lines.