INNOVATE Corporation (VATE) Q4 2022 Earnings Call Transcript

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INNOVATE Corp. (NYSE:VATE) Q4 2022 Earnings Conference Call March 14, 2023 4:30 PM ET

Company Participants

Anthony Rozmus - IR Officer

Avram Glazer - Independent Chairman

Wayne Barr - CEO, President & Director

Michael Sena - CFO

Conference Call Participants

Brian Charles - R.W. Pressprich

Operator

Good afternoon. And welcome to INNOVATE Corp.'s Fourth Quarter and Full Year 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. Thank you. Please go ahead.

Anthony Rozmus

Good afternoon. Thank you for being with us to review INNOVATE's fourth quarter 2022 earnings results. We're joined today by Avi 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 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.

Risk factors that could cause these differences are more fully disclosed 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 the 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 meas6ures 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's my pleasure to turn things over to Avi Glazer.

Avi Glazer

Good afternoon. INNOVATE finished the year on a strong note and it's heading into 2023 with significant momentum across all of our business segments. That INNOVATE the chief of transformation was announced over two years ago, we have built upon our success in each quarter and achieved record financial results in 2022. Our sharpened focus on INNOVATE's best-in-class business segments has allowed the company to deliver back-to-back years of record growth.

Infrastructure achieved $1.6 billion in revenue for 2022, growing 37% over 2021 levels. That business continues to benefit from the strength in commercial, industrial and construction markets, and has a runway for sustained growth supported by its backlog of $1.8 billion.

In Life Sciences, we are encouraged by the positive indicators we are seeing in the Pansend portfolio remain excited about the upside in that business and the direction in which both R2 and MediBeacon are headed. R2's sequentially grew its topline every quarter in 2022 and MediBeacon recently completed enrollment of both its U.S. and China pivotal studies and is targeting its final FDA submission in the first half of this year.

Broadcasting achieved positive adjusted EBITDA for all four quarters in 2022 and successfully completed its initial to a Spectrum demonstration in our Fort Wayne market. Towards the end of the year, we made the strategic decision to shutdown Azteca, which will drive enhanced profitability in the segment going forward.

We are pleased with the results in 2022 and plan to build on this progress as we see future growth in each of our three business segments. We remain focused on maximizing value in each of our best-in-class assets and remain excited about our future prospects.

With that I'm pleased to turn the call over to Wayne Barr.

Wayne Barr

Thanks, Avi, and thank you all for joining us today. 2022 was another strong year for INNOVATE as we continue to execute our strategy. For the full year 2022, we achieved revenue growth of 36% and adjusted EBITDA growth of 55%.

From a quarterly perspective, our results are trending in the right direction as well. In fact, we delivered year-over-year growth on both our topline and adjusted EBITDA in each quarter of 2022.

Specifically, for the fourth quarter 2022, we delivered consolidated revenues of $409.3 million and adjusted EBITDA $28.1 million. We believe that this trend of growing quarterly adjusted EBITDA on a year-over-year basis throughout 2022 is a testament to our strong execution and focus on operational initiatives that deliver growth and profitability.

I will now share some fourth quarter highlights for each of our operating segments. DBM Global continues to deliver strong financial results. Revenue and adjusted EBITDA grew year-over-year 3.6% and 13.5%, respectively in the fourth quarter of 2022.

Adjusted EBITDA margin for the fourth quarter was 8.2% and expansion of 70 basis points year-over-year and 150 basis points sequentially. We saw significant margin improvement in the fourth quarter driven by larger projects and the roll off of pandemic-related jobs. While we continue to see a gradual rise in margins over the pandemic lows and are pleased with these quarters' margins, it is worth noting that we expect quarterly margins to fluctuate throughout 2023 due to the timing of jobs.

DBM continues to see robust opportunities in the construction, commercial and industrial markets and we are evaluating measures that we believe will put DBM in a favorable position to take advantage of the strong market. The pipeline at DBM continues to be strong and our backlog at year end of $1.8 billion continues to provide visibility into 2023 and beyond.

Turning now to Life Sciences. R2 is now shipped 230 Glacial devices globally. R2 has delivered strong topline growth over the past few quarters as a result of good receptivity in the market for their Glacial products, as well as the implementation of a new subscription sales program, which has helped fuel accelerated growth in a short time period.

MediBeacon achieved key milestones by completing enrollment of both its U.S. and China pivotal studies. The next step for MediBeacon is to file its final submission with the FDA, which we expect to take place in the first half of 2023.

Finally, at Spectrum, we've already begun to see improvement in profitability as a result of the strategic decision we made last quarter to right-size that business and focus on profitability by exiting Azteca America at the end of 2022. We are pleased to have been able to add new customers to backfill the previously occupied Azteca stations.

At year end, we signed new contracts with three major networks and have since launched new programming that replaces the Azteca America content. The new programming will have higher gross margin revenues compared to the Azteca America content.

Our revenues at Spectrum were flat in the quarter as a result of the Azteca shutdown. Revenues for Azteca decreased, however, that was offset by growth at the station group. While we expect revenue to decrease in the near-term, the backfield revenue in that business will be more profitable and will generate improved cash flow and adjusted EBITDA going forward.

Softness in the television advertising market in 2022, particularly in direct response, slowed the growth in multicast networks, which represent a large portion of our station group business and there were no new network launches.

In Q4 2022, several very large network clients saw sharp declines in profitability, competitive pressure from full power stations in many of our markets has also impacted pricing and demand in broadcast leasing.

As Avi mentioned, we are pleased to report on the success of our initial experiment using our LPTV channels in Fort Wayne, Indiana. Paired with 1.6 Spectrum, we demonstrated a fully mobile network capability comparable to carrier based mobile networks in use today in the United States and worldwide.

We believe that the experiment proved conclusively that our LPTV frequencies can be used to offer mobile connectivity for making calls and streaming high definition media content, while at the same time providing enhanced LPTV broadcast service to the public.

The initial experiment was of necessity limited to operating as a 4G network. Over the course of the next several months we intend to continue conducting additional experiments, demonstrating a greater variety of two-way services. The successful initial step of HC2 Broadcastings testing is the first in a process that we believe will transform the use and value of LPTV, while preserving linear broadcast television.

Outside of our operating segments, we're pleased to announce on March 7th, the confirmation of our sales the remaining 19% interest in HMN International Co. or HMN, to subsidiaries and an affiliate of Hengtong Optic-Electric Co. The sale was the final step in our disposition of our Global Marine operating segment and the company received approximately $32 million in cash proceeds as a result of the closing. The proceeds from this transaction add greater flexibility to our balance sheet.

2022 was another successful year for INNOVATE as we delivered record financial results in spite of a difficult operating environment. We continue to execute on our strategic initiatives, which is translated into strong operational and financial results in each quarter throughout the year, headlined by strong revenue and EBITDA expansion.

We plan to continue our sharp focus on refining our portfolio and driving performance across our operating segments. We are pleased to have capped off 2022 with another strong quarter and look forward to generating continued momentum in 2023.

We are excited about the variety of opportunities we are seeing at all of our operating segments and are actively working on ways to push each of these businesses forward and meet their capital needs. While there are no commitments to any particular as today, we are investigating several initiatives that we believe will enable us to take advantage of these opportunities.

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

Mike Sena

Thanks, Wayne. Consolidated total revenue for the fourth quarter of 2022 was $409.3 million, an increase of 3.7%, compared to $394.8 million in the prior year period. The increase was driven by our Infrastructure segment, led by Banker Steel and an increase in the Infrastructure market demand.

Net loss attributable to common and participating preferred stockholders for the fourth quarter of 2022 was $7 million or $0.09 per share, compared to a net loss of $5.2 million or $0.07 per share in the prior year period.

Total adjusted EBITDA, which excludes discontinued operations was $28.1 million in the fourth quarter of 2022, an increase from an adjusted EBITDA of $22.1 million in the prior year period. The increase was primarily driven by the Infrastructure segment, Life Sciences, Spectrum and non-operating corporate segments. This was partially offset by a decrease in equity method income from our investment in HMN, which as previously discussed, the sale of the remaining 19% closed in March of 2023.

At Infrastructure, revenue increased 3.6% to $397.3 million from $383.4 million in the prior year quarter. As discussed earlier, this increase is driven by Banker Steel as they are in full swing into work at 270 Park.

We also saw an increase in DBM's commercial structural steel fabrication and erection business as they work through some of the larger wins from 2021 including IBEC Clippers' arena and larger wins from 2022, including Stellantis, which is a lithium-ion battery production plant in Kokomo, Indiana. The increase was offset in part by the industrial maintenance and repair, construction, modeling and detailed businesses.

Infrastructure adjusted EBITDA for the fourth quarter of 2022 increased to $32.7 million from $28.8 million in the prior year period. The increase was largely driven by improvement in margin at the commercial structural steel fabrication and erection, industrial maintenance and repair and construction modeling and detail businesses, as project sold in the first half of 2021 and earlier are working their way through the system and projects subsequently sold in the second half of 2021 are now beginning to ramp up. Additionally, contributing to the increase is a decrease in G&A expenses, which was partially offset by a decrease in the contribution from Banker Steel.

While we experienced strong margin improvement in the fourth quarter our expectations for adjusted EBITDA margin for the full year 2023 will be a slight improvement to what was delivered in the full year of 2022.

As of December 2022 reported backlog was $1.8 billion, up from $1.6 billion as of December 31, 2021. Adjusted backlog which takes into consideration awarded, but not yet signed contracts was $1.8 billion, compared to $1.9 billion at the end of December 2021.

Team at DBMG continues to see a robust pipe line in 2023. DBMG ended the quarter with $243 million of debt, which is an increase of $54.4 million from year end 2021, driven by working capital movements resulting from topline business growth.

At Life Sciences, the decrease in adjusted EBITDA losses was primarily driven by a decrease in equity method losses recorded from our investment in MediBeacon. Pansend's net carrying amount of its investment in MediBeacon was reduced to zero in the current year, as losses incurred exceeded Pansend's net basis in MediBeacon, resulting in fewer losses recognized than in the comparable period. However, as discussed above, we are encouraged by the progress of MediBeacon with the company completing enrollment in both the U.S. and China pivotal studies.

At Spectrum, revenue remained consistent year-over-year at $10.7 million. Offsetting drivers included a decrease in advertising revenue at the Azteca network driven by decreased footprint and declines in paid programming and an offsetting increase in station revenues as they launched new customers and grew the number of its operating stations.

Spectrum delivered adjusted EBITDA of $2.5 million in the fourth quarter, compared to adjusted EBITDA of $1.6 million in the prior quarter. The increase was driven by higher station revenues and a decrease in professional fees, legal expenses and salary and benefit expenses. This is partially offset by higher station costs as a result of the newly built stations.

As previously disclosed in an 8-K filed with the SEC, during the fourth quarter of 2022, our seg -- our Spectrum segment entered an amendment to extend its senior secured notes to May 31, 2024.

The interest rate of the 10.5% notes was increased to 11.45% and the accrued interest and fees of the $17.5 million were capitalized into the principal balance. The terms of the 8.5% notes remain the same. Total outstanding principal after the refinancing was $69.7 million.

As part of the consideration for extending the 10.5% senior secured notes, our Spectrum segment amended the warrants held by the lenders of the notes by extending the time to exercise the second half of 2026 and reducing the exercise price per share to a penny.

Non-operating corporate adjusted EBITDA losses were $3.7 million for the fourth quarter of 2022, down from the fourth quarter of 2021 by $800,000, driven mostly by a decrease in bonus expense, which was partially offset by an increase in professional fees.

At the end of the fourth quarter, the company had $80.4 million of cash and cash equivalents, compared to $45.5 million as of December 31, 2021. On a standalone basis, as of December 31, 2022, the corporate segment had cash and cash equivalents of $9.1 million, compared to $22 million at the end of 2021.

As Wayne mentioned, we recently closed the sale of the remaining 90% interest in HMN. The 19% HMN stake was held by Global Marine Holdings, LLC, and ending [ph] which INNOVATE holds approximately 73% controlling interest. The sale was consummated pursuant to the terms of a supplemental agreement entered into by the parties in June of 2022.

After taxes and transaction fees, INNOVATE received approximately $32 million in cash, which would be used for reinvestment, debt repayment, specifically the $15 million of the outstanding credit line and general working capital.

As of December 31, 2022, INNOVATE had total principal outstanding indebtedness of $725.3 million, up $94.5 million from $630.8 million at the end of 2021, driven primarily by Infrastructure’s increase in its credit line as a result of working capital movements, Spectrum’s refinancing, corporate’s utilization of the remaining credit line in the third quarter and R2’s borrowing from Lancer Capital.

We are proud of the topline growth INNOVATE achieved in 2022 and with the progress made across all three of our business segments. Infrastructure continues to deliver reliable results with visibility into the runway for future growth in 2023 and beyond. Pansend’s R2 revenue is also trending in the right direction as it continues to benefit from the sale of its Glacial products, while MediBeacon is on track to submit their FDA trial this year.

As we are seeing Spectrum’s profitability improved immediately as a result of the recent operational changes made to the business, as we continue to explore expanding the value of Spectrum through the benefits of next-gen technology. We look to build upon the results in 2022 and are well-positioned to continue our strong momentum in 2023.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question is from Brian Charles with R.W. Pressprich. Please proceed.

Brian Charles

Hi. Good afternoon. Thanks for taking my question and congratulations on the quarter. I've got a couple of questions and I can get back in the queue. But the first one, I guess, I just want to understand, as of December 31st, you seized doing business with Azteca America and as you are getting out of the business you were replacing some of that business by signing other customers and networks and such. To what extent have you kind of replaced all the business that is left with Azteca? Have you signed that up almost completely or just like what's the progress on that?

Wayne Barr

Yeah. We've substantially completed putting additional content on channels that were previously dedicated to the Azteca programming. Those were typically, dot one channels in large markets and so it was considered to be very favorable real estate for content providers and programmers and so we were able to quickly replace that content.

Mike Sena

The one thing to point out is that, while the revenue is fairly equal when you're doing that. It's also very profitable revenues that were at. So Azteca had a big cost structure, as you can imagine, because there are network flow that goes away and you're adding revenues on those channels that will in essence drop to the bottomline.

Brian Charles

Okay. All right. Fair enough. Thanks. And then, secondly, your cash balance really did bounce at the end of the year. I guess most of it at the or the most of the improvement is at the subsidiary level. Where about is that of the $80.4 million, I guess, a total cash and probably one of the corporate versus?

Mike Sena

Yeah. And that would be really DBM and you kind of see that swinging, right? You saw last year it swing really, collections were good, working capital dipped, but it moves around. And I think that that will just depend on where they're ramping up, finishing jobs, things like that. And so day-to-day you're trying to, working capital will move pretty significantly and they had some favorable collections at the end of the year that resulted in sort of that increase in cash. But you see it moves around quite a bit in -- throughout the year.

Brian Charles

Okay. Good enough. Okay. Thanks. That's it. I will get back in queue.

Avi Glazer

Thank you.

Wayne Barr

Thank you.

Operator

[Operator Instructions] With no further questions at this time, I would like to hand the conference back over to Wayne Barr for closing comments.

Wayne Barr

Thank you. This concludes our call this afternoon. Thank you all for joining us. We hope you have a nice evening. Good night.

Operator

Thank you for your participation. You may disconnect your lines at this time.