

VOXX INTERNATIONAL CORP

FORM 8-K (Current report filing)

Filed 10/12/17 for the Period Ending 10/10/17

Address 180 MARCUS BLVD
HAUPPAUGE, NY, 11788
Telephone 6312317750
CIK 0000807707
Symbol VOXX
SIC Code 5065 - Wholesale-Electronic Parts and Equipment, Not Elsewhere Classified
Industry Auto Vehicles, Parts & Service Retailers
Sector Consumer Cyclicals
Fiscal Year 02/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 10, 2017

VOXX INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

0-28839

(Commission File Number)

13-1964841

(IRS Employer Identification No.)

2351 J Lawson Boulevard, Orlando, Florida

(Address of principal executive offices)

32824

(Zip Code)

Registrant's telephone number, including area code (800) 645-7750

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On October 10, 2017, VOXX International Corporation (the "Company") issued a press release announcing its earnings for the quarter ended August 31, 2017. A copy of the release is furnished herewith as Exhibit 99.1.

Item 8.01 Other Events.

On October 11, 2017, the Company held a conference call to discuss its financial results for the quarter ended August 31, 2017. The Company has prepared a transcript of that conference call, a copy of which is annexed hereto as Exhibit 99.2.

The information furnished under Items 2.02 and 8.01, including Exhibits 99.1 and 99.2, shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release, dated October 10, 2017, relating to VOXX International Corporation's earnings release for the quarter ended August 31, 2017 (filed herewith).
99.2	Transcript of conference call held on October 11, 2017 at 10:00 am (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VOXX International Corporation (Registrant)

Date: October 12, 2017

BY: /s/ Charles M. Stoehr
Charles M. Stoehr
Senior Vice President and
Chief Financial Officer

VOXX INTERNATIONAL CORPORATION REPORTS ITS FISCAL 2018 SECOND QUARTER FINANCIAL RESULTS

HAUPPAUGE, NY - October 10, 2017 - VOXX International Corporation (NASDAQ: VOXX), today announced financial results for its Fiscal 2018 second quarter ended August 31, 2017.

On August 31, 2017, the Company completed its sale of Hirschmann Car Communication GmbH and its subsidiaries (“Hirschmann”) to a subsidiary of TE Connectivity Ltd. (“TE”). The consideration received by the Company was €148.5 million. The purchase price, at the exchange rate as of the close of business on August 31, 2017, was approximately \$177.0 million and is subject to adjustment based upon the final working capital. VOXX International (Germany) GmbH, the Company’s German wholly-owned subsidiary, was the selling entity in this transaction.

Due to the fact that the selling entity was VOXX International (Germany) GmbH, there are certain expenses and related income that are reported in VOXX International Corporation’s continuing operations. The Hirschmann business is now accounted for in discontinued operations. Additional details can be found in the Company’s Form 10-Q which will be filed with the Securities and Exchange Commission today.

Pat Lavelle, President and Chief Executive Officer of VOXX International Corporation stated, “The sale of Hirschmann has strengthened our balance sheet, enabled us to pay down the majority of our debt while maintaining a healthy cash position, and provides us with additional availability under our facilities to implement our strategy. We continue to focus on driving organic growth and better efficiencies within our business, while pursuing accretive acquisitions that will enable us to leverage overhead, drive sales and position us for sustainable profitability.”

Second Quarter Performance Review

The following information includes financial results from continuing operations for the three-month period ended August 31, 2017 and August 31, 2016.

Net sales for the Fiscal 2018 second quarter were \$113.5 million, a decrease of \$4.9 million or 4.1% as compared to \$118.3 million reported in the comparable year-ago period.

- Automotive segment sales were \$32.7 million as compared to \$38.9 million, a decline of \$6.3 million or 16.1%. This was principally due to lower OEM sales, as an international program ended in the Fiscal 2018 first quarter and domestic OEM sales were impacted by the winding down of certain headrest programs with two OEM customers in anticipation of new programs beginning in the Fiscal 2018 third and fourth quarters. Additionally, the Company experienced higher aftermarket rear-seat entertainment sales as a result of the acquisition of Rosen Electronics during the Fiscal 2018 first quarter.
- Premium Audio segment sales were \$39.9 million as compared to \$34.9 million, an increase of \$5.0 million or 14.4%. Driving the year-over-year increase were higher sales of new products, including various lines of HD wireless desktop and bookshelf size speakers, home entertainment speakers, wireless sound bars, Klipsch Heritage products, and wireless and multi-room streaming audio systems. These increases were partially offset by lower sales of commercial speakers due to timing of certain projects and programs.
- Consumer Accessories segment sales were \$40.6 million as compared to \$44.3 million, a decline of \$3.7 million or 8.3%. The segment experienced higher sales of wireless speakers, Project Nursery products and new Striiv activity tracking bands, the latter of which was launched during the Fiscal 2018 second quarter. The Company also experienced an increase in international sales. Offsetting these increases were lower sales across select product lines within the hook-up and reception categories, among others.

VOXX International Corporation Reports its Fiscal 2018 Second Quarter Results

The gross margin for the Fiscal 2018 second quarter came in at 25.0% as compared to 27.4% for the same period last year, a decrease of 240 basis points.

- Automotive segment gross margins of 25.7% declined by 270 basis points, primarily as a result of lower OEM manufacturing sales given the timing of new programs, partially offset by an increase in sales of certain higher margin products related to the Rosen Electronics acquisition. Lower aftermarket fulfillment sales also had a positive impact on Automotive segment gross margins.
- Premium Audio segment margins of 31.1% declined by 180 basis points. This was primarily a result of promotions of older sound bars that the Company is phasing out to make way for a new line of products. The Company anticipates gross margin improvements in the second half of Fiscal 2018. The Company also experienced lower sales of its higher margin commercial speakers for the comparable fiscal second quarter periods, which adversely impacted segment margins.
- Consumer Accessories segment margins of 18.6% declined by 360 basis points. The year-over-year decline was primarily related to product mix, as the Company had lower sales of certain higher margin products, and higher fulfillment sales. The Company also incurred higher freight charges due to increased demand for certain remote products, incurred a one-time settlement charge related to a contract shortfall with a vendor, and had certain warranty reserves released and adjusted based on actual sales and warranty activity. These decreases were partially offset by higher sales of Project Nursery baby monitors and an increase in sales of wireless speakers, both of which positively impacted gross margins. Additionally, lower sales of action cameras positively impacted gross margins for the segment.

Operating expenses for the Fiscal 2018 second quarter were \$38.7 million as compared to \$34.6 million in the Fiscal 2017 second quarter, an increase of \$4.1 million or 11.9%. The year-over-year increase in operating expenses was primarily related to higher advertising and marketing expenses, higher expenses related to the implementation of a new payroll and time and attendance system, and an increase in headcount in certain business units to support expected sales growth. Additionally, the Company incurred severance expense due to restructuring activities across certain business segments. These increases were partially offset by a decline in occupancy costs related to the consolidation of the Company's shared services into one location, which was completed during the Fiscal 2017 fourth quarter. The increase in engineering and technical support expenses was primarily timing related in support of new OEM programs which will be launching in the Fiscal 2018 third and fourth quarters.

Total other expenses for the three months ended August 31, 2017 were \$6.1 million as compared to \$0.04 million in total other income in the comparable year-ago period. In the Fiscal 2018 second quarter, the Company recorded a \$1.4 million gain related to its investment in RxNetworks, which was sold to a third party, and also accounted for net foreign currency losses of \$7.4 million. Included in the foreign currency losses for the Fiscal 2018 second quarter are losses on forward contracts totaling \$6.6 million incurred in conjunction with the sale of Hirschmann. These represented the biggest changes in total other (expenses) income for the comparable second quarter periods.

The Company reported a net loss from continuing operations of \$19.8 million, and net income from discontinued operations, net of tax of \$34.9 million, resulting in net income of \$15.0 million for the Fiscal 2018 second quarter. This compares to net income from continuing operations of \$3.5 million, which includes an income tax benefit of \$5.5 million, and a net loss from discontinued operations, net of tax of \$2.2 million. This resulted in net income of \$1.3 million for the Fiscal 2017 second quarter. The year-over-year improvement in net income was \$13.8 million when comparing the three months ended August 31, 2017 and August 31, 2016, respectively.

Net income attributable to VOXX International Corporation was \$17.1 million for the Fiscal 2018 second quarter as compared to net income attributable to VOXX International Corporation of \$3.0 million for the Fiscal 2017 second quarter. Taking into account foreign currency translation adjustments, derivatives designated for hedging, pension plan adjustments and unrealized holding losses on available-for-sale investment securities, net of tax, comprehensive

VOXX International Corporation Reports its Fiscal 2018 Second Quarter Results

income attributable to VOXX International Corporation was \$39.3 million as compared to \$2.3 million for the three-month periods ended August 31, 2017 and August 31, 2016, respectively. On an earnings per share basis, both basic and diluted, the Company reported earnings per share attributable to VOXX International Corporation of \$0.71 for the Fiscal 2018 second quarter as compared to \$0.12 for the Fiscal 2017 second quarter.

The Company reported Earnings before interest, taxes, depreciation and amortization (“EBITDA”) of \$29.4 million and negative Adjusted EBITDA of \$1.4 million for the Fiscal 2018 second quarter. This compares to EBITDA of \$6.7 million and Adjusted EBITDA of \$6.9 million for the comparable year-ago period.

Balance Sheet Update

For the period ended August 31, 2017, the Company had cash and cash equivalents of \$45.8 million as compared to cash and cash equivalents of \$1.0 million reported as of February 28, 2017, an increase of \$44.9 million. The Company’s total debt of \$18.7 million as of August 31, 2017 declined by \$91.8 million as of February 28, 2017 as the Company used the net proceeds from the sale of Hirschmann to reduce the majority of its total debt position. Total long-term debt, net of debt issuance costs as of August 31, 2017 was \$8.8 million as compared to \$97.7 million as of February 28, 2017, an increase of \$88.9 million. Further details can be found in Footnote 15 of the Company’s Form 10-Q which will be filed shortly with the Securities and Exchange Commission.

Mr. Lavelle continued, “We’re anticipating a stronger second half of Fiscal 2018 based on a number of new products coming to market. We have three new rear-seat entertainment programs which will enhance our Automotive business; new products and improved distribution within our Premium Audio group; and several new products under 808 Audio, Project Nursery, Singtrix and RCA that should lead to growth. Overall, we believe VOXX is well positioned to generate profitability in the second half of the year, with a much stronger platform as we move into Fiscal 2019.”

Conference Call and Webcast Information

VOXX International will be hosting its conference call on Wednesday, October 11, 2017 at 10:00 a.m. ET. Interested parties can participate by visiting www.voxintl.com, and clicking on the webcast in the Investor Relations section or via teleconference (toll-free number: 877-303-9079; international: 970-315-0461 / conference ID: 94408456).

Non-GAAP Measures

EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share are not financial measures recognized by GAAP. EBITDA represents net income (loss) attributable to VOXX International Corporation, computed in accordance with GAAP, before interest expense and bank charges, taxes, and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted for stock-based compensation expense, gains on the sale of discontinued operations, losses on forward contracts, and investment gains. Depreciation, amortization and stock-based compensation are non-cash items. Diluted Adjusted EBITDA per common share represents the Company's diluted earnings per common share based on Adjusted EBITDA.

We present EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share in this Form 10-Q because we consider them to be useful and appropriate supplemental measures of our performance. Adjusted EBITDA and diluted adjusted earnings per common share help us to evaluate our performance without the effects of certain GAAP calculations that may not have a direct cash impact on our current operating performance. In addition, the exclusion of certain costs or gains relating to non-recurring events allows for a more meaningful comparison of our results from period-to-period. These non-GAAP measures, as we define them, are not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies. EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share should not be assessed in isolation from, are not intended to represent, and should not be considered to be more meaningful measures than, or alternatives to, measures of operating performance as determined in accordance with GAAP.

VOXX International Corporation Reports its Fiscal 2018 Second Quarter Results

Page 4 of 7

About VOXX International Corporation

VOXX International Corporation (NASDAQ: VOXX) has grown into a worldwide leader in the Automotive, Consumer Electronics, Consumer Accessories and Premium Audio industries. Today, the Company has an extensive distribution network that includes power retailers, mass merchandisers, 12-volt specialists and many of the world's leading automotive manufacturers. The Company has an international footprint and a growing portfolio, which comprises over 30 trusted domestic and global brands. Among the Company's brands are Klipsch®, RCA®, Invision®, Jensen®, Audiovox®, Terk®, Acoustic Research®, Advent®, Code Alarm®, Car Connection®, 808®, AR for Her®, Prestige®, EyeLock, Jamo®, Energy®, Mirage®, Mac Audio®, Magnat®, Heco®, Schwaiger®, and Oehlbach®. For additional information, please visit our Web site at www.voxxintl.com.

Safe Harbor Statement

Except for historical information contained herein, statements made in this release that would constitute forward-looking statements may involve certain risks and uncertainties. All forward-looking statements made in this release are based on currently available information and the Company assumes no responsibility to update any such forward-looking statements. The following factors, among others, may cause actual results to differ materially from the results suggested in the forward-looking statements. The factors include, but are not limited to risks that may result from changes in the Company's business operations; our ability to keep pace with technological advances; significant competition in the automotive, premium audio and consumer accessories businesses; our relationships with key suppliers and customers; quality and consumer acceptance of newly introduced products; market volatility; non-availability of product; excess inventory; price and product competition; new product introductions; foreign currency fluctuations and concerns regarding the European debt crisis; restrictive debt covenants; the possibility that the review of our prior filings by the SEC may result in changes to our financial statements; and the possibility that stockholders or regulatory authorities may initiate proceedings against VOXX International Corporation and/or our officers and directors as a result of any restatements. Risk factors associated with our business, including some of the facts set forth herein, are detailed in the Company's Form 10-K for the fiscal year ended February 28, 2017.

Company Contact :

Glenn Wiener, President

GW Communications

Tel: 212-786-6011

Email: gwiener@GWcco.com

- Tables to Follow -

VOXX International Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

	August 31, 2017	February 28, 2017
	<i>(unaudited)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,821	\$ 956
Accounts receivable, net	70,956	79,971
Inventory, net	142,053	122,352
Receivables from vendors	617	634
Prepaid expenses and other current assets	23,543	12,332
Income tax receivable	1,644	1,596
Assets held for sale, current	—	55,507
Total current assets	284,634	273,348
Investment securities	8,763	10,388
Equity investments	21,340	21,926
Property, plant and equipment, net	66,197	65,589
Goodwill	53,916	53,905
Intangible assets, net	153,403	154,939
Deferred income taxes	23	23
Other assets	6,541	1,699
Assets held for sale, non-current	—	86,669
Total assets	\$ 594,817	\$ 668,486
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 44,146	\$ 46,244
Accrued expenses and other current liabilities	49,227	32,110
Income taxes payable	2,320	703
Accrued sales incentives	13,033	13,154
Current portion of long-term debt	6,770	9,215
Liabilities held for sale, current	—	28,641
Total current liabilities	115,496	130,067
Long-term debt, net of debt issuance costs	8,842	97,747
Capital lease obligation	849	926
Deferred compensation	3,624	3,844
Deferred income tax liabilities	28,757	27,627
Other tax liabilities	3,328	3,194
Other long-term liabilities	3,389	2,125
Liabilities held for sale, non-current	—	11,641
Total liabilities	164,285	277,171
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding	—	—
Common stock:		
Class A, \$.01 par value, 60,000,000 shares authorized, 24,068,105 and 24,067,444 shares issued and 21,900,011 and 21,899,370 shares outstanding at August 31, 2017 and February 28, 2017, respectively	256	256
Class B Convertible, \$.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding	22	22
Paid-in capital	295,847	295,432
Retained earnings	173,445	159,369
Accumulated other comprehensive loss	(15,478)	(43,898)

Treasury stock, at cost, 2,168,094 and 2,168,074 shares of Class A Common Stock at August 31, 2017 and February 28, 2017, respectively	(21,176)	(21,176)
Total VOXX International Corporation stockholders' equity	432,916	390,005
Non-controlling interest	(2,384)	1,310
Total stockholders' equity	430,532	391,315
Total liabilities and stockholders' equity	\$ 594,817	\$ 668,486

VOXX International Corporation and Subsidiaries
Unaudited Consolidated Statements of Operations and Comprehensive Income
(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Net sales	\$ 113,470	\$ 118,325	\$ 228,293	\$ 232,225
Cost of sales	85,049	85,882	169,728	167,809
Gross profit	28,421	32,443	58,565	64,416
Operating expenses:				
Selling	10,652	9,924	23,061	21,306
General and administrative	20,640	18,021	40,837	38,148
Engineering and technical support	7,383	6,609	14,037	14,655
Total operating expenses	38,675	34,554	77,935	74,109
Operating loss	(10,254)	(2,111)	(19,370)	(9,693)
Other (expense) income:				
Interest and bank charges	(1,843)	(1,729)	(3,635)	(3,293)
Equity in income of equity investees	1,927	1,545	3,730	3,353
Investment gain	1,416	0	1,416	0
Other, net	(7,629)	223	(8,636)	(257)
Total other (expense) income, net	(6,129)	39	(7,125)	(197)
Loss from continuing operations before income taxes	(16,383)	(2,072)	(26,495)	(9,890)
Income tax expense (benefit) from continuing operations	3,465	(5,543)	(3,963)	(6,940)
Net (loss) income from continuing operations	(19,848)	3,471	(22,532)	(2,950)
Net income (loss) from discontinued operations, net of tax (Note 2)	34,931	(2,167)	32,710	(1,866)
Net income (loss)	15,083	1,304	10,178	(4,816)
Less: net loss attributable to non-controlling interest	(2,023)	(1,716)	(3,898)	(3,528)
Net income (loss) attributable to VOXX International Corporation	\$ 17,106	\$ 3,020	\$ 14,076	\$ (1,288)
Other comprehensive income (loss):				
Foreign currency translation adjustments	20,480	(680)	27,839	3,516
Derivatives designated for hedging	(134)	(21)	(1,186)	(512)
Pension plan adjustments	1,810	6	1,690	(52)
Unrealized holding gain (loss) on available-for-sale investment securities, net of tax	81	(3)	77	(8)
Other comprehensive income (loss), net of tax	22,237	(698)	28,420	2,944
Comprehensive income attributable to VOXX International Corporation	\$ 39,343	\$ 2,322	\$ 42,496	\$ 1,656
Earnings (loss) per share - basic:				
Continuing operations	\$ (0.74)	\$ 0.21	\$ (0.77)	\$ 0.02
Discontinued operations	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)
Earnings (loss) per share - diluted:				
Continuing operations	\$ (0.74)	\$ 0.21	\$ (0.77)	\$ 0.02
Discontinued operations	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)
Weighted-average common shares outstanding (basic)	24,160,680	24,160,324	24,160,502	24,160,324
Weighted-average common shares outstanding (diluted)	24,160,680	24,242,447	24,160,502	24,255,341

Reconciliation of GAAP Net Income (Loss) Attributable to VOXX International Corporation to EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per Common Share

(In thousands, except share and per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net income attributable to VOXX International Corporation	\$ 17,106	\$ 3,020	\$ 14,076	\$ (1,288)
Adjustments:				
Interest expense and bank charges (1)	1,730	1,722	3,406	3,310
Depreciation and amortization (1)	4,340	4,247	8,477	8,490
Income tax expense (benefit)	6,207	(2,261)	2,144	(3,653)
EBITDA	<u>29,383</u>	<u>6,728</u>	<u>28,103</u>	<u>6,859</u>
Stock-based compensation	157	188	299	363
Gain on sale of discontinued operation	(36,118)	—	(36,118)	—
Loss on forward contracts attributable to sale of business	6,618	—	6,618	—
Investment gain	(1,416)	—	(1,416)	—
Adjusted EBITDA	<u>\$ (1,376)</u>	<u>\$ 6,916</u>	<u>\$ (2,514)</u>	<u>\$ 7,222</u>
Diluted income per common share attributable to VOXX International Corporation	<u>\$ 0.71</u>	<u>\$ 0.12</u>	<u>\$ 0.58</u>	<u>\$ (0.05)</u>
Diluted Adjusted EBITDA per common share attributable to VOXX International Corporation	<u>\$ (0.06)</u>	<u>\$ 0.29</u>	<u>\$ (0.1)</u>	<u>\$ 0.3</u>

(1) For purposes of calculating Adjusted EBITDA for the Company, interest expense and bank charges, as well as depreciation and amortization have been adjusted in order to exclude the non-controlling interest portion of these expenses attributable to EyeLock LLC.

THOMSON REUTERS

FINA L TRANSCRIPT

Q2 2018 VOXX International Corp Earnings Call

EVENT DATE/TIME: 10/11/2017 10:00 AM GMT

CORPORATE PARTICIPANTS

Charles Michael Stoehr *VOXX International Corporation - Senior VP, CFO & Director*

Glenn Wiener

John J. Shalam *VOXX International Corporation - Chairman of the Board*

Patrick M. Lavelle *VOXX International Corporation - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

James David Medvedeff *Cowen and Company, LLC, Research Division - Associate*

Thomas Graham Kahn *Kahn Brothers Advisors LLC - President, Treasurer, and Chief Compliance Officer*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the VOXX Fiscal 2018 Second Quarter Results Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the call over to today's host, Glenn Wiener, Investor Relations. Sir, you may begin.

Glenn Wiener

Thank you, Chelsea. Good morning, and welcome to VOXX International's Fiscal 2018 Second Quarter Results Conference Call. Our call today is being webcast on our website, www.voxxintl.com, and we'd set up a replay for those who aren't able to make today's call.

With us today and speaking for management will be Pat Lavelle, President and Chief Executive Officer; and Michael Stoehr, Senior Vice President and our Chief Financial Officer. Following their prepared remarks, we'll have a Q&A session for any investors wishing to ask questions.

Before we begin, I'd like to remind everyone that except for historical information contained herein, statements made on today's call and webcast that would constitute forward-looking statements are based on currently available information. The company assumes no responsibility to update any such forward-looking statements, and risk factors associated with our business are detailed in our Form 10-K for the period ended February 28, 2017

At this time, I would like to turn the call over to our President and CEO, Pat Lavelle. Pat?

Patrick M. Lavelle *VOXX International Corporation - President, CEO & Director*

Thank you, Glenn, and good morning, everyone. As most of you know, on August 31, we closed on the sale of Hirschmann to a subsidiary of TE Connectivity. The cash purchase price based on our forward exchange contracts was \$170.1 million. It cost us approximately \$117.7 to acquire Hirschmann in March of 2012. And adjusting for \$9.8 million of expenses associated with the sale, this resulted in a cash profit of

\$42.6 million, which is subject to any further adjustments related to net working capital and net debt. As our German subsidiary was the seller in this deal, there were a lot of moving parts. For example, the gain from the sale was recorded in discontinued ops and several related expenses were accounted for in continuing ops.

Mike will start off the call, and walk you through the transaction so you have a clear picture of the moving pieces and our balance sheet, along with some remarks on our Q2 results. I'll then come back and discuss our business segments and what we envision going forward as I know the focus is on our future.

So Mike, why don't we get started?

Charles Michael Stoehr *VOXX International Corporation - Senior VP, CFO & Director*

Okay, Pat. Thank you. Good morning, everyone. Before going into the quarterly review, a few facts about the transaction. The results and impact of the transaction are carried both in continuing operation and discontinued operation. When the transaction was closed, the value of the sale was picked up as of the euro translation on the date of sale. As we've previously mentioned, we hedged our position as a result of difference between the euro at the time of close, and the hedge position was \$6.6 million, which was recorded on continuing operations. Also, certain expenses related to the Hirschmann transaction were also recorded in continuing operations.

On Page 11 of our Form 10-Q, you will see a table that reconciles the carrying amounts of major classes of assets and liabilities of the discontinued operation to the amounts presented separately in our consolidated balance sheet. On Page 12 of our Form 10-Q, you will find a reconciliation of the major financial lines that constitute our results of operations for discontinued operations to net income from discontinued operations net of tax, which is presented separately in the consolidated statement of operations and comprehensive income loss. As you will see in this table as of August 31, 2017, the gain on the sale of Hirschmann before taxes was \$36.1 million, and income from discontinued operations net of taxes was \$34.9 million.

On a pure income tax basis, the company will not have any substantial U.S. taxes with this transaction. Further, as a result of the treatment of the foreign exchange differences on the original acquisition loan, combined with the differences between hedge positions and the euro value, the total FX charges were approximately \$16.5 million in our continuing operations.

With the Hirschmann sale now behind us, our balance sheet has strengthened. With the proceeds generated from the sale, we paid off virtually all of our debt outstanding on our domestic credit facility. The remaining debt we carry as of August 31, 2017, relates to our manufacturing facility in Florida, \$8.9 million; financing for our remaining German subsidiary of \$5.2 million; and mortgages overseas of approximately \$4.5 million. Our total debt as of August 31, 2017, was \$18.7 million compared to \$110.4 million as of February 28, 2017, a reduction of \$91.8 million. And our total long-term debt, net of debt issuance cost, stood at \$8.8 million as of August 31, 2017, as compared to \$97.7 million as of February 28, 2017, an improvement of \$88.9 million. Further information on our financing arrangements and debt position can be found in Footnote 15 of our Form 10-Q.

So as of August 31, 2017, we had cash and cash equivalents of \$45.8 million and availability under our domestic credit facility of \$96.6 million. As of today, availability is \$100.4 million. Inventory positions have increased from February to August as merchandise is now being brought in for seasonal sales.

Before I turn the call back to Pat, let's now focus some of our results. Revenue. Total revenue for the fiscal 2018 second quarter was \$113.5 million, down 4.1% versus last year's second quarter. Premium Audio increased 14.4%, and this offset -- this was offset by a 16.1% decline in Automotive and an 8.3% decline in Consumer Accessories.

Premium Audio. Sales were positively impacted by new lines of HD wireless desktop and bookshelf-sized speakers, wireless sound bars, Klipsch Heritage products, home entertainment speakers, and wireless and multiroom streaming audio systems. We had several close-out promotions on some of our oldest sound bar models, which helped sales but impacted gross margins. We discussed this on our first quarter call. Looking ahead, we anticipate March to improve in the second half of fiscal 2018.

For Automotive, satellite radio sales continue to decline as expected, and we have lower OEM sales. Internationally, OEM sales were impacted by the end of a program with Bentley in Q1. Domestically, we wound down programs with GM and Ford in preparation for new EVO rear-seat entertainment programs, which we'll be launching in the third and fourth quarter.

Moving forward in OEM, it's about our domestic operations with new programs coming online, and we are anticipating growth. We also anticipate growth in the aftermarket with increases in our rear-seat entertainment solutions with the acquisition of Rosen.

Consumer Accessories. Sales were down as a result of lower action camera sales, along with some declines in hook-up and reception products. On the other hand, we saw growth in wireless Bluetooth speakers; new sales from the Striiv activity tracking bands, which we introduced in the second quarter; and higher sales of Project Nursery product lines. International sales were also up due to the upgrade of the digital broadcasting platform in Europe.

Gross margins. Gross margins were down in all segments, but there's a clear reason as to why. And more importantly, we anticipate margins to be restored in the second half of the year. Automotive, lower OEM sales and higher aftermarket sales were the drivers. But as I just noted, new OEM programs are starting in Q3, building in Q4, which should have a positive impact. Premium Audio gross margins were down to preparations for our new product being introduced in the third and fourth quarters, again, with an increase expected in the second half of the year.

There were 2 things that impacted Consumer Accessory margins during the quarter: One, we have a higher volumes of fulfillment sales that carried lower gross margins; and two, there was a onetime settlement charge related to contractual shortfalls with one of our vendors, which was a \$650,000 impact or approximately 160 basis points. Offsetting this, gross margins were positively impacted by higher sales of Project Nursery, wireless speakers and lower sales of lower-margin fulfillment business. We anticipate gross margins to improve across all segments in the second half.

Total operating expenses increased \$4.1 million or 11.9%. Selling expenses were up due to higher advertising and marketing expenses, primarily within our Premium Audio and Consumer Accessories segments. We also had higher severance expenses as we made some moves during the quarter to lower management expenses moving forward. Additionally, on our G&A line, higher expenses were due to the new payroll and timesheet system that we discussed in our year-end call as well as accruals related to the sale of Hirschmann and other severance charges. The increase in engineering and technical support was primarily due to timing as we have new OEM programs in the second half of the year.

We took action during the fiscal 2017 second quarter to increase certain overhead related to product development and sales generation, and at the same time, removed expenses as we restructured certain groups to lower fixed expenses moving forward. With the sale of Hirschmann now behind us, our team is making the necessary changes that will enable us to drive consistent profitability in our business in the years ahead.

Other expenses for fiscal 2018 second quarter were \$6.1 million compared to \$39,000 in last year's second quarter. Other than that, however, was the area to note as we had \$7.1 -- \$7.4 million of net foreign exchange currency losses due primarily to Hirschmann

transaction. ASA continued to drive better income year-over-year, up \$382,000, and we recorded a \$1.4 million investment gain on the sale of RxNetworks during the quarter.

In summary, we reported net income attributable to VOXX of \$17.1 million. As we stated at the beginning of the call, there are number of moving parts due to the nature of continuing and discontinued operations, treatment of foreign exchange gains and losses and taxes. We have a clean balance sheet, and our financial position has strengthened.

I'll turn the call over to Pat to talk a little bit more about our results and our outlook for the future. Pat?

Patrick M. Lavelle *VOXX International Corporation - President, CEO & Director*

Thanks, Mike. While total sales are down 1.7% year-to-date, excluding Hirschmann, sales tracked roughly in line with the plan for the first half of the year. We expect our OEM business to ramp up in the third and fourth quarters with new OEM programs with GM, Ford and Mazda. Our Premium Audio business is up close to 16% year-to-date, despite first half inventory clear-outs. And we anticipate continued growth in the second half of the year based on the successes to date with current products and the new ones coming to market. Consumer Accessories is down 6.3% year-to-date. However, we have a number of new programs set to begin in the third and fourth quarters that will improve overall sales for the year.

Our gross margins are down 200 basis points year-to-date, but as with sales, they are expected to improve. As Mike noted, the Automotive decline was due to timing based on programs ending in the first half and new ones starting in the second half. These affected absorption, which will correct itself in the second half as we begin production of our new systems. Additionally, on a go-forward basis, we expect Automotive margins to run lower by approximately 250 basis points due to the sale of Hirschmann.

The Premium Audio segment decline was due to inventory clear-outs as I spoke about on our Q1 call. However, margins improved from first to second quarter and will continue to improve as we get into the second half. And the Consumer Accessory segment had 2 events that are not expected to repeat. Those segment margins will be lower than prior year because we have a higher volume fulfillment program starting in the second half of the year, which will equate to lower gross margin, but higher gross profit dollars. But as Mike noted, margins for this segment are anticipated to increase.

So let's talk about our strategy to unlock value. The Hirschmann sale was a starting point. The sale enabled us to pay down the majority of our debt. It leaves us with good cash position and access to our credit facilities. And I'll discuss the use of proceeds in just a few minutes. Our remaining Automotive business consist of our domestic OEM operations and our aftermarket group. Domestic OEM has been down throughout the year, but that will change this quarter based on new programs, starting with the 2018 Ford Expedition and the 2018 Lincoln Navigator; the 2018 Chevy Traverse, Chevy Equinox, GMC Terrain, and the Buick Enclave and the Mazda CX-9. Additionally, our OE remote start season has started with increased orders from some of our customers including Subaru, Ford and Chrysler Mopar.

For our aftermarket business we expect stronger sales of our advanced driver assistance systems due to our placement at Best Buy and the launch of our new backup cameras at Best Buy, Crutchfield and the M.E.S. A. buying group. We will also launch our new OEM replacement key fobs, which should boost sales within our expediter and car dealer networks.

As for Consumer Accessories, we are anticipating growth for the full fiscal year. In the second quarter, we had a number of new products added to our 808 Audio line. The ENCORE, Block Rocker speaker, our new 808 Audio Canz H2O, new EAR CANZ Bluetooth headphones and wireless earbuds, and new Bluetooth Turntable speakers. We will also introduce our first 808 Audio speaker with Alexa voice services onboard, which will be available in November. We also introduced a new Singtrix bundle pack, and added 2 new karaoke systems that have been met with good interest.

In the third and fourth quarters, we will introduce our first RCA security products with an entry door monitor, followed by streaming

security cameras that could be controlled by your smartphone. Additionally, we will deliver the first of new MyGuard products designed to prevent flooding from washing machines, dishwashers and water heaters in the home. In February, Project Nursery expands its lineup to include a new dual-camera version, launching at Best Buy, and we expect to see increased reception sales as we've expanded distribution to include service providers.

Internationally, our Consumer Accessory business at VOXX (Germany) performed better than the prior year in Q2. Gross margins were up, and expenses were in line. And we introduced over 50 new products during the IFA, Berlin show in September. Our exclusive agreement with Saturn for accessories, we -- that contract was renewed for another 2 years. And at Schwaiger, we introduced a number of additional products, including Alexa voice activation for its home automation lineup.

Additionally, in the third quarter, we'll be launching a national distribution program with a major health care provider as part of an agreement with Qualcomm Life. This is slated to begin in November. And because it's a fulfillment program, it will be at lower margins, but positively impact sales and gross profit dollars.

And finally, EyeLock. While EyeLock has not generated significant revenue or income yet, we are making progress. We expanded distribution, secured additional patents and strengthened our IP portfolio. And we secured the licensing agreement with Qualcomm, which we discussed last quarter. Some of the highlights at EyeLock: a new partnership with STANLEY Security, giving them access to our full suite of hardware and software access control systems; a new partnership with CSD to deliver EyeLock product suite across their customer base in the Australian market. We completed Lenel factory certification, which will accelerate EyeLock technology into their OnGuard system. EyeLock continues to build its IP and currently has 54 patents, with over 25 additional patents applied for. This past quarter, they received a patent for a single camera system for acquiring iris biometrics and facial images. And we have 3 additional patents pending, which we anticipate will be granted over the next quarter.

At the ASIS 2017 security show in September, we expanded our pipeline of opportunities as more and more customers understand the benefits of iris biometrics and look to add iris to their security offerings. And of course, we are continuing to develop iris authentication solutions to work with Qualcomm's mobile security platform.

EyeLock is a technology. It is a technology, an R&D-driven company, and it will take time to bring their host of solutions to market. But the market is going to have multiform factors, with iris being a major contributor. During the second quarter, we took steps to lower some of our fixed expenses, and reduced the cash burn, and that will help improve the bottom line in future periods. At the same time, we have not taken any shortcuts with respect to R&D. There has and continues to be a lot of interest in EyeLock, and we are continuing to invest in the business and determine the best strategy and outcome for our shareholders.

Moving on to our Premium Audio segment. Sales continue to grow. While gross margins were down in the first half of the year, you saw the margin improvement in Q2 relative to Q1, and we expect this to continue into the second half. During Q2 and in the month or so that followed, we saw the reintroduction of the Forte III classic loudspeaker, now part of the Heritage line. We launched in conjunction with Capitol Records, the 75th anniversary, the special edition One, Three and Heresy speaker models. Klipsch debuted the Reference Dolby Atmos home theater speakers, expanding this product line, which has contributed nicely to our growth. And we are pleased with the sales activity of Klipsch marine audio systems at MasterCraft.

We will soon introduce one of the highest-end headphones, the HP-3, which will launch later this year. And Klipsch also debuted 4 new custom architectural lines at CEDIA. And we formed a strategic alliance with AVAD for the Jamo brand, which provides us with additional access to installation professionals in the United States and Canada as well as expanding the Jamo line with new sound bars and Atmos home theater speakers.

To close, a few additional comments before we open the call for questions. With the sale of Hirschmann, we have a strong balance sheet. With cash on hand, most of our debt being mortgages and our access to capital, our strategy is to pursue accretive acquisitions

that will enhance cash flow and profitability. We are focused on the domestic markets, and we will be diligent to ensure that if acquisitions are made, there are synergies, strong product lines and most important, consistent earnings.

We are also looking at our entire portfolio of assets and reviewing inbound interest, such as we did with Hirschmann. We have great brands, distribution and talent throughout this company. Whether the future is driven by acquisitions, divestitures, joint ventures or partnerships, we believe we are positioned to succeed. While it may take time to align the organization, given this multifaceted strategy, we are very much focused on driving growth and value.

And finally, while we generated an operating loss in the first half of the year, we expect the second half to be profitable. And as we move into fiscal 2019, we expect our stronger balance sheet, increased sales and lower expenses to position the company for sustainable profitability.

And with that, I think it's time to open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of James Medvedeff with Cowen.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

So a couple of questions. I understand we're looking for profits in the second half. But the full year outlook is still to have -- report losses. Or is there enough profit in the second half to do -- to drive full year profits?

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

Yes. We believe so.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

Okay. How should I think about sales for year-over-year? So we're down -- the comps are difficult with Hirschmann out.

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

Yes.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

Are you able to put some sort of a number or maybe sequential growth or some guidance on what revenues might look like for the rest of the year?

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

We're expecting to see increased sales in all 3 segments over the first half. And as best I could say at this particular point, we'll see some small growth if you take out Hirschmann in the businesses that are left on the top line revenue.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

Small growth sequentially, H2 versus H1, or year-over-year?

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

Year-over-year.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

Okay. So now to try to parse through some of these -- I noticed in the Q that you've shifted interest expense around from -- versus the way it looked last year, it appears. I can't tell for sure. But I guess -- let me just start with Premium Audio. It looks like backing out interest expense, that the sort of operating margin was actually negative -- or I'm sorry, only slightly positive. So let me -- maybe I should do this on a follow-up call. This is kind of in the weeds. Let me do that. So -- and could you just run through what the -- what your thoughts are on what the various expense lines are going to look like going forward?

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

Well, when we look at the expenses going forward, there are expenses that, for the full year, that will reflect some of the things that were driven by the Hirschmann sale. But if I start to remove charges that are related to the sale, I think we'll see the quarter somewhere around -- this past quarter, I'm talking about, somewhere around 37 -- excuse me, that's adjusted OpEx of like \$36.7 million.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

That's adjusting out the Hirschmann sale expenses?

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

Yes, some of the expenses that are there. But we can get into more detail on it on a follow-up on that as well.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

Okay. But these run rates of selling, G&A and engineering tech, are they sort of continuous at that level through the rest of the year?

Patrick M. Lavelle VOXX International Corporation - President, CEO & Director

We have ongoing savings. There are other areas where we're changing overhead, cutting some overheads. You would not see a huge impact in the second half because of severance costs, but we're looking at somewhere around \$10 million in lower overhead, based on the changes that we're making now on a full year run rate as we look into 2019 based on some of the moves that we recently made.

James David Medvedeff Cowen and Company, LLC, Research Division - Associate

Okay, great. Finally, on the tax rate, I imagine you reported negative pretax income and yet you paid taxes. I assume that has something to do with jurisdictional?

Charles Michael Stoehr VOXX International Corporation - Senior VP, CFO & Director

Yes. See so the -- what happened with the transactions -- this is Michael speaking -- is that what -- when we did -- discontinued operations, we had to restate the first quarter. And also, the valuation allowances came out, and the effective tax rate dropped to 17%. When it came forward through the year-to-dates, we had to book a tax charge in August to adjust the rates. That's why it's kind of hard to follow this because you're seeing now the valuation allowance is popping up. But just for the purposes of, again, as we discussed models, always used the statutory rate of 35%.

Operator

(Operator Instructions) And our next question comes from the line of Thomas Kahn with Kahn Brothers.

Thomas Graham Kahn Kahn Brothers Advisors LLC - President, Treasurer, and Chief Compliance Officer

Congratulations on the Hirschmann sale, John. It was a grand-slam home run, knocking the ball out of the park and knocking the leather off the ball. So congratulations.

John J. Shalam VOXX International Corporation - Chairman of the Board

Thank you. Thank you, Tom.

Thomas Graham Kahn Kahn Brothers Advisors LLC - President, Treasurer, and Chief Compliance Officer

I'm a little unhappy with the press release because Pat gave a very good description of EyeLock and what's going on in EyeLock. And you know we believe that EyeLock is the most exciting operation in the VOXX family, with the greatest potential over the next 2 to 5 years. And now that the company has plenty of cash and resources, it can back EyeLock. And Pat gave an interesting description on this call of what's going on. But there was 0, nothing, nada in the press release, and I was a little disappointed. And I think in future releases, this should be highlighted and discussed, because, unless I'm confused, I think the most exciting thing you folks have and could be another grand-slam home run 2 to 5 years down the road. I was a little disappointed also in your conversation here about acquisitions. I don't think acquisitions are the way to build shareholder value at this point. If you look at the stock's range over the past 10 years, and you look where the shares are selling now, we believe that VOXX is worth at least \$14, excluding EyeLock. And if it's worth \$14 excluding EyeLock, buying back shares accrete shareholder value without risk. Making acquisitions could accrete shareholder value but has risk and could diminish shareholder value. So I've only been analyzing stocks for about 45 years, but I do have to say that with the shares selling where they are now, not just an authorization of a buyback, but putting it in place and buying

back as much stock as you can will be the best thing to build shareholder value at the lowest possible risk. So I want you to consider it again, please. I know you're opposed to it, and you have been opposed in the past. But unless I'm confused, and unless you have some company you're buying that's going to cure cancer, it seems to me that the best way to build value for the owners is an active, aggressive buyback program now. Thank you very much.

Patrick M. Lavelle *VOXX International Corporation - President, CEO & Director*

Thank you, Tom.

Operator

And I'm showing no further questions at this time. Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

Patrick M. Lavelle *VOXX International Corporation - President, CEO & Director*

Thank you.