Horizon Global Corp
Form 10-Q
November 10, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549
FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended September 30, 2015

or

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

For the Transition Period from to .
Commission file number 001-37427
HORIZON GLOBAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	47-3574483
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

39400 Woodward Avenue, Suite 100
Bloomfield Hills, Michigan 48304
(Address of principal executive offices, including zip code)
(248) 593-8820
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No x.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 9, 2015, the number of outstanding shares of the Registrant's common stock, par value $0.01 per share, was 18,131,928 shares.

Table of Contents

Horizon Global Corporation
Index

1

Table of Contents

Forward-Looking Statements

This report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements speak only as of the date they are made and give our current expectations or forecasts of future events. These forward-looking statements can be identified by the use of forward-looking words, such as "may," "could," "should," "estimate," "project," "forecast," "intend," "expect," "anticipate," "believe," "target," "plan" or other comparable words, or by discussions of strategy that may involve risks and uncertainties.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties which could materially affect our business, financial condition or future results including, but not limited to, risks and uncertainties with respect to: the Company's leverage; liabilities imposed by the Company's debt instruments; market demand; competitive factors; supply constraints; material and energy costs; technology factors; litigation; government and regulatory actions; the Company's accounting policies; future trends; general economic and currency conditions; various conditions specific to the Company's business and industry; and other risks that are discussed in Part II, Item 1A "Risk Factors" and in the Company's Registration Statement on Form S-1 (Registration No. 333-203138), (the "Registration Statement"). The risks described in our Registration Statement and elsewhere in this report are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deemed to be immaterial also may materially adversely affect our business, financial position and results of operations or cash flows.

The cautionary statements set forth above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We caution readers not to place undo reliance on the statements, which speak only as of the date of this report. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statement to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

We disclose important factors that could cause our actual results to differ materially from our expectations implied by our forward-looking statements under Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this report. These cautionary statements qualify all forward-looking statements attributed to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial and other conditions, results of operations, prospects and ability to service our debt.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
Horizon Global Corporation
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$28,130	$5,720
Receivables, net of reserves of approximately $3.1 million and $3.2 million as of September 30, 2015 and December 31, 2014, respectively	73,440	63,840
Inventories	113,880	123,530
Deferred income taxes	4,840	4,840
Prepaid expenses and other current assets	6,610	5,690
Total current assets	226,900	203,620
Property and equipment, net	46,310	55,180
Goodwill	4,420	6,580
Other intangibles, net	57,820	66,510
Other assets	11,370	11,940
Total assets	$346,820	$343,830
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities, long-term debt	$14,460	$460
Accounts payable	74,670	81,980
Accrued liabilities	38,130	37,940
Total current liabilities	127,260	120,380
Long-term debt	189,280	300
Deferred income taxes	7,290	8,970
Other long-term liabilities	19,540	25,990
Total liabilities	343,370	155,640
Preferred stock, $0.01 par: Authorized 100,000,000 shares; Issued and outstanding: None	—	—
Common stock, $0.01 par: Authorized 400,000,000 shares; Issued and outstanding: 18,128,481 shares at September 30, 2015 and no shares at December 31, 2014	180	—
Paid-in capital	480	—
Parent company investment	—	180,800
Accumulated deficit	(180)	—
Accumulated other comprehensive income	2,970	7,390
Total shareholders' equity	3,450	188,190
Total liabilities and shareholders' equity	$346,820	$343,830

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

Horizon Global Corporation
Condensed Consolidated Statements of Income
(Unaudited—dollars in thousands, except for per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net sales	$153,340	$157,860	$454,240	$484,210
Cost of sales	(115,580)	(119,690)	(343,430)	(363,720)
Gross profit	37,760	38,170	110,810	120,490
Selling, general and administrative expenses	(29,090)	(30,310)	(91,280)	(93,330)
Net gain (loss) on dispositions of property and equipment	(60)	10	(1,850)	(60)
Operating profit	8,610	7,870	17,680	27,100
Other expense, net:				
Interest expense	(4,350)	(150)	(4,590)	(510)
Other expense, net	(1,060)	(810)	(3,030)	(2,290)
Other expense, net	(5,410)	(960)	(7,620)	(2,800)
Income before income tax expense	3,200	6,910	10,060	24,300
Income tax credit (expense)	3,150	(1,700)	(30)	(5,890)
Net income	$6,350	$5,210	$10,030	$18,410
Net income per share:				
Basic	$0.35	$0.29	$0.55	$1.02
Diluted	$0.35	$0.29	$0.55	$1.02
Weighted average common shares outstanding:				
Basic	18,098,404	18,062,027	18,073,836	18,062,027
Diluted	18,215,209	18,114,032	18,160,858	18,113,399

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Horizon Global Corporation
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited—dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$ 6,350	$ 5,210	$ 10,030	$ 18,410
Other comprehensive income (net of tax):				
Foreign currency translation	(5,350)	(5,700)	(9,440)	(2,750)
Derivative instruments (Note 8)	(30)	(180)	(210)	90
Total other comprehensive loss	(5,380)	(5,880)	(9,650)	(2,660)
Total comprehensive income (loss)	$ 970	$ (670)	$ 380	$ 15,750

The accompanying notes are an integral part of these condensed consolidated financial statements.

Horizon Global Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited—dollars in thousands)

	Nine months ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$ 10,030	$ 18,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on dispositions of property and equipment	1,850	60
Depreciation	7,580	8,830
Amortization of intangible assets	5,540	5,730
Amortization of original issuance discount and debt issuance costs	330	—
Deferred and other income taxes	(4,620)	(1,100)
Non-cash compensation expense	1,750	2,410
Increase in receivables	(16,120)	(20,040)
Decrease in inventories	5,330	10,370
(Increase) decrease in prepaid expenses and other assets	(1,910)	380
Increase (decrease) in accounts payable and accrued liabilities	2,860	(17,570)
Other, net	170	(700)
Net cash provided by operating activities	12,790	6,780
Cash Flows from Investing Activities:		
Capital expenditures	(6,400)	(9,450)
Net proceeds from disposition of property and equipment	1,770	260
Net cash used for investing activities	(4,630)	(9,190)
Cash Flows from Financing Activities:		
Proceeds from borrowings on credit facilities	100,420	134,080
Repayments of borrowings on credit facilities	(95,420)	(133,130)
Proceeds from Term B Loan, net of issuance costs	192,920	—
Repayments of borrowings on Term B Loan	(2,500)	—
Proceeds from ABL Revolving Debt, net of issuance costs	37,900	—
Repayments of borrowings on ABL Revolving Debt	(30,980)	—
Net transfers from former parent	27,630	4,700
Cash dividend paid to former parent	(214,500)	—
Net cash provided by financing activities	15,470	5,650
Effect of exchange rate changes on cash	(1,220)	(480)
Cash and Cash Equivalents:		
Increase for the period	22,410	2,760
At beginning of period	5,720	7,880
At end of period	$ 28,130	$ 10,640
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,760	$ 460

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Horizon Global Corporation
Condensed Consolidated Statements of Shareholders' Equity
Nine Months Ended September 30, 2015
(Unaudited—dollars in thousands)

	Common Stock	Paid-in Capital	Parent Company Investment	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balances, December 31, 2014	$—	$—	$180,800	$—	$7,390	$188,190
Net income	—	—	3,680	6,350	—	10,030
Other comprehensive income (loss)	—	—	—	—	(9,650)	(9,650)
Issuance of common stock	180	—	(180)	—	—	—
Net transfers from former parent	—	—	23,670	—	5,230	28,900
Cash dividend paid to former parent	—	—	(214,500)	—	—	(214,500)
Non-cash compensation expense		480				480
Reclassification of net parent investment to accumulated deficit	—	—	6,530	(6,530)	—	—
Balances, September 30, 2015	$180	$480	$—	$(180)	$2,970	$3,450

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

On June 30, 2015, Horizon Global Corporation ("Horizon," "Horizon Global" or the "Company") became an independent company as a result of the distribution by TriMas Corporation ("TriMas" or "former parent") of 100 percent of the outstanding common shares of Horizon Global to TriMas shareholders (the "spin-off"). Each TriMas shareholder of record as of the close of business on June 25, 2015 ("Record Date") received two Horizon Global common shares for every five TriMas common shares held as of the Record Date. The spin-off was completed on June 30, 2015 and was structured to be tax-free to both TriMas and Horizon Global shareholders.

On July 1, 2015, Horizon Global common shares began regular trading on the New York Stock Exchange under the ticker symbol "HZN". Pursuant to the separation and distribution agreement with TriMas, on June 30, 2015, the Company paid a cash dividend to TriMas of $214.5 million.

Horizon qualifies as an "emerging growth company" as defined in the Jumpstart our Business Startups Act of 2012 ("JOBS Act"), and, therefore, will be subject to reduced reporting requirements. The JOBS Act also provides that an "emerging growth company" can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 (the "Securities Act"), for complying with new or revised accounting standards. However, the Company has chosen to "opt out" of such extended transition period, and, as a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not "emerging growth companies." Section 107 of the JOBS Act provides that the Company's decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Horizon is a global designer, manufacturer and distributor of a wide variety of high quality, custom-engineered towing, trailering, cargo management and other related accessories. These products are designed to support original equipment manufacturers ("OEMs"), original equipment suppliers, aftermarket and retail customers within the agricultural, automotive, construction, horse/livestock, industrial, marine, military, recreational, trailer and utility markets. The Company groups its operating segments into reportable segments by the region in which sales and manufacturing efforts are focused. The Company's reportable segments are Cequent Americas and Cequent APEA. See Note 9, "Segment Information," for further information on each of the Company's reportable segments.

The accompanying combined financial statements for periods prior to the separation are derived from TriMas' historical accounting records on a carve-out basis. For the quarter subsequent to the separation, the condensed consolidated financial statements are derived from the historical accounting records of Horizon on a stand-alone basis. As such, the interim condensed consolidated statement of income, condensed consolidated statement of comprehensive income (loss) and condensed consolidated statement of cash flows for the nine months ended September 30, 2015 consist of the consolidated results of Horizon on a stand-alone basis for the three months ended September 30, 2015, and the combined results of operations of Horizon's reportable segments as historically managed under TriMas, on a carve-out basis, for the six months ended June 30, 2015. The combined financial statements as of December 31, 2014 and for the three and nine months ended September 30, 2014 consist entirely of the results of Horizon as historically managed under TriMas, on a carve-out basis.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Our interim condensed consolidated financial statements are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. You should read these statements in conjunction with our audited combined financial statements as of December 31, 2014 and related notes thereto included in our Registration Statement on Form S-1 ("Registration Statement"). It is management's opinion that these financial statements contain all adjustments, including adjustments of a normal and recurring nature, necessary for a fair presentation of financial position and results of operations. The Company's condensed consolidated financial statements may not be indicative of the Company's future performance and do not necessarily reflect what the results of operations, financial position,

and cash flows would have been had it been operated as a stand alone company during the periods presented. Furthermore, results of operations for interim periods are not necessarily indicative of results for the full year.
For periods prior to the separation, the combined financial statements include expense allocations for certain functions provided by our former parent; however, the allocations may not reflect the expenses the Company would have incurred as an independent, publicly traded company for the periods presented. These expenses were allocated to the Company on the basis of direct usage when identifiable, with the remainder allocated on the basis of revenue or headcount. The Company believes these allocations

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

were made on a consistent basis and are reasonable. Going forward, these functions will be performed using internal resources or purchased services, some of which may be provided by our former parent as a part of a transition services agreement.

The condensed consolidated financial statements also include certain assets and liabilities that have historically been held at the parent corporate level. These assets and liabilities were transferred to the Company as of the date of the spin-off through specific identification and allocation where necessary. Transactions historically treated as intercompany between the Company and our former parent have been included in these condensed consolidated financial statements and were considered effectively settled for cash at the time the transaction was recorded.

2. New Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." This ASU adds paragraphs pursuant to the Securities and Exchange Commission's ("SEC") Staff Announcement at the June 18, 2015 Emerging Issues Task Force ("EITF") meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. ASU 2015-15 states that given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit. The Company has historically recorded and will continue to record, debt issuance costs as an asset and subsequently amortize the deferred costs over the term of the line-of-credit, with there being no impact on previously issued financial statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 provides that inventory not measured using the last-in, first out ("LIFO") or retail inventory methods should be measured at the lower of cost and net realizable value. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory. For public business entities, the amendment is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendment should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is in the process of assessing the impact of the adoption of ASC 2015-11 on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 provides an amendment to the accounting guidance related to the presentation of debt issuance costs and is effective for fiscal years beginning after December 15, 2015 with early adoption allowed. This guidance is applied retrospectively to all prior periods. Under the new guidance, debt issuance costs related to Term B Loan borrowings are to be presented as a direct reduction from the related debt liability rather than as an asset. The Company adopted ASU 2015-03 in June 2015 and there was no effect to previously issued financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2016; however, in August 2015, the FASB approved a one-year deferral of the effective date through the issuance of ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." The Company is in the process of assessing the impact of the adoption of ASU 2014-09 on its condensed consolidated financial statements.

3. Facility Closure

Ciudad Juarez, Mexico and El Paso, Texas facilities

In July 2015, the Company announced plans to close its manufacturing facility in Ciudad Juarez, Mexico along with its distribution warehouse in El Paso, Texas. The Company plans to complete the move and vacate the Juarez, Mexico and El Paso, Texas sites by March 31, 2016. The Company is party to lease agreements for these facilities for which it has non-cancellable future rental obligations of approximately $4.6 million, for which the Company will establish accruals upon exit of the facilities, net of estimated recoveries. The lease agreements expire in 2019 and 2020, respectively. Most of the manufacturing is being relocated to the Company's existing facilities in Reynosa, Mexico. The distribution operations are moving to a new warehouse facility, also in Reynosa, Mexico.

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

During the three months ended September 30, 2015, upon completion of negotiations pursuant to a collective bargaining agreement, the Company recorded charges, primarily for severance benefits for its approximately 214 hourly workers to be involuntarily terminated, of approximately $0.9 million, of which approximately $0.8 million is included in cost of sales and approximately $0.1 million is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Also, during the three months ended September 30, 2015, the Company recorded charges, primarily related to severance benefits for approximately 47 salaried employees to be involuntarily terminated as part of the closure of approximately $0.9 million, of which approximately $0.7 million is included in cost of sales and approximately $0.2 million is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income. Through September 30, 2015, the Company paid approximately $0.1 million of the total hourly and salaried severance benefits, with the remainder expected to be paid by mid-2016.

In addition, during the three months ended September 30, 2015, the Company incurred less than $0.1 million of pre-tax non-cash charges related to accelerated depreciation expense as a result of shortening the expected lives on certain machinery, equipment and leasehold improvement assets that the Company will no longer utilize following the facility closure.

Goshen, Indiana facility

In November 2012, the Company announced plans to close its manufacturing facility in Goshen, Indiana, moving production from Goshen to lower-cost manufacturing facilities during 2013. The Company completed the move and ceased operations in Goshen during the fourth quarter of 2013. During 2013, the Company recorded charges, primarily for severance benefits for its approximately 350 union hourly workers to be involuntarily terminated, of approximately $4.0 million. Additionally, during 2012, the Company recorded charges of approximately $1.2 million, primarily for severance benefits for salaried employees to be involuntarily terminated as part of the closure. Through September 30, 2014, the hourly and salary benefits had been fully paid, with approximately $1.1 million being paid during the nine months ended September 30, 2014.

4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2015 are summarized as follows:

	Cequent Americas	Cequent APEA	Total
	(dollars in thousands)		
Balance, December 31, 2014	$ 6,580	$ —	$ 6,580
Foreign currency translation and other	(2,160)	—	(2,160)
Balance, September 30, 2015	$ 4,420	$ —	$ 4,420

The gross carrying amounts and accumulated amortization of the Company's other intangibles as of September 30, 2015 and December 31, 2014 are summarized below. The Company amortizes these assets over periods ranging from 3 to 25 years.

Intangible Category by Useful Life	As of September 30, 2015		As of December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(dollars in thousands)			
Finite-lived intangible assets:				
Customer relationships, 5 – 12 years	$ 32,480	$ (26,520)	$ 34,170	$ (26,190)
Customer relationships, 15 – 25 years	105,380	(76,700)	105,380	(72,250)
Total customer relationships	137,860	(103,220)	139,550	(98,440)
Technology and other, 3 – 15 years	14,520	(14,050)	14,600	(13,910)

Total finite-lived intangible assets	152,380	(117,270)	154,150	(112,350)
Trademark/Trade names, indefinite-lived	22,710	—	24,710	—
Total other intangible assets	$ 175,090	$ (117,270)	$ 178,860	$ (112,350)

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Amortization expense related to intangible assets as included in the accompanying condensed consolidated statements of income is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Technology and other, included in cost of sales	$40	$60	$160	$190
Customer relationships, included in selling, general and administrative expenses	1,780	1,860	5,380	5,540
Total amortization expense	$1,820	$1,920	$5,540	$5,730

5. Inventories

Inventories consist of the following components:

	September 30, 2015	December 31, 2014
	(dollars in thousands)	
Finished goods	$80,980	$89,550
Work in process	6,070	6,810
Raw materials	26,830	27,170
Total inventories	$113,880	$123,530

6. Property and Equipment, Net

Property and equipment consists of the following components:

	September 30, 2015	December 31, 2014
	(dollars in thousands)	
Land and land improvements	$—	$290
Buildings	8,060	9,250
Machinery and equipment	96,570	118,460
	104,630	128,000
Less: Accumulated depreciation	58,320	72,820
Property and equipment, net	$46,310	$55,180

Depreciation expense as included in the accompanying condensed consolidated statements of income is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Depreciation expense, included in cost of sales	$2,100	$2,420	$6,360	$7,320
Depreciation expense, included in selling, general and administrative expense	400	480	1,220	1,510
Total depreciation expense	$2,500	$2,900	$7,580	$8,830

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

7. Long-term Debt
The Company's long-term debt consists of the following:

	September 30, 2015	December 31, 2014
	(dollars in thousands)	
ABL Facility	$8,500	$—
Term B Loan	190,670	—
Bank facilities	4,280	140
Capital leases and other long-term debt	290	620
	203,740	760
Less: Current maturities, long-term debt	14,460	460
Long-term debt	$189,280	$300

ABL Facility
On June 30, 2015, the Company entered into an asset-based revolving credit facility ("ABL Facility"), which permits the Company and certain of its subsidiaries to make revolving borrowings up to an aggregate principal amount of $85.0 million, subject to availability under a borrowing base, including a $20.0 million letter of credit sub-facility, which matures on June 30, 2020. The Company may increase commitments under the ABL Facility, subject to certain conditions, up to an additional $25.0 million in aggregate. Borrowings under the ABL Facility bear interest, at the Company's election, at either (a) the Base Rate (as defined per the credit agreement, the "Base Rate") plus the Applicable Margin (as defined per the credit agreement "Applicable Margin"), or (b) the London Interbank Offered Rate ("LIBOR") plus the Applicable Margin.
All of the indebtedness under the ABL Facility is and will be guaranteed by the Company's existing and future material domestic subsidiaries and is and will be secured by substantially all of the assets of the Company and such guarantors. The credit agreement contains customary negative covenants, and does not include any financial maintenance covenants other than a springing minimum fixed charge coverage ratio of at least 1.00 to 1.00 on a trailing twelve-month basis, which will be tested only upon the occurrence of an event of default or certain other conditions as specified in the agreement. At September 30, 2015, the Company was in compliance with its financial covenants contained in the ABL Facility.
Debt issuance costs of approximately $1.9 million were incurred in connection with the entry into the ABL Facility. These debt issuance costs will be amortized into interest expense over the contractual term of the loan. The Company recognized $0.1 million related to the amortization of debt issuance costs during the three months ended September 30, 2015, which is included in the accompanying condensed consolidated statements of income. As of September 30, 2015, there were $1.8 million of unamortized debt issuance costs included in other assets in the accompanying condensed consolidated balance sheet.
As of September 30, 2015, $8.5 million was outstanding under the ABL facility at a weighted average interest rate of 2.68%. Total letters of credit outstanding at September 30, 2015 were $6.4 million. Subject to borrowing base availability, the Company had $70.1 million in available funds from the ABL facility as of September 30, 2015.
Term Loan
On June 30, 2015, the Company entered into a term loan agreement ("Term B Loan") under which the Company borrowed an aggregate of $200.0 million, which matures on June 30, 2021. The Term B Loan permits the Company to request incremental term loan facilities, subject to certain conditions, in an aggregate principal amount, together with the aggregate principal amount of incremental equivalent debt incurred by the Company, of up to $25.0 million, plus an additional amount such that the Company's pro forma first lien net leverage ratio (as defined in the term loan agreement) would not exceed 3.50 to 1.00 as a result of the incurrence thereof.

Borrowings under the agreement bear interest, at the Company's election, at either (a) the Base Rate plus 5% per annum, or (b) LIBOR plus 6% per annum. Principal payments required under the credit agreement for the Term B Loan Facility are $2.5 million due each calendar quarter beginning September 2015. Commencing with the fiscal year ending December 31, 2016, and for each fiscal year thereafter, the Company will also be required to make prepayments of outstanding amounts under the Term B Loan in

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

an amount equal to 50.0% of the Company's excess cash flow for such fiscal year, as defined in the credit agreement, subject to adjustments based on the Company's leverage ratio and optional prepayments of term loans and certain other indebtedness.

All of the indebtedness under the Term B Loan is and will be guaranteed by the Company's existing and future material domestic subsidiaries and is and will be secured by substantially all of the assets of the Company and such guarantors. The Term B Loan agreement contains customary negative covenants, and also contains a financial maintenance covenant which requires the Company to maintain a net leverage ratio not exceeding, through the fiscal quarter ending September 30, 2016, 5.25 to 1.00; through the fiscal quarter ending September 30, 2017, 5.00 to 1.00; through the fiscal quarter ending September 30, 2018, 4.75 to 1.00; and thereafter, 4.50 to 1.00. At September 30, 2015, the Company was in compliance with its financial covenants contained in the Term B Loan.

Debt issuance costs of approximately $3.0 million were incurred in connection with the Term B Loan, along with the original issue discount of $4.0 million. Both the debt issuance costs and the original issue discount will be amortized into interest expense over the term of the Term B Loan Facility. The Company recognized $0.2 million related to the amortization of debt issuance costs and original issue discount during the three and nine months ended September 30, 2015, which is included in the accompanying condensed consolidated statements of income. As of September 30, 2015, the Company had aggregate principal outstanding of $197.5 million bearing interest at 7.00%, and had $6.8 million of unamortized debt issuance costs and original issue discount, all of which are recorded as a reduction of the debt balance on the Company's condensed consolidated balance sheet.

As of September 30, 2015, the Company's Term B Loan traded at approximately 99.0% of par value. The valuations of the Credit Agreement were determined based on Level 2 inputs under the fair value hierarchy, as defined.

Bank facilities

In Australia, the Company's subsidiary is party to an approximate $14.0 million revolving debt facility, which matures on November 30, 2015, is subject to interest at a bank-specified rate plus 1.90% and is secured by substantially all the assets of the subsidiary. As of September 30, 2015, $4.3 million was outstanding under this agreement, bearing interest at 4.0%. No amounts were outstanding as of December 31, 2014.

In May 2014, the Company's Dutch subsidiary entered into a credit agreement consisting of a $12.5 million uncommitted working capital facility which matured on May 29, 2015. This facility was subject to interest at LIBOR plus 2.75% per annum and was guaranteed by TriMas. In addition, this Dutch subsidiary was subject to an overdraft facility in conjunction with the uncommitted working capital facility up to $1.0 million, subject to interest at U.S. dollar prime rate plus 0.75%. This facility matured in May 2015 and accordingly no balances were outstanding at September 30, 2015. As of December 31, 2014, $0.1 million was outstanding on this facility.

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

8. Derivative Instruments

Foreign Currency Exchange Rate Risk

As of September 30, 2015, the Company was party to forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately $9.8 million. The Company uses foreign currency forward contracts to mitigate the risk associated with fluctuations in currency rates impacting cash flows related to certain payments for contract manufacturing in its lower-cost manufacturing facilities. The foreign currency forward contracts hedge currency exposure between the Mexican peso and the U.S. dollar, the Thai baht and the Australian dollar and the U.S. dollar and the Australian dollar and mature at specified monthly settlement dates through March 2016. At inception, the Company designated the foreign currency forward contracts as cash flow hedges. Upon purchase of certain inventories the Company de-designates the foreign currency forward contract.

Financial Statement Presentation

As of September 30, 2015 and December 31, 2014, the fair value carrying amount of the Company's derivative instruments are recorded as follows:

	Balance Sheet Caption	Asset / (Liability) Derivatives September 30, 2015	December 31, 2014
		(dollars in thousands)	
Derivatives designated as hedging instruments			
Foreign currency forward contracts	Other assets	$100	$—
Foreign currency forward contracts	Accrued liabilities	(370)	(150)
Total derivatives designated as hedging instruments		(270)	(150)
Derivatives not designated as hedging instruments			
Foreign currency forward contracts	Other assets	80	—
Foreign currency forward contracts	Accrued liabilities	(130)	—
Total derivatives not designated as hedging instruments		(50)	—
Total derivatives		$(320)	$(150)

The following tables summarize the income (loss) recognized in accumulated other comprehensive income ("AOCI"), the amounts reclassified from AOCI into earnings and the amounts recognized directly into earnings as of and for the three and nine months ended September 30, 2015 and 2014:

	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion, net of tax)		Location of Income (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Income (Loss) Reclassified from AOCI into Earnings — Three months ended September 30,		Nine months ended September 30,	
	As of September 30, 2015	As of December 31, 2014		2015	2014	2015	2014
	(dollars in thousands)			(dollars in thousands)			
Derivatives instruments							
Foreign currency forward contracts	$(280)	$(70)	Cost of sales	$(610)	$150	$(1,060)	$370

Over the next 12 months, the Company expects to reclassify approximately $0.2 million of pre-tax deferred losses from AOCI to cost of sales as the inventory purchases are settled.

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Fair Value Measurements

The fair value of the Company's derivatives are estimated using an income approach based on valuation techniques to convert future amounts to a single, discounted amount. Estimates of the fair value of the Company's foreign currency forward contracts use observable inputs such as forward currency exchange rates. Fair value measurements and the fair value hierarchy level for the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 are shown below.

	Frequency	Asset / (Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(dollars in thousands)			
September 30, 2015					
Foreign currency forward contracts	Recurring	$(320)	$—	$(320)	$—
December 31, 2014					
Foreign currency forward contracts	Recurring	$(150)	$—	$(150)	$—

9. Segment Information

Horizon groups its operating segments into reportable segments by the region in which sales and manufacturing efforts are focused. Each operating segment has discrete financial information evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. See below for further information regarding the types of products and services provided within each reportable segment.

Cequent Americas - A market leader in the design, manufacture and distribution of a wide variety of high-quality, custom engineered towing, trailering and cargo management products and related accessories. These products are designed to support OEMs, original equipment suppliers, aftermarket and retail customers in the agricultural, automotive, construction, industrial, marine, military, recreational vehicle, trailer and utility end markets. Products include brake controllers, cargo management, heavy-duty towing products, jacks and couplers, protection/securing systems, trailer structural and electrical components, tow bars, vehicle roof racks, vehicle trailer hitches and additional accessories.

Cequent APEA - With a product offering similar to Cequent Americas, Cequent APEA focuses its sales and manufacturing efforts in the Asia Pacific, Europe and Africa regions of the world.

Segment activity is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Net Sales				
Cequent Americas	$116,540	$113,580	$342,030	$356,660
Cequent APEA	36,800	44,280	112,210	127,550
Total	$153,340	$157,860	$454,240	$484,210
Operating Profit (Loss)				
Cequent Americas	$10,700	$8,550	$24,400	$31,100
Cequent APEA	1,730	3,140	5,650	7,770
Corporate expenses	(3,820)	(3,820)	(12,370)	(11,770)
Total	$8,610	$7,870	$17,680	$27,100

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

10. Equity Awards
Description of the Plan
Prior to the spin-off, certain employees of Horizon participated in the following TriMas equity incentive plans: the 2011 TriMas Corporation Omnibus Incentive Compensation Plan, the TriMas Corporation 2006 Long Term Equity Incentive Plan and the TriMas Corporation 2002 Long Term Equity Incentive Plan (collectively, the "TriMas Plans") and were eligible to receive TriMas stock-based awards including stock options, restricted share awards and performance-based restricted share units. Effective June 30, 2015, Horizon employees and non-employee directors began participating in the Horizon Global Corporation 2015 Equity and Incentive Compensation Plan ("Horizon 2015 Plan").
The Horizon 2015 Plan authorizes the Compensation Committee of the Horizon Board of Directors to grant qualified or non-qualified incentive stock options, stock appreciation rights, stock awards (including restricted stock and restricted stock unit awards), cash incentive awards and performance awards to Horizon employees and non-employee directors. No more than 2.0 million Horizon common shares may be delivered under the Horizon 2015 Plan, with no more than 0.5 million "replacement awards" to former holders of TriMas equity awards under the TriMas Plans.
In connection with the spin-off, certain stock compensation awards granted under the TriMas Plans were modified to substitute awards under the Horizon 2015 Plan and adjusted as follows:

- with respect to each adjusted stock option award covering Horizon common stock, the per-share exercise price for such award was established so that the award would retain immediately after the spin-off, in the aggregate, the same intrinsic value that the original TriMas stock option award had immediately prior to the spin-off (subject to rounding);
- with respect to each adjusted stock option, restricted share, and restricted stock unit award covering Horizon common stock, the number of underlying shares of common stock subject to such award was equitably adjusted so that the award would retain immediately after the spin-off, in the aggregate, the same intrinsic value that the award had immediately prior to the spin-off (subject to rounding);
- with respect to any continuous employment requirement associated with any equity incentive awards, such requirement will be satisfied after the spin-off by a Horizon employee based on his or her continuous employment with Horizon;
- to the extent any original TriMas equity incentive award is subject to accelerated vesting or exercisability in the event of a "change of control," the corresponding post-spin-off Horizon equity incentive awards will generally accelerate in the same manner in the event of a change of control of Horizon; and
- Horizon employees who hold TriMas restricted shares prior to the spin-off will receive no Horizon common stock with respect to such restricted shares (other than the Horizon restricted shares described above) in connection with the distribution of Horizon common stock to TriMas stockholders generally.

The modification of the stock compensation awards occurred in conjunction with the distribution of Horizon common shares to TriMas shareholders on the June 30, 2015 after-market distribution. As a result, no grant, exercise or cancellation activity occurred and no additional compensation was recognized as a result of the substitution.
Stock Options

During the three month period ended September 30, 2015, the Company granted 154,856 stock options to certain key employees, including named executive officers. These stock options have a term of ten years and vest ratably on (i) the first anniversary of the date of grant, (ii) March 1, 2017 and (iii) March 1, 2018.

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

The following table provides the significant assumptions used to calculate the grant date fair market value of options granted using the Black-Scholes option pricing method:

	August 14, 2015 Grant	
Weighted-average fair value per option	$4.41	
Exercise price	$11.02	
Risk-free interest rate	1.79	%
Dividend yield	0	%
Expected stock volatility	39.54	%
Expected life (years)	5.85	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The expected term was determined using the simplified method as described in Staff Accounting Bulletin Topic 14: "Share-Based Payment", because the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. In the absence of adequate stock price history of Horizon common stock, the expected volatility related to stock option awards granted subsequent to the spin-off is based on the historical volatility of a selected group of peer companies' stock. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes Horizon stock option activity from the first grant date of June 30, 2015 to September 30, 2015:

	Number of Stock Options	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2015	9,299	$3.69		
Granted	154,856	11.02		
Exercised	6,569	0.53		
Canceled, forfeited	—	—		
Expired	—	—		
Outstanding at September 30, 2015	157,586	$11.02	9.8	$54,457

As of September 30, 2015, there were $0.6 million in unrecognized compensation costs related to stock options that is expected to be recognized over a weighted-average period of 1.6 years. There were no unrecognized compensation costs related to stock options for the three and nine months ended September 30, 2014. The Company recognized approximately $0.1 million of stock-based compensation expense related to stock options during the three and nine months ended September 30, 2015. The Company recognized no compensation expense for the three and nine months ended September 30, 2014. Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

Table of Contents

HORIZON GLOBAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

Restricted Shares

In August 2015, the Company granted 205,922 restricted shares to certain key employees and non-employee directors. The total grant consisted of 32,180 restricted shares that vest on May 1, 2016, 20,884 restricted shares that vest on March 5, 2017 and 152,858 restricted shares that vest on July 1, 2018. The grant date fair value of restricted shares is expensed on a straight-line basis over the vesting period. Restricted share fair values are based on the closing trading price of the Company's common stock on the date of grant. Changes in the number of restricted shares outstanding for the period ended September 30, 2015 were as follows:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2015	229,046	$