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Horizon Global Corp  
Form 10-Q  
October 31, 2017

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

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

For the Quarterly Period Ended September 30, 2017

or  
 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 (IRS Employer  
incorporation or organization) Identification No.)  
2600 W. Big Beaver Road, Suite 555  
Troy, Michigan 48084  
(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  No .

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  No .

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

(Do not check if a  
smaller reporting  
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. Yes  No

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

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As of October 27, 2017, the number of outstanding shares of the Registrant's common stock, par value \$0.01 per share, was 24,937,976 shares.

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HORIZON GLOBAL CORPORATION

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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 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 integration of the Westfalia Group (“Westfalia Group” consists of Westfalia-Automotive Holding GmbH and TeIJs Holding B.V.); 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 Item 1A, “Risk Factors” and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The risks described in our Annual Report 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 undue 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, except as otherwise required by law.

We disclose important factors that could cause our actual results to differ materially from our expectations implied by our forward-looking statements under 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.

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## PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements  
HORIZON GLOBAL CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(dollars in thousands)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| Assets   |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 20,470             | \$ 50,240            |
| Receivables, net of reserves of approximately \$4.1 million and \$3.8 million at September 30, 2017 and December 31, 2016, respectively                                | 112,360               | 77,570               |
| Inventories  | 162,660               | 146,020              |
| Prepaid expenses and other current assets  | 10,200                | 12,160               |
| Total current assets   | 305,690               | 285,990              |
| Property and equipment, net  | 110,830               | 93,760               |
| Goodwill   | 145,910               | 120,190              |
| Other intangibles, net   | 92,780                | 86,720               |
| Deferred income taxes  | 10,790                | 9,370                |
| Other assets   | 10,810                | 17,340               |
| Total assets   | \$ 676,810            | \$ 613,370           |
| Liabilities and Shareholders' Equity   |                       |                      |
| Current liabilities:   |                       |                      |
| Current maturities, long-term debt   | \$ 9,510              | \$ 22,900            |
| Accounts payable   | 111,380               | 111,450              |
| Accrued liabilities  | 68,060                | 63,780               |
| Total current liabilities  | 188,950               | 198,130              |
| Long-term debt   | 269,710               | 327,040              |
| Deferred income taxes  | 31,730                | 25,730               |
| Other long-term liabilities  | 28,790                | 30,410               |
| Total liabilities  | 519,180               | 581,310              |
| Commitments and contingent liabilities   | —                     | —                    |
| Shareholders' equity:  |                       |                      |
| Preferred stock, \$0.01 par: Authorized 100,000,000 shares;<br>Issued and outstanding: None  | —                     | —                    |
| Common stock, \$0.01 par: Authorized 400,000,000 shares;<br>Issued and outstanding: 24,936,110 shares at September 30, 2017 and 20,899,959 shares at December 31, 2016 | 250                   | 210                  |
| Paid-in capital  | 158,270               | 54,800               |
| Treasury stock, at cost: 686,506 shares at September 30, 2017 and no shares at December 31, 2016   | (10,000)              | ) —                  |
| Retained earnings (accumulated deficit)  | 2,980                 | (14,310)             |
| Accumulated other comprehensive income (loss)  | 7,330                 | (8,340)              |
| Total Horizon Global shareholders' equity  | 158,830               | 32,360               |
| Noncontrolling interest  | (1,200)               | (300)                |
| Total shareholders' equity   | 157,630               | 32,060               |

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|  |            |            |
|--|------------|------------|
| Total liabilities and shareholders' equity | \$ 676,810 | \$ 613,370 |
|--|------------|------------|

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

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HORIZON GLOBAL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (unaudited—dollars in thousands, except for per share amounts)

|  | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2017               | 2016       | 2017              | 2016       |
| Net sales  | \$240,120          | \$151,720  | \$696,990         | \$465,590  |
| Cost of sales  | (181,700 )         | (109,210 ) | (525,510 )        | (339,760 ) |
| Gross profit   | 58,420             | 42,510     | 171,480           | 125,830    |
| Selling, general and administrative expenses           | (44,800 )          | (35,850 )  | (134,280 )        | (97,510 )  |
| Impairment of intangible assets                        | —                  | —          | —                 | (2,240 )   |
| Net loss on dispositions of property and equipment     | (330 )             | (30 )      | (330 )            | (520 )     |
| Operating profit                                       | 13,290             | 6,630      | 36,870            | 25,560     |
| Other expense, net:                                    |                    |            |                   |            |
| Interest expense                                       | (5,540 )           | (4,100 )   | (16,650 )         | (12,600 )  |
| Loss on extinguishment of debt                         | —                  | —          | (4,640 )          | —          |
| Other expense, net                                     | (1,310 )           | (1,000 )   | (2,560 )          | (2,170 )   |
| Other expense, net                                     | (6,850 )           | (5,100 )   | (23,850 )         | (14,770 )  |
| Income before income tax benefit (expense)             | 6,440              | 1,530      | 13,020            | 10,790     |
| Income tax benefit (expense)                           | 120                | (1,160 )   | 3,350             | (900 )     |
| Net income   | 6,560              | 370        | 16,370            | 9,890      |
| Less: Net loss attributable to noncontrolling interest | (330 )             | —          | (920 )            | —          |
| Net income attributable to Horizon Global              | \$6,890            | \$370      | \$17,290          | \$9,890    |
| Net income per share attributable to Horizon Global:   |                    |            |                   |            |
| Basic  | \$0.28             | \$0.02     | \$0.70            | \$0.55     |
| Diluted  | \$0.27             | \$0.02     | \$0.69            | \$0.54     |
| Weighted average common shares outstanding:            |                    |            |                   |            |
| Basic  | 24,948,410         | 18,174,509 | 24,728,643        | 18,144,998 |
| Diluted  | 25,379,252         | 18,519,077 | 25,154,800        | 18,333,226 |

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



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HORIZON GLOBAL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited—dollars in thousands)

|  | Three months<br>ended<br>September 30, |         | Nine months<br>ended<br>September 30, |          |
|--|--|---------|---------------------------------------|----------|
|  | 2017                                   | 2016    | 2017                                  | 2016     |
| Net income   | \$6,560                                | \$370   | \$16,370                              | \$9,890  |
| Other comprehensive income (loss), net of tax:                   |  |         |                                       |          |
| Foreign currency translation                                     | 2,020                                  | 830     | 15,520                                | 1,130    |
| Derivative instruments (Note 8)                                  | (1,080 )                               | (30 )   | 170                                   | 370      |
| Total other comprehensive income                                 | 940                                    | 800     | 15,690                                | 1,500    |
| Total comprehensive income                                       | 7,500                                  | 1,170   | 32,060                                | 11,390   |
| Less: Comprehensive loss attributable to noncontrolling interest | (320 )                                 | —       | (900 )                                | —        |
| Comprehensive income attributable to Horizon Global              | \$7,820                                | \$1,170 | \$32,960                              | \$11,390 |

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

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HORIZON GLOBAL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited—dollars in thousands)

|  | Nine months ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2017                               | 2016      |
| Cash Flows from Operating Activities:  |                                    |           |
| Net income   | \$ 16,370                          | \$ 9,890  |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                                    |           |
| Net loss on dispositions of property and equipment   | 330                                | 520       |
| Depreciation   | 10,280                             | 7,490     |
| Amortization of intangible assets  | 7,660                              | 5,480     |
| Impairment of intangible assets  | —                                  | 2,240     |
| Amortization of original issuance discount and debt issuance costs                           | 5,090                              | 1,390     |
| Deferred income taxes  | 840                                | (1,500 )  |
| Loss on extinguishment of debt   | 4,640                              | —         |
| Non-cash compensation expense  | 2,760                              | 2,840     |
| Amortization of purchase accounting inventory step-up  | 420                                | —         |
| Increase in receivables  | (28,360 )                          | (8,260 )  |
| (Increase) decrease in inventories   | (7,920 )                           | 19,920    |
| (Increase) decrease in prepaid expenses and other assets                                     | 3,490                              | (1,670 )  |
| Decrease in accounts payable and accrued liabilities   | (17,440 )                          | (10,040 ) |
| Other, net   | (480 )                             | (790 )    |
| Net cash provided by (used for) operating activities   | (2,320 )                           | 27,510    |
| Cash Flows from Investing Activities:  |                                    |           |
| Capital expenditures   | (20,270 )                          | (10,090 ) |
| Acquisition of businesses, net of cash acquired  | (19,800 )                          | —         |
| Net proceeds from disposition of property and equipment                                      | 1,080                              | 240       |
| Net cash used for investing activities   | (38,990 )                          | (9,850 )  |
| Cash Flows from Financing Activities:  |                                    |           |
| Proceeds from borrowings on credit facilities  | 36,970                             | 40,160    |
| Repayments of borrowings on credit facilities  | (41,630 )                          | (39,030 ) |
| Repayments of borrowings on Term B Loan, inclusive of transaction costs                      | (187,820)                          | (7,500 )  |
| Proceeds from ABL Revolving Debt   | 114,500                            | 105,230   |
| Repayments of borrowings on ABL Revolving Debt   | (94,500 )                          | (98,430 ) |
| Proceeds from issuance of common stock, net of offering costs                                | 79,920                             | —         |
| Repurchase of common stock   | (10,000 )                          | —         |
| Proceeds from issuance of Convertible Notes, net of issuance costs                           | 121,130                            | —         |
| Proceeds from issuance of Warrants, net of issuance costs                                    | 20,930                             | —         |
| Payments on Convertible Note Hedges, inclusive of issuance costs                             | (29,680 )                          | —         |
| Other, net   | (240 )                             | (230 )    |
| Net cash provided by financing activities  | 9,580                              | 200       |
| Effect of exchange rate changes on cash  | 1,960                              | 40        |
| Cash and Cash Equivalents:   |                                    |           |
| Increase (decrease) for the period   | (29,770 )                          | 17,900    |
| At beginning of period   | 50,240                             | 23,520    |
| At end of period   | \$ 20,470                          | \$ 41,420 |
| Supplemental disclosure of cash flow information:  |                                    |           |
| Cash paid for interest   | \$ 10,090                          | \$ 11,180 |

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

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HORIZON GLOBAL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 Nine Months Ended September 30, 2017  
 (unaudited—dollars in thousands)

|  | Common<br>Stock | Raid-in<br>Capital | Treasury<br>Stock | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Horizon<br>Global<br>Shareholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Shareholders'<br>Equity |
|--|-----------------|--------------------|-------------------|--|---|---|----------------------------|----------------------------------|
| Balance at December 31, 2016   | \$ 210          | \$54,800           | \$—               | \$(14,310)                                       | \$(8,340)   | \$32,360  | \$(300)                    | \$32,060                         |
| Net income (loss)  | —               | —                  | —                 | 17,290   | —   | 17,290  | (920)                      | 16,370                           |
| Other comprehensive income, net of tax   | —               | —                  | —                 | —  | 15,670  | 15,670  | 20                         | 15,690                           |
| Issuance of common stock, net of issuance costs  | 40              | 79,880             | —                 | —  | —   | 79,920  | —                          | 79,920                           |
| Repurchase of common stock   | —               | —                  | (10,000)          | —  | —   | (10,000)  | —                          | (10,000)                         |
| Shares surrendered upon vesting of employees' share based payment awards to cover tax obligations      | —               | (240)              | —                 | —  | —   | (240)   | —                          | (240)                            |
| Non-cash compensation expense  | —               | 2,760              | —                 | —  | —   | 2,760   | —                          | 2,760                            |
| Issuance of Warrants, net of issuance costs  | —               | 20,930             | —                 | —  | —   | 20,930  | —                          | 20,930                           |
| Initial equity component of the 2.75% Convertible Senior Notes due 2022, net of issuance costs and tax | —               | 19,690             | —                 | —  | —   | 19,690  | —                          | 19,690                           |
| Convertible Note Hedges, net of issuance costs and tax   | —               | (19,550)           | —                 | —  | —   | (19,550)  | —                          | (19,550)                         |
| Balance at September 30, 2017  | \$ 250          | \$158,270          | \$(10,000)        | \$2,980  | \$7,330   | \$158,830   | \$(1,200)                  | \$157,630                        |

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

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

1. Basis of Presentation

Horizon Global Corporation (“Horizon,” “Horizon Global,” or the “Company”) 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 and original equipment suppliers (collectively, “OEs”), 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 Horizon Americas, Horizon Europe-Africa, and Horizon Asia-Pacific. See Note 9, “Segment Information,” for further information on each of the Company’s reportable segments.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) for interim financial information and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. 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. Results of operations for interim periods are not necessarily indicative of results for the full year.

2. New Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted and should be applied on a modified retrospective basis. The Company is in the process of assessing the impact of the adoption of ASU 2017-12 on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 eliminates the requirement to perform a hypothetical purchase price allocation to measure the amount of goodwill impairment. Instead, under ASU 2017-04, the goodwill impairment would be the amount by which a reporting unit’s carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019 with early adoption permitted. The Company intends to early adopt ASU 2017-04 for its annual goodwill impairment test during the fourth quarter of 2017.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”). ASU 2016-16 provides an amendment to the accounting guidance related to the recognition of income tax consequences of an intra-entity transfer of an asset other than inventory. This guidance is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted the first interim period of a fiscal year and should be applied on a modified retrospective basis. Under the new guidance, an entity is required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Under the current guidance, the income tax effects are deferred until the asset has been sold to an outside party. The Company does not expect the

adoption of ASU 2016-16 to have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which supersedes the leases requirements in "Leases (Topic 840)." The objective of this update is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those

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

annual periods, with early adoption permitted. The Company is in the process of assessing the impact of the adoption of ASU 2016-02 on its condensed consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” This guidance 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. As of January 1, 2017, the provisions of this ASU became effective for the Company on a prospective basis and did not have a material impact on the Company’s condensed consolidated financial position or results of operations.

Accounting Standards Update 2014-09

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” This ASU supersedes most of the existing guidance on revenue recognition in ASC Topic 605, “Revenue Recognition”, and establishes a broad principle that would require an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity identifies the contract with a customer, identifies the separate performance obligations in the contract, determines the transaction price, allocates the transaction price to the separate performance obligations and recognizes revenue when each separate performance obligation is satisfied. The FASB has subsequently issued additional ASUs to clarify certain elements of the new revenue recognition guidance. This guidance is effective for Horizon Global beginning on January 1, 2018 and entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The Company expects to adopt the ASU using the modified retrospective approach, which would result in a cumulative-effect adjustment as of the date of adoption. While Horizon Global is continuing to assess all potential impacts of implementing this guidance, the Company does not believe this standard will have a material impact on its condensed consolidated financial statements.

There are also certain considerations related to internal control over financial reporting that are associated with implementing the new guidance under Topic 606. The Company is currently evaluating its control framework for revenue recognition and identifying any changes that may need to be made in response to the new guidance. Disclosure requirements under the new guidance in Topic 606 have been significantly expanded in comparison to the disclosure requirements under the current guidance. Designing and implementing the appropriate controls over gathering and reporting the information required under Topic 606 is currently in process.

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## HORIZON GLOBAL CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 3. Acquisitions

On July 3, 2017, the Company completed the acquisition of Best Bars Limited (“Best Bars”), within the Horizon Asia-Pacific reportable segment, for total consideration of \$19.8 million, subject to a net working capital adjustment. Best Bars is a provider of towing solutions and automotive accessories to OE and aftermarket customers in New Zealand. The Company believes the acquisition will expand its opportunities for revenue and margin growth, increase its market share and further develop its global OE footprint. Supplemental pro forma disclosures are not included as the amounts are deemed immaterial. Revenues and earnings of the acquiree since the acquisition date included in the Company’s condensed consolidated statements of income are immaterial.

The following table summarizes the fair value of consideration paid for Best Bars, and the assets acquired and liabilities assumed:

|  | Acquisition<br>Date<br>(dollars in<br>thousands) |
|--|--|
| Consideration  |  |
| Cash paid  | \$ 19,800  |
| Recognized amounts of identifiable assets acquired and liabilities assumed |  |
| Receivables, net   | 2,100  |
| Inventories  | 2,340  |
| Other intangibles, net   | 7,690  |
| Prepaid expenses and other current assets                                  | 110  |
| Property and equipment, net  | 2,250  |
| Accounts payable and accrued liabilities                                   | 1,680  |
| Total identifiable net assets  | 12,810   |
| Goodwill   | 6,990  |
|  | \$ 19,800  |

## 4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 30, 2017 are summarized as follows:

|   | Horizon<br>America     | Horizon<br>Europe-Africa | Horizon<br>Asia-Pacific | Total     |
|---|------------------------|--------------------------|-------------------------|-----------|
|   | (dollars in thousands) |                          |                         |           |
| Balance at December 31, 2016              | \$5,370                | \$ 114,820               | \$ —                    | \$120,190 |
| Goodwill from acquisitions <sup>(a)</sup> | —                      |                          | 6,990                   | 6,990     |
| Foreign currency translation and other    | 160                    | 18,690                   | (120)                   | ) 18,730  |
| Balance at September 30, 2017             | \$5,530                | \$ 133,510               | \$ 6,870                | \$145,910 |

<sup>(a)</sup> Attributable to the acquisition of Best Bars, as further described in Note 3, “Acquisitions.”



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

The gross carrying amounts and accumulated amortization of the Company's other intangibles as of September 30, 2017 and December 31, 2016 are summarized below. The Company amortizes these assets over periods ranging from three to 25 years.

| Intangible Category by Useful Life      | September 30, 2017     |                          | December 31, 2016     |                          |
|---|------------------------|--------------------------|-----------------------|--------------------------|
|   | Gross Carrying Amount  | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
|   | (dollars in thousands) |                          |                       |                          |
| Finite-lived intangible assets:         |                        |                          |                       |                          |
| Customer relationships, 5 – 12 years    | \$70,320               | \$(31,610)               | \$66,000              | \$(28,440)               |
| Customer relationships, 15 – 25 years   | 111,680                | (88,650)                 | 104,690               | (84,120)                 |
| Total customer relationships            | 182,000                | (120,260)                | 170,690               | (112,560)                |
| Technology and other, 3 – 15 years      | 19,520                 | (15,290)                 | 18,410                | (14,560)                 |
| Trademark/Trade names, <1 - 8 years     | 730                    | (170)                    | 150                   | (150)                    |
| Total finite-lived intangible assets    | 202,250                | (135,720)                | 189,250               | (127,270)                |
| Trademark/Trade names, indefinite-lived | 26,250                 | —                        | 24,740                | —                        |
| Total other intangible assets           | \$228,500              | \$(135,720)              | \$213,990             | \$(127,270)              |

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

|  | Three months ended     |                    | Nine months ended  |                    |
|--|------------------------|--------------------|--------------------|--------------------|
|  | September 30, 2017     | September 30, 2016 | September 30, 2017 | September 30, 2016 |
|  | (dollars in thousands) |                    |                    |                    |
| Technology and other, included in cost of sales  | \$210                  | \$30               | \$570              | \$100              |
| Customer relationships & trademark/trade names, included in selling, general and administrative expenses | 2,490                  | 1,810              | 7,090              | 5,380              |
| Total amortization expense   | \$2,700                | \$1,840            | \$7,660            | \$5,480            |

#### 5. Inventories

Inventories consist of the following components:

|                   | September 30, 2017     | December 31, 2016 |
|-------------------|------------------------|-------------------|
|                   | (dollars in thousands) |                   |
| Finished goods    | \$94,200               | \$89,410          |
| Work in process   | 20,040                 | 16,270            |
| Raw materials     | 48,420                 | 40,340            |
| Total inventories | \$162,660              | \$146,020         |

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## 6. Property and Equipment, Net

Property and equipment consists of the following components:

|                                | September 30,<br>2017  | December 31,<br>2016 |
|--------------------------------|------------------------|----------------------|
|                                | (dollars in thousands) |                      |
| Land and land improvements     | \$450                  | \$ 520               |
| Buildings                      | 24,580                 | 20,120               |
| Machinery and equipment        | 161,330                | 138,470              |
|                                | 186,360                | 159,110              |
| Less: Accumulated depreciation | 75,530                 | 65,350               |
| Property and equipment, net    | \$ 110,830             | \$ 93,760            |

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

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2017                                | 2016     | 2017                               | 2016     |
|   | (dollars in thousands)              |          |                                    |          |
| Depreciation expense, included in cost of sales                               | \$ 3,440                            | \$ 2,060 | \$ 9,330                           | \$ 6,310 |
| Depreciation expense, included in selling, general and administrative expense | 330                                 | 440      | 950                                | 1,180    |
| Total depreciation expense  | \$ 3,770                            | \$ 2,500 | \$ 10,280                          | \$ 7,490 |

## 7. Long-term Debt

The Company's long-term debt consists of the following:

|   | September 30,<br>2017  | December 31,<br>2016 |
|---|------------------------|----------------------|
|   | (dollars in thousands) |                      |
| ABL Facility  | \$20,000               | \$ —                 |
| Term B Loan   | 151,560                | 337,000              |
| Convertible Notes   | 125,000                | —                    |
| Bank facilities, capital leases and other long-term debt                      | 19,190                 | 21,660               |
|   | 315,750                | 358,660              |
| Less:   |                        |                      |
| Unamortized debt issuance costs and original issuance discount on Term B Loan | 5,330                  | 8,720                |
| Unamortized debt issuance costs and discount on the Convertible Notes         | 31,200                 | —                    |
| Current maturities, long-term debt  | 9,510                  | 22,900               |
| Long-term debt  | \$269,710              | \$ 327,040           |
| Convertible Notes   |                        |                      |

On February 1, 2017, the Company completed a public offering of 2.75% Convertible Senior Notes due 2022 (the "Convertible Notes") in an aggregate principal amount of \$125.0 million. Interest is payable on January 1 and July 1 of each year, beginning on July 1, 2017. The Convertible Notes are convertible into 5,005,000 shares of the Company's

common stock, based on an initial conversion price of \$24.98 per share. The Convertible Notes will mature on July 1, 2022 unless earlier converted.

The Convertible Notes are convertible at the option of the holder (i) during any calendar quarter beginning after March 31, 2017, if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business days after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the Convertible Notes for each trading day of such period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (iii) upon the occurrence of specified corporate events; and (iv) on or after January 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date. During the third quarter of 2017, no conditions allowing holders of the Convertible Notes to convert have been met. Therefore, the Convertible Notes are not convertible during the fourth quarter of 2017 and are classified as long-term debt. Should conditions allowing holders of the Convertible Notes to convert be met in the fourth quarter of 2017 or a future quarter, the Convertible Notes will be convertible at their holders' option during the immediately following quarter. As of September 30, 2017, the if-converted value of the Convertible Notes did not exceed the principal value of those Convertible Notes.

Upon conversion by the holders, the Company may elect to settle such conversion in shares of its common stock, cash, or a combination thereof. Because the Company may elect to settle conversion in cash, the Company separated the Convertible Notes into their liability and equity components by allocating the issuance proceeds to each of those components in accordance with Accounting Standards Codification ("ASC") 470-20, "Debt-Debt with Conversion and Other Options." The Company first determined the fair value of the liability component by estimating the value of a similar liability that does not have an associated equity component. The Company then deducted that amount from the issuance proceeds to arrive at a residual amount, which represents the equity component. The Company accounted for the equity component as a debt discount (with an offset to paid-in capital in excess of par value). The debt discount created by the equity component is being amortized as additional non-cash interest expense using the effective interest method over the contractual term of the Convertible Notes ending on July 1, 2022.

The Company allocated offering costs of \$4.0 million to the debt and equity components in proportion to the allocation of proceeds to the components, treating them as debt issuance costs and equity issuance costs, respectively. The debt issuance costs of \$3.0 million are being amortized as additional non-cash interest expense using the effective interest method over the contractual term of the Convertible Notes. The Company presents debt issuance costs as a direct deduction from the carrying value of the liability component. The carrying value of the liability component at September 30, 2017, was \$93.8 million, including total unamortized debt discount and debt issuance costs of \$31.2 million. The \$1.0 million portion of offering costs allocated to equity issuance costs was charged to paid-in capital. The carrying amount of the equity component was \$19.7 million at September 30, 2017, net of issuance costs and taxes.

Interest expense recognized relating to the contractual interest coupon, amortization of debt discount and amortization of debt issuance costs on the Convertible Notes included in the accompanying condensed consolidated statements of income are as follows:

|   | Three<br>months<br>ended<br>September<br>30,<br>2017 | 2016 | Nine months<br>ended<br>September<br>30,<br>2017 | 2016 |
|---|--|------|--|------|
|   | (dollars in thousands)                               |      |  |      |
| Contractual interest coupon on convertible debt   | \$880  | \$   | -\$2,310   | \$ — |
| Amortization of debt issuance costs               | \$130  | \$   | -\$350   | \$ — |
| Amortization of "equity discount" related to debt | \$1,190  | \$   | -\$3,180   | \$ — |

In connection with the issuance of the Convertible Notes, the Company entered into convertible note hedge transactions (the "Convertible Note Hedges") in privately negotiated transactions with certain of the underwriters or their affiliates (in this capacity, the "option counterparties"). The Convertible Note Hedges provide the Company with

the option to acquire, on a net settlement basis, 5,005,000 shares of its common stock, which is equal to the number of shares of common stock that notionally underlie the Convertible Notes, at a strike price of \$24.98, which corresponds to the conversion price of the Convertible Notes. The Convertible Note Hedges have an expiration date that is the same as the maturity date of the Convertible Notes, subject to earlier exercise. The Convertible Note Hedges have customary anti-dilution provisions similar to the Convertible Notes. The Convertible Note Hedges have a default settlement method of net-share settlement but may be settled in cash or shares, depending on the Company's method of settlement for conversion of the corresponding Convertible Notes. If the Company exercises the Convertible Note Hedges, the shares of common stock it will receive from the option counterparties to the Convertible Note Hedges will cover the shares of

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common stock that it would be required to deliver to the holders of the converted Convertible Notes in excess of the principal amount thereof. The aggregate cost of the Convertible Note Hedges was \$29.0 million (or \$7.5 million net of the total proceeds from the Warrants sold, as discussed below), before the allocation of issuance costs of approximately \$0.7 million. The Convertible Note Hedges are accounted for as equity transactions in accordance with ASC 815-40, “Derivatives and Hedging-Contracts in Entity’s own Equity.”

In connection with the issuance of the Convertible Notes, the Company also sold net-share-settled warrants (the “Warrants”) in privately negotiated transactions with the option counterparties for the purchase of up to 5,005,000 shares of its common stock at a strike price of \$29.60 per share, for total proceeds of \$21.5 million. The Company also recorded the Warrants within shareholders’ equity in accordance with ASC 815-40. The Warrants have customary anti-dilution provisions similar to the Convertible Notes. As a result of the issuance of the Warrants, the Company will experience dilution to its diluted earnings per share if its average closing stock price exceeds \$29.60 for any fiscal quarter. The Warrants expire on various dates from October 2022 through February 2023 and must be net-settled in shares of the Company’s common stock. Therefore, upon exercise of the Warrants, the Company will issue shares of its common stock to the purchasers of the Warrants that represent the value by which the price of the common stock exceeds the strike price stipulated within the particular warrant agreement.

#### ABL Facility

On December 22, 2015, the Company entered into an amended and restated loan agreement among the Company, Cequent Performance Products, Inc. (“Cequent Performance”), Cequent Consumer Products, Inc. (“Cequent Consumer”), Cequent UK Limited, Cequent Towing Products of Canada Ltd., certain other subsidiaries of the Company party thereto as guarantors, the lenders party thereto and Bank of America, N.A., as agent for the lenders (the “ABL Loan Agreement”), under which the lenders party thereto agreed to provide the Company and certain of its subsidiaries with a committed asset-based revolving credit facility (the “ABL Facility”) providing for revolving loans up to an aggregate principal amount of \$99.0 million.

The ABL Loan Agreement provides for the increase of the U.S. sub-facility from an aggregate principal amount of \$85.0 million to up to \$94.0 million (subject to availability under a U.S.-specific borrowing base) (the “U.S. Facility”), and the establishment of two new sub-facilities, (i) a Canadian sub-facility, in an aggregate principal amount of up to \$2.0 million (subject to availability under a Canadian-specific borrowing base) (the “Canadian Facility”), and (ii) a U.K. sub-facility in an aggregate principal amount of up to \$3.0 million (subject to availability under a U.K.-specific borrowing base) (the “U.K. Facility”). The ABL Facility also includes a \$20.0 million letter of credit sub-facility, which matures on June 30, 2020.

Borrowings under the ABL Facility bear interest, at the Company’s election, at either (i) 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 (ii) the London Interbank Offered Rate (“LIBOR”) plus the Applicable Margin.

The Company incurs fees with respect to the ABL Facility, including (i) an unused line fee of 0.25% times the amount by which the revolver commitments exceed the average daily revolver usage during any month, (ii) facility fees equal to the applicable margin in effect for LIBOR revolving loans, as defined per the credit agreement, times the average daily stated amount of letters of credit, (iii) a fronting fee equal to 0.125% per annum on the stated amount of each letter of credit, and (iv) customary administrative fees.

All of the indebtedness of the U.S. 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. In connection with the ABL Loan Agreement, Cequent Performance and certain other subsidiaries of the Company party to the ABL Loan Agreement entered into a foreign facility guarantee and collateral agreement (the “Foreign Collateral Agreement”) in order to secure and guarantee the obligation under the Canadian Facility and the U.K. Facility. Under the Foreign Collateral Agreement, Cequent Performance and the other subsidiaries of the Company party thereto granted a lien on certain of their assets to Bank of America, N.A., as the agent for the lenders and other

secured parties under the Canadian Facility and U.K. Facility.

The ABL Loan 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, 2017, the Company was in compliance with its financial covenants contained in the ABL Facility.

Debt issuance costs of approximately \$2.5 million were incurred in connection with the entry into and amendment of the ABL Facility. These debt issuance costs will be amortized into interest expense over the contractual term of the loan. The Company

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recognized approximately \$0.1 million and \$0.4 million of amortization of debt issuance costs for the three and nine months ended September 30, 2017, respectively, and approximately \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2016, respectively, which are included in the accompanying condensed consolidated statements of income. There were \$1.4 million and \$1.8 million of unamortized debt issuance costs included in other assets in the accompanying condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017, there was \$20.0 million outstanding under the ABL Facility with a weighted average interest rate of 3.2%. As of December 31, 2016, there were no amounts outstanding under the ABL Facility. Total letters of credit issued were approximately \$6.3 million and \$7.0 million at September 30, 2017 and December 31, 2016, respectively. The Company had \$65.0 million and \$68.7 million in availability under the ABL Facility as of September 30, 2017 and December 31, 2016, respectively.

**Term Loan**

On June 30, 2015, the Company entered into a term loan agreement (“Original Term B Loan”) under which the Company borrowed an aggregate of \$200.0 million, which matures on June 30, 2021. On September 19, 2016, the Company entered into the First Amendment to the Original Term B Loan (“Term Loan Amendment”), which amended the original Term B Loan to provide for incremental commitments in an aggregate principal amount of \$152.0 million (“Incremental Term Loans”) that were extended to the Company on October 3, 2016. The Original Term B Loan and Incremental Term Loans are collectively referred to as “Term B Loan”. On March 31, 2017, the Company entered into the Third Amendment to the Term B Loan (the “Replacement Term Loan Amendment”), which amended the Term B Loan to provide for a new term loan commitment (the “Replacement Term Loan”). The proceeds from the Replacement Term Loan were used to repay in full the outstanding principal amount of the Term B Loan. As a result of the Replacement Term Loan Amendment, the interest rate was reduced by 1.5% per annum. Additionally, quarterly principal payments required under the Original Term B Loan and Term Loan Amendment of \$2.5 million and \$2.1 million, respectively, were reduced to an aggregate quarterly principal payment of \$1.9 million. On and after the Replacement Term Loan Amendment effective date, each reference to “Term B Loan” is deemed to be a reference to the Replacement Term Loan.

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 \$75.0 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 Term B Loan bear interest, at the Company’s election, at either (i) the Base Rate plus 3.5% per annum, or (ii) LIBOR, with a 1% floor, plus 4.5% per annum. Principal payments required under the Term B Loan are \$1.9 million due each calendar quarter beginning June 2017. Commencing with the fiscal year ending December 31, 2017, and for each fiscal year thereafter, the Company will also be required to make prepayments of outstanding amounts under the Term B Loan in an amount up to 50.0% of the Company’s excess cash flow for such fiscal year, as defined in the Term B Loan, 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 contains customary negative covenants, and also contains a financial maintenance covenant which requires the Company to maintain a net leverage ratio not exceeding 5.25 to 1.00 through the fiscal quarter ending September 30, 2017, 5.00 to 1.00 through the fiscal quarter ending March 31, 2018, 4.75 to 1.00 through the fiscal quarter ending September 30, 2018; and thereafter, 4.50 to 1.00. At September 30, 2017, the Company was in compliance with its financial covenants in the Term B Loan.

During the first quarter of 2017, the Company used a portion of the net proceeds from the Convertible Notes offering as described above, along with proceeds from the Common Stock Offering as described in Note 11, "Earnings per Share", to prepay a total of \$177.0 million of the Term B Loan. In accordance with ASC 470, "Debt - Modifications and Extinguishments", the prepayment was determined to be an extinguishment of the existing debt. As a result, the pro-rata share of the unamortized debt issuance costs and original issuance discount related to the prepayment, aggregating to \$4.6 million, was recorded as a loss on the extinguishment of debt in the condensed consolidated statements of income. The remaining unamortized debt issuance costs and original issuance discount, including \$2.4 million additional transactions fees incurred in connection to the Replacement Term Loan Amendment, was approximately \$6.1 million. Both the aggregate debt issuance costs and the original issue discount will be amortized into interest expense over the remaining life of the Term B Loan. The Company recognized approximately \$0.4 million and \$1.2 million of amortization of debt issuance cost and original issue discount for the three and nine months ended September 30, 2017, respectively, and \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2016, respectively, which is



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included in the accompanying condensed consolidated statements of income. The Company had an aggregate principal amount outstanding of \$151.6 million and \$337.0 million as of September 30, 2017 and December 31, 2016, respectively, under the Term B Loan bearing interest at 5.7% and 7.0%, respectively. The Company had \$5.3 million and \$8.7 million as of September 30, 2017 and December 31, 2016, respectively, 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 sheets.

The Company's Term B Loan traded at approximately 101.4% and 101.6% of par value as of September 30, 2017 and December 31, 2016, respectively. The valuation of the Term B Loan was determined based on Level 2 inputs under the fair value hierarchy.

**Bank facilities**

Our Australian subsidiaries were party to a revolving debt facility with a borrowing capacity of approximately \$11.7 million, which would mature on November 30, 2017, that was subject to interest at a bank-specified rate plus 1.9% and was secured by substantially all the assets of the subsidiary. No amounts were outstanding as of December 31, 2016 under this facility.

On July 3, 2017, our Australian subsidiaries entered into a new agreement (collectively, the "Australian Loans") to provide for revolving borrowings with an aggregate principal amount of \$32.0 million as of September 30, 2017. The Australian Loans include two sub-facilities: (i) Facility A, with a borrowing capacity of \$20.3 million that matures on July 3, 2020 and (ii) Facility B, with a borrowing capacity of \$11.7 million that matures on July 3, 2018. No amounts were outstanding as of September 30, 2017 under the Australian Loans.

Borrowings under Facility A bear interest at the Bank Bill Swap Bid Rate ("BBSY") plus a margin determined based on the most recent net leverage ratio (as defined per the Australian credit agreement). The margin is to be determined on the first day of the period as follows: (i) 1.10% per annum if the net leverage ratio is less than 1.50 to 1.00; (ii) 1.20% per annum if the net leverage ratio is less than 2.00 to 1.00 and (iii) 1.30% if the net leverage ratio is less than 2.50 to 1.00. Borrowings under Facility B bear interest at the BBSY plus a margin of 0.9% per annum.

The Australian Loans contain financial covenants, which require our Australian subsidiaries to maintain: (i) a net leverage ratio not exceeding 2.50 to 1.00 during the period commencing on the date of the agreement and ending on the first anniversary of the date of the agreement; and 2.00 to 1.00 thereafter; (ii) a working capital coverage ratio (as defined per the Australian credit agreement) greater than 1.75 to 1.00 at all times; and (iii) a gearing ratio (defined as the ratio of senior debt to senior debt plus equity) not to exceed 50%.

**8. Derivative Instruments****Foreign Currency Exchange Rate Risk**

As of September 30, 2017, the Company was party to forward contracts to hedge changes in foreign currency exchange rates with notional amounts of approximately \$17.2 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 June 2018. 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.

On October 4, 2016, the Company entered into a cross currency swap arrangement to hedge changes in foreign currency exchange rates. As of September 30, 2017, the notional amount of the cross currency swap was approximately \$117.0 million. The Company uses the cross currency swap to mitigate the risk associated with fluctuations in currency rates impacting cash flows related to a non-U.S. denominated intercompany loan of €110.0 million. The cross currency swap hedges currency exposure between the Euro and the U.S. dollar and matures on January 3, 2019. The Company makes quarterly principal payments of €1.4 million, plus interest at a fixed rate of 5.4%

per annum, in exchange for \$1.5 million, plus interest at a fixed rate of 7.2% per annum. At inception, the Company designated the cross currency swap as a cash flow hedge. Changes in the currency rate result in reclassification of amounts from accumulated other comprehensive income to earnings to offset the re-measurement gain or loss on the non-U.S. denominated intercompany loan.

Additionally, during the third quarter of 2017, the Company's Australian subsidiary entered into a cross currency swap arrangement to hedge changes in foreign currency exchange rates. As of September 30, 2017, the notional amount of the cross currency was approximately \$6.6 million. The Australian subsidiary uses the cross currency swap to mitigate the risk associated with fluctuations in currency rates related to a non-functional currency intercompany loan of NZ\$10.0 million. The floating-to-floating cross currency swap hedges currency exposure between the New Zealand dollar and the Australian dollar and matures on June 30, 2020. The Australian subsidiary makes quarterly principal payments of NZ\$0.8 million, plus interest at the 3-month Bank Bill Benchmark Rate ("BKBM") in New Zealand plus a margin of .31% per annum, in exchange for A\$0.8 million, plus interest at the 3-month BBSY in Australia per annum. At inception, the cross currency swap was not designated as a hedging instrument.

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## Financial Statement Presentation

As of September 30, 2017 and December 31, 2016, the fair value carrying amount of the Company's derivative instruments were recorded as follows:

|  | Balance Sheet Caption                     | Asset / (Liability)<br>Derivatives |                      |
|--|---|------------------------------------|----------------------|
|  |   | September 30,<br>2017              | December 31,<br>2016 |
| (dollars in thousands)                                 |   |                                    |                      |
| Derivatives designated as hedging instruments          |   |                                    |                      |
| Foreign currency forward contracts                     | Prepaid expenses and other current assets | \$270                              | \$ 670               |
| Foreign currency forward contracts                     | Accrued liabilities                       | (100 )                             | (760 )               |
| Cross currency swap                                    | Other assets                              | —                                  | 5,720                |
| Cross currency swap                                    | Other long-term liabilities               | (7,880 )                           | —                    |
| Total derivatives designated as hedging instruments    |   | (7,710 )                           | 5,630                |
| Derivatives not designated as hedging instruments      |   |                                    |                      |
| Foreign currency forward contracts                     | Prepaid expenses and other current assets | 270                                | —                    |
| Foreign currency forward contracts                     | Accrued liabilities                       | (40 )                              | (130 )               |
| Cross currency swap                                    | Other assets                              | 20                                 | —                    |
| Total derivatives de-designated as hedging instruments |   | 250                                | (130 )               |
| Total derivatives                                      |   | \$ (7,460)                         | \$ 5,500             |

The following tables summarize the 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, 2017 and 2016:

|                                    | Amount of Gain<br>(Loss) Recognized<br>in<br>AOCI on<br>Derivatives<br>(Effective Portion,<br>net of tax) | Location of Gain (Loss) Reclassified<br>from AOCI into Earnings<br>(Effective Portion) | Amount of Gain (Loss) Reclassified<br>from AOCI into Earnings |            |                                    |             |            |
|------------------------------------|---|--|---|------------|------------------------------------|-------------|------------|
|                                    |   |  | Three months<br>ended<br>September 30,                        |            | Nine months ended<br>September 30, |             |            |
| As of<br>September<br>30,<br>2017  | As of<br>December<br>31, 2016   |  | 2017  | 2016       | 2017                               | 2016        |            |
|                                    |   |  | (dollars in thousands)  |            |                                    |             |            |
| Derivatives instruments            |   |  |   |            |                                    |             |            |
| Foreign currency forward contracts | \$190   | \$ (320 )  | Cost of sales   | \$620      | \$ (350)                           | \$880       | \$ (1,120) |
| Cross currency swap                | \$ (950)  | \$ (610 )  | Other expense, net  | \$ (4,100) | \$ —                               | \$ (13,840) | \$ —       |

Over the next 12 months, the Company expects to reclassify approximately \$0.2 million of pre-tax deferred gains, related to the foreign currency forward contracts, from AOCI to cost of sales as the inventory purchases are settled.

Over the next 12 months, the Company expects to reclassify approximately \$1.5 million of pre-tax deferred losses, related to the cross currency swap, from AOCI to other expense, net as an offset to the re-measurement gains or losses on the non-U.S. denominated intercompany loan.

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## Derivatives not designated as hedging instruments

The gain or loss resulting from the change in fair value on de-designated forward contracts is reported within cost of sales on the Company's condensed consolidated statements of income. There were \$0.1 million of losses on de-designated derivatives for the three months ended September 30, 2017 and no gain or loss on de-designated derivatives for the nine months ended September 30, 2017. The gains on de-designated derivatives amounted to \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2016, respectively. The gain or loss resulting from the change in fair value on the floating-to-floating cross currency swap is recorded within other expense, net on the Company's condensed consolidated statements of income. The gain or loss on this cross currency swap was not material for the three and nine months ended September 30, 2017, respectively.

## 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, 2017 and December 31, 2016 are shown below.

|                                    | Frequency | Asset /<br>(Liability) | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------|-----------|------------------------|---|---|--|
| (dollars in thousands)             |           |                        |   |   |  |
| September 30, 2017                 |           |                        |   |   |  |
| Foreign currency forward contracts | Recurring | \$400                  | \$  | —\$ 400   | \$ —   |
| Cross currency swaps               | Recurring | \$(7,860)              | \$  | —\$ (7,860)   | \$ —   |
| December 31, 2016                  |           |                        |   |   |  |
| Foreign currency forward contracts | Recurring | \$(220)                | \$  | —\$ (220)   | \$ —   |
| Cross currency swap                | Recurring | \$5,720                | \$  | —\$ 5,720   | \$ —   |

## 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. In the fourth quarter of 2016, as a result of the Westfalia Group acquisition, the Company realigned its executive management structure which changed the information used by our chief operating decision maker to assess performance and allocate resources. As a result, the Company reports the results of its business in three reportable segments: Horizon Americas, Horizon Europe Africa, and Horizon Asia Pacific. The Company's Brazilian operations, which has previously been included in the Horizon International reportable segment, is now managed as part of its former Horizon North America segment, which has been renamed Horizon Americas. The Company's Horizon Europe Africa reportable segment is comprised of the European and South African operations, previously included in Horizon International, and the Westfalia Group operations. The Company's former Horizon International reportable segment, excluding the Brazilian operations, was geographically divided into two separate reportable segments. The Company's Horizon Asia Pacific reportable segment is comprised of the Australia, Thailand, and New Zealand operations previously included in Horizon International. The Company has recast prior period amounts to conform to the way it currently manages and monitors segment

performance under the new segments. See below for further information regarding the types of products and services provided within each reportable segment.

Horizon 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 OEs, 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/

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## HORIZON GLOBAL CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

securing systems, trailer structural and electrical components, tow bars, vehicle roof racks, vehicle trailer hitches and additional accessories.

Horizon Europe Africa - With a product offering similar to Horizon Americas, Horizon Europe Africa focuses its sales and manufacturing efforts in Europe and Africa.

Horizon Asia Pacific - With a product offering similar to Horizon Americas, Horizon Asia Pacific focuses its sales and manufacturing efforts in the Asia-Pacific region of the world.

Segment activity is as follows:

|                         | Three months ended     |            | Nine months ended |            |
|-------------------------|------------------------|------------|-------------------|------------|
|                         | September 30,          |            | September 30,     |            |
|                         | 2017                   | 2016       | 2017              | 2016       |
|                         | (dollars in thousands) |            |                   |            |
| Net Sales               |                        |            |                   |            |
| Horizon Americas        | \$ 115,460             | \$ 110,730 | \$ 351,400        | \$ 350,170 |
| Horizon Europe-Africa   | 87,950                 | 13,050     | 253,070           | 39,600     |
| Horizon Asia-Pacific    | 36,710                 | 27,940     | 92,520            | 75,820     |
| Total                   | \$ 240,120             | \$ 151,720 | \$ 696,990        | \$ 465,590 |
| Operating Profit (Loss) |                        |            |                   |            |
| Horizon Americas        | \$ 10,930              | \$ 12,910  | \$ 38,840         | \$ 35,630  |
| Horizon Europe-Africa   | 2,680                  | 210        | 5,950             | 600        |
| Horizon Asia-Pacific    | 5,880                  | 3,750      | 13,240            | 8,830      |
| Corporate               | (6,200 )               | (10,240 )  | (21,160 )         | (19,500 )  |
| Total                   | \$ 13,290              | \$ 6,630   | \$ 36,870         | \$ 25,560  |

## 10. Equity Awards

## Description of the Plan

Horizon employees and non-employee directors participate in the Horizon Global Corporation 2015 Equity and Incentive Compensation Plan (as amended and restated, the "Horizon 2015 Plan"). The Horizon 2015 Plan authorizes the Compensation Committee of the Horizon Board of Directors to grant stock options (including "incentive stock options" as defined in Section 422 of the U.S. Internal Revenue Code), restricted shares, restricted stock units, performance shares, performance units, cash incentive awards, and certain other awards based on or related to our common stock to Horizon employees and non-employee directors. No more than 2.0 million Horizon common shares may be delivered under the Horizon 2015 Plan.

## Stock Options

The following table summarizes Horizon stock option activity from December 31, 2016 to September 30, 2017:

|                                  | Number<br>of<br>Stock<br>Options | Weighted<br>Average<br>Exercise Price | Average Remaining Contractual Life<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|----------------------------------|---------------------------------------|---|---------------------------------|
| Outstanding at December 31, 2016 | 347,585                          | \$ 10.37                              |   |                                 |
| Granted                          | —                                | —                                     |   |                                 |
| Exercised                        | (3,638 )                         | 10.40                                 |   |                                 |
| Canceled, forfeited              | —                                | —                                     |   |                                 |
| Expired                          | —                                | —                                     |   |                                 |
|                                  | 343,947                          | \$ 10.37                              | 8.1   | \$ 2,499,061                    |

Outstanding at September 30,  
2017

As of September 30, 2017, there was \$0.2 million in unrecognized compensation cost related to stock options that is expected to be recognized over a weighted-average period of 0.5 years. The Company recognized approximately \$0.1 million and \$0.3 million of stock-based compensation expense related to stock options during the three and nine months ended September 30, 2017, respectively, and approximately \$0.2 million and \$0.6 million during the three and nine months ended September 30, 2016, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

Restricted Shares

In the first nine months of 2017, the Company granted an aggregate of 185,423 restricted stock units and performance stock units to certain key employees and non-employee directors. The total grants consisted of: (i) 22,449 time-based restricted stock units that vest ratably on (1) March 1, 2018, (2) March 1, 2019 and (3) March 1, 2020; (ii) 50,416 time-based restricted stock units that vest ratably on (1) March 1, 2018, (2) March 1, 2019, (3) March 1, 2020 and (4) March 1, 2021; (iii) 72,865 market-based performance stock units that vest on March 1, 2020; (iv) 33,426 time-based restricted stock units that vest on July 1, 2018, and (v) 6,267 time-based restricted stock units that vest on July 1, 2019.

The performance criteria for the market-based performance stock units is based on the Company's total shareholder return ("TSR") relative to the TSR of the common stock of a pre-defined industry peer group, measured over a period beginning January 1, 2017 and ending December 31, 2019. TSR is calculated as the Company's average closing stock price for the 20-trading days at the end of the performance period plus Company dividends, divided by the Company's average closing stock price for the 20-trading days prior to the start of the performance period. Depending on the performance achieved, the amount of shares earned can vary from 0% of the target award to a maximum of 200% of the target award. The Company estimated the grant-date fair value of the awards subject to a market condition using a Monte Carlo simulation model, using the following weighted-average assumptions: risk-free interest rate of 1.52% and annualized volatility of 38.5%. Due to the lack of adequate stock price history of Horizon common stock, the expected volatility is based on the historical volatility of the common stock of the peer group. The grant date fair value of the performance stock units was \$18.41.



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The grant date fair value of restricted shares is expensed 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, 2017 were as follows:

|                                   | Number of Restricted Shares | Weighted Average Grant Date Fair Value |
|-----------------------------------|-----------------------------|--|
| Outstanding at December 31, 2016  | 557,563                     | \$ 11.89                               |
| Granted                           | 185,423                     | 17.49                                  |
| Vested                            | (153,086 )                  | 12.52                                  |
| Canceled, forfeited               | —                           | —                                      |
| Outstanding at September 30, 2017 | 589,900                     | \$ 13.50                               |

As of September 30, 2017, there was \$4.0 million in unrecognized compensation costs related to unvested restricted shares that is expected to be recognized over a weighted-average period of 0.9 year.

The Company recognized approximately \$0.9 million and \$2.5 million of stock-based compensation expense related to restricted shares during the three and nine months ended September 30, 2017, respectively, and approximately \$0.8 million and \$2.2 million during the three and nine months ended September 30, 2016, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

#### 11. Earnings per Share

Basic earnings per share is computed using net income attributable to Horizon Global and the number of weighted average shares outstanding. On February 1, 2017, the Company completed an underwritten public offering of 4.6 million shares of common stock, which includes the exercise in full by the underwriters of their option to purchase 0.6 million shares of common stock, at a public offering price of \$18.50 per share (the "Common Stock Offering"). Proceeds from the Common Stock Offering were approximately \$79.9 million, net of underwriting discounts, commissions, and offering-related transaction costs. Diluted earnings per share is computed using net income attributable to Horizon Global and the number of weighted average shares outstanding, adjusted to give effect to the assumed exercise of outstanding stock options and warrants, vesting of restricted shares outstanding, and conversion of the Convertible Notes. The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share attributable to Horizon Global and diluted earnings per share attributable to Horizon Global for the three and nine months ended September 30, 2017 and 2016:

|  | Three months ended September 30, 2017 |         | Nine months ended September 30, 2016 |            |
|--|---------------------------------------|---------|--------------------------------------|------------|
|  | 2017                                  | 2016    | 2017                                 | 2016       |
| (dollars in thousands, except for per share amounts) |                                       |         |                                      |            |
| Numerator:   |                                       |         |                                      |            |
| Net income attributable to Horizon Global            | \$6,890                               | \$ 370  | \$17,290                             | \$ 9,890   |
| Denominator:   |                                       |         |                                      |            |
| Weighted average shares outstanding, basic           | 24,948,418                            | 174,509 | 24,728,648                           | 18,144,998 |
| Dilutive effect of stock-based awards                | 430,842                               | 344,568 | 426,157                              | 188,228    |
| Weighted average shares outstanding, diluted         | 25,379,260                            | 219,077 | 25,154,805                           | 18,333,226 |

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|   |        |         |        |         |
|---|--------|---------|--------|---------|
| Basic earnings per share attributable to Horizon Global   | \$0.28 | \$ 0.02 | \$0.70 | \$ 0.55 |
| Diluted earnings per share attributable to Horizon Global | \$0.27 | \$ 0.02 | \$0.69 | \$ 0.54 |

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The effect of certain common stock equivalents were excluded from the computation of weighted average diluted shares outstanding for the three and nine months ended September 30, 2017 and 2016, as inclusion would have resulted in anti-dilution. A summary of these anti-dilutive common stock equivalents is provided in the table below:

|                           | Three months ended |      | Nine months ended |                   |
|---------------------------|--------------------|------|-------------------|-------------------|
|                           | September 30,      |      | September 30,     |                   |
|                           | 2017               | 2016 | 2017              | 2016              |
| Number of options         | —                  | —    | —                 | 268,331           |
| Exercise price of options | —                  | —    | —                 | \$10.08 - \$11.02 |
| Restricted stock units    | —                  | —    | 57,118            | 53,546            |
| Convertible Notes         | 5,005,000          | —    | 4,418,333         | —                 |
| Warrants                  | 5,005,000          | —    | 4,418,333         | —                 |

For purposes of determining diluted earnings per share, the Company has elected a policy to assume that the principal portion of the Convertible Notes, as described in Note 7, “Long-term Debt,” is settled in cash and the conversion premium is settled in shares. Therefore, the Company has adopted a policy of calculating the diluted earnings per share effect of the Convertible Notes using the treasury stock method. As a result, the dilutive effect of the Convertible Notes is limited to the conversion premium, which is reflected in the calculation of diluted earnings per share as if it were a freestanding written call option on the Company’s shares. Using the treasury stock method, the Warrants issued in connection with the issuance of the Convertible Notes are considered to be dilutive when they are in the money relative to the Company’s average common stock price during the period. The Convertible Note Hedges purchased in connection with the issuance of the Convertible Notes are always considered to be anti-dilutive and therefore do not impact the Company’s calculation of diluted earnings per share.

## 12. Shareholders’ Equity

### Preferred Stock

The Company is authorized to issue 100,000,000 shares of Horizon Global preferred stock, par value of \$0.01 per share. There were no preferred shares outstanding at September 30, 2017 or December 31, 2016.

### Common Stock

The Company is authorized to issue 400,000,000 shares of Horizon Global common stock, par value of \$0.01 per share. At September 30, 2017, there were 24,936,110 shares of common stock issued and outstanding, net of 686,506 in treasury shares. At December 31, 2016, there were 20,899,959 shares of common stock issued and outstanding.

### Share Repurchase Program

In April 2017, the Board of Directors authorized a share repurchase program of up to 1.5 million shares of the Company’s issued and outstanding common stock during the period beginning on May 5, 2017 and ending May 5, 2020 (the “Share Repurchase Program”). The Share Repurchase Program provides for share purchases in the open market or otherwise, depending on share price, market conditions and other factors, as determined by the Company. In addition, the Company’s ABL Loan Agreement and Replacement Term Loan Amendment place certain limitations on the Company’s ability to repurchase its common stock. As of September 30, 2017, cumulative shares purchased totaled 686,506 at an average purchase price per share of \$14.55, excluding commissions. The repurchased shares are presented as treasury stock, at cost, on the condensed consolidated balance sheets.

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## Accumulated Other Comprehensive Income

Changes in AOCI by component, net of tax, for the nine months ended September 30, 2017 are summarized as follows:

|  | Derivative<br>Instruments | Foreign<br>Currency<br>Translation | Total     |
|--|---------------------------|------------------------------------|-----------|
|  | (dollars in thousands)    |                                    |           |
| Balance at December 31, 2016   | \$(930)                   | \$ (7,410 )                        | \$(8,340) |
| Net unrealized gains (losses) arising during the period <sup>(a)</sup> | (7,950)                   | 15,500                             | 7,550     |
| Less: Net realized losses reclassified to net income <sup>(b)</sup>    | (8,120)                   | —                                  | (8,120 )  |
| Net current-period change  | 170                       | 15,500                             | 15,670    |
| Balance at September 30, 2017  | \$(760)                   | \$ 8,090                           | \$7,330   |

<sup>(a)</sup> Derivative instruments, net of income tax benefit of \$5.2 million. See Note 8, "Derivative Instruments," for further details.

<sup>(b)</sup> Derivative instruments, net of income tax benefit of \$4.8 million. See Note 8, "Derivative Instruments," for further details.

Changes in AOCI by component, net of tax, for the nine months ended September 30, 2016 are summarized as follows:

|  | Derivative<br>Instruments | Foreign<br>Currency<br>Translation | Total    |
|--|---------------------------|------------------------------------|----------|
|  | (dollars in thousands)    |                                    |          |
| Balance at December 31, 2015   | \$(710)                   | \$ 3,180                           | \$2,470  |
| Net unrealized gains (losses) arising during the period <sup>(a)</sup> | (660 )                    | 1,130                              | 470      |
| Less: Net realized losses reclassified to net income <sup>(b)</sup>    | (1,030)                   | —                                  | (1,030 ) |
| Net current-period change  | 370                       | 1,130                              | 1,500    |
| Balance at September 30, 2016  | \$(340)                   | \$ 4,310                           | \$3,970  |

<sup>(a)</sup> Derivative instruments, net of income tax benefit of \$0.1 million. See Note 8, "Derivative Instruments," for further details.

<sup>(b)</sup> Derivative instruments, net of income tax benefit of \$0.1 million. See Note 8, "Derivative Instruments," for further details.

## 13. Income Taxes

At the end of each interim reporting period, the Company makes an estimate of the annual effective income tax rate. Tax items included in the annual effective income tax rate are pro-rated for the full year and tax items discrete to a specific quarter are included in the effective income tax rate for that quarter. The estimate used in providing for income taxes on a year-to-date basis may change in subsequent interim periods. The Company has experienced pre-tax losses in the U.S. In light of the losses, the Company evaluates the realizability of its deferred tax assets on a quarterly basis. In completing this evaluation, the Company considers all available evidence in order to determine whether, based on the weight of the evidence a valuation allowance is necessary. As of September 30, 2017, we believe that it is more likely than not that the U.S. deferred tax assets will be realized. If the U.S. business continues to experience losses through 2017, management may determine a valuation allowance against the U.S. deferred tax assets is necessary, which would result in significant tax expense in the period recognized, as well as subsequent periods.

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The effective income tax rate was (1.9)% and (25.7)% for the three and nine months ended September 30, 2017, respectively. For the three and nine months ended September 30, 2016, the effective income tax rates were 75.8% and 8.3%, respectively. The lower effective income tax rate in the three months ended September 30, 2017 is driven by a higher portion of income earned in jurisdictions with lower statutory rates and the recognition of additional tax credits recognized in the U.S. The lower effective income tax rate

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in the nine months ended September 30, 2017 is driven by the recognition of the income tax benefits associated with stock awards issued, the release of certain unrecognized tax positions, and the recognition of additional tax credits in the U.S.

During the nine months ended September 30, 2017 and 2016, cash paid for domestic taxes was approximately \$1.9 million and \$1.9 million, respectively. During the nine months ended September 30, 2017 and 2016, the Company paid cash for foreign taxes of \$4.2 million and \$2.2 million, respectively.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition contains forward-looking statements regarding industry outlook and our expectations regarding the performance of our business. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under the heading “Forward-Looking Statements,” at the beginning of this report. Our actual results may differ materially from those contained in or implied by any forward-looking statements. You should read the following discussion together with the Company’s reports on file with the Securities and Exchange Commission, as well as our Annual Report on Form 10-K for the year ended December 31, 2016 (See Item 1A. Risk Factors).

Overview

We are a leading designer, manufacturer and distributor of a wide variety of high-quality, custom-engineered towing, trailering, cargo management and other related accessory products on a global basis, serving the automotive aftermarket, retail and OE channels.

On October 4, 2016, we completed our acquisition of Westfalia Group. The Westfalia Group is a leading global towing company. Headquartered in Rheda-Wiedenbrück, Germany, with operating facilities in 11 countries, it manufactures towing and trailering products, including more than 1,700 different types of towbars, wiring kits and carrier systems for cars and light utility vehicles. It holds in excess of 300 issued patents and published patent applications protecting its unique line of towing and trailering products. The brands under which it markets its products include Westfalia, Terwa and Siarr. The acquisition of the Westfalia Group positions us as a leading manufacturer of towing and trailering equipment in Europe and further complements our broad portfolio.

Our business is comprised of three reportable segments: Horizon Americas, Horizon Europe-Africa, and Horizon Asia-Pacific. Horizon Americas has historically operated primarily in North America, and we believe has been a leader in towing and trailering-related products sold through retail, aftermarket, OE and e-commerce channels. In recent years, Horizon Americas expanded its geographic footprint into the South American market. Horizon Europe-Africa and Horizon Asia-Pacific focus their sales and manufacturing efforts outside of North and South America, historically operating primarily in Europe and Australia, respectively, and we believe have been leaders in towing related products sold through the OE and aftermarket channels. We have expanded our footprint into New Zealand, Thailand, the United Kingdom, and South Africa. We are in the early stages of our development in these markets, initially focusing primarily on supporting OE customers.

Our products are used in two primary categories across the world: commercial applications, or “Work”, and recreational activities, or “Play”. Some of the markets in our Work category include agricultural, automotive, construction, fleet, industrial, marine, military, mining and municipalities. Some of the markets in our Play category include equestrian, power sports, recreational vehicle, specialty automotive, truck accessory and other specialty towing applications.

Key Factors and Risks Affecting Our Reported Results. Our products are sold into a diverse set of end-markets; the primary applications relate to automotive accessories for light and recreational vehicles. Purchases of automotive accessory parts are discretionary and we believe demand is driven by macro-economic factors including, (i) employment trends, (ii) consumer sentiment, and (iii) fuel prices, among others. We believe all of these metrics impact both our Work- and Play-related sales. In addition, we believe the Play-related sales are more sensitive to changes in these indices, given the Play-related sales tend to be more directly related to disposable income levels. In general, recent decreases in unemployment and fuel prices, coupled with increases in consumer sentiment, are positive

trends for our businesses.

Critical factors affecting our ability to succeed include: our ability to realize the expected economic benefits of structural realignment of manufacturing facilities and business units; our ability to quickly and cost-effectively introduce new products; our ability to acquire and integrate companies or products that supplement existing product lines, add new distribution channels and expand our geographic coverage; our ability to manage our cost structure more efficiently via supply base management, internal sourcing and/or purchasing of materials, selective outsourcing and/or purchasing of support functions, working capital management, and leverage of our administrative functions. If we are unable to do any of the foregoing successfully, our financial condition and results of operations could be materially and adversely impacted.

We experience some seasonality in our business. Sales of towing and trailering products in the northern hemisphere, where we generate the majority of our sales, are generally stronger in the second and third calendar quarters, as trailer OEs, distributors and retailers acquire product for the spring and summer selling seasons. Our growing businesses in the southern hemisphere are stronger in the first and fourth calendar quarters. We do not consider order backlog to be a material factor in our businesses.

We are sensitive to price movements in our raw materials supply base. Our largest material purchases are for steel, copper, and aluminum. We also consume a significant amount of energy via utilities in our facilities. Historically, when we have experienced increasing costs of steel, we have successfully worked with our suppliers to manage cost pressures and disruptions in supply. Price increases used to offset inflation or a disruption of supply in core materials have generally been successful, although sometimes delayed. Increases in price for these purposes represent a risk in execution.

We report shipping and handling expenses associated with our Horizon Americas reportable segment's distribution network as an element of selling, general and administrative expenses in our condensed consolidated statements of income. As such, gross margins for the Horizon Americas reportable segment may not be comparable to those of our Horizon Europe-Africa and Horizon Asia-Pacific segments, which primarily rely on third-party distributors, for which all costs are included in cost of sales.

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## Segment Information and Supplemental Analysis

The following table summarizes financial information for our reportable segments for the three months ended September 30, 2017 and 2016:

|   | Three months ended September 30, |                                       |   |           |                                       |   |
|---|----------------------------------|---------------------------------------|---|-----------|---------------------------------------|---|
|   | 2017                             | As a<br>Percentage<br>of Net<br>Sales |   | 2016      | As a<br>Percentage<br>of Net<br>Sales |   |
|   | (dollars in thousands)           |                                       |   |           |                                       |   |
| Net Sales   |                                  |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$115,460                        | 48.1                                  | % | \$110,730 | 73.0                                  | % |
| Horizon Europe-Africa                             | 87,950                           | 36.6                                  | % | 13,050    | 8.6                                   | % |
| Horizon Asia-Pacific                              | 36,710                           | 15.3                                  | % | 27,940    | 18.4                                  | % |
| Total   | \$240,120                        | 100.0                                 | % | \$151,720 | 100.0                                 | % |
| Gross Profit                                      |                                  |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$34,230                         | 29.6                                  | % | \$33,590  | 30.3                                  | % |
| Horizon Europe-Africa                             | 14,370                           | 16.3                                  | % | 2,130     | 16.3                                  | % |
| Horizon Asia-Pacific                              | 9,820                            | 26.8                                  | % | 6,790     | 24.3                                  | % |
| Total   | \$58,420                         | 24.3                                  | % | \$42,510  | 28.0                                  | % |
| Selling, General and Administrative Expenses      |                                  |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$23,220                         | 20.1                                  | % | \$20,690  | 18.7                                  | % |
| Horizon Europe-Africa                             | 11,640                           | 13.2                                  | % | 1,900     | 14.6                                  | % |
| Horizon Asia-Pacific                              | 3,860                            | 10.5                                  | % | 3,020     | 10.8                                  | % |
| Corporate   | 6,080                            | N/A                                   |   | 10,240    | N/A                                   |   |
| Total   | \$44,800                         | 18.7                                  | % | \$35,850  | 23.6                                  | % |
| Net Loss on Disposition of Property and Equipment |                                  |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$(200 )                         | (0.2 )                                | % | \$10      | —                                     | % |
| Horizon Europe-Africa                             | (80 )                            | (0.1 )                                | % | (250 )    | (1.9 )                                | % |
| Horizon Asia-Pacific                              | (50 )                            | (0.1 )                                | % | 210       | 0.8                                   | % |
| Corporate   | —                                | N/A                                   |   | —         | N/A                                   |   |
| Total   | \$(330 )                         | (0.1 )                                | % | \$(30 )   | —                                     | % |
| Operating Profit (Loss)                           |                                  |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$10,930                         | 9.5                                   | % | \$12,910  | 11.7                                  | % |
| Horizon Europe-Africa                             | 2,680                            | 3.0                                   | % | 210       | 1.6                                   | % |
| Horizon Asia-Pacific                              | 5,880                            | 16.0                                  | % | 3,750     | 13.4                                  | % |
| Corporate   | (6,200 )                         | N/A                                   |   | (10,240 ) | N/A                                   |   |
| Total   | \$13,290                         | 5.5                                   | % | \$6,630   | 4.4                                   | % |
| Depreciation and Amortization                     |                                  |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$2,630                          | 2.3                                   | % | \$2,910   | 2.6                                   | % |
| Horizon Europe-Africa                             | 2,520                            | 2.9                                   | % | 360       | 2.8                                   | % |
| Horizon Asia-Pacific                              | 1,250                            | 3.4                                   | % | 1,060     | 3.8                                   | % |
| Corporate   | 70                               | N/A                                   |   | 10        | N/A                                   |   |
| Total   | \$6,470                          | 2.7                                   | % | \$4,340   | 2.9                                   | % |



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The following table summarizes financial information for our reportable segments for the nine months ended September 30, 2017 and 2016:

|   | Nine months ended September 30, |                                       |   |           |                                       |   |
|---|---------------------------------|---------------------------------------|---|-----------|---------------------------------------|---|
|   | 2017                            | As a<br>Percentage<br>of Net<br>Sales |   | 2016      | As a<br>Percentage<br>of Net<br>Sales |   |
|   | (dollars in thousands)          |                                       |   |           |                                       |   |
| Net Sales   |                                 |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$351,400                       | 50.4                                  | % | \$350,170 | 75.2                                  | % |
| Horizon Europe-Africa                             | 253,070                         | 36.3                                  | % | 39,600    | 8.5                                   | % |
| Horizon Asia-Pacific                              | 92,520                          | 13.3                                  | % | 75,820    | 16.3                                  | % |
| Total   | \$696,990                       | 100.0                                 | % | \$465,590 | 100.0                                 | % |
| Gross Profit                                      |                                 |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$105,780                       | 30.1                                  | % | \$102,290 | 29.2                                  | % |
| Horizon Europe-Africa                             | 42,070                          | 16.6                                  | % | 6,550     | 16.5                                  | % |
| Horizon Asia-Pacific                              | 23,630                          | 25.5                                  | % | 16,990    | 22.4                                  | % |
| Total   | \$171,480                       | 24.6                                  | % | \$125,830 | 27.0                                  | % |
| Selling, General and Administrative Expenses      |                                 |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$66,810                        | 19.0                                  | % | \$64,190  | 18.3                                  | % |
| Horizon Europe-Africa                             | 36,120                          | 14.3                                  | % | 5,700     | 14.4                                  | % |
| Horizon Asia-Pacific                              | 10,310                          | 11.1                                  | % | 8,120     | 10.7                                  | % |
| Corporate   | 21,040                          | N/A                                   |   | 19,500    | N/A                                   |   |
| Total   | \$134,280                       | 19.3                                  | % | \$97,510  | 20.9                                  | % |
| Net Loss on Disposition of Property and Equipment |                                 |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$(240 )                        | (0.1 )                                | % | \$(230 )  | (0.1 )                                | % |
| Horizon Europe-Africa                             | —                               | —                                     | % | (270 )    | (0.7 )                                | % |
| Horizon Asia-Pacific                              | (80 )                           | (0.1 )                                | % | (20 )     | —                                     | % |
| Corporate   | (10 )                           | N/A                                   |   | —         | N/A                                   |   |
| Total   | \$(330 )                        | —                                     | % | \$(520 )  | (0.1 )                                | % |
| Operating Profit (Loss)                           |                                 |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$38,840                        | 11.1                                  | % | \$35,630  | 10.2                                  | % |
| Horizon Europe-Africa                             | 5,950                           | 2.4                                   | % | 600       | 1.5                                   | % |
| Horizon Asia-Pacific                              | 13,240                          | 14.3                                  | % | 8,830     | 11.6                                  | % |
| Corporate   | (21,160 )                       | N/A                                   |   | (19,500 ) | N/A                                   |   |
| Total   | \$36,870                        | 5.3                                   | % | \$25,560  | 5.5                                   | % |
| Depreciation and Amortization                     |                                 |                                       |   |           |                                       |   |
| Horizon Americas                                  | \$8,020                         | 2.3                                   | % | \$8,580   | 2.5                                   | % |
| Horizon Europe-Africa                             | 6,570                           | 2.6                                   | % | 1,290     | 3.3                                   | % |
| Horizon Asia-Pacific                              | 3,150                           | 3.4                                   | % | 3,070     | 4.0                                   | % |
| Corporate   | 200                             | N/A                                   |   | 30        | N/A                                   |   |
| Total   | \$17,940                        | 2.6                                   | % | \$12,970  | 2.8                                   | % |

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## Three Months Ended September 30, 2017 Compared with Three Months Ended September 30, 2016

Overall, net sales increased approximately \$88.4 million, or 58.3%, to \$240.1 million in the three months ended September 30, 2017, as compared with \$151.7 million in the three months ended September 30, 2016. During the third quarter of 2017, net sales within our Horizon Europe-Africa reportable segment increased \$74.9 million primarily driven by our fourth quarter 2016 acquisition of the Westfalia Group. Horizon Asia-Pacific reportable segment increased by \$8.8 million attributable, in part, to a regional bolt-on acquisition in the quarter and net sales to a new customer. In our Horizon Americas reportable segment, net sales increased \$4.7 million driven by increased net sales across most of our channels, except our retail channel, which remained relatively flat quarter-over-quarter.

Gross profit margin (gross profit as a percentage of net sales) approximated 24.3% and 28.0% for the three months ended September 30, 2017 and 2016, respectively. The overall decrease in gross profit margin is primarily the result of a shift in the concentration of net sales from our higher margin Horizon Americas reportable segment to our lower margin Horizon Europe-Africa reportable segment. Further negatively impacting gross profit margin were unfavorable commodity prices and higher freight costs in our Horizon Americas reportable segment which resulted in a decrease in gross profit margin quarter-over-quarter. These declines were partially offset by an improvement in our Horizon Asia-Pacific reportable segment primarily as a result of higher sales volumes and productivity initiatives. Gross profit margin remained relatively flat in our Horizon Europe-Africa reportable segment.

Operating profit margin (operating profit as a percentage of net sales) approximated 5.5% and 4.4% in the three months ended September 30, 2017 and 2016, respectively. Operating profit increased approximately \$6.7 million, or 100.5%, to an operating profit of \$13.3 million in the three months ended September 30, 2017, from operating profit of \$6.6 million in the three months ended September 30, 2016, primarily due to higher sales volumes from the aforementioned acquisitions along with lower corporate expenses as acquisition and integration costs were lower quarter-over-quarter. These positive impacts were partially offset by a decline in our Horizon Americas reportable segment as this segment was negatively impacted by higher commodity, freight, and legal costs.

Interest expense increased approximately \$1.4 million, to \$5.5 million, in the three months ended September 30, 2017, as compared to \$4.1 million in the three months ended September 30, 2016, primarily due to additional interest and non-cash amortization of debt discount and issuance costs related to our Convertible Notes issued during the first quarter of 2017.

Other expense, net increased approximately \$0.3 million to \$1.3 million in the three months ended September 30, 2017, as compared to \$1.0 million in the three months ended September 30, 2016, primarily due to losses on financing transactions denominated in foreign currencies within certain of our Horizon Asia-Pacific locations.

The effective income tax rate for the three months ended September 30, 2017 and 2016 was (1.9)% and 75.8%, respectively. The lower effective income tax rate in the three months ended September 30, 2017 is driven by a higher portion of income earned in jurisdictions with lower statutory rates and the recognition of additional tax credits recognized in the U.S.

Net income increased approximately \$6.2 million to \$6.6 million in the three months ended September 30, 2017, from net income of \$0.4 million in the three months ended September 30, 2016. The increase was primarily the result of a \$6.7 million increase in operating profit driven by higher sales volumes and lower corporate expenses.

See below for a discussion of operating results by segment.

**Horizon Americas.** Net sales increased approximately \$4.7 million, or 4.3%, to \$115.5 million in the three months ended September 30, 2017, as compared to \$110.7 million in the three months ended September 30, 2016. Net sales increased in all of our market channels, except for our retail channel. Net sales in our automotive OE channel increased approximately \$2.0 million, primarily due to increased volume of brake controllers and heavy duty products on existing programs. Net sales in our e-commerce channel increased approximately \$1.2 million primarily due to higher demand as we believe the way consumers do business appears to be evolving to online research and purchasing. Partially offsetting this increase was reduced sales to certain customers who did not maintain channel pricing discipline. Net sales in our aftermarket channel increased approximately \$1.0 million based on increased sales with our warehouse distribution partners. In our industrial channel, net sales increased by approximately \$0.6 million due to increased product availability and consumer demand for on-road trailers. Net sales were relatively flat in our retail channel, with an approximate \$0.1 million decrease, as higher sales in farm and fleet and auto retail were more

than offset by a decrease with our mass merchant customers. The remainder of the change is a result of favorable currency exchange as the Brazilian real strengthened in relation to the U.S. dollar.

Horizon Americas' gross profit increased approximately \$0.6 million to \$34.2 million, or 29.6% of net sales, in the three months ended September 30, 2017, from approximately \$33.6 million, or 30.3% of net sales, in the three months ended September 30, 2016. The increase in gross profit was due to the higher sales volumes discussed above. The primary factors negatively impacting gross profit margin were \$2.6 million of unfavorable commodity prices and higher freight costs. Partially offsetting these decreases were approximately \$0.5 million of lower costs associated with the consolidation of our manufacturing facilities during the third

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quarter of 2016 that did not reoccur in 2017. Also benefiting gross profit margin were improved customer and product sales mix and pricing increases we were able to pass on to customers.

Selling, general and administrative expenses increased approximately \$2.5 million to \$23.2 million, or 20.1% of net sales, in the three months ended September 30, 2017, as compared to \$20.7 million, or 18.7% of net sales, in the three months ended September 30, 2016. The increase is primarily due to costs associated with a project to optimize our distribution footprint, increased variable distribution costs, and higher legal costs associated with protecting our intellectual property.

Horizon Americas' operating profit decreased approximately \$2.0 million to \$10.9 million, or 9.5% of net sales, in the three months ended September 30, 2017, as compared to \$12.9 million, or 11.7% of net sales, in the three months ended September 30, 2016. Operating profit margin decreased due to unfavorable commodity prices and higher freight, variable distribution, and legal costs. Also contributing to the decline in operating profit were costs associated with optimizing our distribution footprint. These decreases were partially offset by increased sales levels.

Horizon Europe-Africa. Net sales increased approximately \$74.9 million, or 573.9%, to \$88.0 million in the three months ended September 30, 2017, compared to \$13.1 million in the three months ended September 30, 2016, primarily due to the acquisition of the Westfalia Group in the fourth quarter of 2016.

Horizon Europe-Africa's gross profit increased approximately \$12.2 million to \$14.4 million, or 16.3% of net sales, in the three months ended September 30, 2017, from approximately \$2.1 million, or 16.3% of net sales, in the three months ended September 30, 2016. The increase in gross profit is attributable to the Westfalia Group acquisition.

Selling, general and administrative expenses increased approximately \$9.7 million to \$11.6 million, or 13.2% of net sales, in the three months ended September 30, 2017, as compared to \$1.9 million, or 14.6% of net sales, in the three months ended September 30, 2016. The increase is primarily attributable to the aforementioned acquisition, which includes \$2.0 million of depreciation and amortization related to purchase accounting. Further contributing to the increase was approximately \$1.1 million of severance and integration related costs in connection with the acquisition during the quarter.

Horizon Europe-Africa's operating profit increased approximately \$2.5 million to \$2.7 million, or 3.0% of net sales, in the three months ended September 30, 2017, as compared to \$0.2 million, or 1.6% of net sales, in the three months ended September 30, 2016, primarily attributable to the acquisition mentioned above.

Horizon Asia-Pacific. Net sales increased approximately \$8.8 million, or 31.4%, to \$36.7 million in the three months ended September 30, 2017, compared to \$27.9 million in the three months ended September 30, 2016. The increase in net sales is attributable, in part, to a regional bolt-on acquisition early in the quarter, which increased net sales by approximately \$6.0 million. Excluding the impact from this acquisition, net sales in our automotive OE channel decreased \$0.6 million, primarily attributable to volume from a program that did not continue into 2017. The aftermarket sales channel decreased approximately \$0.5 million due to reduced sales with a customer that did not maintain market discipline. Net sales in the industrial channel increased approximately \$2.5 million due to increased sales with a new customer acquired in late 2016. The remainder of the increase is primarily due to favorable currency exchange as the Australian dollar, Thai baht, and New Zealand dollar strengthened in relation to the U.S. dollar.

Horizon Asia-Pacific's gross profit increased approximately \$3.0 million to \$9.8 million, or 26.8% of net sales, in the three months ended September 30, 2017, from approximately \$6.8 million, or 24.3% of net sales, in the three months ended September 30, 2016. The increase in gross profit is primarily driven by the increased sales volumes, which increased gross profit by \$2.1 million. Gross profit margin was positively impacted by the results of ongoing productivity initiatives in our Australian business and efficiencies realized in Thailand as a result of the restructuring of operations completed in the second quarter of 2017.

Selling, general and administrative expenses increased approximately \$0.8 million to \$3.9 million, or 10.5% of net sales, in the three months ended September 30, 2017, as compared to \$3.0 million, or 10.8% of net sales, in the three months ended September 30, 2016. The increase in selling, general and administrative expenses is primarily due to the aforementioned acquisition, which contributed \$0.4 million of acquisition-related costs. Further impacting selling, general and administrative expenses during the quarter was increased personnel costs of \$0.3 million in support of growth and productivity initiatives. The balance of the increase in selling, general and administrative expenses was caused by unfavorable currency exchange.

Horizon Asia-Pacific's operating profit increased approximately \$2.1 million to \$5.9 million, or 16.0% of net sales, in the three months ended September 30, 2017, as compared to \$3.8 million, or 13.4% of net sales, in the three months ended September 30, 2016, due to increased sales volumes and operational improvements, partially offset by acquisition costs.

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Corporate Expenses. Corporate expenses included in operating profit decreased approximately \$4.0 million to \$6.2 million in the three months ended September 30, 2017, as compared to \$10.2 million in the three months ended September 30, 2016. The decrease is attributed to approximately \$4.6 million of lower costs associated with the acquisition of the Westfalia Group which was partially offset by an increase in severance and restructuring related costs.

Nine Months Ended September 30, 2017 Compared with Nine Months Ended September 30, 2016

Overall, net sales increased approximately \$231.4 million, or 49.7%, to \$697.0 million for the nine months ended September 30, 2017, as compared with \$465.6 million in the nine months ended September 30, 2016. During the first nine months of 2017, net sales in our Horizon Europe-Africa reportable segment increased \$213.5 million primarily driven by our fourth quarter 2016 acquisition of the Westfalia Group. Net sales in our Horizon Asia-Pacific reportable segment increased \$16.7 million due to a regional bolt-on acquisition and net sales to a new customer. Net sales increased approximately \$1.2 million in our Horizon Americas reportable segment due to increases in our e-commerce, industrial and automotive OE channels, which were partially offset by decreases in our retail and aftermarket channels.

Gross profit margin (gross profit as a percentage of sales) approximated 24.6% and 27.0% for the nine months ended September 30, 2017 and 2016, respectively. Gross profit margin increased across all of our reportable segments; however, an overall decline is the result of a shift in the concentration of net sales from our higher margin Horizon Americas reportable segment to our lower margin Horizon Europe-Africa segment. Gross profit margin improved in our Horizon Americas reportable segment as the consolidation of our manufacturing facilities that occurred in 2016 resulted in lower costs and cost savings in 2017, which more than offset the negative impacts of unfavorable commodity prices. An increase in gross profit margin in our Horizon Asia-Pacific reportable segment is attributable to increased sales volumes and productivity initiatives. Gross profit margin in our Horizon Europe-Africa reportable segment increased primarily as a result of the acquisition of the Westfalia Group.

Operating profit margin (operating profit as a percentage of sales) approximated 5.3% and 5.5% for the nine months ended September 30, 2017 and 2016, respectively. Operating profit increased approximately \$11.3 million, or 44.2%, to \$36.9 million for the nine months ended September 30, 2017, compared to \$25.6 million for the nine months ended September 30, 2016, as a result of an operating profit margin improvement across all of our reportable segments, which was offset by higher corporate expenses driven by increased professional fees and people costs.

Interest expense increased approximately \$4.1 million, to \$16.7 million, for the nine months ended September 30, 2017, as compared to \$12.6 million for the nine months ended September 30, 2016, primarily due to additional interest and non-cash amortization of debt discount and issuance costs related to our Convertible Notes issued during 2017.

Other expense, net increased approximately \$0.4 million to \$2.6 million for the nine months ended September 30, 2017 compared to \$2.2 million for the nine months ended September 30, 2016, primarily due to losses on financing transactions denominated in foreign currencies within certain of our Horizon Asia-Pacific locations.

The effective income tax rates for the nine months ended September 30, 2017 and 2016 were (25.7)% and 8.3%, respectively. The lower effective income tax rate in the nine months ended September 30, 2017 is driven by the recognition of the income tax benefits associated with stock awards issued, the release of certain unrecognized tax positions, and the recognition of additional tax credits in the U.S.

Net income increased by approximately \$6.5 million, to \$16.4 million for the nine months ended September 30, 2017, compared to \$9.9 million for the nine months ended September 30, 2016. The increase is primarily the result of an increase in operating profit of \$11.3 million and an increase in income tax benefit of \$4.3 million. Partially offsetting these increases were \$4.1 million increase in interest expense and a \$4.6 million loss on extinguishment of debt due to a prepayment made on our Term B Loan in the first quarter of 2017.

See below for a discussion of operating results by segment.

Horizon Americas. Net sales increased approximately \$1.2 million, or 0.4%, to \$351.4 million in the nine months ended September 30, 2017, as compared to \$350.2 million in the nine months ended September 30, 2016. Net sales in our e-commerce channel increased by approximately \$3.4 million as higher demand from major e-commerce customers more than offset the decreased sales to certain customers who did not maintain channel pricing discipline.

Net sales in our industrial channel increased approximately \$2.1 million as product availability has increased throughout the year. Net sales in our automotive OE channel increased approximately \$0.6 million due to increased volumes on existing programs with major customers, partially offset by higher volumes in 2016 due to the launch of a new program with another major customer that did not reoccur. Partially offsetting these increases were decreases in our retail and aftermarket channels. Net sales in our retail channel decreased approximately \$2.9 million. Point of sale weakness at our mass merchant retail customers, across their product lines, resulted in lower sales levels. Net sales in our aftermarket channel decreased by approximately \$2.5 million primarily due to challenges faced during the integration of our ERP system in 2017, which were partially offset by increased sales within our warehouse distribution partners. The remainder of the change is due to favorable currency exchange as the Brazilian real strengthened in relation to the U.S. dollar.

Horizon Americas' gross profit increased approximately \$3.5 million to \$105.8 million, or 30.1% of net sales, in the nine months ended September 30, 2017, as compared to \$102.3 million, or 29.2% of net sales, in the nine months ended September 30, 2016. Positively impacting gross profit margin was approximately \$4.0 million of lower costs associated with the consolidation of Horizon Americas' manufacturing facilities during 2016 that did not reoccur in 2017. 2017 also benefited from \$2.6 million in cost savings

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due to the consolidation of Horizon Americas' manufacturing facilities in 2016. Negatively impacting gross profit margin was approximately \$4.4 million of unfavorable commodity prices and freight costs.

Selling, general and administrative expenses increased approximately \$2.6 million to \$66.8 million, or 19.0% of net sales, in the nine months ended September 30, 2017, as compared to \$64.2 million, or 18.3% of net sales, in the nine months ended September 30, 2016. The increase is primarily due to higher distribution costs of approximately \$2.1 million along with higher legal costs associated with protecting our intellectual property.

Horizon Americas' operating profit increased approximately \$3.2 million to \$38.8 million, or 11.1% of net sales, in the nine months ended September 30, 2017, as compared to \$35.6 million, or 10.2% of net sales, in the nine months ended September 30, 2016. Operating profit margin increased primarily due to the favorable impact of approximately \$4.9 million of lower costs associated with the consolidation of our manufacturing footprint and approximately \$2.2 million of lower expense related to the impairment of intangible assets during 2016. Partially offsetting these increases were unfavorable commodity prices and higher freight costs.

Horizon Europe-Africa. Net sales increased approximately \$213.5 million, or 539.1%, to \$253.1 million in the nine months ended September 30, 2017, as compared to \$39.6 million in the nine months ended September 30, 2016, which is primarily due to the Westfalia Group acquisition. Net sales were negatively impacted by approximately \$0.7 million of unfavorable currency exchange as the British pound weakened in relation to the U.S. dollar.

Horizon Europe-Africa's gross profit increased approximately \$35.5 million to \$42.1 million, or 16.6% of net sales, in the nine months ended September 30, 2017, from approximately \$6.6 million, or 16.5% of net sales, in the nine months ended September 30, 2016, driven by the Westfalia Group acquisition.

Selling, general and administrative expenses increased approximately \$30.4 million to \$36.1 million, or 14.3% of net sales, in the nine months ended September 30, 2017, as compared to \$5.7 million, or 14.4% of net sales, in the nine months ended September 30, 2016. The increase is primarily attributable to the aforementioned acquisition, which includes \$5.0 million of depreciation and amortization related to purchase accounting. Additionally, we incurred approximately \$4.0 million of severance and integration related costs in connection with the Westfalia Group acquisition during the 2017 period.

Horizon Europe-Africa's operating profit increased approximately \$5.4 million to approximately \$6.0 million, or 2.4% of net sales, in the nine months ended September 30, 2017, as compared to \$0.6 million, or 1.5% of net sales, in the nine months ended September 30, 2016, primarily attributable to the acquisition mentioned above.

Horizon Asia-Pacific. Net sales increased approximately \$16.7 million, or 22.0%, to \$92.5 million in the nine months ended September 30, 2017, compared to \$75.8 million in the nine months ended September 30, 2016. A regional bolt-on acquisition contributed an increase of \$6.0 million in net sales. Net sales in our automotive OE channel, exclusive of this acquisition, increased \$1.8 million due to increased volumes on existing programs. An increase of \$6.8 million in net sales in our industrial channel is primarily due programs with a new customer. The remainder of the increase is primarily due to favorable currency exchange as the Australian dollar, Thai baht, and New Zealand dollar strengthened in relation to the U.S. dollar.

Horizon Asia-Pacific's gross profit increased approximately \$6.6 million to \$23.6 million, or 25.5% of net sales, in the nine months ended September 30, 2017, from approximately \$17.0 million, or 22.4% of net sales, in the nine months ended September 30, 2016. \$3.7 million of the increase in gross profit is driven by the increased sales volumes mentioned above. Gross profit margin was further positively impacted by the results of productivity initiatives in our Australian business and and efficiencies realized in Thailand due to restructuring of operations completed in the second quarter of 2017.

Selling, general and administrative expenses increased approximately \$2.2 million to \$10.3 million, or 11.1% of net sales, in the nine months ended September 30, 2017, as compared to \$8.1 million, or 10.7% of net sales, in the nine months ended September 30, 2016. The increase in selling, general and administrative expenses is primarily due to the timing of marketing and promotional spend, increased people costs in support of growth initiatives, and operational restructuring costs. Additionally, selling, general and administrative expenses was increased by acquisition-related costs of \$0.5 million. Further negatively impacting selling, general and administrative expenses was \$0.3 million in unfavorable currency exchange.



Horizon Asia-Pacific's operating profit increased approximately \$4.4 million to \$13.2 million, or 14.3% of net sales, in the nine months ended September 30, 2017, as compared to \$8.8 million, or 11.6% of net sales, in the nine months ended September 30, 2016, primarily due to increased volumes and operational improvements across the region.

**Corporate Expenses.** Corporate expenses increased approximately \$1.7 million to \$21.2 million for the nine months ended September 30, 2017, from \$19.5 million for the nine months ended September 30, 2016. The increase between years is primarily attributed to an increase in professional fees for various human resource, information technology, and compliance initiatives, and increased people costs as we have continued to build out our corporate structure. These increases were partially offset by approximately \$2.0 million of lower costs associated with the acquisition of the Westfalia Group.

#### Liquidity and Capital Resources

Our capital and working capital requirements are funded through a combination of cash flows from operations, cash on hand and various borrowings and factoring arrangements described below, including our ABL Facility. We utilize intercompany loans and equity contributions to fund our worldwide operations. See Note 7, "Long-term Debt" included in Part I, Item 1, "Notes to Condensed Consolidated Financial Statements," within this quarterly report on Form 10-Q. As of September 30, 2017 and December 31, 2016, there was \$14.2 million and \$20.2 million, respectively, of cash held at foreign subsidiaries. There may be country specific regulations that may restrict or result in increased costs in the repatriation of these funds.

Based on our current and anticipated levels of operations and the condition in our markets and industry, we believe that our cash on hand, cash flow from operations and availability under our ABL Facility will enable us to meet our working capital, capital expenditures, debt service and other funding requirements for at least the next twelve months. However, our ability to fund our working capital needs, debt payments and other obligations, and to comply with financial covenants, including borrowing base limitations under our ABL Facility, depends on our future operating performance and cash flow and many factors outside of our control, including the costs of raw materials, the state of the automotive accessories market and financial and economic conditions and other factors. Any future acquisitions, joint ventures or other similar transactions will likely require additional capital and there can be no assurance that any such capital will be available to us on acceptable terms, if at all.

#### Cash Flows - Operating Activities

Net cash used for operating activities was approximately \$2.3 million during nine months ended September 30, 2017 compared to a source of approximately \$27.5 million during the nine months ended September 30, 2016. During the nine months ended September 30, 2017, the Company generated \$47.9 million in cash flows, based on the reported net income of \$16.4 million and after considering the effects of non-cash items related to losses on dispositions of property and equipment, depreciation, amortization, stock compensation, amortization of inventory step-up recorded as part of purchase accounting, changes in deferred income taxes, loss on extinguishment of debt, amortization of original issue discount and debt issuance costs, and other, net. During the nine months ended September 30, 2016, the Company generated \$27.6 million based on the reported net income of \$9.9 million and after considering the effects of similar non-cash items.

Changes in operating assets and liabilities used approximately \$50.2 million and \$0.1 million of cash during the nine months ended September 30, 2017 and 2016, respectively. Increases in accounts receivable resulted in a use of cash of \$28.4 million and \$8.3 million during the nine months ended September 30, 2017 and 2016, respectively. The increase in accounts receivable for both periods is a result of the higher sales activity during the third quarter compared to the fourth quarter due to the seasonality of the business. The higher increase in accounts receivable for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 is due to increased sales levels in 2017, which is partially attributable to the Westfalia acquisition.

Changes in inventory resulted in a use of cash of approximately \$7.9 million during the nine months ended September 30, 2017 and a source of cash of approximately \$19.9 million during the nine months ended September 30, 2016. The increase in inventory during the nine months ended September 30, 2017 is due to efforts to maintain higher stock levels of our highest volume products on hand, as well as additional inventory built as safety stock in anticipation of projects being completed in the fourth quarter in our Horizon Americas reportable segment. We also maintained lower levels of inventory in December 2016 in Horizon Americas in anticipation of the new ERP system going live. The inventory decline in 2016 is a result of the seasonality of our business.

Changes in accounts payable and accrued liabilities resulted in a use of cash of approximately \$17.4 million and \$10.0 million during the nine months ended September 30, 2017 and 2016, respectively. The decrease in accounts payable and accrued liabilities during the nine months ended September 30, 2017 is primarily related to the release of liabilities related to certain unrecognized tax positions and decreases to certain compensation accruals primarily related to bonus payments, as well as a decrease in liabilities associated with the acquisition of Westfalia from December 31, 2016. These decreases were partially offset by higher accounts payable related to maintaining higher inventory levels as described above. The use of cash for nine months ended September 30, 2016 is primarily related to the timing of payments made to suppliers, mix of vendors and related terms, as well as decreases in certain compensation accruals primarily related to bonus and severance payments.

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### Cash Flows - Investing Activities

Net cash used for investing activities during the nine months ended September 30, 2017 and 2016 was approximately \$39.0 million and \$9.9 million, respectively. During the third quarter of 2017, we acquired the assets of Best Bars for total cash consideration of \$19.8 million. In addition, during the nine months ended September 30, 2017, we invested approximately \$20.3 million in capital expenditures, as we have continued our investment in growth, capacity and productivity-related capital projects, including several projects in the newly acquired Westfalia Group. Cash received from the disposition of property and equipment was approximately \$1.1 million primarily due to the sale of assets in Romania. During the nine months ended September 30, 2016, we incurred approximately \$10.1 million in capital expenditures and received cash from the disposition of property and equipment of approximately \$0.2 million resulting from the sale of assets in Brazil and South Africa.

### Cash Flows - Financing Activities

Net cash provided by financing activities was approximately \$9.6 million and \$0.2 million during the nine months ended September 30, 2017 and 2016, respectively. During the nine months ended September 30, 2017, we received proceeds of \$121.1 million from the issuance of our Convertible Notes, net of issuance costs; \$79.9 million from the issuance of common stock, net of offering costs; \$20.9 million from the issuance of Warrants; and our net borrowings from our ABL Facility totaled \$20.0 million. We used cash of approximately \$187.8 million for repayments on our Term B Loan, \$29.7 million for payments on Convertible Note Hedges, net of issuance costs, and approximately \$10.0 million to repurchase shares as part of our Share Repurchase Program. During the nine months ended September 30, 2016, our net borrowings from our ABL Facility totaled \$6.8 million. We also used net cash amount of approximately \$7.5 million for repayments on our Term B Loan.

### Factoring Arrangements

We have factoring arrangements with financial institutions to sell certain accounts receivable under non-recourse agreements. Total receivables sold under the factoring arrangements was approximately \$23.9 million as of September 30, 2017. The Company had no factoring arrangements for the nine months ended September 30, 2016. We utilize factoring arrangements as part of our financing for working capital. The costs of participating in these arrangements are immaterial to our results.

### Our Debt and Other Commitments

We and certain of our subsidiaries are party to the ABL Facility, an asset-based revolving credit facility, that provides for \$99.0 million of funding on a revolving basis, as well as a Term B Loan under which we borrowed an aggregate of \$352.0 million. The ABL Facility matures in June 2020 and bears interest on outstanding balances at variable rates as outlined in the agreement, while the Term B Loan matures in June 2021 and bears interest at variable rates in accordance with the credit agreement.

During the first quarter of 2017, we completed an underwritten public offering of \$125.0 million aggregate principal amount of Convertible Notes. The Convertible Notes mature on July 1, 2022 unless earlier converted in accordance with the terms prior to such date, and bears interest at a rate of 2.75% per annum. We used net proceeds from the Convertible Notes offering, along with proceeds from the issuance of common stock, also completed in the first quarter of 2017, to prepay \$177.0 million of the Term B Loan. Additionally, on March 31, 2017, we entered into the Third Amendment to the Term B Loan. This amendment allowed us to repay the existing Original Term B Loan and Incremental Term Loans and provided for the Replacement Term Loan which reduced the required principal payments by \$2.7 million per quarter and reduced the interest rate by 1.5% per annum. Refer to Note 7, "Long-term Debt," in Part I, Item 1, "Notes to Condensed Consolidated Financial Statements," included within this quarterly report on Form 10-Q for additional information.

As of September 30, 2017, approximately \$20.0 million was outstanding on the ABL Facility bearing interest at a weighted average rate of 3.2% and \$151.6 million was outstanding on the Term B Loan bearing interest at 5.7%. The Company had \$65.0 million in availability under the ABL Facility as of September 30, 2017.

The agreements governing the ABL Facility and Term B Loan contain various negative and affirmative covenants and other requirements affecting us and our subsidiaries, including restrictions on incurrence of debt, liens, mergers, investments, loans, advances, guarantee obligations, acquisitions, asset dispositions, sale-leaseback transactions, hedging agreements, dividends and other restricted payments, transactions with affiliates, restrictive agreements and

amendments to charters, bylaws, and other material documents. The ABL Facility 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. The Term B Loan contains customary negative covenants, and also contains a financial maintenance covenant which requires us to maintain a net leverage ratio not exceeding 5.25 to 1.00 through the fiscal quarter ending September 30, 2017, 5.00 to 1.00 through the fiscal quarter ending March 31, 2018, 4.75 to 1.00 through the fiscal quarter ending September 30, 2018; and thereafter, 4.50 to 1.00. As of September 30, 2017, we were in compliance with our financial covenants contained in the ABL Facility and the Term B Loan, respectively.

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On July 3, 2017, our Australia subsidiary entered into a new agreement to provide for revolving borrowings up to an aggregate amount of \$32.0 million. The agreement includes two sub-facilities: (i) Facility A has a borrowing capacity of \$20.3 million, matures on July 3, 2020, and is subject to interest at Bank Bill Swap rate plus a margin determined based on the most recent net leverage ratio; (ii) Facility B has a borrowing capacity of \$11.7 million, matures on July 3, 2018 and is subject to interest at Bank Bill Swap rate plus 0.9% per annum. Borrowings under this arrangement are subject to financial and reporting covenants. Financial covenants include maintaining a net leverage ratio not exceeding 2.50 to 1.00 during the period commencing on the date of the agreement and ending on the first anniversary of the date of the agreement; and 2.00 to 1.00 thereafter; working capital coverage ratio (working capital over total debt) greater than 1.75 to 1.00 and a gearing ratio (senior debt to senior debt plus equity) not exceeding 50%. As of September 30, 2017 we were in compliance with all covenants.

We are subject to variable interest rates on our Term B Loan and ABL Facility. At September 30, 2017, 1-Month LIBOR and 3-Month LIBOR approximated 1.23% and 1.33%, respectively.

Principal payments required under the Term B Loan are \$1.9 million due each calendar quarter, with the remaining principal due on maturity, June 30, 2021. Commencing with the fiscal year ending December 31, 2017, and for each fiscal year thereafter, the Company will also be required to make prepayments of outstanding term loans under the Term B Loan in an amount up to 50.0% of our excess cash flow for such fiscal year, as defined, subject to adjustments based on our leverage ratio and optional prepayments of term loans and certain other indebtedness.

In addition to our long-term debt, we have other cash commitments related to leases. We account for these lease transactions as operating leases and annual rent expense related thereto approximated \$16.8 million for the year ended December 31, 2016. We expect to continue to utilize leasing as a financing strategy in the future to meet capital expenditure needs and to reduce debt levels.

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The following is a reconciliation of net income (loss), as reported, which is a U.S. GAAP measure of our operating results, to Consolidated Bank EBITDA, as defined in our credit agreement, for the twelve months ended September 30, 2017. We present Consolidated Bank EBITDA to show our performance under our financial covenants.

|   | Year<br>Ended<br>December<br>31, 2016 | Less:<br>Nine<br>Months<br>Ended<br>September<br>30, 2016 | Add:<br>Nine<br>Months<br>Ended<br>September<br>30, 2017 | Twelve<br>Months<br>Ended<br>September<br>30, 2017 |
|---|---------------------------------------|---|--|--|
|   | (dollars in thousands)                |   |  |  |
| Net income (loss) attributable to Horizon Global  | \$(12,360)                            | \$ 9,890  | \$ 17,290  | \$ (4,960 )  |
| Bank stipulated adjustments:  |                                       |   |  |  |
| Interest expense, net (as defined)  | 20,080                                | 12,600  | 16,650   | 24,130   |
| Income tax (benefit) expense  | (3,730 )                              | 900   | (3,350 )   | (7,980 )   |
| Depreciation and amortization   | 18,220                                | 12,970  | 17,940   | 23,190   |
| Extraordinary charges   | 6,830                                 | 4,120   | —  | 2,710  |
| Non-cash compensation expense <sup>(a)</sup>  | 3,860                                 | 2,840   | 2,760  | 3,780  |
| Other non-cash expenses or losses   | 16,460                                | 3,410   | 1,050  | 14,100   |
| Pro forma EBITDA of permitted acquisition   | 13,910                                | 13,910  | 1,090  | 1,090  |
| Interest-equivalent costs associated with any Specified Vendor<br>Receivables Financing | 1,200                                 | 940   | 960  | 1,220  |
| Debt extinguishment costs   | —                                     | —   | 4,640  | 4,640  |
| Items limited to 25% of consolidated EBITDA:  |                                       |   |  |  |
| Non-recurring expenses <sup>(b)</sup>   | 4,190                                 | 4,860   | 1,310  | 640  |
| Acquisition integration costs <sup>(c)</sup>  | 4,290                                 | —   | 8,230  | 12,520   |
| Synergies related to permitted acquisition <sup>(d)</sup>                               | 12,500                                | —   | (8,330 )   | 4,170  |
| EBITDA limitation for non-recurring expenses <sup>(e)</sup>                             | (4,860 )                              | —   | 2,620  | (2,240 )   |
| Consolidated Bank EBITDA, as defined  | \$80,590                              | \$ 66,440   | \$ 62,860  | \$ 77,010  |
|   | September 30,<br>2017                 |   |  |  |
|   | (dollars in<br>thousands)             |   |  |  |
| Total Consolidated Indebtedness, as defined   | \$ 278,330                            |   |  |  |
| Consolidated Bank EBITDA, as defined  | 77,010                                |   |  |  |
| Actual leverage ratio   | 3.61                                  | x   |  |  |
| Covenant requirement  | 5.25                                  | x   |  |  |

(a) Non-cash compensation expenses resulting from the grant of restricted units of common stock and common stock options.

Under our credit agreement, cost and expenses related to cost savings projects, including restructuring and severance expenses, are not to exceed \$5 million in any fiscal year and \$20 million in aggregate, commencing on or after January 1, 2015.

(c) Under our credit agreement, costs and expenses related to the integration of the Westfalia Group acquisition are not to exceed \$10 million in any fiscal year and \$30 million in aggregate.

Under our credit agreement, the add back for the amount of reasonably identifiable and factually supportable “run (d)rate” cost savings, operating expense reductions, and other synergies cannot exceed \$12.5 million for the Westfalia Group acquisition.

(e) The amounts added to Consolidated Net Income pursuant to items in notes (b)-(d) shall not exceed 25% of Consolidated EBITDA, excluding these items, for such period.

Refer to Note 7, "Long-term Debt," in Part I, Item 1, "Notes to Condensed Consolidated Financial Statements," included within this quarterly report on Form 10-Q for additional information.

The leverage ratios as of March 31, 2017 and June 30, 2017 were calculated based upon the U.S. GAAP definition of debt for our previously disclosed Convertible Note issuance during the first quarter of 2017. Based on discussions with the administrative agent under our credit agreement, the leverage ratio will be presented based on a U.S. GAAP exception outlined in the credit agreement, which provides our investors and lenders a clearer view of our total leverage position. Based upon this U.S. GAAP exception, our leverage ratio would have been 4.37x and 3.86x as of March 31, 2017 and June 30, 2017, respectively. The restated ratios are still in compliance with our covenant level of 5.25x for each quarter.

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### Credit Rating

We and certain of our outstanding debt obligations are rated by Standard & Poor's and Moody's. On January 30, 2017, Moody's upgraded our prior rating of B2 to B1 for our \$146 million (\$352 million at time of rating, including the \$152 million add-on) Term B Loan, as presented in Note 7, "Long-term Debt" included in Part I, Item I, "Notes to Condensed Consolidated Financial Statements" within this quarterly report on Form 10-Q. Moody's also maintained a B2 to our corporate family rating and our outlook as stable. On January 26, 2017, Standard & Poor's raised its corporate credit rating from B to B+ for our \$146 million (\$352 million at the time of the rating, including the \$152 million add-on) senior secured term loan. Standard & Poor's also maintained our B corporate credit rating and outlook as stable, while assigning a B- rating to our then proposed (at time of rating) Convertible Notes. If our credit ratings were to decline, our ability to access certain financial markets may become limited, our cost of borrowings may increase, the perception of us in the view of our customers, suppliers and security holders may worsen and as a result, we may be adversely affected.

### Market Risk

We conduct business in various locations throughout the world and are subject to market risk due to changes in the value of foreign currencies. The functional currencies of our foreign subsidiaries are primarily the local currency in the country of domicile. We manage these operating activities at the local level and revenues and costs are generally denominated in local currencies; however, results of operations and assets and liabilities reported in U.S. dollars will fluctuate with changes in exchange rates between such local currencies and the U.S. dollar.

We use derivative financial instruments to manage currency risks associated with our procurement activities denominated in currencies other than the functional currency of our subsidiaries and the impact of currency rate volatility on our earnings. As of September 30, 2017, we were party to forward contracts and cross currency swaps, to hedge changes in foreign currency exchange rates, with notional amounts of approximately \$17.2 million and \$123.6 million, respectively. See Note 8, "Derivative Instruments," included in Part I, Item 1, "Notes to Condensed Consolidated Financial Statements," within this quarterly report on Form 10-Q.

We are also subject to interest risk as it relates to our long-term debt. We may in the future use interest rate swap agreements to fix the variable portion of our debt to manage this risk.

### Outlook

Our global business remains susceptible to economic conditions that could adversely impact our business. While the U.S. and Asia-Pacific economies impacting our demand remain strong, and the European economy shows indications of improvement, global economic sentiment remains cautious given continued geopolitical uncertainty and foreign currency volatility. Additionally, we continue to evaluate the trade and tax policy discussions taking place in Washington, D.C. and the impact the ultimate legislation could have on our current operations. We believe the unique global footprint we enjoy in our market space will continue to benefit us as our OE customers continue to demonstrate a preference for stronger relationships with few suppliers. Additionally, while we believe that the continued consolidation in aftermarket distribution presents long-term opportunities for us given our strong brand positions, portfolio of product offerings, and existing customer relationships, our results of operations may be impacted by the closure and consolidation of customer warehouses in the short term.

We attempt to mitigate challenging external factors by executing productivity projects across our businesses which we believe will drive future margin expansion, including leveraging recent investments made to expand our European manufacturing footprint, global customer relationships and global manufacturing and distribution capabilities. We believe these initiatives will carry through 2017 and beyond and enhance our margins and business portfolio over time.

Our strategic priorities are to improve margins, reduce our leverage, and drive top line growth.

### Impact of New Accounting Standards

See Note 2, "New Accounting Pronouncements," included in Part I, Item 1, "Notes to Condensed Consolidated Financial Statements," within this quarterly report on Form 10-Q.

### Critical Accounting Policies

Our financial statements are prepared in accordance with U.S. GAAP. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial



estimates that affect both the amounts and timing of the recording of assets, liabilities, net sales and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, our evaluation of business and macroeconomic trends, and information from other outside sources, as appropriate.

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During the quarter ended September 30, 2017, there were no material changes to the items that we disclosed as our critical accounting policies in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the year ended December 31, 2016.

### Emerging Growth Company

The Jumpstart Our Business Startups Act of 2012, or the JOBS Act, establishes a class of company called an “emerging growth company,” which generally is a company whose initial public offering was completed after December 8, 2011 and had total annual gross revenues of less than \$1 billion during its most recently completed fiscal year. We currently qualify as an emerging growth company.

As an emerging growth company, we are eligible to take advantage of certain exemptions from various reporting requirements that are not available to public reporting companies that do not qualify for this classification, including without limitation the following:

An emerging growth company is exempt from any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and financial statements, commonly known as an “auditor discussion and analysis.”

An emerging growth company is not required to hold a nonbinding advisory stockholder vote on executive compensation or any golden parachute payments not previously approved by stockholders.

An emerging growth company is not required to comply with the requirement of auditor attestation of management’s assessment of internal control over financial reporting, which is required for other public reporting companies by Section 404 of the Sarbanes-Oxley Act.

An emerging growth company is eligible for reduced disclosure obligations regarding executive compensation in its periodic and annual reports, including without limitation exemption from the requirement to provide a compensation discussion and analysis describing compensation practices and procedures.

A company that is an emerging growth company is eligible for reduced financial statement disclosure in registration statements, which must include two years of audited financial statements rather than the three years of audited financial statements that are required for other public reporting companies.

For as long as we continue to be an emerging growth company, we expect that we will take advantage of the reduced disclosure obligations available to us as a result of this classification. We will remain an emerging growth company until the earlier of (i) December 31, 2020, the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement under the Securities Act; (ii) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (iii) the date on which we have issued more than \$1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under applicable SEC rules. We expect that we will remain an emerging growth company for the foreseeable future, but cannot retain our emerging growth company status indefinitely and will no longer qualify as an emerging growth company on or before December 31, 2020.

Emerging growth companies may elect to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to “opt out” of such extended transition period, and, as a result, we 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 our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, we are exposed to market risk associated with fluctuations in interest rates, commodity prices, insurable risks due to property damage, employee and liability claims, and other uncertainties in the financial and credit markets, which may impact demand for our products.

We conduct business in various locations throughout the world and are subject to market risk due to changes in the value of foreign currencies. The functional currencies of our foreign subsidiaries are primarily the local currency in the country of domicile. We manage these operating activities at the local level and revenues and costs are generally

denominated in local currencies; however, results of operations and assets and liabilities reported in U.S. dollars will fluctuate with changes in exchange rates between the local currencies and the U.S. dollar. A 10% change in average exchange rates versus the U.S. dollar would have resulted in an approximate \$35.3 million change to our revenues for the nine months ended September 30, 2017.

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We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding debt. Outstanding balances under our Term B Loan, at the Company's election, bear interest at variable rates based on a margin over defined LIBOR. Based on the amount outstanding on the Term B Loan as of September 30, 2017, a 100 basis point change in LIBOR would result in an approximate \$1.5 million change to our annual interest expense. We use derivative financial instruments to manage our currency risks. We are also subject to interest risk as it relates to long-term debt. See Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for details about our primary market risks, and the objectives and strategies used to manage these risks. Also see Note 7, "Long-term Debt," and Note 8, "Derivative Instruments," in Part I, Item 1, "Notes to Condensed Consolidated Financial Statements," included within this quarterly report on Form 10-Q for additional information.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Evaluation of disclosure controls and procedures

As of September 30, 2017, an evaluation was carried out by management, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) pursuant to Rule 13a-15 of the Exchange Act. The Company's disclosure controls and procedures are designed only to provide reasonable assurance that they will meet their objectives. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, the Company's disclosure controls and procedures are effective to provide reasonable assurance that they would meet their objectives.

Changes in internal control over financial reporting

During the Company's most recent fiscal quarter, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to claims and litigation in the ordinary course of business, but we do not believe that any such claim or litigation is likely to have a material adverse effect on our financial position and results of operations or cash flows.

Item 1A. Risk Factors

A discussion of our risk factors can be found in the section entitled “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2016. The information below includes additional risks relating to our issuance of Convertible Notes and our transactions in Convertible Note Hedges and Warrants. The risks described below could materially affect our business, financial condition or future results.

The conditional conversion features of our 2.75% Convertible Senior Notes due 2022, if triggered, may adversely affect our financial condition.

In the event the conditional conversion features of the Convertible Notes are triggered, holders of the Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock, we would be required to make cash payments to satisfy all or a portion of our conversion obligation based on the conversion rate, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

The convertible note hedge and warrant transactions that we entered into in connection with the offering of the Convertible Senior Notes due 2022 may affect the value of the Convertible Notes and our common stock.

In connection with the offering of the Convertible Notes, we entered into convertible note hedge transactions with certain option counterparties. The Convertible Note Hedges are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Convertible Notes, as the case may be. We also entered into warrant transactions with each option counterparty. The Warrants could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the strike price of the Warrants. In connection with establishing its initial hedge of the Convertible Note Hedges and Warrants, each option counterparty or an affiliate thereof may have entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Convertible Notes. This activity could increase (or reduce the size of any decrease in) the market price of our common stock or the Convertible Notes at that time. In addition, each option counterparty or an affiliate thereof may modify its hedge position by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Convertible Notes (and is likely to do so during any observation period related to a conversion of the Convertible Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Convertible Notes. In addition, if any such Convertible Note Hedges and Warrants fail to become effective, each option counterparty may unwind its hedge position with respect to our common stock, which could adversely affect the value of our common stock and the value of the Convertible Notes. We are subject to counterparty risk with respect to the convertible note hedge transactions.

Each option counterparty to the Convertible Note Hedges is a financial institution, and we will be subject to the risk that it might default under the Convertible Note Hedges. Our exposure to the credit risk of an option counterparty will not be secured by any collateral. Global economic conditions have from time to time resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with the option counterparty. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of any option counterparty.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In April 2017, the Board of Directors authorized the Share Repurchase Program, which provides for the purchase of up to 1.5 million shares of the Company's issued and outstanding common stock. The Share Repurchase Program provides for share purchases in the open market or otherwise, including pursuant to Rule 10b5-1 plans, depending on share price, market conditions and other

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factors, as determined by the Company. Total shares purchased as of September 30, 2017 through the Share Repurchase Program were 686,506 at a total cost of \$10.0 million for an average purchase price per share of \$14.55, excluding commissions.

The Company's purchases of its shares of common stock during the third quarter of 2017 were as follows:

| Period                 | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet<br>be<br>Purchased<br>Under the<br>Plans or<br>Programs<br>(a) |
|------------------------|---|---------------------------------------|--|---|
| July 1 - 31, 2017      | 116,141                                   | \$ 14.09                              | 116,141  | 813,494   |
| August 1 - 31, 2017    | —   |                                       | —  | 813,494   |
| September 1 - 30, 2017 | —   |                                       | —  | 813,494   |
| Total                  | 116,141                                   | \$ 14.09                              | 116,141  |   |

(a) On May 3, 2017, the Company announced that its Board of Directors had approved the Share Repurchase Program. The Share Repurchase Program allows the Company to repurchase up to 1.5 million shares of its common stock. The Share Repurchase Program expires on May 5, 2020.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits.

Exhibits Index:

- 3.1(b) Amended and Restated Certificate of Incorporation of Horizon Global Corporation.
  - 3.2(a) Amended and Restated By-laws of Horizon Global Corporation.
  - 31.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 101.INS XBRL Instance Document.
  - 101.SCH XBRL Taxonomy Extension Schema Document.
  - 101.CALXBRL Taxonomy Extension Calculation Linkbase Document.
  - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
  - 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
  - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- (a) Incorporated by reference to the Exhibits filed with our Registration Statement on Form S-1/A filed on June 11, 2015 (Reg. No. 333-203138).
- (b) Incorporated by reference to the Exhibits filed with our Quarterly Report on Form 10-Q filed on August 11, 2015 (File No. 001-37427).



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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.

HORIZON GLOBAL  
CORPORATION  
(Registrant)

/s/ DAVID G. RICE

Date: October 31, 2017 By: David G. Rice  
Chief Financial Officer

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