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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): October 11, 2022

VOXX INTERNATIONAL CORPORATION

(Exact name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation)	**0-28839** (Commission File Number)	**13-1964841** (IRS Employer Identification No.)

2351 J. Lawson Boulevard Orlando, Florida (Address of Principal Executive Offices)	**32824** (Zip Code)

Registrant's Telephone Number, Including Area Code: (800) 645-7750

(Former Name or Former Address, if Changed Since Last Report)

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

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock $.01 par value	VOXX	The NASDAQ Stock Market LLC

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

Emerging growth company ☐

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

Item 2.01 Completion of Acquisition or Disposition of Assets.

On October 11, 2022, VOXX International Corporation (the "Company") issued a press release announcing its earnings for the three months ended August 31, 2022. A copy of the release is furnished herewith as Exhibit 99.1.

Item 8.01 Other Events.

On October 12, 2022, the Company held a conference call to discuss its financial results for the three months ended August 31, 2022. The Company has prepared a transcript of that conference call, a copy of which is annexed hereto as Exhibit 99.2.

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

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release, dated October 11, 2022, relating to VOXX International Corporation's earning's release for the three months ended August 31, 2022 (filed herewith).
99.2	Transcript of conference call held on October 12, 2022 at 10:00 am (filed herewith).
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

SIGNATURES

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

VOXX INTERNATIONAL CORPORATION
(Registrant)

Date:	October 17, 2022	By:	/s/ Charles M. Stoehr
			Charles M. Stoehr Senior Vice President Chief Financial Officer

Exhibit 99.1

FOR IMMEDIATE RELEASE

VOXX International Corporation Reports its Fiscal 2023 Second Quarter Financial Results

ORLANDO, FL. – October 11, 2022 — VOXX International Corporation (NASDAQ: VOXX), a leading manufacturer and distributor of automotive and consumer technologies for the global markets, today announced its financial results for its Fiscal 2023 second quarter ended August 31, 2022.

Commenting on the Company's results and business outlook, Pat Lavelle, President and Chief Executive Officer stated, "We entered Fiscal 2023 knowing it would be a difficult year given persistent supply chain issues, inflationary pressures and fears of recession globally. We anticipated weakness in our first half based on the availability of chips, our OEM customers' production schedules and lower inventory purchases by retailers, and we planned accordingly. During the Fiscal 2023 second quarter, however, global economic conditions worsened which led to a decline in discretionary spending and retailers taking further action to mitigate risk. These factors contributed to lower sales and operating losses to date, though we expect the second half of the year to be stronger and for VOXX to return to profitability."

Lavelle continued, "While market conditions will remain challenging, our optimism has not changed. Our Automotive segment is poised for significant growth in the years ahead given the volume of new OEM awards, most of which are in front of us. We expect continued softness at retail over the next several quarters, which impacts both our automotive aftermarket and consumer electronics businesses. However, projected OEM growth, the ramp up in Onkyo production and expanded distribution, and the new opportunities at EyeLock should offset market-driven weakness and lead to better performance. As the economy improves and supply chain constraints ease, we believe VOXX has significant runway for value creation. In the interim, we have taken aggressive actions to lower expenses in the second half of the year, some of which are short-term in nature, similar to what took place in the early stages of COVID, but many of which will be fixed, resulting in a leaner and stronger VOXX."

Fiscal 2023 and Fiscal 2022 Second Quarter Comparisons

Net sales in the Fiscal 2023 second quarter ended August 31, 2022, were $125.7 million as compared to net sales of $143.1 million in the Fiscal 2022 second quarter ended August 31, 2021, a decrease of $17.4 million or 12.2%.

- Automotive Electronics segment net sales in the Fiscal 2023 second quarter were $37.2 million as compared to $45.8 million in the comparable year-ago period, a decrease of $8.5 million or 18.7%. For the same comparable periods, OEM product sales were $15.2 million as compared to $16.4 million, and aftermarket product sales were $22.0 million as compared to $29.4 million. The year-over-year decline is primarily related to lower sales of aftermarket security and satellite radio products, and lower sales of both OEM and aftermarket rear-seat entertainment products. The decline in OEM product sales was also related to ongoing supply chain issues related to components and parts, resulting in slowdowns in OEM production. This also had an impact on aftermarket sales, as did the overall state of the economy. Partially offsetting the decline were higher sales of aftermarket automotive safety electronics and accessory products, with the latter related to new soundbars for club cars which launched in Fiscal 2022.

- Consumer Electronics segment net sales in the Fiscal 2023 second quarter were $88.0 million as compared to $97.0 million in the comparable year-ago period, a decrease of $8.9 million or 9.2%. For the same comparable periods, Premium Audio product sales were $69.2 million as compared to $76.1 million and other CE product sales were $18.8 million as compared to $20.8 million. The decline in Premium Audio product sales was primarily related to lower domestic sales of premium home theater speakers and wireless speaker products, and lower European sales. Supply chain constraints and the resulting chip shortages, along with a slowing of the economy and a decrease in consumer spending adversely impacted sales in the Fiscal 2023 second quarter. As an offset to these declines were higher sales of Onkyo and Pioneer products and higher sales from the Company's PAC Australia subsidiary. The year-over-year decline in other CE product sales was primarily related to economic conditions globally.

- Biometrics segment net sales in both the Fiscal 2023 second quarter and Fiscal 2022 second quarter were $0.3 million. Sales for the comparable periods increased slightly driven primarily by a new customer added this Fiscal year. The Company anticipates a ramp up in sales moving forward as a result of new projects awarded and a growing pipeline across multiple industry verticals.

The gross margin in the Fiscal 2023 second quarter was 23.3% as compared to 26.0% in the Fiscal 2022 second quarter, a decline of 270 basis points. For the same comparable periods, the Company reported:

- Automotive Electronics segment gross margin of 24.5% as compared to 23.9%, an increase of 60 basis points. The year-over-year improvement was primarily driven by steps the Company has taken to mitigate higher supply chain costs, ongoing supply chain constraints and higher tariffs, partially offset by lower margins on certain new OEM rear-seat entertainment products.

  Consumer Electronics segment gross margin of 22.6% as compared to 26.9%, a decline of 430 basis points. The year-over-year decline was primarily driven by lower sales of premium home theater speaker products and higher supply chain costs, partially offset by higher sales of Onkyo and Pioneer products, as well as pricing and sourcing adjustments undertaken by the Company.

- Biometrics segment gross margin of 40.1% as compared to 30.4%. The year-over-year improvement in gross margin was primarily a result of tooling costs incurred during the three months ended August 31, 2021 that did not repeat in the current year, as well as more sales of licenses in the Fiscal 2023 second quarter compared to the prior year.

Total operating expenses in the Fiscal 2023 second quarter were $39.2 million as compared to $39.9 million in the comparable Fiscal 2022 period, a decline of $0.7 million or 1.7%. For the same comparable periods:

- Selling expenses of $11.9 million were essentially flat for the comparable periods. The Company incurred higher web platform expenses and online platform fees, offset by a decrease in commission expense.

- General and administrative expenses of $19.1 million increased by $1.2 million. The Company incurred higher depreciation and amortization expenses of approximately $0.8 million primarily due to the amortization of intangible assets of the new Onkyo subsidiary, which was not present in the prior year period. Additionally, the Company incurred higher office and occupancy expenses and professional fees related to Onkyo, and higher restructuring expenses associated with the relocation of certain OEM production. There were other offsetting factors for the comparable periods.

- Engineering and technical support expenses of $8.3 million increased by $0.4 million, primarily due to an increase in engineering labor expense and related payroll expense associated with the Onkyo subsidiary, partially offset by a net decrease in research and development expenses.

- Acquisition costs declined by $2.3 million as the Company incurred acquisitions costs in the Fiscal 2022 second quarter associated with the asset purchase agreement signed with Onkyo Home Entertainment Corporation and the joint venture created with Sharp Corporation to complete the transaction. There were no acquisition costs incurred in the Fiscal 2023 second quarter.

The Company reported an operating loss in the Fiscal 2023 second quarter of $10.0 million as compared to an operating loss of $2.7 million in the Fiscal 2022 second quarter.

Total other income/expense, net, in the Fiscal 2023 second quarter was a loss of $1.7 million as compared to other income, net of $1.8 million in the Fiscal 2022 second quarter, a decline of $3.5 million. The variance was primarily related to a $1.4 million net foreign currency loss in the Fiscal 2023 second quarter resulting from declines in the Japanese Yen. The Company recorded a charge of $1.0 million representing interest expense related to the interim arbitration award accrued during Fiscal 2022, with no charge recorded in the comparable year-ago period. Additionally, equity in income of equity investee declined by $0.3 million and interest and bank charges increased by $0.3 million when comparing the Fiscal 2023 and Fiscal 2022 second quarters.

Net loss attributable to VOXX International Corporation in the Fiscal 2023 second quarter was $10.2 million as compared to net income attributable to VOXX International Corporation of $0.3 million in the comparable Fiscal 2022 period. The Company reported a basic and diluted net loss per share attributable to VOXX International Corporation of $0.42 in the Fiscal 2023 second quarter as compared to basic and diluted net income per common share attributable to VOXX International Corporation of $0.01, in the comparable Fiscal 2022 period.

The Company reported an Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) loss in the Fiscal 2023 second quarter of $6.8 million as compared to EBITDA in the Fiscal 2022 second quarter of $3.2 million. Adjusted EBITDA in the Fiscal 2023 second quarter was a loss of $3.3 million as compared to Adjusted EBITDA in the Fiscal 2022 second quarter of $6.3 million.

<u>Fiscal 2022 and Fiscal 2021 Six-Month Comparisons</u>

Net sales in the Fiscal 2023 six-month period ended August 31, 2022, were $254.4 million as compared to net sales of $280.2 million in the Fiscal 2022 six-month period ended August 31, 2021, down $25.7 million or 9.2%.

- Automotive Electronics segment net sales in the Fiscal 2023 six-month period were $76.8 million as compared to $88.4 million in the comparable year-ago period, a decline of $11.6 million or 13.1%. For the same comparable periods, OEM product sales were $32.0 million as compared to $31.3 million, an increase of $0.6 million or 2.0%, and aftermarket product sales were $44.8 million as compared to $57.1 million, a decline of $12.3 million or 21.5%.

- Consumer Electronics segment net sales in the Fiscal 2023 six-month period were $177.0 million as compared to $191.1 million in the comparable Fiscal 2022 six-month period, a decline of $14.1 million or 7.4%. For the same comparable periods, Premium Audio product sales were $139.1 million as compared to $147.7 million, a decline of $8.6 million or 5.8%, and Other Consumer Electronics product sales declined were $37.8 million as compared to $43.3 million, a decline of $5.5 million or 12.8%.

- Biometrics segment net sales for the Fiscal 2023 six-month period were $0.4 million as compared to $0.5 million in the comparable Fiscal 2022 six-month period, a decline of 5.0%.

The gross margin in the Fiscal 2023 six-month period was 24.6% as compared to 26.4% in the Fiscal 2022 six-month period, a decline of 180 basis points. Within the segments for the same comparable periods:

- Automotive Electronics segment gross margin was 23.3% as compared to 25.4%, down 210 basis points.

- Consumer Electronics segment gross margin of 25.0% as compared to 26.7%, down 170 basis points.

- Biometrics segment gross margins of 36.3% as compared to gross margin of 25.5%.

Total operating expenses in the Fiscal 2023 six-month period were $79.2 million as compared to $77.0 million in the comparable Fiscal 2022 six-month period, an increase of $2.2 million, or 2.9%. Within this and for the same six-month periods ended August 31, 2022 and August 31, 2021:

- Selling expenses increased by $0.8 million, or 3.6%.

- General and administrative expenses increased by $1.7 million, or 4.5%.

- Engineering and technical support expenses increased by $2.6 million, or 18.1%.

- Acquisition costs declined by $2.9 million, or 95.5%.

The Company reported an operating loss in the Fiscal 2023 six-month period of $16.7 million as compared to an operating loss of $3.1 million in the comparable Fiscal 2022 six-month period.

Total other income/expense, net, for the six-month period ended August 31, 2022, was a loss of $3.9 million as compared to total other income, net, of $4.5 million for the six-month period ended August 31, 2021, a decline of $8.4 million. Within this and for the same six-month periods ended August 31, 2022 and August 31, 2021:

- Interest and bank charges increased by $0.5 million.

- Equity in income of equity investees declined by $1.4 million.

- Interim arbitration award increased by $2.0 million.

- Other, net increased by $4.4 million, with $4.0 million of the increase related to net foreign currency losses primarily driven by declines in the Japanese Yen.

Net loss attributable to VOXX International Corporation in the Fiscal 2023 six-month period was $16.7 million as compared to net income attributable to VOXX International Corporation of $3.0 million in the comparable Fiscal 2022 period. The Company reported a basic and diluted net loss per share attributable to VOXX International Corporation of $0.69 in the Fiscal 2023 six-month period as compared to basic and diluted net income per common share attributable to VOXX International Corporation of $0.12 in the comparable Fiscal 2022 period.

EBITDA in the Fiscal 2023 six-month period was a loss of $11.0 million as compared to EBITDA in the Fiscal 2022 six-month period of $9.6 million. Adjusted EBITDA in the Fiscal 2023 six-month period was a loss of $3.4 million as compared to Adjusted EBITDA in the Fiscal 2022 six-month period of $14.7 million.

<u>Seaguard Electronics LLC</u>
On March 3, 2022, the Arbitrator issued a Partial Final Award on Bifurcated Issue in the amount of $39,444, plus $798 for its attorneys' fees and costs. On March 11, 2022, the Arbitrator fixed the schedule of the patent portion of the bifurcated arbitration, with a trial date set for October 16, 2023. The Company has put its suppliers on notice of its indemnification rights with respect to the alleged infringing products. On March 14, 2022, Seaguard filed a Petition in the United States District Court, Central District of California, Western Division, to confirm the

Partial Final Award. On April 25, 2022, the Company filed its opposition to Seaguard's Petition to Confirm and a Counter-Petition to Vacate the Partial Final Award. On May 31, 2022, the Court ordered the matter taken under submission for decision without oral hearing.

During Fiscal 2022, the Company recorded an accrual for the interim arbitration award in the amount of $39,444. During the three and six-months ended August 31, 2022, the Company accrued additional charges of $1.0 million and $2.0 million, respectively, representing interest due on the award when paid. At August 31, 2022, the Company has a total accrued balance of $41,417 on the accompanying Consolidated Balance Sheet related to the interim arbitration award, to be paid if confirmed and not vacated by the U.S. District Court or an appellate court.

Balance Sheet Update

As of August 31, 2022, the Company had cash and cash equivalents of $4.3 million as compared to $27.8 million as of February 28, 2022. Total debt as of August 31, 2022 was $37.7 million as compared to $13.2 million as of February 28, 2022. The increase in total debt for the comparable periods is primarily related to $27.4 million outstanding on the Company's Domestic Credit Facility as of August 31, 2022, partially offset by the absence of debt related to the Company's Euro Asset-Based Lending Obligation for VOXX Germany. Debt associated with the Company's Florida mortgage declined by $0.2 million and debt associated with the Company's shareholder loan payable to Sharp Corporation declined by $0.7 million. Total long-term debt, net of debt issuance costs as of August 31, 2022 was $36.3 million as compared to $9.8 million as of February 28, 2022.

Conference Call Information

The Company will be hosting its conference call and webcast on Wednesday, October 12, 2022 at 10:00 a.m. ET.

- To attend the webcast, participants must register online at https://edge.media-server.com/mmc/p/x8reywz2

- To access the call by phone, please visit https://register.vevent.com/register/BI6a5657904be244d1870a5baee625d2fd and you will be provided dial-in numbers. Participants are requested to register a day in advance or at a minimum 15 minutes before the start of the call. Those wishing to ask questions following management's remarks should use the dial-in numbers provided.

- A replay of the webcast will be available approximately two hours after the call and archived under "Events and Presentations" in the Investor Relations section of the Company's website at https://investors.voxxintl.com/events-and-presentations.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are not financial measures recognized by GAAP. EBITDA represents net (loss) income attributable to VOXX International Corporation, computed in accordance with GAAP, before interest expense and bank charges, taxes, and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted for stock-based compensation expense, foreign currency losses (gains), restructuring expenses, acquisition costs, certain non-routine legal and professional fees, and awards. Depreciation, amortization, stock-based compensation, and foreign currency losses (gains) are non-cash items.

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

About VOXX International Corporation

VOXX International Corporation (NASDAQ: VOXX) has grown into a leader in Automotive Electronics and Consumer Electronics, with emerging Biometrics technology to capitalize on the increased need for advanced security. Over the past several decades, with a portfolio of approximately 35 trusted brands, VOXX has built market-leading positions in in-vehicle entertainment, automotive security, reception products, a number of premium audio market segments, and more. VOXX is a global company, with an extensive distribution network that includes power retailers, mass merchandisers, 12-volt specialists and many of the world's leading automotive manufacturers. For additional information, please visit our website at www.voxxintl.com

Safe Harbor Statement

Except for historical information contained herein, statements made in this release constitute forward-looking statements and thus may involve certain risks and uncertainties. All forward-looking statements made in this release are based on currently available information and the Company assumes no responsibility to update any such forward-looking statements. The following factors, among others, may cause actual results to differ materially from the results suggested in the forward-looking statements. The factors include, but are not limited to the: risk factors described in the Company's annual report on Form 10-K for the fiscal year ended February 28, 2022, and other filings made by the Company from time to time with the SEC. The factors described in such SEC filings include, without limitation: the impact of the COVID-19 outbreak on the Company's results of operations, global supply shortages and logistics costs and delays; cybersecurity risks; risks that may result from changes in the Company's business operations; our ability to keep pace with technological advances; significant competition in the automotive electronics, consumer electronics and biometrics businesses; our relationships with key suppliers and customers; quality and consumer acceptance of newly introduced products; market volatility; non-availability of product; excess inventory; price and product competition; new product introductions; foreign currency fluctuations; and restrictive debt covenants. Many of the foregoing risks and uncertainties are, and will be, exacerbated by the COVID-19 pandemic, the War in the Ukraine and any worsening of the global business and economic environment as a result. The Company assumes no obligation and does not intend to update these forward-looking statements.

Investor Relations Contact:

Glenn Wiener, GW Communications (for VOXX)
Email: gwiener@GWCco.com

Tables to Follow

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

	August 31, 2022 *(unaudited)*	February 28, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 4,326	$ 27,788
Accounts receivable, net	80,375	105,625
Inventory	192,931	174,922
Receivables from vendors	218	363
Prepaid expenses and other current assets	19,569	21,340
Income tax receivable	3,746	734
Total current assets	301,165	330,772
Investment securities	1,225	1,231
Equity investment	22,185	21,348
Property, plant and equipment, net	48,441	49,794
Operating lease, right of use asset	4,106	4,464
Goodwill	71,412	74,320
Intangible assets, net	94,599	101,450
Deferred income tax assets	38	40
Other assets	3,651	3,245
Total assets	$ 546,822	$ 586,664
Liabilities, Redeemable Equity, Redeemable Non-Controlling Interest, and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 50,851	$ 76,665
Accrued expenses and other current liabilities	43,966	54,659
Income taxes payable	2,178	2,714
Accrued sales incentives	20,840	23,755
Interim arbitration award payable	41,417	39,444
Contract liabilities, current	4,224	4,373
Current portion of long-term debt	500	2,406
Total current liabilities	163,976	204,016
Long-term debt, net of debt issuance costs	36,321	9,786
Finance lease liabilities, less current portion	—	78
Operating lease liabilities, less current portion	2,924	3,298
Deferred compensation	1,225	1,231
Contingent consideration, less current portion	4,494	5,750
Deferred income tax liabilities	5,084	5,300
Other tax liabilities	907	1,083
Prepaid ownership interest in EyeLock LLC due to GalvanEyes LLC	4,921	2,451
Other long-term liabilities	3,177	3,508
Total liabilities	223,029	236,501
Commitments and contingencies		
Redeemable equity	3,783	3,550
Redeemable non-controlling interest	(321)	511
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding	—	—
Common stock:		
Class A, $.01 par value, 60,000,000 shares authorized, 24,538,184 and 24,476,847 shares issued and 21,675,966 and 21,614,629 shares outstanding at August 31, 2022 and February 28, 2022, respectively	246	245
Class B Convertible, $.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at both August 31, 2022 and February 28, 2022	22	22
Paid-in capital	296,311	300,453
Retained earnings	109,830	126,573
Accumulated other comprehensive loss	(20,867)	(17,503)
Less: Treasury stock, at cost, 2,862,218 shares of Class A Common Stock at both August 31, 2022 and February 28, 2022	(25,138)	(25,138)
Less: Redeemable equity	(3,783)	(3,550)
Total VOXX International Corporation stockholders' equity	356,621	381,102
Non-controlling interest	(36,290)	(35,000)
Total stockholders' equity	320,331	346,102
Total liabilities, redeemable equity, redeemable non-controlling interest, and stockholders' equity	$ 546,822	$ 586,664

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

	Three months ended August 31, 2022	Three months ended August 31, 2021	Six months ended August 31, 2022	Six months ended August 31, 2021
Net sales	$ 125,705	$ 143,109	$ 254,437	$ 280,169
Cost of sales	96,448	105,923	191,941	206,288
Gross profit	29,257	37,186	62,496	73,881
Operating expenses:				
Selling	11,865	11,838	24,150	23,305
General and administrative	19,082	17,884	38,212	36,560
Engineering and technical support	8,284	7,886	16,673	14,118
Acquisition costs	—	2,316	136	2,992
Total operating expenses	39,231	39,924	79,171	76,975
Operating loss	(9,974)	(2,738)	(16,675)	(3,094)
Other (expense) income:				
Interest and bank charges	(911)	(582)	(1,641)	(1,110)
Equity in income of equity investee	1,763	2,035	3,351	4,758
Interim arbitration award	(986)	—	(1,972)	—
Other, net	(1,519)	376	(3,629)	818
Total other (expense) income, net	(1,653)	1,829	(3,891)	4,466
(Loss) income before income taxes	(11,627)	(909)	(20,566)	1,372
Income tax (benefit) expense	(708)	(217)	(1,800)	267
Net (loss) income	(10,919)	(692)	(18,766)	1,105
Less: net loss attributable to non-controlling interest	(703)	(1,003)	(2,023)	(1,922)
Net (loss) income attributable to VOXX International Corporation	$ (10,216)	$ 311	$ (16,743)	$ 3,027
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(2,128)	(1,334)	(3,622)	(962)
Derivatives designated for hedging	99	163	186	282
Pension plan adjustments	40	22	72	23
Other comprehensive loss, net of tax	(1,989)	(1,149)	(3,364)	(657)
Comprehensive (loss) income attributable to VOXX International Corporation	$ (12,205)	$ (838)	$ (20,107)	$ 2,370
(Loss) income per share - basic: Attributable to VOXX International Corporation	$ (0.42)	$ 0.01	$ (0.69)	$ 0.12
(Loss) income per share - diluted: Attributable to VOXX International Corporation	$ (0.42)	$ 0.01	$ (0.69)	$ 0.12
Weighted-average common shares outstanding (basic)	24,423,577	24,281,220	24,418,020	24,273,731
Weighted-average common shares outstanding (diluted)	24,423,577	24,855,307	24,418,020	24,890,641

Reconciliation of GAAP Net Income Attributable to VOXX International Corporation to EBITDA and Adjusted EBITDA

	Three months ended August 31,		Six months ended August 31,	
	2022	2021	2022	2021
Net (loss) income attributable to VOXX International Corporation	$ (10,216)	$ 311	$ (16,743)	$ 3,027
Adjustments:				
Interest expense and bank charges (1)	710	420	1,237	792
Depreciation and amortization (1)	3,449	2,735	6,353	5,513
Income tax (benefit) expense	(708)	(217)	(1,800)	267
EBITDA	(6,765)	3,249	(10,953)	9,599
Stock-based compensation	136	237	262	473
Foreign currency losses (gains) (1)	1,728	(2)	4,090	114
Restructuring expenses	229	—	229	—
Acquisition costs	—	2,316	136	2,992
Professional fees related to distribution agreement with GalvanEyes LLC	—	—	—	325
Non-routine legal fees	350	548	858	1,234
Interim arbitration award	986	—	1,972	—
Adjusted EBITDA	$ (3,336)	$ 6,348	$ (3,406)	$ 14,737

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

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q2 2023 VOXX InternationalCorp Earnings Call

EVENT DATE/TIME: OCTOBER 12, 2022/ 2:00PM GMT

CORPORATE PARTICIPANTS

Michael Stoehr -
Patrick M. Lavelle *VOXX International Corporation - President, CEO & Director*
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CONFERENCE CALL PARTICIPANTS

Brian William Ruttenbur *Imperial Capital, LLC, Research Division - Research Analyst*
Glenn Wiener *GW Communications LLC - Owner*
Thomas Forte -

PRESENTATION

Operator
good day, and thank you for standing by. Welcome to the fiscal 2023 Second Quarter Results Conference Call. At this time, all participants on a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. To ask the question during the session, you will need to press Star 1 1 on your telephone. I would now like to hand the conference over to your speaker for today, Glenn Wiener, Investor Relations. You may begin.

Glenn Wiener ***GW Communications LLC - Owner***
Thank you, and good morning. Welcome to VOXX International's Fiscal 2023 Second Quarter Conference Call. Yesterday, we filed our Form 10-Q and issued our press release and this morning, we posted an updated investor presentation. All of these documents can be found in the Investor Relations section of our website at www.voxxintl.com. Today, we'll have prepared remarks from Pat Lavelle, President and Chief Executive Officer; and Michael Stoehr, Senior Vice President and Chief Financial Officer. After which, we'll open up the call for questions. I would like to remind everyone that except for historical information contained herein, statements made on today's call and webcast that would constitute forward-looking statements are based on currently available information. The company assumes no responsibility to update any such forward-looking statements, and I would like to point you to the risk factors associated with our business, which are detailed in our Form 10-K for the period ended February 28, 2022. I'd like to thank you all for your continued support. And I would like to now turn the call over to Pat.

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
Thanks, Glenn, and good morning, everyone. Last quarter, I talked about the challenges we faced given the state of the global economy. And our primary issue remains the industry-wide availability of chips as this continues to slow down OEM production and the overall rate of the economy has resulted in lower inventory levels and purchased by retailers. We knew the first half would be difficult and it was. We

expect the second half to be better, though we have tempered our outlook as our customers work through market obstacles. We recently adjusted prices and implemented cost control measures, some of which are short term, others which will lead to a lower operating cost basis when conditions improve. Nothing has changed with respect to our optimism once economic conditions improve. I believe we remain positioned to drive both top and bottom line growth and enhance many of our market-leading positions.

Through the first half of fiscal '23, sales were down approximately 9%. Gross margin declined by 180 basis points. Expenses were up 3%, and we posted an adjusted EBITDA loss of $3.4 million compared to an adjusted EBITDA of $14.7 million in the first half of fiscal '22.

We projected a top line decline and a loss through the first half, though conditions in the second quarter were weaker than anticipated. And this is not just for VOXX, but our industry as a whole. Global economies are facing geopolitical shocks. The world is still recovering from COVID in different places, and we are experiencing inflation rates that we have not seen in decades. Inflation has driven up cost for business and prices up for consumers. And the Fed has indicated they will continue to raise interest rates to slow the economy further.

VOXX has been through recessions before, and we will get through this one. Looking back over the past 2 years, we posted strong operating results amidst COVID and the supply chain problems. This year has been harder as the economy has worsened in the U.S. and globally. We can manage costs and inventory, but we cannot control the impact chip scarcity has on our customers and lower consumer spending has on our major retailers. And therefore, we have taken aggressive steps to lower operating costs, and I believe that with the new businesses we've added over the last few years and the strength of our brands and market placement, we will be positioned to offset the weakness that the market is experiencing and that we anticipate.

Within our Automotive segment and for the first half comparisons, our OEM business was relatively flat in spite of the fact that I believe the automotive industry has been in recessionary territory for the past 3 years. The availability of chips has created problems not only for the car makers, but has prevented us from meeting demand as well.

On our Q1 call, I discussed the fact that we had offered an alternative chip to Stellantis, where we would be able to meet their demand. We presented a solution, and I am happy to report today that the modifications have been validated and approved, and we will resume shipments towards the end of this month. This should help drive increases in our automotive OEM business in the second half of the year.

Our programs with Ford remain on schedule, albeit at lower volumes than projected given the same challenges, but we were awarded new business last quarter, which increased the total value of the programs. Conditions have been getting somewhat better, and we recently launched the EVOLVE rear seat entertainment system for the Navigator and the Expedition vehicles and are in process of finalizing programs for the Aviator and the Explorer.

Other OEM programs are progressing and many of the contracts awarded through VSM will be starting in fiscal 2024. To offset the run-up in labor costs in the U.S., we began transitioning some of our OEM production lines to Mexico. And I spoke about this on our Q1 call. Our first line is now up and running, and we expect to be fully operational by the end of November. Labor costs are roughly half of what they are in the U.S. and the cost to operate is less as well, which will help improve margins and profitability. Our OEM business at this point is positioned very well. As you know, we have received approximately $750 million of new awards, most of which still remain in front of us.

Our aftermarket automotive business is down $12.3 million through the first half due to the economy and the impact on our business with new car dealers and mobile retailers. The good news is we are now entering the winter season traditionally our strongest selling season within the aftermarket. With the DEI acquisition, we now own most of the top selling brands and through the integration synergies that we've realized, we expect greater profitability in our aftermarket business for the full fiscal year even on lower sales.

So to sum up automotive, chips are the biggest issue, and this is going to persist. New vehicle models and programs start soon, which should lead to growth. OEM margins should improve with the move to Mexico, recent price increases and managing the supply chain effectively. We have a steady flow of new OEM awards over the next several years, building on top of our normal base of business, and we have several more opportunities on the horizon with other OEM customers. Automotive remains on track to generate strong returns as ahead, and we will work with our customers to help them get the near term. Moving on to the Consumer segment.

Consumer sales segments were down approximately $14 million with both premium audio and product sales down due to the impact of inflation and the shift in consumer discretionary spending. All non-essential leisure products are feeling the pinch, TVs, gaming systems, video systems and laptops to name just a few. And our major retailers have lowered their levels of inventory carry because of lower sell-through and the fact that they know the supply chain is full and they can avail themselves to product quickly.

Within Premium Audio, sales of premium home speakers and wireless speakers were down $24.5 million, but this was offset by an increase of $18.4 million in sales of Onkyo and Pioneer products and a $3.7 million increase in sales from our PAC Australia subsidiary. We own some of the top-selling brands in the industry, and our placement globally remains very strong. But the reality is that with the state of the economies and a decline in consumer discretionary spending, volume for premium audio products will be less than what we initially forecasted.

At Onkyo, we continue to ramp up production and are in position to meet retail consumer demand this year. Our Onkyo business was up in the first half, and we expect increases through the second half and more so in the future as we open up distribution in other parts of the world beyond North America. Near-term, in light of the economic factors in play, again, industry sales of audio products are expected to decline. But as we expand distribution throughout the world for Onkyo, Pioneer and Integra products, we expect to offset that decline.

Other CE products were down in the first half, but we have new placement at key retailers for our Acoustic Research outdoor speakers, which will positively impact this fourth quarter and into next fiscal year. We expect other CE products to perform better as people are once again coming together with fewer restrictions in place for the holidays. Our accessory business in Europe is down primarily due to the drop in currency. With Schweiger's market-leading position, a do-it-yourself retailers, we could see a boost with more sales in this category resulting from inflation.

As for our Biometrics segment, we streamlined operations and enhanced distribution resulting in significantly less expenses with more efficient management. With sales relatively flat to the comparable 6-month period, our operating expenses are down close to 40%, and our operating loss improved by over 40%. In fiscal '22, we added a new distribution partner, GalvanEyes Partners. And during the second quarter of fiscal '23, they announced a new program with Acxiom Bank to deploy a custom biometric device to enable touchless, highly secure authentication technology for the financial industry. We are working closely with GalvanEyes to utilize our technology to streamline the authentication process for financial transactions while enhancing security in a touchless and mobile environment.

Our business with the Miami Lakes Auto Mall is progressing. This program is designed to increase lot protection of their vehicles. We expanded the program last quarter to include perimeter access for the corporate infrastructure, which includes business access, hazardous material location and garages. We have moved through all installation approvals and will roll out the program to their other 25 dealership locations.

Previously, we won a deal with the city government of Leon in Mexico to accurately identify prisoners in correction facilities as well as for access control for their 911 pulse secretors. The program has expanded into other sectors within the city and to other areas within the state of Guanajuato. -- and EyeLock's IXT devices are now being used for authentication and city government buildings as well.

The project with Marubeni Corporation in Japan continues, and we are working with them to develop a logical access product for Pharma 4.0 in Japan. And lastly, although we remain in testing with the health care company we've been discussing, there are no pertinent updates at this time.

EyeLock is working with companies in the financial services, security, government, industrial, automotive and gaming sectors. The pipeline is building as is interest in our technology, and we believe the financial picture at EyeLock will continue to improve.

To close, we expect to be profitable in the second half of the year, though the level of profitability is truly dependent on the economy, our customers and the supply chain. Based on the first half and our revised outlook as a result of customer projections, we took significant actions over the past few months to cut costs across the board like we did when COVID hit. We have looked at all aspects of our business to identify costs that can be reduced without losing our ability to operate, meet launch dates and exceed customer expectations. I estimate that we have implemented actions, both operational improvements and expense reductions totaling approximately $16 million out of the second half budget for fiscal '23. This consists of freight surcharges, vendor reductions, container reductions, patent expirations, terminations, executive and Board pay cuts and more. We have and continue to look at duplication within our structure and waste to operate more efficiently. And not all of these actions will be permanent. But when things do improve, we should operate on a lower cost basis similar to what transpired in fiscal '21 and '22, excluding costs related to acquisitions.

Again, this is not the first time VOXX has faced an economic downturn. We have been in business for over 6 decades, and we will get through this and be stronger. As we move into fiscal '24, if everything remains as is, no better, no worse, our performance should improve with new OEM programs, expanded production and distribution for Onkyo and Pioneer products and the other initiatives underway across each of our business segments. There's no doubt, it's been challenging, and we're working through it, but I firmly believe the best is still to come for VOXX and our shareholders. I want to thank you. And now at this time, I'll turn the call over to Michael. Mike?

Michael Stoehr -
Thanks, Pat. Good morning, everyone. I'll focus the majority of my remarks today on our second quarter comparisons and close with a few comments on our balance sheet.

We reported net sales of $125.7 million, down $17.4 million year-over-year, with Automotive segment sales down $8.5 million. Consumer segment sales were down $8.9 million and our Biometrics segment sales were up approximately $100,000.

Within automotive, OEM product sales declined by $1.2 million. This was primarily a result of lower volume from the car manufacturers, though new programs with Stellantis and Ford helped offset the decline with volume anticipated to increase with new vehicles and programs coming online.

Aftermarket sales declined by $7.4 million. And as Pat noted, this was mainly due to a lack of new vehicles at car dealers and lower purchases at retail due to the economy. The aftermarket security category represented approximately 90% of the year-over-year decline, and we expect to see improvements in the second half of the year.

Within Consumer, Premium Audio product sales declined by $6.9 million. Retail store traffic slowed as has online purchasing given the current environment. As a result, sales of home theater systems and sound bars declined both domestically and abroad. As an offset, we had higher sales of Onkyo and Pioneer products, higher sales from PAC Australia and a modest sales increase of other distributed products sold through 11TC. Lower discretionary spending in the U.S. and recession fears throughout Europe also had an impact on our CE product sales, which were down $2 million for the comparable periods.

Biometric segment sales were up approximately $80,000 due to a new customer account, and we're expecting more meaningful top line increases in the second half of the fiscal year.

Gross margin was 23.3%, down 270 basis points, with the decline in our Consumer segment, offset by increases in our Automotive and Biometrics segments. Automotive segment margins of 24.5% increased by 60 basis points. price increases, along with steps we've taken to mitigate higher costs drove the year-over-year improvement, partially offset by lower margins on certain new OEM rear-seat entertainment products, which we are currently working to improve and sure as volume ramps and production is more consistent. Consumer segment margins declined by 430 basis points, driven primarily by lower sales of premium home theater speaker products and higher supply chain costs, including freight to move the product to the U.S. today for holiday season. Higher sales of Onkyo and Pioneer products helped to offset the decline. Biometrics segment margins improved significantly on a percentage basis, but given the volume of sales, the gross dollar impact was minimal. Moving on to operating expenses.

For the fiscal 2023 second quarter, we reported total operating expenses of $39.2 million, down approximately $700,000 year-over-year. Selling expenses were essentially flat with higher website and advertising expenses, offset by lower commission and salesman salaries. General and administrative expenses increased by $1.2 million due primarily to an $800,000 increase in depreciation and amortization expenses related primarily to the amortization of intangible assets of the new Onkyo subsidiary and approximately a $200,000 increase in restructuring costs related to the relocation of certain OEM production operations to Mexico. This was partially offset by a $300,000 decline in professional fees. There were other offsetting factors for the comparable periods. Lastly, engineering and technical support expenses increased by $400,000 as we had higher engineering labor expenses and related payroll expenses associated with the Onkyo subsidiary, partially offset by lower R&D expenses. R&D-related expenses for our automotive and biometric segments declined and was offset by product development projects related to Onkyo.

During the fiscal 2022 second quarter, we incurred acquisition costs of $2.3 million related to the Onkyo asset purchase agreement and the joint venture created with Sharp to complete the transaction. In fiscal 2023, we did not have any acquisition-related expenses.

Lower sales and gross margin, coupled with a modest increase in operating expenses resulted in operating loss of $10 million as compared to operating loss of $2.7 million in fiscal 2022 second quarter.

Total other income and expense was a net loss of $1.7 million in the fiscal 2023 second quarter as compared to total other income net of $1.8 million in the comparative fiscal 2022 period. The primary drivers of the $3.7 million year-over-year increase were: one, a $1.7 million net foreign currency loss primarily related to the decline of the Japanese yen; and two, a $1 million charge representing interest expense related to the interim arbitration award accrued during fiscal 2023, which was not present in comparable prior year period.

Interest and bank charges increased by $300,000 and equity and income of an equity investee, which relates to our 50-50 ASA joint venture declined by $300,000, making up the difference.

Net loss attributable to VOXX was $10.2 million as compared to net income attributable to VOXX of $300,000 in the comparable fiscal 2022 period. Lastly, adjusted EBITDA in the fiscal 2023 second quarter was a loss of $3.3 million as compared to adjusted EBITDA of $6.3 million in the second quarter of fiscal 2022. This includes a $2.7 million in non-operating cash or FX losses and internal award expenses as well as adjustments for stock-based compensation, restructuring expenses and nonroutine legal fees.

Moving on to the balance sheet. Comparing our balance sheet as of August 31, 2022 to February 28, 2022, we had cash and cash equivalents of $4.3 million as compared to $27.8 million. Total debt was $37.7 million as compared to $13.2 million, with the increase primarily related to $27.4 million outstanding on our domestic credit facility as we used our facility for working capital purposes to secure inventory moving into fiscal 2023 third quarter. The additional variances related to: one, a $1.9 million reduction in our euro ABL obligation for VOXX Germany, which was incurred in fiscal 2022, and nothing is currently outstanding; two, lower debt associated with our Florida mortgage and three, a decline in the shareholder loan payables Sharp.

To summarize the first half and our outlook. Sales were lower than projected due to softness in the economy and retailers pulling back to mitigate risk. We have new retail customers, new OEM programs and many new products either in market or under development. And we have the inventory on hand or in transfer to meet customer needs in the second half of the year. Note, we increased our inventory carry throughout the year to ensure we secured what we needed, and we're continuing to diligently manage the supply chain to optimize capital resources. Our biggest obstacle is the economy and the current global environment, we are taking a prudent approach and prepared for whatever comes our way. Operator, we're now ready to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, to ask the question, you need to press star 1 1 on your telephone. Again, at star 1 1 to ask the question, please stand-by while we compile the Q&A roster. Our first question comes from the line of Brian Ruttenbur with Imperial Capital, your line is opened.

Brian William Ruttenbur ***Imperial Capital, LLC, Research Division - Research Analyst***

Yeah, thank you very much for taking my call. A couple of questions. First of all, I believe you stated that in the second half of the year, you'd be cash flow positive. Maybe you can elaborate on that. Does that mean third quarter or fourth quarter? And I believe you said cash flow positive, maybe you could define what you're talking about in terms of cash flow...

Michael Stoehr -

Hi, This is Mike speaking. -- (inaudible) can go ahead and then I'll fill in for what do you have to say.

-

No, go ahead, Mike. You can take...

Michael Stoehr -

Just from my standpoint, we historically, this is the seasonal nature of the company, which I think we referenced were returning back to our seasonal patterns. As we work through the third and fourth quarter as we reduce the inventory carry, that cash will spin out and will then pay down the debt, and we will be positive during the second half.

Brian William Ruttenbur ***Imperial Capital, LLC, Research Division - Research Analyst***

Okay. And so it's primarily taking inventory down is where you're going to be generating a lot of that cash. Is that correct?

Michael Stoehr -

Right. I'll just speaking for the balance sheet, yes. I'll let Pat talk to the P&L. But yes, that's where it's coming from. If you look at the inventory position as of September -- as of August 31, it's $192 million, we'll be south of that number by February 28.

Brian William Ruttenbur ***Imperial Capital, LLC, Research Division - Research Analyst***

Perfect.

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Go ahead, Pat.

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
As far as the second half of our year is generally, the stronger part of our year, one for holiday sales, one for remote start sales. So having the inventory in place in the warehouses so that we can capture those sales is very important. So as we make those sales, we're going to see the inventory. And as Mike says, we'll catch up.

Brian William Ruttenbur ***Imperial Capital, LLC, Research Division - Research Analyst***
Okay. Great. And then maybe you can give me a little indication on -- you've made some big, big cuts, $16 million in all areas. Should I be looking at it proportionately coming out of selling, general administration engineering? Is there something that is not getting cut, is engineering getting cut as well as G&A at the same kind of rate?

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
No, no. We -- what we looked at and the $16 million is primarily about $9 million in savings and others, the other $7 million is somewhere in improvements. So we have had personnel terminations, personal furloughs, bonus reductions, senior executive and Board pay cuts. We've had reductions of third-party partners expenses, reduced show expenses, reduced travel and things like that. Those will be regular reductions. But then in the improvements, we've put in freight surcharges because of the cost of freight that's going up between the automotive aftermarket and our domestic (inaudible) operations patent payments that expire, container reductions, some vendor reductions. So there's a combination of both. It's not in any one specific area. And one area that we are very careful to avoid cutting is in engineering because we have a number of launches that are in front of us in 2024 that we have to meet. So we believe that we've cut where we could. So as I indicated, where we can maintain our ability to operate and our ability to meet the launch dates that our customers expect.

Brian William Ruttenbur ***Imperial Capital, LLC, Research Division - Research Analyst***
Okay. And then just one other follow-up comment or question along those same lines in terms of -- just trying to understand revenues are likely going to be down year-over-year in third quarter and fourth quarter, but there should still be a seasonal pattern where third quarter is stronger than second quarter. Did I state anything incorrect?

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
You're right. I mean we expect to see a significant improvement in the second quarter over the second half over the first half.

Brian William Ruttenbur ***Imperial Capital, LLC, Research Division - Research Analyst***
Okay. But it will still be down year-over-year in the second half versus the second half of '22...

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
No, I'm not saying that. The second half of the year, we have, as I've indicated, we'll be resuming shipments to Stellantis. We have a number of new programs coming online. We're in a better position with inventory for certain holiday products that we missed some sales last year. So I'm not saying that our sales will come in lower in the second half than last year. But again, it really does depend on what happens with the economy, how strong does the consumer feel going into the holiday season?

Operator
Thank you... For our next question. Our next question comes from the line of Tom Forte with D.A. Davison. Your line is open.

Thomas Forte -
Great. So Pat, Michael thanks for taking my question... I have 4 go one at a time. right. So Pat as a longtime CEO in the consumer electronics category, I would appreciate your thoughts on the following. How does today's level of consumer demand compare against the -- great Recession in '08 and '09, the air pocket we saw at the start of COVID and any other relevant periods of weakness we've seen in the past?

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
I don't think at this particular point that it reaches those levels. But what we obviously get concerned with is a continued rise by the Fed, where their stated policies, to bring up unemployment, there will be a certain amount of sales destruction that go along with that. And then how long this recession is going to last. -- before they can start easing up. But at this particular point is not as severe. We've also made, as you've heard me say, a number of cuts to offset and we have new programs, especially as I've indicated, with Onkyo, PIONEER and Integra and some of the other 11 TC brands that we've recently introduced, but they were primarily introduced only in North America because of the production problems. As the production increases over at Sharp, we plan to be able to expand into Europe, expand into APAC, expanded to South America, which should offset weakness that we may have here in the United States.

Thomas Forte -
All right. That's very helpful, Thank you. So the second question is, I was hoping you could help me understand this situation. So it seems to me consumers are still spending money, but retailers being ultra conservative when it comes to inventory, especially in the consumer electronics category. I would appreciate any thoughts you have on that.

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

Well, there's 2 areas that -- the first thing we do business with some of the biggest retailers in the world. And coming out of their first quarter, if you recall, they all missed their numbers and their reaction was to severely cut back on inventories. I mean, in many cases, we see their sell-through, they were selling through merchandise but not reordering. Their mantra was to bring down the overhead of inventory that they're carrying and that they've worked on for the better part of this year. We do believe that if Christmas starts to materialize because we do agree that the consumer still has money, is that they'll have to reorder in order to make those sales. So that we look at somewhat of a positive. And that's been the biggest problem on the consumer side of the business. The retailers also know that unlike years previous with supply chain issues and everything that we have inventories and that they need it, they can order it and they'll get it. So that's a different dynamic than what we've seen last year. As far as the consumer, we know that the demand for new cars is very, very strong. Even in a down economy, we expect that if the car manufacturers can start producing more vehicles because of the chip situation, if they can get that resolved, we think that sales of new vehicles will be quite robust. That will help us on the OEM side and as well on the aftermarket side, as 50% of our aftermarket business is done with new car dealers. One of the issues that exist today, there are fewer and fewer cars sitting on the deal. There's lots waiting to be sold.

Thomas Forte -

Okay. Good. All right. So I wanted to know 2 more. I wanted to know if you're able to take advantage of improving freight costs by getting more aggressive on pricing and promotions.

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

Well, at this particular point, with the lead times that we have and the fact that through the supply chain issues, we had to essentially put 60 days more inventory into our cycle. So as we sell through that inventory, we will be able to assess to access the lower prices that we're starting to see on the spot market. We've worked with a number of shippers that we've contracted with. They are working with us. But these would be more on newer shipments that we make over the next coming months. But certainly, we are working to lower our freight costs coming in.

Thomas Forte -

Excellent. All right. Last question. So I wanted to know how you're impacted by the strong U.S. dollar. For example, in the quarter, how much were your sales impacted by the strong dollar -- and then I also want to know if you have any expenses outside the U.S. in local currencies that essentially hedge some of the impact of a strong dollar on your profits?

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

Yes. Well, one of the -- obviously, the strong dollar is starting to impact us in Europe and places like that where our goods are more expensive because the dollar denominated. But we have hedged -- we traditionally on our inventory buys have hedged so that we can maintain somewhat of a stable pricing structure. On the contrary, what we're talking to our manufacturers about is because of the strength of the dollar and they do pay them in dollars, and we're looking for additional discounts. -- based on that. Where we have been impacted negatively is on the yen-based loan that we have at OTKK, which is the Japanese Onkyo operation. And to date, we've taken about a 3. -- kind of somewhere around $3.4 billion, $3.5 million currency charge, marking that loan to market, which is -- is not going to be paid for -- it's not due for 10 years. So that's the one area that we've gotten hit. It's not an operational expense, but it does hit the pretax line.

Operator
Thank you.

Operator
Thank you. I'm showing no further questions in the queue. I would now like to hand the call back over to Pat for closing remarks.

Patrick M. Lavelle ***VOXX International Corporation - President, CEO & Director***
Well, thank you all. I would like to thank you for your interest today. Rest assure, we are monitoring all government and federal moves that we see, and we'll work closely with all of our customers and our OEMs to determine what any moves that the government makes. What does it affect their business and their volume, which eventually is our sales. So I want to thank you for coming on the call today, and wish you a good rest of the day. Thank you.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for your (inaudible). This concludes today's conference call... Thank you.