communications simplified.

# Lazydays Holdings, Inc.

## Fourth Quarter 2019 Financial Results Conference Call

## March 19, 2020

## CORPORATE PARTICIPANTS

**Debbie Harrell,** *Corporate Controller*

**William Murnane,** *Chairman and Chief Executive Officer*

**Nicholas Tomashot,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Ryan Sigdahl,** *Craig-Hallum Capital Group*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by and welcome to Lazydays Holdings, Inc. Fourth Quarter 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star, one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

I would now like to hand the conference over your speaker today, Debbie Harrell, Corporate Controller. Thank you. Please go ahead, Ms Harrell.

**Debbie Harrell**

Okay, thank you so much. Good morning, and thank you for joining us for our Fourth Quarter Year-End 2019 Financial Results conference call. I'm Debbie Harrell, Corporate Controller at Lazydays.

We issued the Company's earnings press release this morning. A copy of the earnings release is available under the Events and Presentations section of the Investor Relations page of our website, and has been furnished as an exhibit to our current report on Form 8-K with the SEC.

With me on the call today are Mr. William Murnane, our Chairman and Chief Executive Officer, and Mr. Nick Tomashot, our Chief Financial Officer.

As a reminder, please note that some of the information you will hear today during our discussion may consist of forward-looking statements, including, without limitation, statements regarding unit sales, revenue, gross margins, operating expenses, stock-based compensation expense, taxes, product mix shift and geographic expansion. Actual results or trends for future periods could differ materially from the forward-looking statements as a result of many factors. For additional information, please refer to the risk factors discussed in the Form 8-K filed with the SEC on March 19, 2020.

We also will discuss non-GAAP measures of financial performance that we believe are useful for understanding the company's results, including EBITDA and Adjusted EBITDA. Please refer to our earnings press release for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

For the fiscal year ended December 31, 2019, the three months ended December 31, 2019, and the three months ended December 31, 2018, the financial information presented represents the operating results of Lazydays Holdings, Inc. For the fiscal year ended December 31, 2018, the financial information presented represents the combined operating results of Lazydays Holdings, Inc. for the period from March 15, 2018 to December 31, 2018, with the operating results of Lazydays R.V. Center, Inc. for the period from January 1, 2018 to March 14, 2018.

Now, it is my pleasure to introduce Nick Tomashot who will provide an overview of the 2019 fourth quarter and full year financials.

**Nick Tomashot**

Thank you, Debbie. Please note that, unless stated otherwise, the quarter and fiscal year results comparisons are to the same three- and 12-month periods ended December 31, 2018.

Total revenues for the fourth quarter were $144.9 million, up $19 million or 15.1% from 2018. Revenue from the sale of recreational vehicles was $126.5 million for the quarter, up $16.4 million or 14.9%. RV unit sales excluding wholesale units were 1,585, up 251 units or 18.8%. Q4 revenue from the sale of new recreational vehicles was $74.4 million, up $8.3 million or 12.6%. New vehicle unit sales were 874, up 87 units or 11.1%. The average selling price of new vehicles was $84,500, up $1,000 or 1.2%.

Q4 revenue from the sale of pre-owned vehicles was $52.1 million, up $8 million or 18.2% from 2018. Pre-owned units sold excluding wholesale units were 711, up 164 units or 30%. The average selling price of used recreational vehicles was $68,300, which was 7.7% lower compared to the fourth quarter of 2018.

Revenue in our other channels consists of sales of parts, accessories and related service, finance and insurance or F&I revenue, as well as campground and miscellaneous revenue. In total, revenue from these Other lines of business was $18.4 million, up $2.7 million or 17.1% compared to 2018. The increase was driven by an F&I revenue increase of $1.4 million, or 20.6%, to $8.2 million, and a parts and service revenue increase of $1.6 million, or 20.7% to $9.3 million. These increases were partially offset by a $0.3 million decrease of campground and other miscellaneous revenue.

Q4 gross profit excluding non-cash last-in first-out or LIFO adjustments was $30.1 million, up $2.8 million versus 2018. Gross margin excluding LIFO adjustments declined between the two periods to 20.8%, compared to 21.7% in 2018, with the change primarily driven by competitive end-of-model year pricing reducing RV sales gross margins, as well as increased wholesale sales as a percentage of our overall sales mix. Including noncash LIFO adjustments, which had a net unfavorable swing of $0.5 million compared to prior year, gross profit for the quarter was $29.2 million, up $2.3 million or 8.6%.

Excluding transaction costs, stock-based compensation, and depreciation and amortization, SG&A for the quarter was $26.3 million, up $4.6 million compared to prior year. This increase is attributable to the additional overhead expenses contributed by the recently acquired location at The Villages in Florida, as well as a full quarter of overhead associated with the Tennessee location acquired in December 2018. The prior year comparable is also unfavorable because of an approximately $1.2 million net favorable impact in Q4 2018 related to accruals for employee benefits and incentive compensation, and bad debt reserves. In addition, Q4 2019 SG&A was impacted by $0.4 million adjustment for impairment of rental units, as well as an increase in performance and incentive compensation and other personnel costs. Amortization of stock-based compensation decreased $1.7 million, and depreciation and amortization increased $0.2 million compared to prior year.

Net loss for the fourth quarter was $0.5 million as compared to a net loss of $2.4 million in 2018. This $1.9 million improvement was primarily the result of the just discussed increase in gross profit and operating expenses, the decline in amortization of stock-based compensation, as well as the $2.7 million decrease in income tax expense.

Adjusted EBITDA was $3.3 million for the quarter, down $1.3 million. Adjusted EBITDA margin decreased by 140 basis points to 2.3%. Please refer to our earnings release for the table which includes a reconciliation of net income or loss to Adjusted EBITDA.

I'm now going to take you through a summary of our full year-end financial results.

Total revenue for the year was $644.9 million, up $36.7 million or 6% from 2018. Revenue from the sale of recreational vehicles was $56.1 million for the year, up $28.9 million or 5.4%. RV unit sales excluding wholesale units were 7,591, up 295 units or 4%.

Year-end gross profit, excluding LIFO adjustments was $134.6 million, up $1.5 million versus 2018. Gross margin excluding LIFO adjustments declined between the two years from 21.9% in 2018 to 20.9% in 2019, primarily driven by competitive end-of-model year pricing reducing RV sales gross margins, partially offset by improved F&I revenue per vehicle sold. Including noncash LIFO adjustments, which had a net unfavorable swing of $1 million compared to the prior year, gross profit for the quarter was $132.2 million, up $0.5 million or 0.4% versus 2018.

Excluding transaction costs, stock-based, and depreciation and amortization, SG&A for the year was $103.5 million, up $6.7 million compared to the prior year. This is attributable to the additional overhead expenses contributed by the recently acquired location at The Villages, as well as the full year overhead impact associated with the Minnesota and Tennessee locations acquired in 2018. Amortization of stock-based compensation decreased $3.9 million, and depreciation and amortization increased $1.4 million compared to the prior year.

Adjusted EBITDA, a non-GAAP financial measure was $27.9 million for the year, down $4.4 million compared to 2018. This was primarily driven by decreased RV sales gross margins previously discussed, partially offset by the increase in revenue and units sold. Adjusted EBITDA margin as a percentage of revenue decreased for the year to 4.3% compared to 5.3% in 2018.

Now turning to the December 31 balance sheet and our financial position, we had cash on-hand of $31.5 million and net working capital of $36.9 million, with cash down $2 million compared to September 30, 2019. This decrease in cash includes the impact of cash used to invest in growth initiatives, including more than $9 million of fourth quarter funding towards greenfield start-ups near Houston, Texas and Nashville, Tennessee. We had approximately $160.9 million in inventory consisting of $124 million in new vehicles, $36.6 million in pre-owned vehicles, and approximately $3.8 million in parts inventory, and LIFO reserves of $3.7 million.

As of December 31, 2019, we had no borrowings under our $5 million revolving credit facility, $14.9 million of term loans outstanding, and $144.1 million in gross notes payable on our floorplan facility. We also had approximately $6.7 million outstanding on notes payable related to acquisitions.

Thank you. Now I'll turn the call over to Bill Murnane.

**William Murnane**

Thank you, Nick. Twenty-nineteen was a tough year. Overall demand for RVs declined, excess inventory created aged inventory across the industry, aged inventory in turn created a challenging pricing and margin environment. The combination of lower demand and aggressive pricing ultimately led to lower profits.

While 2019 proved to be a tough year for unit margins, we are happy with our overall revenue growth during the year. We were especially pleased with our service and F&I revenue growth, which are higher margin sources of revenue for our business.

Although it was a challenging year, we did not let the tough conditions of 2019 deter us from executing on our long-term business strategy. We remained laser-focused on our three strategic pillars and made great strides towards achieving a best-in-class customer experience, service excellence and geographic expansion. We believe this focus has and will continue to pay big dividends.

We have put a lot of time, energy and money into understanding and improving our customer experience, and we will continue to do so. We independently survey every customer after their sales or service experience, and have a high rate of participation in these surveys. I'm happy to report that our survey scores are showing strong improvement, and this is from a baseline that we believe is already higher than most in the industry. We still have a long way to go towards creating a best-in-class customer experience, but we are clearly moving in the right direction.

We're putting tremendous effort and resources into improving the service experience at Lazydays. These efforts are streamlining our service process so our customers will have consistency and predictability when getting their RV serviced by Lazydays. In February, we opened our first dedicated service center in Houston, Texas, and it is ramping up nicely. To support our service excellence strategy, we expect to open more dedicated service centers in the future.

We are moving forward on our new dealership in Nashville, Tennessee. It took us a little longer than expected to get our permitting in place but it is now in place and we expect to open Lazydays of Nashville for sales and service late in Q3 or early in Q4 2020. We are very excited to enter the rapidly growing Nashville market later this year.

Our growth pipeline remains robust, and we believe we will be able to continue to grow our dealership and service network fairly aggressively for the foreseeable future.

After a tough 2019 we were greeted in 2020 with a new pandemic called the coronavirus or COVID-19. Taking into consideration the interest around the coronavirus and it's impact on our business and industry, we have decided to give an update on the current quarter. Although we normally will not comment on a quarter until it ends and we have closed our books, these are not normal times. In addition, as a result of the later timing of our year-end versus quarterly filings, our earnings call is being held today with about 85% of Q1 complete, so we have a clearer picture of how the quarter will end.

Twenty-twenty started strong and remained strong throughout the quarter to-date. In the first two months of the quarter—that's through February 2020 to be clear—our consolidated units and revenue were up more than 20% year-over-year. Our EBITDA was up more than 30% year-over-year through February. The demand was strong in all regions of the country. As a reminder, we operate in four regions of the country: the southeast, the upper Midwest, the mountains, and southwest regions. So far in March—and that means through yesterday—we have experienced unit growth of more than 20%. It is hard to predict what the last 12 days of the quarter will look like, especially in these uncertain times, but traffic and demand have held up reasonably well through the first 18 days of March. We do not know what the future will hold, and we are not trying to predict the future. In this environment, things can change dramatically at any time. We are simply trying to give an up-to-date status of our business to the best of our ability in view of the uncertainty in the economy and in our industry.

We are encouraged by our growth and believe it as a result of our product, pricing, promotion and merchandising choices, along with our focus on improving our customer experience and service excellence. Based on RV shipment data and RV registration data, we do not believe the market is growing at the same rate as Lazydays. We believe we are gaining market share.

I also want to point out that Lazydays has a very strong balance sheet and is extremely well situated to either grow aggressively or weather a significant downturn. Of course, we would prefer to use our financial strength to grow but we understand that often economic conditions are outside of our control and we have prepared carefully for either scenario. We also don't believe that growth and the downturn are mutually exclusive. We can and will, when appropriate, continue to expand our dealership and service center network in good times and bad, and have to manage our balance sheet accordingly.

Our cash balance was $31.5 million at the end of 2019 versus $26.6 million at the end of 2018. Moreover, we anticipate our cash balance will increase significantly during the current quarter.

We believe it is prudent to plan for the coronavirus to have a negative impact on the economy and our industry over the next several weeks, and we are actively putting plans in place to deal with these potential situations. I want to emphasize that we plan to stay open for business as long as we are legally allowed to be open. I also want to be clear that nothing is more important to us than the safety of our customers and our employees. We have implemented and are strictly adhering to CDC coronavirus guidelines at all Lazydays locations.

We believe that we provide essential services for our customers. Our customers rely on RVs for temporary housing. A large segment of the RV owners are seniors, the highest risk group for coronavirus exposure, and RVs provide seniors a safe and controlled environment. In addition, RVs are currently being used as COVID-19 mobile test centers, and temporary quarantine quarters. In fact, our industry association petitioned Vice President Pence yesterday to designate RV dealers as essential service providers. If our customers are spending time in their RVs, they will depend on Lazydays to support their RV needs and we will be there to support them.

In closing, I want to take a moment to thank the Lazydays employees. I've never been around a team of people who are more dedicated to their customers. The effort they are putting forth to make sure we continue to take great care of our customers in these very difficult times is nothing short of amazing. I'm proud to be part of this outstanding team of people. Thank you.

We'll now open the call for questions. Thanks.

**Operator:**

Thank you. As a reminder, to ask a question please press star, followed by the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Steve Dyer. Your line is open

**Ryan Sigdahl**

Hey guys, Ryan Sigdahl on for Steve.

**William Murnane**

Good morning, Steve.

**Ryan Sigdahl**

Maybe to start, just kind of on your last point when you mentioned RVs being used for medical test centers, temporary housing, etc., have you guys seen any increased demand the past few days, weeks, etc., or are you expecting any going forward?

**William Murnane**

Increased demand? No. As I mentioned, we have had increased demand year-over-year in so far this month. I would say the last seven days versus last year about flat is what our data is showing. We are showing that our leads are increasing year-over-year, so that's kind of where we're at right now, but I wouldn't feel comfortable saying demand is increasing in the last week.

**Ryan Sigdahl**

Yes. That was a poorly worded question; I meant increasing for those specific uses and what you were seeing, which you answered.

Then as it relates to your Q1 expectation, how much of that has already been booked versus kind of what's the expectation for the last two weeks of the quarter?

**William Murnane**

Yes, well, 85% of the quarter is done. We tend to deliver a lot of units at the end of the month, and we've factored that into our consideration here.

What was the other part of the question? I'm sorry.

**Nick Tomashot**

Also, we haven't seen cancellation rates above what they typically are for this time of the year, so our book of business is holding up.

**William Murnane**

Like I said, we do not know what today will bring, what tomorrow we'll bring; all we know is where we stand today.

**Ryan Sigdahl**

Are you factoring in any delayed delivery or inability or unwillingness, I guess, from the customers, even to take delivery in the next few weeks, or are you assuming kind of business as usual with that increased delivery trend at the end of the quarter?

**William Murnane**

We've got 10 different scenarios we're prepared for. As Nick said, we haven't seen any change in our cancellation rates. They've remained steady with historical levels, so we're anticipating we're going to deliver—you know, honestly, I think we'll deliver a few less. I think a few less people will be coming in under these conditions, but we're expecting to still deliver a bunch of units over the next week, week or two.

**Ryan Sigdahl**

Great. Then, as it relates to capital allocation, you mentioned the cash and some of your liquidity, but you authorized this stock buyback in late 2019, which looks more attractive at current prices, but also I understand the need to maintain financial flexibilities in this uncertain times. How do you think about cash uses? What is your current liquidity? You mentioned cash but kind of all-in what's the liquidity available? Then any other covenants or restrictions that we should be aware of, if things worsen?

**William Murnane**

We have quite a bit of headroom under any covenants, under any of our debt agreements or other agreements. I don't have an exact liquidity. Nick, you may have to get back to him. We may have to get back to you on that.

**Nick Tomashot**

Actually we are—because we did do an amendment to our debt agreement, it is going to be part of our K disclosure, so we'll be disclosing that.

**William Murnane**

There'll be more information in the K, but I don't think we have an exact liquidity number.

In this environment, we're going to be real careful how we outlay cash and we're going to manage it maybe a little more closely than we typically would. Bu,t like I said, we really have a very, very strong balance sheet, probably one of the strongest in the industry, if not the strongest in the industry. We don't have any concerns from a liquidity standpoint at this point.

**Ryan Sigdahl**

Great. One more for me and then I'll turn it over. Houston service center just to opened; any quick early learning's there from kind of economics and what you've seen from that business, and then the opportunity to expand kind of the standalone service center opportunity throughout the U.S.? Thanks and good luck.

**William Murnane**

No learnings as of yet. It's still early, we're still ramping up, but things are going smooth. It's unfortunate that this situation happened during that ramp, but we do think that there is a chance that people will use their RVs even more in this environment, and if they use them more they're going to need more service and repair. We're going to be there for them to help keep them safe and allow them to use their RVs as they see fit. But no learnings to-date other than we're ramping according to plan.

**Ryan Sigdahl**

Great. Thanks, guys.

**Operator**

We have no further questions. I turn the call back over to the presenters.

**William Murnane**

All right. Thank you everyone for joining us this morning. Please stay safe and we'll talk to you in another quarter. Thank you.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.