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Lazydays Holdings, Inc.

Third Quarter 2018 Results

November 9, 2018

CORPORATE PARTICIPANTS

James Meehan, *Corporate Controller*

William Murnane, *Chief Executive Officer*

Nicholas Tomashot, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Steven Dyer, *Craig-Hallum Capital Group*

Gregory Gibas, *Northland Securities*

PRESENTATION

Operator:

Good morning. My name is Tiffany (phon) and I would like to welcome everyone to today's Lazydays Holdings Q3 2018 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

I would now like to turn the conference over to James Meehan, Corporate Control. You may begin your conference.

James Meehan:

Thank you, Operator. Good morning and thank you for joining us for our third quarter 2018 financial results conference call. I'm James Meehan, 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 to 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. Bill 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 that you will hear today during our discussion may consist of forward-looking statements, including, without limitation, statements regarding revenue, gross margins, operating expenses, stock-based compensation, taxes, product mix shifts and geographic expansion. Actual results or trends for future periods could differ materially from the forward-looking

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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 21, 2018.

We will also discuss non-GAAP measures of financial performance that we believe are useful to the Company, 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 three months ended September 30, 2018, the financial information presented represents the operating results of Lazydays Holdings, Inc. For the three months ended September 30, 2017, the financial information presented represents the operating results of Lazydays RV Center, Inc.

For the nine months ended September 30, 2018, the financial information presented represents the combined operating results of Lazydays Holdings, Inc. for the period from March 15, 2018 to September 30, 2018, with the operating results of Lazydays RV Center, Inc. for the period from January 1, 2018 to March 14, 2018. For the nine months ended September 30, 2017, the financial information presented represents the operating results of Lazydays RV Center.

Now, it is my pleasure to introduce Bill Murnane.

William Murnane:

Thank you, James, and good morning everyone. Thank you for joining us this morning. I'd like to give an overview of what we are seeing in the markets, and then Nick will give more details on our specific performance.

Recreational vehicle demand remained reasonably strong in most of our markets. We did experience some softness at our Florida dealership. Our business partners indicate that, in general, the Southeast was softer than the rest of the country during the third quarter. We did not experience any significant demand changes in our dealerships outside of Florida, other than normal seasonal demand changes.

Also impacting our Florida dealership was difficulty procuring quality pre-owned motorized product. The market for pre-owned motorized product is tight, and we had difficulty finding enough pre-owned motorized product to support our sales goals. Our Florida dealership sells a much higher volume of pre-owned motorized product than our other dealerships, so it felt more of an impact from the shortage of this product. In spite of softer sales, we were able to maintain gross margins during the quarter.

Our sense of the broader RV market is that, in general, dealers exited the summer with inventories a little higher than normal and will be working hard to bring down inventories through the end of the year. Lazydays takes great pride in its ability to manage its inventory, and we are very comfortable with our current inventory position, and we are on track to meet our inventory goals for the year. Many of you are probably aware, we turn our inventory more than four times a year, which is industry-leading, and we will turn our inventory more than four times a year in 2018 as well.

Now, I'm going to turn the call over to Nick Tomashot, our CFO, to take you through some of the financial highlights of the third quarter.

Nicholas Tomashot:

Thank you, Bill. Good morning everybody. Please note that unless stated otherwise, the quarter results comparisons are to the same three-month period ended September 30, 2017.

Revenues for the third quarter were $142.2 million, down $1.2 million or 0.8% from 2017. Revenue from sales of recreational vehicles was $125.3 million for the quarter, down $1.5 million or 1.1%. RV unit sales excluding wholesale units were 1,801, down 18 units or 1%.

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Q3 revenue from sales of new recreational vehicles was $79.8 million, up $1.8 million or 2.3%. New vehicle unit sales were 1,076, down 15 units or 1%. The average selling price of new vehicles was $73,600, up $2,300 or 3.2%.

Q3 revenue from pre-owned vehicles was $45.6 million, down $3.2 million or 6.6% from 2017. Pre-owned vehicle units sold, excluding wholesale units, were 725, down only three units or 0.4%, but included within this small decrease was the significant decline in pre-owned motorized sales resulting in a majority of the revenue decline. This decrease was driven by limits on availability, as Bill mentioned earlier in the call, on quality pre-owned motorized units. The average selling price of used recreational vehicles was $59,900, down $3,300 or 5.6%, driven by the decline in pre-owned motorized sales.

Revenues in our other channels consist of sales of parts, accessories and related service, finance and insurance or F&I revenue, as well as campground and other revenue. In total, revenue from these other lines of business was $17 million, up $0.2 million or 1.5% compared to 2017.

Excluding last year's $900,000 in revenue from the discontinued e-commerce business unit, sales from these other lines of business were up approximately $1.1 million or 7.3%, driven by an F&I revenue increase of $900,000 or 12.4% to $8.1 million, and parts and service revenue increasing $200,000 or 2.4% to $7.2 million.

Gross profit, excluding non-cash, last-in, first-out or LIFO adjustments, was $31.2 million, down $0.7 million versus 2017. Gross margin excluding LIFO adjustments was relatively flat at 21.9% compared to 22.2% in 2017, with the change primarily driven by the decrease in pre-owned motorized vehicle sales.

Gross profit for the quarter, including a $3.7 million net swing in non-cash LIFO adjustments, was $30.3 million, down $4.4 million or 12.8%. Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $23.8 million, up $0.4 million compared to prior year, primarily related to our Minnesota acquisition. Stock-based compensation and depreciation and amortization increased $2.7 million and $1 million respectively compared to prior year. These non-cash expenses have increased compared to prior year stemming from the March 2018 merger between Andina Acquisition Corp. II and Lazydays RV Center, Inc., which included options issued to Management and increases in tangible and intangible asset valuations on our balance sheet.

Net loss for the third quarter was $2.7 million as compared to net income of $4.3 million in 2017. This $7 million decrease was primarily the result of the $3.7 million net impact of LIFO adjustments between the periods mentioned in my discussion of gross profits, as well as a $3.7 million increase in non-cash expenses that I mentioned in my SG&A discussion. Despite the pre-tax loss shown for the third quarter, we still recorded net income tax expense of $1.1 million, primarily due to the anticipated impact of the non-deductible expenses for stock-based compensation on our effective tax rate for the year.

Adjusted EBITDA was $6.3 million for the quarter, down $1.3 million. Adjusted EBITDA margin decreased by 90 basis points to 4.4%. Please refer to our earnings release for the table which includes a reconciliation of net income or loss to Adjusted EBITDA.

Now, turning to the September 30 balance sheet and our financial position; we had cash on hand of $37.4 million and net working capital of $55.6 million, with cash up $1.8 million compared to June 30, 2018, driven by cash flow from operations of $4.5 million. We had approximately $127.2 million in inventory, consisting of $93.2 million in new vehicles, $30.4 million in pre-owned vehicles, and approximately $4.5 million in parts inventory, and LIFO reserves of $900,000.

As of September 30, 2018, we had no borrowings under our $5 million revolving credit facility, $20.3 million of term loans outstanding, and $106.7 million in notes payable on our floor plan facility.

Thank you. I'd like to turn the call back over to Bill Murnane.

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William Murnane:

Thank you, Nick. I'd like to focus for a minute on one of Nick's last comments regarding our cash generation. We were able to generate $1.8 million of cash during the quarter in spite of a little softness, and after accounting for the cost of the Minnesota acquisition, and the payment of the dividend on our preferred stock. We remain confident that our business model will continue to generate strong cash flow and support our growth strategy.

Our three-pronged growth strategy has not changed, and will not change anytime soon. We remain focused on our three strategic priorities which are, one, best in class customer experience, two, service excellence, and three, geographic expansion. We believe that providing a great customer experience and great service all across the country will generate above-market performance, and all of our internal efforts are focused on these priorities.

We are very excited to have closed our acquisition of Shorewood RV in Minnesota in August. This dealership is now branded as Lazydays of Minneapolis. Our Minnesota team is talented, and we are excited to welcome them into the Lazydays family. We expect Lazydays of Minneapolis to generate strong results in 2019.

We are equally excited to have recently announced we signed an agreement to purchase the assets of Tennessee RV Supercenter. We expect the acquisition to close before the end of the calendar year. This dealership will be branded Lazydays of Knoxville after the close. The Knoxville team is also very talented, and we are very excited to welcome them into the Lazydays family in the very near future. We also expect Lazydays of Knoxville to generate strong results in 2019.

The opportunities for continued geographic expansion are robust, and we expect to continue our geographic growth in 2019.

Operator, those are all of our prepared remarks. You can open up the lines for questions, please.

Operator:

At this time, I would like to remind everyone, in order to ask a question, please press star, followed by the number one on your telephone keypad.

Your first question comes from the line of Steve Dyer with Craig-Hallum. Your line is open.

Steven Dyer:

You mentioned kind of a greater mix shift to tollables and away from motorized. Did you see that again in the quarter; any color there?

William Murnane:

Yes, I think the market, we think, continues to shift a little bit towards tollable. It was really hard to get a read on that, Steve, given some of the softness we had on the used motorized, and that was really a supply issue more than anything else.

Steven Dyer:

Yes, that was my next question. It sounds like primarily just inventory constraints as opposed to the shift in customer preference or something else.

William Murnane:

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Yes, it's hard to tell, but what we do know is we did not have the inventory we planned to have in used, we just couldn't find quality inventory. We're not going to—there's some lower quality inventory which we aren't going to buy, but we weren't able to find the quality—the quantity of the quality we wanted to support our sales goals.

Steven Dyer:

Got it. Then just, as the industry softened, I guess, ever so slightly here in the last three or six months, have you seen any change in the M&A environment in terms of what targets are willing to sell for or how many targets there are, etc.?

William Murnane:

What I can tell you is we're more active right now in terms of the opportunities we're seeing. I think that that is maybe a function of something going on in the market, I don't know. But yes, our incoming opportunities have increased. We are very selective, we are very disciplined and we're not going to overpay for anything. We're going to be very disciplined and very selective in terms of the quality dealership we buy and how much we pay for the dealership.

Steven Dyer:

Got it. Then last for me, you had mentioned some softening in the Southeast U.S., particularly Florida. Anything you could point to? Is that because of something, and would you expect that to persist for a bit, or was that sort of a transient thing you can point to? Thanks.

William Murnane:

We got that from our business partners who deal with multiple operators in the industry, and that was the data they gave us. Why, I'd just be speculating, and I probably shouldn't speculate. It could just the slowdown in the industry, it could be weather-related; we did have some hurricanes in the Southeast during the quarter.

I don't—I'd prefer not to speculate, but what we know, from talking to our partners, that it wasn't—it was a little broader than just Lazydays.

Steven Dyer:

All right. Thanks, guys.

William Murnane:

Thanks, Steve.

Operator:

Again, that is star, one on your telephone keypad to ask a question.

Your next question comes from the line of Greg Gibas with Northland Securities. Your line is open.

Gregory Gibas:

Hi guys, I'm on for Paul Penney today, thanks for taking the questions. First, just given some of the excess inventory at OEMs, are you seeing a greater ability to negotiate better wholesale pricing?

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William Murnane:

Yes, I think there's—not across the board, but I think on select makes and models, there are opportunities to get better pricing, Greg.

Gregory Gibas:

Okay. Then, could you provide an update on the progress with F&I and S&R (phon) efforts? I know you talked a little bit about it, but do the two recent acquisitions have any ancillary segments today, and if not, are you looking to add these?

William Murnane:

The two acquisitions have the same—a very similar business model to what we have today, which includes F&I. I think there's an opportunity to, at some of those locations, not necessarily all of them, to improve their F&I performance, and we certainly will try and aggressively do that.

Gregory Gibas:

Okay, great. Then, the Tennessee RV Supercenter looks like a pretty good acquisition. Just wondering, would we expect to see positive EBITDA contributions from that as we look into 2019? Can you talk maybe about the synergy opportunities with the rest of Lazydays?

William Murnane:

Yes. We're really excited—we won't do an acquisition we're not excited about, so we're really excited about them all, but we told you last quarter how excited we were about Minnesota so we'll share some our excitement about Tennessee.

It's a great dealership with a great ownership, with a great team. We don't have to do a lot. I think we can do some things like increase their turns, grow the revenue, which will in turn impact their bottom line. But it's in a great location, very close to the entrance of the Smoky Mountains, and there's just a ton of opportunity in that location, so we're real excited about that. Yes, we do think they will have a positive EBITDA contribution in 2019.

Gregory Gibas:

Great. Just one kind of follow-up is, now that we've seen two acquisitions in two quarters since being public, would it be safe to assume a cadence of approximately one per quarter is safe to assume going forward?

William Murnane:

Yes, we're not going to assume anything. Greg, I think our goal is to grow—we've said this, we want to try, over a five year period, we want to try and grow 20% a year. We're going to—sometimes we'll have multiple acquisitions, smaller acquisitions in a row, sometimes we might have a bigger acquisition at one time. There's a good chance we'll do some greenfield stuff as well.

I can't commit to doing one a quarter, but we will certainly take advantage, and there's a lot of opportunity out there so we'll do the best we can, but we're going to remain disciplined in the process.

Gregory Gibas:

Understood, thanks.

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Operator:

There are no further questions in queue at this time. I turn the conference back over to our presenters.

William Murnane:

Yes, thanks, everyone. Thanks for joining us this quarter, and we look forward to speaking with you again next quarter. Have a great day.

Operator:

This concludes today's conference call. You may now disconnect.

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