VIAVID
communications simplified.

Lazydays Holdings, Inc.

Second Quarter 2019 Financial Results Conference Call

August 15, 2019

CORPORATE PARTICIPANTS

James Meehan, *Corporate Controller*

William Murnane, *Chairman and Chief Executive Officer*

Nicholas Tomashot, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Ryan Sigdahl, *Craig-Hallum Capital*

PRESENTATION

Operator:

Good morning. My name is Lisa, and I will be your Conference Operator today. At this time, I would like to welcome everyone to the Lazydays Holdings, Inc. Second Quarter 2019 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' 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.

James Meehan, Corporate Controller, you may begin your conference.

James Meehan:

Thank you, Lisa. Good morning, and thank you for joining us for our Second Quarter 2019 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 & Presentations section of the Investor Relations page of our website and has been furnished as an exhibit to our current report on Form K filed 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 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 regarding factors that could impact the forward-looking statements, please refer to the Risk Factors discussed in the Form 10-K filed with the SEC on March 22, 2019.

We will also discuss non-GAAP measures of financial performance that we believe are useful to the Company, including EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin. 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 June 30, 2019 and 2018, as well as the six months ended June 30, 2019, the financial information presented represents the operating results of Lazydays Holdings, Inc.

For the six months ended June 30, 2018, the financial information presented represents the combined operating results of Lazydays Holdings, Inc. for the period from March 15, 2018 to June 30, 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 Bill Murnane.

William Murnane:

Thank you, James, and good morning, everyone. Thank you for joining us here this morning.

I'll give a quick overview of what we're seeing in our markets and then Nick will give more details on our specific performance.

In the second quarter, we saw a continuation of the weaker demand that began last September. R.V. IA OEM wholesale data and stat survey retail registration data both confirmed weaker year-over-year demand for RVs. Moreover, the gap between the wholesale data and the retail data indicates dealer inventories are still above normal levels and destocking continues.

Given the summer selling season is starting to wind down, and retail inventories are still out of balance, we expect that destocking will continue through the balance of the year. The inflated retail inventories have created some aggressive pricing in the market as many dealers try to move aged inventory at or below cost.

In general, we have opted not to participate in significant price discounting. We continually evaluate the market, our market share, our inventory levels, and OEM discounting, and we will change our approach to the market if and when warranted without sacrificing our long-term growth and financial goals.

We have closely managed our inventories to levels appropriate for the current level of customer demand. Our inventories are well-balanced, and we feel very good about our current inventory position. Some OEMs are pricing new inventory aggressively, and we'll strategically adjust our inventory approach and product offerings to take advantage of situations that will enhance our market position and long-term success.

Our balance sheet is in great shape, and we are locked, loaded, and ready to take advantage of any opportunity that presents itself.

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

Nicholas Tomashot:

Thanks, Bill.

Please note that unless stated otherwise the 2019 second quarter result comparisons are for the same three-month period ended June 30, 2018.

Total revenues for the quarter were $168.5 million, up $6.4 million or 4% from 2018. Revenue from the sale of recreational vehicles was $149 million for the quarter, up $4.6 million or 3.2%. R.V. unit sales, excluding wholesale units, were 2,092, down 17 units or 0.8%.

New R.V. unit sales were 1,312, up 61 units or 4.9%. The average selling price of new vehicles was $71,300, up $900 per unit or 1.3%. Net new inventory sales revenue was $94.2 million, up $5.6 million or 6.3%.

For the pre-owned side of our business, there was a unit and revenue decline, particularly in pre-owned motorized vehicles. This decrease was driven by limits in the availability of quality pre-owned units.

Pre-owned vehicles units sold excluding wholesale were 780, down 78 units or 9.1%. Pre-owned vehicle revenue for the quarter was $54.8 million, down $0.9 million or 1.6% from 2018. The average selling price of pre-owned RVs was $62,900, up $3,500 per unit or 5.9%. The declines in our retail pre-owned vehicles sells were partially offset by $400,000 increase in wholesale sales compared to 2018.

Revenues from other lines of business consist of parts, accessories, and related services, finance and insurance or F&I revenue, as well other miscellaneous revenue including commissions from consignment sales, campgrounds, rentals, restaurants et cetera. In total, revenue for the quarter from these other lines of business was $19.5 million, up $1.7 million or 9.8% compared to 2018.

The increase was driven by an F&I revenue increase of $1.3, million or 16% to $9.5 million and a parts and service revenue increase of $0.6 million or 7.8% to $8.7 million. These increases, which were due to additions of our new locations in Minnesota and Tennessee, as well as increased F&I penetration, were partially offset by declines in miscellaneous revenue due to decreased commissions on consignment sales. We are especially pleased with our F&I performance for the performance as evidenced by F&I revenue indexing at 6.7% of retail revenue compared to 5.9% in Q2, 2018.

Q2 gross profit was $35.5 million, down $0.2 million versus 2018. Gross margin declined between the two periods to 21.0% of revenue compared to 22% in 2018, with the change primarily driven by the decreases in pre-owned motorized unit sales.

Excluding transaction cost, depreciation and amortization and amortization of stock-based compensation, SG&A for the quarter was $25.2 million, up $0.3 million compared to prior-year due to the acquisition of our Minnesota and Tennessee locations in the second half 2018.

Expense related to the amortization of stock-based compensation decreased $1.5 million compared to prior year, stemming from the March 2018 merger between Andina Acquisition Corporation II and Lazydays R.V. Center Incorporated, which included options issued to management.

The non-cash, non-tax deductible expense associated with these option awards was frontloaded due to the accounting treatment for awards at best based upon market conditions.

Income tax expense was $2.1 million as compared to $1.2 million for 2018.

Net income for the second quarter was $1.9 million as compared to net income of $1.8 million in 2018 for the reasons noted above.
Adjusted EBITDA was $9.9 million for the quarter, almost flat versus last year's Adjusted EBITDA of $10 million. Adjusted EBITDA margin decreased 20 basis points to 5.9%. This is primarily driven by our vehicle

mix impact on gross margins, which were down 100 basis points to 21% driven by the decline in pre-owned vehicle unit sales.

Please refer to our earnings release for the table which includes a reconciliation of GAAP net income to Adjusted EBITDA and net income margin to Adjusted EBITDA margin.

Now, turning to our June 30 balance sheet and our financial position, we had cash on hand of $30.2 million and net working capital of $50.8 million, with cash up $3.6 million, compared to December 31, 2018. This was driven primarily by a $47 million decrease in R.V. inventory offset by paying down the associated floor plan balances.

We had approximately a $118.6 million in total inventory, consisting of $81.9 million in new vehicles, $35.4 million in pre-owned vehicles, approximately $3.2 million of parts inventory, and LIFO reserves of $1.9 million.

Further to Bill's opening comments regarding our RV inventory position, our June 30 combined new and pre-owned vehicle inventory of a $117.2 million is down $47 million or 29% versus December 31, 2018 and down $23.8 million or 16.9% versus March 31, 2019.

As of June 30, 2019, we had no borrowings under our $5 million revolving credit facility, $16.4 million in term loans outstanding, and $95 million in gross notes payable on our floor plan facility. We have approximately $4.9 million outstanding on notes payable related to acquisitions.

Overall, we're pleased with how we've managed our balance sheet. We've acquired two dealerships, maintained our cash above $30 million, and managed inventories to be relatively flat and at appropriate levels for the level of business that we're seeing, and have taken all minimal liabilities over the same timeframe.

Thank you all for your time this morning, and I'll turn the call back over to Bill Murnane.

William Murnane:

Thank you, Nick. As we stated in our press release, we are generally pleased with our performance in the quarter. In spite of an industry slowdown and more competition for fewer customers, we were able to keep our margins relatively flat with the same period in 2018.

The general managers and sales teams at our dealerships did a great job of articulating the Lazydays value proposition to our customers and not simply succumbing to the price competition that existed in the market.

We closed on our acquisition of Alliance Coach on August 1. We want to thank Judy Shapiro for entrusting Lazydays with a wonderful dealership she and her late husband, Alan, built near Ocala, Florida. The dealership has been branded Lazydays of Ocala and is located just south of Ocala, Florida. This location, which is near the entrance to the village's active adult community, and just 30 minutes from Orlando, Florida, will give us great access to these important markets and help us grow our Florida market share.

Lazydays of Ocala is the third acquisition we have closed in the past 12 months, along with Lazydays of Minneapolis and Lazydays of Knoxville. Our integration team did an outstanding job, bringing Lazydays of Ocala into the Lazydays family by completing the closing in less than 60 days from entering into a letter of intent.

Lazydays of Ocala becomes our seventh full-service dealership. Please recall that earlier this year, we also announced that we are building our eighth full-service dealership in Nashville, Tennessee, and we expect this dealership to be operational in Q2, 2020. Our geographic expansion strategy is progressing well, and we feel confident in our ability to continue to expand our national footprint.

During the quarter, we completed construction of a new 30,000 square-foot, state-of-the-art service facility adjacent to our Minnesota dealership. Service is a very important component of our go-forward strategy, and we'll continue to invest in and expand our service offering across the Company.

We continue to make good progress on two other key components of our strategy, which are our best-in-class customer experience and service excellence initiatives. We have added focus and resources to these efforts and are actively changing and improving processes and procedures to greatly enhance the Lazydays experience for our customers.

Our customers expect the best when they buy a product or receive service from Lazydays, and it is our goal to exceed their expectations. By exceeding customer expectations, Lazydays will become stronger and more successful.

That is all for our prepared remarks. Lisa, please open the line for questions.

Operator:

Thank you. At this time, I would like to remind everyone, in order to ask a question, press star then the number one on your telephone keypad. We'll pause for just a moment to compile a Q&A roster. Again, if you'd like to ask a question, that's star, one on your telephone keypad.

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

Ryan Sigdahl:

Hi, guys, Ryan Sigdahl for Steve. Congrats on the solid results given the challenging environment.

William Murnane:

Thanks, Ryan.

Ryan Sigdahl:

First off, I don't know if I missed it in the prepared remarks, but what was organic revenue growth in the quarter? Then also if you could break that all by segment that would be helpful.

William Murnane:

Yes. Ryan, we are not breaking out same store versus new store sales at this time. We may in the future, but at this point we're not doing that. So, we can't comment on that. Do you have a breakout of the other segments or what have we done historically?

Nicholas Tomashot:

We breakout the different revenue streams, but I would just say between new and used, we're still at roughly 60/40 mix, but we are tilting a few hundred basis points more towards the new than the used. We mentioned that when we get the high level results.

Ryan Sigdahl:

Maybe just a follow-up on the new versus used. The mix shift, I know it was a lack of quality used inventory, but are you also seeing any shift in demand, I guess, from new, or used to new?

William Murnane:

No, used has always been a big and strong part of our business, and it's really driven by the availability of good units. It's always carried strong margins. It's always turned quickly. We get a lot of our used product through trades. We're active out in the market buying it, but I wouldn't say from a demand perspective, we're seeing any significant change there. The demand is probably lighter on the new side, and I think that's probably the change.

Nicholas Tomashot:

We're still seeing strong turns in the used inventory that (inaudible) you have.

William Murnane:

Used is good business, always has been, always will be. It's a tight supply out there right now.

Ryan Sigdahl:

Then you briefly mentioned increased promotional environment, and one of your competitors recently reported pretty meaningful margin compression because of that, but you guys were able to hold the sales and margin really well. Can you elaborate on how prevalent the discount is in your markets? Then secondly, if you expect that impact to be bigger in the second half?

William Murnane:

It's hard to predict the second half. What we can tell you is, nothing has changed since the end of June. I think the market in Q3 has started out similar to how Q2 went. We haven't increased promotional dollars. We are shifting them to different media, but we haven't actually increased, significantly increased any margin. Our approach is not to chase some—certain customers that are just priced focused, that's all they want. We've chosen not to chase those customers too far. We will chase them a little bit, but we won't chase them too far.

And like I said in my comments, Ryan, our sales team has done a great job, our dealerships have done a great job of articulating our value proposition. When you buy from Lazydays, we feel like you get more. I think our customers, a lot of them feel that way, and therefore, they know that what they get cost a little more. So, if they're just chasing the lowest price, then down the road they're going to have a little different experience than what they get with Lazydays. So, does that answer your question?

Ryan Sigdahl:

Yes. That's helpful. Then as it relates to Ocala dealership, anything you can add or I guess that you're willing to share as far as terms of the deal and then contribution going forward to revenue and EBITDA?

William Murnane:

No. I don't think—the terms of the deal were pretty standard for what we've disclosed in the past. There is nothing out of the ordinary. It's a solid dealership. They have had a little bit more focus on motorized product, which kind of fits with our strategy in Florida. We think we can do some things to enhance the performance there both on the sales side and on the F&I side. The thing that they have done really well over the years is service, which is, we've commented, is a very important part of our strategy. But we think on the sales and F&I side, we could probably enhance their performance there, and we just think that's a really strong market up there that we have not gotten enough off, and we're going to get, we think, a lot more of it than both we were getting and the former Alliance Coach was getting there.

Ryan Sigdahl:

Great. One more for me, and then I'll turn it over. M&A strategy, have you guys seen any change in the M&A environment, given the industry challenges? Then does the current environment change your short-term strategy to become more or less aggressive or hold a little more cash on the balance sheet? Thanks, and good luck.

William Murnane:

Yes, thanks Ryan. We've always kept a—been pretty disciplined about our balance sheet, as you can tell. I think the current environment, there's plenty of activity out there. We don't necessarily like it all, but there is opportunities out there. We do think that if this slowdown continues for another 6 to 12 months, that more dealers are going to have an aged problem, more dealers are going to have to start paying curtailments on the floor plan and their financial situations will get tighter, which we think may create more opportunities.

As I said in my comments, we're ready to go when and if that happens. We are limited by how many dealerships we can acquire in a year. We don't have unlimited resources, so we only want to pick the ones that fit our strategy the best, and I think that's what we've done, and what we will continue to do. We've walked away from a number of potential dealership acquisitions because they just weren't the right fit for Lazydays. But there's a possibility if this slowdown continues in the next 6 to 12 months, that we'll see a little—we'll see more opportunities, put it that way. Nick, do you want to add to that?

Nicholas Tomashot:

No. Covered it.

Operator:

Again, if you'd like to ask a question, that's star, one on your telephone keypad.

We have no further questions in queue. I'll turn the call back to Bill Murnane for closing remarks.

William Murnane:

Thank you, Lisa. Thanks, everyone, for joining us today. We will talk to you again in three months. Have a great week. Thank you.

Operator:

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