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Lazydays Holdings, Inc.

Fourth Quarter and Year End 2018 Financials

March 21, 2019

CORPORATE PARTICIPANTS

James Meehan, *Corporate Controller*

William Murnane, *Chief Executive Officer*

Nicholas Tomashot, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Fred Whiteman, *CitiGroup*

Steven Dyer, *Craig-Hallum Capital Group*

Gergory Gibas, *Northland Securities*

PRESENTATION

Operator:

Good morning. My name is Denise I will be your conference operator today. At this time, I would like to welcome everyone to today's Lazydays Holdings Inc. Fourth Quarter and Year End 2018 Financial Results 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.

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

James Meehan:

Thank you, Denise. Good morning and thank you for joining us for our Fourth Quarter and Year End 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 it 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 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 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 December 31, 2018, the financial information presented represents the operating results of Lazydays Holdings, Inc. For the three months ended December 31, 2017, the financial information presented represents the operating results of Lazydays RV Center, 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 RV Center, Inc. for the period from January 1, 2018 to March 14, 2018. For the fiscal year ended December 31, 2017, the financial information presented represents the operating results of Lazydays RV Center Inc.

Now, it is my pleasure to introduce Bill Murnane.

William Murnane:

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

As I'm sure those of you that follow the industry are aware, recreational vehicles sales softened in the fourth quarter in most of our markets. Q4 is typically our weakest quarter of the year so a slowdown was not unexpected, but what we experienced was more significant than a normal Q4 slowdown.

We don't need to spend a lot of time repeating what others in the industry have said, but in general we concur that demand for RVs has slowed, the order inventories are higher than normal and we think retail inventories will take another quarter or two to rebalance with demand, that's assuming retail demand isn't down more than 10% versus prior year.

In spite of some slowness, we continue to execute on our geographic expansion strategy. In August, we closed on the acquisition that became our Minneapolis dealership, and in December we closed on the acquisition that became our Knoxville dealership. These acquisitions will help diversify us both geographically and seasonally. It is important to note that both our Minneapolis dealership and our Knoxville dealership have spring and summer oriented selling seasons. Given this, we expect them to have a much bigger contribution in the quarters ending June and September, and a much smaller contribution in the quarters ending December and March. Moreover, we announced last week that we will be opening a new dealership in Nashville, Tennessee, and have signed a dealership agreement with Grand Design RV for the Nashville market. Nashville is a rapidly growing market with a lot of outdoor enthusiasts, and we couldn't be more excited to be moving into the Music City.

I have been asked to contrast the economics of a greenfield dealership like Nashville against an acquired dealership like Knoxville, and I will have a few comments on this in a minute. First, I'm going to turn the call over to Nick Tomashot, our CFO, to take you through some of the financial highlights of the fourth quarter and year end.

Nicholas Tomashot:

Thank you, Bill. Good morning everyone. Please note that unless stated otherwise, 2018 fourth quarter and fiscal year results comparisons are to the same 3- and 12-month periods ended December 31, 2017. I'll start with a summary of our fourth quarter financial results.

Revenues for the third quarter were $125.9 million, down $10.7 million or 7.8% from 2017. Revenue from sales of recreational vehicles was $110.1 million for the quarter, down $11.9 million or 9.7%. RV unit sales excluding wholesale units were 1,334, down 145 units or 9.8%.

Q3 revenue from sales of new recreational vehicles was $66 million, down $8.4 million or 11.3%. New vehicle unit sales were 787, down 74 units or 8.6%. The average selling price of new vehicles was $83,500, down $3,100 or 3.6%.

Q3 revenue from pre-owned vehicles was $44.1 million, down $3.5 million or 7.3% from 2017. Pre-owned vehicle units sold, excluding wholesale units, were 547, down 71 units or 11.5%. The majority of the decrease in pre-owned units and revenue was from a decline in pre-owned motorized sales. (Inaudible) was driven by limits in the availability of quality pre-owned motorized units. The average selling price of used recreational vehicles was $74,000 which was relatively flat compared with the fourth quarter of 2017 at $74,100.

Revenue from our other channels consists 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 $15.7 million, up $1.2 million or 8.2% compared to 2017. The increase was driven by an F&I increase of $0.3 million or 4.6% to $6.8 million, and parts and service revenue increase of $0.9 million or 13.5% to $7.7 million.

Q4 gross profit, excluding non-cash, last-in first-out or LIFO adjustments, was $27.3 million, down $1.1 million versus 2017. Gross margin excluding LIFO adjustments improved between the two periods to 21.7% compared to 20.8% in 2017, with the change primarily driven by improved new vehicle margins and improved F&I revenues per vehicle sold.

Gross profit for the quarter, including the $5.1 million net swing in non-cash LIFO adjustments compared to prior year, was $26.9 million, up $4 million or 17.3%. Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $21.7 million, down $1.8 million compared to prior year, primarily related to decreases in compensation costs which more than offset the additional overhead expenses contributed by the recently acquired Minnesota and Tennessee locations. Stock-based compensation and depreciation and amortization increased $2.5 million and $1.1 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 in intangible asset valuations on our balance sheet.

Net loss for the fourth quarter was $2.4 million as compared to net loss of $3.6 million in 2017. This $1.2 million improvement was primarily the result of the $5.1 million net favorable impact of LIFO adjustments between the periods mentioned in my discussion of gross profits, partially offset by the $3.6 million increase in non-cash expenses which I mentioned in my SG&A discussion. Despite the pre-tax loss shown for the fourth quarter, we still recorded income tax expense of $0.4 million, primarily due to the anticipated impact of non-deductible expenses for stock-based compensation and certain transaction costs on our effective tax rate for the year.

Adjusted EBITDA was $4.6 million for the quarter, up $0.6 million. Adjusted EBITDA margin increased by 80 basis points to 3.7%. Please refer to our earnings release for the table which includes a reconciliation of GAAP net income or loss to Adjusted EBITDA.

I'm now going to pivot to providing a summary of our year end financial results. Revenues for the year were $608.2 million, down $6.6 million or 1.1% for 2017. Revenue for the sales of recreational vehicles in 2018 was $538.1 million, down $8.3 million or 1.5%. RV unit sales for the year excluding wholesale units were 7,296, down 92 units of 1.2%. The decrease in sales of recreational vehicles was offset by a $1.6 million increase from our other revenue streams.

Year end gross profit, excluding LIFO adjustments was $133.1 million, up $2.2 million versus 2017. Gross margin excluding LIFO adjustments improved between the two periods from 21.3% in 2017 to 21.9% in 2018, primarily driven by improved new vehicle margins and improved F&I revenues per vehicle sold. Gross profit for the year including LIFO adjustments was $131.7 million, up $4.6 million or 3.6%. This gross profit improvement was favorably impacted by a $2.3 million net change related to LIFO adjustments in the two periods.

Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A of the year was $96.8 million, up $0.5 million compared to prior year. This is contributable to the additional overhead expense contributed by the recently acquired Minnesota and Tennessee locations, partially offset by reduced personnel and other overhead costs across the Company.

Stock-based compensation and depreciation and amortization increased $8.3 million and $3.4 million, respectively, compared to prior year. These noncash expense increases extend from the March 2018 merger between Andina Acquisition Corp II and Lazydays RV Center, Inc., which included options issued to Management and increases in intangible and in tangible asset valuations on our balance sheet.

Adjusted EBITDA, a non-GAAP financial measure, was $32.4 million for the year, up $1.1 million compared to 2017. This was primarily driven by improved gross margins which were partially offset by the decline in revenue and units sold. Adjusted EBITDA as a percentage of revenue increased slightly for the year to 5.3% compared to 5.1% in 2017.

Now, turning to the December 31 balance sheet and our financial position, we had cash on hand of $26.6 million and net working capital of $44.3 million, with cash down $10.8 million compared to September 30, 2018. This was primarily driven by $9 million cash payment for the acquisition of the Tennessee RV Super Center and the $1.2 million dividend paid to preferred shareholders in October 2018. We had approximately $167.4 million in inventory, consisting of $129.4 million in new vehicles, $34.9 million in pre-owned vehicles, approximately $4.4 million in parts inventory, and LIFO reserves of $1.3 million. Excluding LIFO reserves, our inventories increased $40.6 million at the end of 2018 compared to the end of September; $14.3 million of this increase was related to the Tennessee RV Super Center acquisition in December, with the remaining increase attributable to seasonal inventory build for Q1 combined with some higher than planned inventory levels that resulted from the softening of demand in the fourth quarter.

As of December 31, 2018, we had no borrowings under our $5 million revolving credit facility, $17.8 million of term loans outstanding, and $14.9 million in gross notes payable on our floor plan facility. We also had approximately $5.6 million outstanding on notes payable related to acquisitions.

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

William Murnane:

Thank you, Nick. As I said, I want to elaborate briefly on the economics of a greenfield dealership compared to an acquired dealership because I've gotten a number of questions on that.

For a similar sized dealership, the investment in real estate and inventory is typically the same whether it is a greenfield dealership or an acquired dealership. For an acquired dealership, we will also need to pay for an existing stream of cash flows, so this would be an added cost to having the dealership. On the other hand, for a greenfield dealership it might take us one to three years to ramp up to the same cash flow level of the acquired dealership. Theoretically, on a discounted cash flow basis, a greenfield dealership will have a higher IRR – internal rate of return – than an acquired dealership, if we can achieve normalized cash flow in one to three years, which typically we can do.

I should also mention that although greenfield dealerships may typically achieve a higher IRR, we still get very attractive returns for shareholders on acquired dealerships.

As I've said in the past, good greenfield opportunities are hard to come by given most of the best brands are taken in most of the best markets. The availability of strong brands has a significant impact on our decision to acquire versus greenfield a dealership. Nashville did have strong brands available, including Grand Design, one of the industry's strongest brands, so that made our decision to greenfield in Nashville relatively easy. We are more likely to acquire dealerships in markets where strong brands are not available.

One final remark on our recent acquisitions is that the integration of these dealerships into the Lazydays family has gone very well. Our goal is to full integrate a dealership into our processes and systems in 90 days, and we achieved or exceeded this goal in both cases. This is a credit not only the integration teams but also to the great teams that exist at each dealership.

Regarding Quarter 1 2019, we think it is safe to say at this point that slowness in the market continues. As you know, we don't give guidance but we will say that we expect Q1 2019 will have lower revenue and earnings than Q1 2018.

I should also remind you that Q1 2018 was one of the strongest quarters in this history of the Company and the industry, so it is a very tough comparable.

That's all for our prepared remarks. Denise, please open the line for questions. Thank you.

Operator:

Ladies and gentlemen, to ask a question, please press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Fred Whiteman with Citi. Your line is open.

Fred Whiteman:

Hey guys, good morning. Thanks for taking the question. I know that in the release it mentioned Minnesota and Tennessee didn't impact sales in the quarter, but was there any meaningful impact on margins?

William Murnane:

No. It didn't have no impact; it had a smaller impact, just to be clear on that, and it didn't have a meaningful impact on margins either.

Fred Whiteman:

Okay. Then just given the tougher backdrop for new unit sales, is there any change in how you're thinking about the importance of used this year?

William Murnane:

We put a high importance on used in all years, Fred, so I would say no. We don't put any more or less importance on used because we have a high—it's a big part of our business in every year.

Fred Whiteman:

That's fair. Then just for inventory across the industry, I think in the prepared remarks you did mention that a portion of the increase in inventory was due to the softer than expected 4Q. When you guys look across the industry, I think you've also said another quarter or two until things are sort of normalized, but can you just sort of walk through in maybe a bit more detail what you're seeing, when we could expect to see wholesale and retail a bit more aligned.

William Murnane:

Again, we'd just be guessing, Fred. We don't know what everybody has got in their lots, we don't know what everybody's sales is. We do see the industry stats as they come out but, again, they're a month or two delayed, so we'd just be guessing on what we think.

Based on everything we've heard and our analysis and what we know from our own dealerships, we think we've got a quarter or two more before industries kind of balance out. But again, remember, for most of the country we're in a slower period right now. Those of us in the south, we are certainly in our stronger period. It's really going to be the summer is going to dictate. Q2 and Q3 are going to be really important to where inventories end up.

Fred Whiteman:

Sure, that totally makes sense. Then just sort of tweaking into the retail comments, I think you made a comment about retail being more aligned assuming we are above a 10% decline in retail. Can you just sort of—are you guys assuming a 10% decline for the industry? What was sort of behind that?

William Murnane:

We're assuming somewhere between 0 and 10%. That's probably the best we can tell you, and that's based on what we're experiencing and what we're hearing from our partners, business partners and others. We just think if it's more than 10% that it's going to obviously slow the work off of excess inventory. That's the best I can tell you, Fred.

Fred Whiteman:

Sure, it makes sense. Thanks so much.

William Murnane:

You're welcome.

Operator:

Your next question comes from Steve Dyer with Craig-Hallum. Your line is open.

Steven Dyer:

Thanks. Good morning. Just to dig into the inventory question a little bit more, you had talked last quarter about a little bit of difficulty in procuring good used inventory. Any change there or is that still tough?

William Murnane:

A modest change, Steve. I think it's a little easier to get used inventory. We're a little better positioned than we were last quarter on that, so I think it's easing a little bit and we're seeing a little better inventory opportunity on used.

Steven Dyer:

Okay. Just on the parts and service side, just given some of the slowness in sales, any more focus or any more initiatives you can talk about on the parts and service F&I side, just to sort of improve that mix? Then secondly, I noticed that gross margin in that segment was a little bit below the typical range in the quarter. Any color to that?

William Murnane:

On the—yes, parts and service, as you know, is a really important part of our strategy going forward, it's one of the three focus areas for us. To remind you, the three focus areas are a great customer experience, a best-in-class customer experience; service excellence, and geographic expansion.

Service excellence means we want to be the best service provider in the industry. We think that will help improve our margins, help improve the volatility in our business, and we continue to put a lot of energy into that and we think over the next one to two years it's going to have a fairly significant impact on our business, so we are keeping the focus there.

Nick, I don't know if you want to comment on the margin question.

Nicholas Tomashot:

Yes, if you look at the individual other lines of business, margins are up on each of them, so what you're seeing is when they're all put together that it's in the aggregate that they're down a bit.

Steven Dyer:

Got it, makes sense. Then just from a modeling perspective, to help us out there, any commentary or help you can give us around the contribution or expected contribution of the two acquisitions in 2019.

William Murnane:

We're not giving that out at this point in time, Steve. Sorry.

Steven Dyer:

Got it. Okay, thank you.

Operator:

Again, to ask a question, please press star, one on your telephone keypad. Your next question comes from Paul Penney with Northland Securities. Your line is open.

Gregory Gibas:

Good morning. This is Greg on for Paul. Thanks for taking the questions. Just to follow-up on inventory, do you think your bargaining power with OEMs has improved given their increased capacity and their challenges bringing down inventory?

William Murnane:

Yes and no. I think what typically happens is in slow-moving product we're seeing that opportunities exist, but you have to balance that with do you want to take on more inventory at a lower cost and do you want to take it on on slower moving product? That's typically—we like to run our business where our inventory is balanced with demand, and all of our products we like to have a mix of products that turns well, so if it's a product that isn't turning well and we can get it really cheap, that's not necessarily attractive to us because we're not going to do any better from a return on investment standpoint on that product than we would on something that wasn't discounted that turns faster. That's kind of how we view it.

I would say there are opportunities out there, select opportunities, but they tend to be on slower-moving product, which isn't necessarily something we'd want to get into, but on product that turns well, you're not seeing your type of discounts that maybe others are getting.

Gregory Gibas:

Okay, that's helpful. Then I know you don't want to give a lot of detail on this, but in general does the acquisition pipeline remain pretty robust and do you think that industry weakness has improved your negotiating power in any way?

William Murnane:

Hard to answer. The second question, it's hard to answer whether it's improved our negotiating power. We have a lot to look at. I would say we're not interested in most of the things we see, but there's a lot to look at, and we're pretty comfortable with the—we have a lot on our plate and we're comfortable with the pipeline, and we're comfortable with the prices, very comfortable with the prices we're paying.

Gregory Gibas:

Good to hear. Last one for me would just be besides the macro factors that are obviously beyond your control, what would you consider to be the most significant challenges currently and maybe in the next 12 months or so?

William Murnane:

That's a tough question. I think just maintaining margins. We want to focus on maintaining margins. We don't want to get into a race to the bottom because demand has slowed, and so far we've been able to do

that pretty. Then, just making sure we don't overextend ourselves I would say, because we do have a lot going on. We just acquired two dealerships; we're opening a third dealership either late in 2019 or probably more likely early 2020, and we've just got a lot going on. That combined with running our core business is a lot and we don't—I would say overextending ourselves and remaining focused is probably a key management challenge right now.

Gregory Gibas:

Okay, thank you.

Operator:

Your next question comes from Fred Whiteman with Citi. Your line is open.

Fred Whiteman:

Guys, just one quick follow-up. Given that we're sort of at the end of March here, can you talk about what you'd seen from the retail show season so far? Some other people talked about decent attendance excluding weather, but closure rates were a little bit lower. Is that similar to what you had seen?

William Murnane:

Yes, we would agree with that, Fred.

Fred Whiteman:

Perfect, thanks.

Operator:

Again, to ask a question, please press star, one on your telephone keypad.

There are no further questions. At this time, I turn the call back over to Bill Murnane.

William Murnane:

Great. Thanks, Denise. Thanks everyone for joining us today. We look forward to meeting with you again next quarter. Have a great day. Thank you.

Operator:

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