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Lazydays Holdings, Inc.

Second Quarter 2020 Financial Results Conference Call

July 30, 2020

CORPORATE PARTICIPANTS

Debbie Harrell, *Corporate Controller*

Nicholas Tomashot, *Chief Financial Officer*

William Murnane, *Chairman & Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Stephen Dyer, *Craig-Hallum Capital*

Russell Lind

PRESENTATION

Operator

Welcome to the Lazydays Holdings, Inc. Second Quarter 2020 Financial Results Conference Call.

At this time, all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. To ask a question during this session, you'll need to press star, one on your telephone keypad. Please be advised that today's conference is being recorded. If you need further assistance, please press star, zero on your telephone keypad.

I would now like to turn the conference over to our speaker today, Debbie Harrell. Please go ahead, Madam.

Debbie Harrell

Thank you.

Good morning, and thank you for joining us for our Second Quarter 2020 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. 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 unit sales, revenue, gross margins, operating expenses, stock-based compensation expense, taxes, product mix shift and geographic expansion. Actual results or transfer 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 July 30, 2020.

We will also 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 three months ended June 30, 2020 and 2019, the financial information presented represents the operating results of Lazydays Holdings, Inc.

Now, it is my pleasure to introduce Nick Tomashot, who will provide an overview of the 2020 second quarter financials.

Nicholas Tomashot

Thank you, Debbie, and good morning, everyone.

Please note that unless stated otherwise, the Q2 2020 results comparisons are to the second quarter of 2019.

Total revenues across all lines of business for the second quarter were $214 million dollars, up $45.5 million or 26.9% versus prior year.

Revenue from the sale of recreational vehicles, or RVs, was $191.5 million for the quarter, up $42.5 million or 28.5%. New RV revenue was $129.4 million, up $35.2 million or 37.3%, and pre-owned RV revenue was $62.1 million, up $7.3 million or 13.3%.

Looking at our RV unit sales, excluding wholesale units, total RV unit sales were 2,950, up 858 units or 41%. New vehicle unit sales were 1,845, up 533 units or 40.6%, and pre-owned vehicle unit sales excluding wholesale units were 1,105, up 325 units or 41.7%.

The average selling price, or ASP, of new vehicles was $69,500, down $1,800 or 2.5% versus prior year. The ASP of pre-owned vehicles was $52,700, down $10,000 or 16.2%. These reduced ASPs reflect the shift in mix for the quarter towards towables and lower-priced units.

Revenue from our other channels consists of sales of parts, accessories and related services, finance and insurance, or F&I, revenue, as well as campground and other miscellaneous revenue. In total, revenue from these other lines of business was $22.5 million, up $3 million or 15.2% compared to 2019. The increase was driven by an F&I revenue increase of $3.3 million or 33.8% to $12.8 million, and a parts and service revenue increase of $0.5 million dollars or 5% to $9.2 million. These increases were partially offset by a $0.7 million decrease in campground rental and miscellaneous revenue.

Total Q2 gross profit excluding noncash last-in-first-out, or LIFO, adjustments was $43.7 million, up $7.9 million versus 2019. Gross margin excluding LIFO adjustments decreased between the two periods coming in at 20.4% versus 21.3% in 2019, with the change attributable to RV revenue growth, outpacing growth and higher margin revenue from our other channels, as well as a shift in RV mix.

Non-cash LIFO adjustments had a small net favorable swing of $0.6 million compared to prior year, so gross profit for the quarter, including LIFO was $44 million, up $8.5 million or 23.9%.

Excluding transactions costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $28.3 million, up $3.1 million compared to prior year. This increase is attributable to the additional overhead expenses associated with The Villages dealership we acquired in August 2019, the new service center near Houston that started up in mid-February, the Phoenix dealership we acquired in May 2020, and increased performance wages driven by our strong sales and profit performance for the quarter. Amortization of stock-based compensation was down $0.8 million versus prior year, and depreciation and amortization decreased $30,000 compared to prior year.

Net income for the first quarter was $8.1 million, more than four times Q2 2019 net income of $1.9 million. Earnings per share for the quarter increased from $0.02 per share to $0.39 per share.

This $6.2 million improvement in net income was driven primarily by the favorable increase in the net of our increased gross profit and SG&A expense discussed above, the lower amortization of stock-based compensation, as well as a $0.5 million dollar reduction in interest expense driven mainly by reduced floor plan interest.

Adjusted EBITDA was $14.9 million for the quarter, up $5 million. This sets a new quarterly EBITDA record for Lazydays, exceeding Q1 2018's previous record of $11.5 million. Adjusted EBITDA margin increased by 110 basis points to 7%. Please refer to our earnings release for a table, which includes a reconciliation of net income to Adjusted EBITDA.

Now turning to the June 30 balance sheet and our financial position, at the end of the quarter we had cash on hand of $62.1 million and networking capital of $47.1 million, with cash up $30.6 million compared to December 31, 2019. This increase in cash includes the first quarter impact of cash provided by a $5 million mortgage on the new service center and property near Houston, Texas, $4.9 million provided in the first quarter by the confirmation of a sale-leaseback of the property for the Greenfield dealership being built near Nashville, Tennessee, and $8.7 million in second quarter Paycheck Protection Program loans.

As of June 30, 2020, we had approximately $100.3 million in inventory, consisting of $72.4 million in new vehicles, $27.6 million in pre-owned vehicles, and approximately $4 million in parts inventory, less LIFO reserves of $3.7 million.

Total inventory is down approximately $60.6 million compared to the same time prior year, reflecting a strong recent demand we've experienced while manufacturers had suspended production in response to COVID-19.

As of June 30, 2020, we had $14.2 million of term loans outstanding, $92.4 million in gross notes payable on our floor plan facility, $5 million on the Houston M&T mortgage, and no borrowings under our $5 million revolving credit facility. We also had approximately $5.2 million outstanding on notes payable related to acquisitions, and $8.7 million due under the Paycheck Protection Program loans.

Thank you for your time. I'd like to turn the call over now to Bill Murnane.

William Murnane

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

As I am sure you are all aware, the pandemic has caused large swings in both consumer demand for RVs and the availability of product from manufacturers. Given these special circumstances, we have been providing more frequent updates than we typically would. We believe our updates help our investors and our industry navigate the rapidly changing currents currently in our business.

At some point perhaps in the near future, we will go back to our normal cadence of financial updates that typically occur quarterly. When this happens, it should not be interpreted as good, bad or indifferent, but rather that business has stabilized.

We have and continue to experience incredibly robust demand for RVs. We believe this strong demand is primarily related to the lifestyle changes caused by the pandemic and the limited options people have to enjoy vacation and leisure activities that allow for social distancing. We also believe that we are gaining market share against our competitors in most markets.

Demand continued to be strong in July. We stated in our press release this morning that we believe Adjusted EBITDA for the month of July alone will be equal to or greater than our Adjusted EBITDA for all of Q3 2019. For clarity, we believe Adjusted EBITDA for the month of July 2020 will be at least $5.2 million.

While product has begun to flow into our stores, demand remains strong and inventory continues to be tight. We believe that inventory is bottoming out and should hold steady in the short term, depending on demand and OEM production models. We are hopeful that inventory levels will begin to grow throughout the fall and will begin to normalize as we begin 2021.

Having said all this, we are still in wait-and-see mode given the fluid nature of current demand and production. We will continue to constantly evaluate our procurement decisions based on the most current market conditions.

Our growth pipeline remains very active. We recently closed on our new dealership in Phoenix. We are very excited about the Phoenix market and believe that we'll generate significant future growth for Lazydays.

We recently announced that we have agreed to acquire Total Value RV in Elkhart, Indiana. We anticipate this transaction will close in early fall, and we are very excited about the growth we can generate from this location. I want to thank Hank Schrock, the owner of Total Value RV, for the confidence he has shown in Lazydays by entrusting us with the future of his family's business.

Later this year, we plan to open the new dealership we are building in Nashville, Tennessee. Nashville is one of the fastest growing cities in America, and we couldn't be more excited to open a first class dealership with top performing brands in this rapidly growing market.

These three new dealerships position us very well to generate significant growth in 2021. Moreover, strategic activity is very robust at the moment, and given the current level of activity, we expect to continue to add dealerships to our network in the coming year.

That's all for prepared remarks. Ian, please open the line for questions.

Operator

At this time, if you would like to ask a question over the phone lines, please press star, then one on your telephone keypad. We will pause for a moment to compile a Q&A roster.

Your first question comes from the line of Stephen Dyer. Your line is open.

Stephen Dyer

Hi. Good morning, Bill, Nick. Nice quarter.

William Murnane

Thanks, Steve.

Nicholas Tomashot

Thanks.

Stephen Dyer

Earlier, Bill, you talked a little bit in the prepared remarks about July remaining very, very strong. What is sort of the normal seasonality, kind of the cadence? I'm guessing July is the strongest, followed by August, followed by September, maybe I'm wrong, but is that the case and is that something you expect to sort of be consistent this year as well?

William Murnane

No, I think the three months tend to be pretty similar. We have steady demand through—typically we'd have steady demand through the three months. Again, this year we don't know what to predict and that's why we're not predicting anything, Steve. But in past two or three years it's been fairly even across the three month quarter.

Nick?

Nicholas Tomashot

We skew stronger in Q1 just driven by Tampa and the size of it, and then Q2 is also our second strongest quarter and that's driven by the spring season and our other dealerships that are in the north. But the second half of the year tends to be lower and more steady.

Stephen Dyer

Got you, okay. That's good color.

And then I guess maybe demographically, what are you seeing in all of the demand. Are you seeing new buyers, are you seeing people trade up? Any color as to what you see which maybe foreshadows how sustainably you think this is past the COVID madness.

William Murnane

We are definitely seeing growth in sort of all three demographics that we look at. Whether it's Boomers, Xers or Millennials, all three of those areas are growing pretty significantly, all three of those demographics.

The Xers and the Millennials are growing faster than the Boomers, so if you think about that from a market-share perspective, they're picking up market-share from the Boomers, and they tend to skew towards either used product or lower-priced product, and we think that trend will probably continue.

Stephen Dyer

Okay. And then lastly for me. Just as it relates to the acquisition pipeline, you've been busy doing both Greenfields and acquisitions. What are you seeing and what's your sense on asking prices? Is this boom kind of raising asking prices, getting people to hold off for another year or so? Or did the scare in the first part of the year just scare the heck out of people such that you have some people maybe looking for an entry that weren't before.

William Murnane

It's really hard to understand what people are thinking, but our best intelligence says that—well, prices I think are the same, prices really aren't changing. They certainly aren't changing from our perspective; we're not going to overpay for anything, but we will pay a good price for a good dealership. I do think there may have been a bit of a scare in March. We had a good solid ten-year run here in the RV business, and I think it may have been a little shock to the system, and I'm sensing that some owners may feel like they dodged a bullet because the future is certainly uncertain going forward. There is no guarantee that this is going to last, and we still don't understand the overriding effect on the economy. I would say a lot of people feel like they dodged a bullet and maybe don't want to take their chances dodging another one.

Stephen Dyer

Got it. That's helpful.

Just a quick housekeeping question, Nick, I missed the number of new units - I have used as 1,105. What was new, could you repeat that?

Nicholas Tomashot

Look through my notes here. New units were 1,845, up 533.

Stephen Dyer

Eighteen forty-five. Okay, that's it for me, thanks guys.

William Murnane

Thanks, Steve.

Operator

Again, if you would like ask a question over the phone lines, please press star, then one on your telephone keypad.

Your next question comes from the line of Russell Lind. Your line is open.

Russell Lind

Good morning. Can you hear me?

William Murnane

Yes, we can hear you. It’s a little light, Russell, but we can hear you.

Russell Lind

Okay, sorry about that.

Just curious: can you talk about the maintenance attach rates that you guys typically see? And then just in general talk about the maintenance opportunity that you're seeing.

William Murnane

We have not shared any kind of maintenance attachment rates. Maintenance right now is—I think most people are using their RVs. We do expect to see a lift on the maintenance side as the summer kind of comes to an end or as this strong use activity continues, and as I think all of our investors know, service is a very strong focus of our business. We think the industry needs a great service provider. We don't think that exists today, and it's one of the primary reasons we built our dedicated service center in Houston, Texas. And we think going forward we'll have more dedicated service centers. Service is something that happens more frequently, the margins are higher, it gives us a lot more flexibility on where we can and want to grow.

But we do think that, especially in this fall, we think we could start to see our lots fill up with a fair amount of maintenance work, given the growth in RV sales and the growth in RV use that's going on right now.

Russell Lind

What kind of cash-on-cash returns do you expect for the dedicated service centers?

William Murnane

We haven't—

Russell Lind

And how does that compare to other investments?

William Murnane

We haven't disclosed that. What we have said is the return on investment should be higher than it would be for a full-blown dealership because we don't need as much land and the margins are larger. I have said publically that we expect a 20-day service center to generate as much EBITDA as a $50 million dealership on dramatically less revenue. Ultimately, we would expect the earnings of our Houston facility to match a $50 million dealership in our network. That's probably the most I can share at this point.

Russell Lind

And so how do you prioritize then spending on dedicated service centers given the uplift in the whole industry and...

William Murnane

Well I think...

Russell Lind

...acquiring dealers or building new dealerships?

William Murnane

Well I think if a good dealership - and everybody has their own definition of a good dealership - I think if a good dealership becomes available or a good market becomes available for a greenfield, we're going to jump on that because it may not be available six months, a year down the road. We're going to take advantage, especially if it's a good dealership in a good market with good brands that we really like. We're going to take advantage of that and prioritize that.

The beauty of the service center model is we can fill in gaps when we can't find good dealerships to acquire. We can fill those growth gaps with new service centers.

Nicholas Tomashot

And one of the things we look at if we do acquire a dealership is how balanced our business is between RV sales and service. For instance, in Minneapolis we immediately invested in an expansion of their service capability, adding practically a stand-alone service center right next door to the dealership building.

William Murnane

And we will likely do the same in Phoenix. The dealership we acquired in Phoenix does not have an appropriate level of service capacity, and in the next or year or two we're likely to expand that pretty significantly.

Russell Lind

And last one for me - sorry for all the questions. Roughly speaking, what was your capacity utilization on your service business in 2019?

William Murnane

Well that's a tough one because we have a certain number of days, but we also have a certain number of technicians and that fluctuates pretty dramatically. Nick's looking at me; I don't think we disclosed that number, so even if we had it—we haven't disclosed it yet; we may in the future. We're getting much more productive from a service output standpoint capacity as it moves, depending on how many techs we have across our network.

Russell Lind

So it's fair to say you guys could flex higher in 2020 and 2021 on the same store basis, if you needed to?

William Murnane

Yes, and we think significantly. We're putting a lot of focus in that, we're trying to get the right systems and methods and processes in place, Russell, and we don't want to start flexing that until we have confidence that we can have a consistent predictable process, and give really great service to our customers.

We're doing kind of the nuts and bolts, blocking and tackling to get our service fantastic, and then once we're there, we can grow. We have the bays to grow right now in a number of our facilities, and we just need to add techs. They're hard to come by, but we're going to do our part to attract the good ones to our operations.

But there is a fair amount of upside on same store basis there.

Russell Lind

Thanks a lot for the questions.

William Murnane

You're welcome. Thank you.

Operator

Again, if you'd like to ask a question over the phone lines, please press star, then zero on your telephone keypad.

There are no further questions over the phone lines at this time. I turn the call back over to the presenters.

William Murnane

Great. Thank you, everyone, for joining us today. Have a great day, and we'll talk to you again soon.

Operator

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