Lazydays Holdings, Inc.

First Quarter 2020 Financial Results Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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Barry Haimes, *Sage Asset Management*

P R E S E N T A T I O N

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Lazydays Holdings First Quarter 2020 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. If you require any further assistance, please press star, zero.

I would now like to hand the conference over to your speaker today, Debbie Harrell. Thank you. Please go ahead, ma'am.

Debbie Harrell

Thank you, April. Good morning, and thank you for joining us for our First Quarter 2020 Financial Results Conference Call. I'm Debbie Harrold, 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 geographical 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 May 7, 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 March 31, 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 first quarter financials.

Nicholas Tomashot

Thanks, Debbie. Please note that unless stated otherwise, the Q1 results comparisons are to the same three month period ended March 2019.

Total revenues across all lines of business for the first quarter were $190.9 million, up $17.8 million or 10.3% versus 2019. Revenue from the sale of recreational vehicles, or RVs, was $167.2 million for the quarter, up $14.6 million or 9.5%. New RV revenue was $102.4 million, up $4.6 million or 4.7%. And pre-owned RV sales revenue was $64.7 million, up $9.9 million or 18.1%.

RV unit sales, excluding wholesale units, were 2,416, up 442 units or 22.4%. New vehicles unit sales were 1,367, up 151 units or 12.4%, and pre-owned vehicle unit sales, excluding wholesale units, were 1,049, up 291 units or 38.4%.

Average selling price for—of new vehicles was $74,400, down $5,600 or 7%. The average selling price of pre-owned RVs was $59,000, 9.8% lower compared to Q1 2019.

Revenues from our other channels consist 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 $23.7 million, up $3.3 million or 16.1% compared to 2019. The increase was driven by an F&I revenue increase of $1.6 million or 16% to $11.3 million, and a parts and service revenue increase of $2 million or 22.7% to $10.8 million. These increases were partially offset by a $0.3 million decrease in campground and miscellaneous revenue.

Q1 gross profit, excluding noncash last-in-first-out or LIFO adjustments, was $41.7 million, up $4.5 million versus 2019. Gross margin, excluding LIFO adjustments, increased between the two periods at 21.7% compared to 21.3% in 2019, with the change attributable to the growth across our core lines of business. Noncash LIFO adjustments had a small net unfavorable swing of $0.5 million compared to prior year. So, gross profit for the quarter, including LIFO, was $41.5 million, up $4.6 million or 12.5%.

Excluding transactions costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $31.1 million, up $4.6 million compared to prior year. This increase is attributable to the additional overheads associated with The Villages dealership acquired in August 2019, the new service center near Houston that started up in mid-February, and increased performance wages driven by higher unit sales and revenues. Amortization of stock-based compensation increased—decreased $0.8 million and depreciation and amortization decreased $0.06 million compared to prior year.

Net income for the first quarter was $3 million or $0.08 per share compared to net income of $1.8 million or $0.04 per share in 2019. This $1.2 million improvement was driven by the net of increased gross profit and SG&A expense discussed above, the reduced amortization of stock-based compensation, as well as a $0.5 million reduction in interest expense, driven mainly by reduced floor plan interest.

Adjusted EBITDA was $9.5 million for the quarter, up $0.1 million. Adjusted EBITDA margin decreased by 40 basis points to 5.0%. Please refer to our earnings release for a table, which includes a reconciliation of net income to Adjusted EBITDA.

Now, turning to the March 31 balance sheet and our financial position. We had cash on hand of $43.3 million and net working capital of $34.5 million, with cash up $11.8 million compared to December 31, 2019. This increase in cash includes the impact of cash provided by a $5 million mortgage on the recently completed service center near Houston, Texas, plus $4.9 million provided by the consummation of a sale-leaseback of property for the greenfield dealership being built here in Nashville, Tennessee.

We had approximately $153.3 million in inventory, consisting of $121.4 million in new vehicles, $31.8 million in pre-owned vehicles, approximately $4 million in parts inventory and LIFO reserves of $3.9 million. Total inventory is up approximately $10 million compared to the same time prior year, which includes the addition of approximately $19 million in RV and parts inventory from our location near The Villages that we acquired in the second half of 2019.

As of March 31, 2020, we had $14.2 million of term loans outstanding, $133.6 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 $5.9 million outstanding on notes payable related to acquisitions.

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

William Murnane

Thank you, Nick. Twenty twenty started strong and remained strong until mid-March when the COVID-19 shelter-at-home orders began to take effect. Through the first 10 to 11 weeks of the quarter, our revenue and earnings were up significantly and both were on pace to set an all-time Lazydays record. The demand was strong at all of our dealerships across the country.

During the last two to three weeks of Q1, we experienced a substantial drop in demand as a result of most states issuing strong shelter-at-home orders. Although we managed to finish the quarter showing growth in revenue and earnings, we are confident we would have had much higher growth if not for COVID-19. In addition to the demand drop, we also experienced a shift to more used and lower-priced units, which is reflected in our lower year-over-year average selling price.

We are encouraged by the growth in our F&I and service businesses during the quarter. As you know, we are very focused on improving and growing our service businesses at Lazydays, and we continue to grow this business as the country recover—we will continue to grow this business as the country recovers from COVID-19.

We did not lose sight of our goal to provide a best-in-class customer experience. During the quarter, we made very nice improvements in customer survey scores for both our sales and service operations. The Lazydays team has worked hard to improve these scores, and it is exciting to see their hard work generate meaningful results.

We have managed our inventory closely, and I'm happy to report that our inventory is in great shape. We believe the size of our inventory is well matched to expected future demand. We are also very pleased with the age of our inventory. As you may know, Lazydays turns its inventory as fast or faster than anyone in the industry. Our team has worked hard to keep our inventory moving and fresh. We believe our focused inventory management positions us well as we enter the model change season in Q2 and Q3 because we will have less aged inventory to move off our lots at discounted prices.

We continue to believe it is prudent to plan for COVID-19 to have a negative impact on the economy and our industry for the foreseeable future. We made a number of hard decisions and took difficult actions in April to get our costs in line with expected demand. These decisions and actions have been previously disclosed in the Company's filings.

Given the special circumstances presented by COVID-19, we would like to give a little color on the month of April. Given the drop in sales during the back half of March, we came into April with a much smaller delivery backlog than normal. Moreover, April started off the same way March ended with significantly lower demand versus prior year, which continued to diminish our delivery backlog. As a result, our April deliveries were below prior year. Keep in mind that we recognize revenue when we deliver a unit. There's often a delay of a week or more between when we sell an RV and when we deliver an RV.

Around mid-April, our demand improved dramatically and has continued to be strong into May. Year-over-year unit sales during the past three weeks have increased at most of our dealerships. Overall, April monthly unit sales were higher than last year. Remember that there can be a delay of a week or more between the sale and delivery of a unit. As a result of this strong sales activity, we entered May with a much improved delivery backlog.

We continue to see our customers migrate towards lower-priced units in April, which drove ASPs lower. Although we are encouraged by the strong demand we are experiencing, we are not losing sight of the economic impact of COVID-19 and we are managing our business accordingly.

We will continue to intelligently grow our business. In Q1, we opened Lazydays RV Service of Houston, our first dedicated service center. Lazydays RV Service of Houston continues ramping nicely and we expect it to achieve breakeven in Q3. To support our service excellence strategy, we expect to open more dedicated service centers in the future. We have broken ground on our new dealership in Nashville, Tennessee. We expect to open Lazydays RV of Nashville for sales and service in Q4 of this year. We are very excited to enter the rapidly growing Nashville market. Our growth pipeline remains robust and we believe we will be able to continue to grow our dealership and service network as shelter-in-place orders come to a close.

That is all for our prepared remarks. Please open the line for questions.

Operator

Ladies and gentlemen, as a reminder, to ask a question please press star, one on your telephone keypad. Again, press star, one to ask a question.

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

Ryan Sigdahl

Hey guys. Ryan Sigdahl on for Steve. I just want to clarify. I thought I caught it in the prepared remarks, but did you say April was up year-over-year? Was that on a unit or a revenue basis or both?

William Murnane

April was up on a unit basis year-over-year. Given the ASP change that we talked about, customers are definitely moving towards lower-priced and more used products. That's going to drive our ASP down. Revenue, we're not giving—we—revenue likely will be down, although we're not being specific on that.

But keep in mind also that the April revenue is impacted by the backlog we come into April with, so there's a delay. When I say unit sales, so those are units that we contracted to sell. They may not get delivered until May.

Ryan Sigdahl

Got it. Then from a mix standpoint, is—used was stronger in the quarter in Q1. Has that trend continued into April and kind of quarter-to-date here?

William Murnane

Yes. Definitely, the trend towards used—more used and overall just lower-priced units, even on the new side. It's definitely a shift towards lower priced.

Ryan Sigdahl

Got it. Then you guys have a decent cash balance and liquidity. You announced earlier a couple of weeks ago that basically you're foregoing your interest and principal payments. I guess what's the thought process there given the cash and liquidity you have? Then how are those conversations with your lenders going?

William Murnane

Yes. The conversation—our lenders are great. I'll let Nick add. He talks to them more than I do, but we both talk to them a lot.

Yes, we have a cash balance, but we're a pretty conservative company. As a person that's been in this industry for over 10 years, things can change quickly, and we also have a lot of debt. A lot of things can change quickly, especially when the economy heads the wrong direction. So that's—we're just—we're being, we think, prudent in managing our business very conservatively.

Nicholas Tomashot

Yes. I'll just add that we—as Bill had mentioned, we saw a pretty steep drop-off in demand at the end of March and beginning of April. We were taking every action we could to make sure we're positioning ourselves to lower cost and preserve cash.

William Murnane

One more comment. Like I said, we're encouraged by the growth, and growth has been strong in the last three weeks or so. We're definitely encouraged by that, but we're not losing sight of what's happening. A lot of people are unemployed. The broader economy, I think the longer-term impacts of this are not clear to anybody at this point. We'll—but we are very encouraged by the growth we're seeing.

Ryan Sigdahl

Then last one for me and then I'll turn it over. Just on that growth and kind of the stabilization improvement the last few weeks, is that primarily—what demographic is that primarily driven by? Is it the people looking to go outdoors and naturally social distance? Is it the retired community? Just any comments on kind of who that buyer is.

William Murnane

Yes. Well, it's across the board, Ryan. We think there's likely—and it's hard for us to gauge at this point what the primary drivers are, but we think there's probably three primary drivers of the growth. One is there's some pent-up demand. People are home. They haven't been getting out. There's some pent-up demand. And while they're home, they're looking for things to do, so they're hunting for RVs online. We think there's definitely more people maybe thinking about a vacation and getting into an RV sounds better than getting on a plane or go into a hotel somewhere.

We also think we're taking market share. We are doing a great job internally, marketing and selling, and we think we're gaining market share.

Ryan Sigdahl

Great. Thanks guys. Good luck.

Operator

Your next question comes from the line of Barry Haimes from Sage Asset Management.

Barry Haimes

Thanks so much for taking my question. I had—one is given what's going on in the industry, do you anticipate that there could be some industry consolidation in terms of weaker dealers dropping out? Or, does this downturn at the moment feel so short that we may not see much of a change there? That's my first question. Thanks.

William Murnane

Yes. I think the answer is we don't know. I think it's been—it hasn't been long enough. We need more time to understand the longer-term impact of this. Quite frankly, we don't think we fully understand the longer-term impact of this, and that's why we're being conservative. It's definitely too early to see if there's any impact on the industry and consolidation, although our goal and our plan strategically is still to consolidate, be a consolidator.

Barry Haimes

Okay. Great. Thanks. Then second question I had was, I wonder if you could talk about marketing a little bit. What have you done in total in response to everything? But then within that and especially as your sales come back, as you mentioned, there's logic to doing the RV vacation versus getting on an airplane somewhere, given COVID-19. Are you doing anything different from a marketing point of view to try to get that message across, maybe reach some new people who hadn't thought about RV-type vacations before, were used to flying places? Anything on the marketing side, would love any color. Thanks.

William Murnane

Yes. Unfortunately, Barry, we're not going to be able to give any color other than we're keeping the pedal to the metal. We're not—marketing is not an area we're going to let up on. But we believe marketing is a competitive advantage for us, and our competitors, we do not want to share with them what we're doing.

But, we feel like we're—our marketing team is doing a good job in getting our sales guys what they need—and women (phon), get them what they need to close deals. And they're doing it. The sales people are doing a good job of converting what marketing hands have into sales, but we don't—we will not get into specifics on how we market.

Barry Haimes

Yes. No, that's fine, but let me rephrase without asking about specifics at all. Are you—again, without getting specific, are you doing anything different in the marketing spend to try to get—reach those people who may not have thought about RVs before, who are used to the flying and staying in a hotel-type vacation? I mean, is that something you're trying to address?

William Murnane

Yes. I think everybody has probably changed some messaging, but that's a small piece. We're just—our primary goal is to reach people who are showing interest in the RV lifestyle. It's not really our job to convert people from camping to RVing. Our job is to convert people who are interested in RV into buying from Lazydays. It's more of an industry. We don't spend a lot of dollars trying to convince people to take up the lifestyle. That's somebody else's job. Our job is to convert people who are interested in the lifestyle and the Lazydays customers.

Barry Haimes

Perfect. Thanks so much for the color. Appreciate it.

William Murnane

You're welcome.

Operator

That is all the questions that we have.

William Murnane

All right. Well, thank you, everyone, for joining us today. We'll talk to you next quarter. Have a great and safe week.

Nicholas Tomashot

Thanks.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.