

Lindblad Expeditions Holding Inc.
Second Quarter 2015 Earnings Call
August 7, 2015 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Ian Rogers – *Chief Financial and Operating Officer*

Sven-Olof Lindblad – *Chief Executive Officer*

PRESENTATION

Operator

Good morning, and welcome to the Lindblad Expeditions Second Quarter 2015 Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note, this event is being recorded.

I would now like to turn the conference over to Ian Rogers, Chief Financial and Operating Officer of Lindblad. Please go ahead, sir.

Ian Rogers

Thank you, Denise. Good morning, everyone, and thank you for joining us on our second quarter 2015 earnings conference call. I'm joined today by Sven-Olof Lindblad, our President and Chief Executive Officer, and Mark Ein, our Chairman. Sven will start the call with an opening commentary on the business and I'll follow with specific commentary on the results of the second quarter before finally turning the call back to Sven for closing words. We'll then open the call to your questions.

Our press prelease with second quarter 2015 results was issued this morning and is available on our Investor Relations website. The company's comments today may include statements about expectations for the future. Those expectations are subject to known and unknown risks, uncertainties and other factors that may cause the company's actual results and performance in future periods to be materially different from any future results or performance suggested by these expectations.

The company cannot guarantee the accuracy of any forecast or estimates and we undertake no obligation to update any forward-looking statements. If you'd like more information on the risks involved in forward-looking statements, please see the company's SEC filings.

In addition, some of our comments may reference non-GAAP financial measures. A reconciliation of the most directly comparable GAAP financial measures and other associated disclosures are contained in the company's earnings release.

With that, I'd like to turn the call over to Sven-Olof Lindblad.

Sven-Olof Lindblad

Thank you, Ian, and good morning to you all. It is exciting for us to have this first earnings call and for me to provide you with an insight into who we are and where we're going. As you know from our investor presentation that we presented on our roadshow, we are the world's leader in expedition cruising, offering highly-curated voyages to 40-plus remarkable destinations globally on 6 owned and 4 chartered ships.

Together with an exclusive partnership with *National Geographic* through 2025, we have extraordinary reach into a market of primarily baby boomers. They are 75 million strong and the wealthiest demographic in history who have a proven desire for accumulating experiences over material goods.

From 2010 to 2014, revenue has grown from \$115 million to \$198 million, net yields from \$685 to industry-high \$953 per night and occupancy from 89% to 93% and EBITDA from \$17 million to \$45 million. We are at or nearly at capacity in most of our geographies, and it is clear that the best value creation path forward for the company is through inventory growth.

Our base plan takes us from roughly 20,000 guests annually to 30,000 in 5 years, revenues from \$204

million in 2015 to \$353 million in 2020 and EBITDA from \$45 million to \$97 million in that period. The baseline calls for building three new ships; one for delivery in 2017, one in 2018, and one in 2019. The first two, a hundred passenger American built vessels are in the final stages of review after well over a year of diligent planning, and we anticipate signing the contract with the shipyard within weeks.

As you might have noticed looking at our materials, there is not significant revenue growth in 2015 and '16 in our current fleet without acquisitions based entirely on being nearly maxed out on existent inventory. The reason for the transaction with capital was to raise capital and secure public currency to enable a building program to drive both revenue and profitability on an accelerated level beginning in 2017.

With our war chest of capital combined with the fact that the adventure expedition industry is highly fragmented and the market opportunity tremendous, we will also look for opportunities to accelerate growth through strategic acquisitions and partnerships. Already, several such opportunities have presented themselves and are being explored with the intent of adding additional reach and value to the business.

Based on all of this, I feel that the outlook for our business going forward is extremely positive. In the short-term and specifically in Q2 of this year, we had a few bumps in the road due to outside forces like the Ebola scare and the effect of a downturn in the Australian economy in currency. However, we are on track to meet our 2015 projections and forward-looking bookings for 2016 are more robust than at the same time in '14 or '15. I will of course go into more detail on these factors specifically.

So to summarize, we have a solid manageable plan to build new ships. We have significant capital and we have the premier expedition brand together with *National Geographic*, a huge marketplace right here in the United States for what we offer, and we are in a position to opportunistically consolidate in the fragmented industry. And finally, we are extremely pleased to have the partnership we do with the team at Capital Acquisition. They bring significant horsepower to the enterprise and have helped us attract a very attractive pool of investors.

I also want to note that we were very excited to have announced earlier this week that Bernard Aronson joined our board. Bernie recently left the board of Royal Caribbean after serving on it for approximately 23 years during which the market capital of the company grew from approximately \$1 billion to \$17 billion. He was previously a board member of Hyatt Hotels Corporation amongst many other significant corporate and philanthropic boards, and is a founding partner of ACON Investments, LLC, a middle market private equity group. Bernie also serves as the US Special Envoy to the Colombian Peace Process appointed by President Obama in February 2015. Bernie's highly relevant global business and international relations perspective will provide us invaluable insights as we move the company forward.

Now I'd like to turn the call over to Ian Rogers our Chief Financial and Operating Officer.

Ian Rogers

Thank you, Sven. Overall, we are pleased with our performance for the first half of 2015, and I will now spend some time going through some of the details behind that performance. In the second quarter of 2015, the company generated tour revenue of \$49.5 million compared to \$50.8 million in the second quarter of 2014 which represents a decrease of 2.6%. The decrease was primarily the result of a decrease in guest ticket revenue, from \$44.0 million in the second quarter of 2014 to \$43.2 million in the same period in 2015 due to an increase in discounts primarily related to cabin revenue received for Africa and Indian Ocean based voyages on the *National Geographic Orion*.

These voyages faced specific headwinds in terms of both the Ebola epidemic and the continued decay

of the Australian economy. We will begin the long plan repositioning the Orion in 2016, moving the ship away from the Indian Ocean and western Australian geographies to Europe for the northern hemisphere summer.

Looking at the full first half of the year, tour revenues amounted to \$105.0 million compared to \$102.2 million in the first half of 2014 which represents an increase of 2.7%. This increase was primarily driven by strong demand for our pre and post voyage extensions, as well as increased revenue from air ticket sales and the increased inventory of our Vietnam and Cambodia based trotter vessel in the first quarter of 2015.

Net yield in the quarter amounted to \$963 compared to \$1,020 in the second quarter of 2014 which represented a decrease of 5.6%. The change was driven by the increased discounting related to the Indian Ocean based voyages. Net yield for the first half of 2015 was flat over 2014 at \$984 compared to \$983 in the first half of 2014. We recorded 40,597 guest nights sold in the period and 4,818 guests which is consistent with the second quarter in 2014.

The occupancy rate in the second quarter of 2015 was 91.9% and occupancy for the first half of 2015 was also 91.9%. This is somewhat lower than our occupancy rate in the second quarter of 2014 which was 95.8% and the first half of 2014 which was 95.1%. The main reason is an increase in available guest nights primarily associated with the Jahan Charter in Vietnam and Cambodia combined with the previously mentioned lower occupancy of Orion when compared to the same time period in 2014.

Adjusted net cruise cost per available guest night amounted to \$690 in the second quarter of 2015 compared to \$762 in the same period in the prior year which represents a decrease of 9.4%. The decrease in adjusted net cruise cost was primarily driven by a reduction in the cost of fuel in the second quarter of 2015 compared to 2014 and a decrease in dry dock costs and maintenance costs for the owned fleet.

Specifically, the costs associated with the dry dock of the Explorer in 2015 were less than the amount for dry dock in 2014. In 2014, the Explorer undertook significant enhancements to its power management controls and high volume air conditioning systems that were not repeated in 2015. These variances may occur from quarter to quarter, but our maintenance capital expenditure remains consistent from year to year with the exception of mandatory class society inspections and required work that we have identified in our forecast as presented in the investor deck.

And now I'll spend a few minutes discussing our approach to fuel costs. Due to the specific geographies in which we operate and the cost of providing access to fuel in many of these remote destinations such as the Antarctic and the Arctic, we have historically not experienced significant fluctuations in fuel costs. With changes in world fuel commodity prices, the continued downward pressure on oil commodities is now becoming evident in fuel prices in all areas of the world in which we operate and across all elements of the supply chain.

Fuel costs represented 3.4% of tour revenue in the second quarter of 2015 compared to 5.4% in the same period last year. We have not hedged fuel purchases historically but may reconsider that approach. Adjusted EBITDA, a non-GAAP financial measure, for the second quarter of 2015 was \$12.0 million compared to \$11.0 million in the same period in 2014 which represents an increase of 9.1%. Adjusted EBITDA for the first half of 2015 amounted to \$26.3 million which is an increase of 4.8% from the same period in the prior year, a reconciliation between adjusted EBITDA and GAAP net income is included in the financial data provided in our earnings release.

We recorded net income of \$8.8 million in the second quarter compared to \$5.2 in the same period last

year, and net income was impacted by certain non-recurring items that are detailed in our financial statements and in the supplemental non-GAAP disclosures. These include expenses related to the merger with Capital as well as the \$7.5 million non-cash gain on a transfer of assets and \$5.0 million in other income.

The latter two items were associated with our purchase of certain economic interests in Cruise Ferry Master Fund or CFMF, an entity which was a lender to the company and held a warrant in Lindblad. Following the CFMF purchase, this warrant was extinguished and CFMF was liquidated. On the debt financing front, we were very pleased to be able to improve the terms and increase the size of the new term loan that we originally issued on May 8th this year and syndicated in June. The facility is a \$175 million senior secured term loan carrying an interest rate of LIBOR plus 4.50% with LIBOR subject to a 1.0% floor.

This rate was 100 basis points lower than the initial rate on the loan in May. The term loan provides the company substantially more flexibility than its prior facility and has one financial covenant which is a net leveraged covenant. Initially the net leveraged covenant is 4.75 times EBITDA but will decline by a 0.25 turn each year starting in 2016.

As we have mentioned, the merger with Capital closed on July 8th. The upsizing of our debt facility was funded on that same date. Our cash balance on June 30th including restricted cash, pro forma for the capital merger, and the upsizing of the term loan is approximately \$220 million. As Sven mentioned, we are moving forward to the ordering of our two coastal vessel new builds. We expect to have additional information to share with you on this project later in this quarter.

So again, we are pleased with where we stand after the first half of 2015, and how revenue and EBITDA for the full year of 2015 is shaping up. As mentioned in our Q2 2015 earnings release, our advanced booking patent for 2016 remains strong with 43% of forecast ticket revenue for 2016 on the books as of June 30th compared with 40% on the books at the end of June 2014 for the 2015 financial year.

With that, I will turn the call over to Sven for his closing remarks.

Sven-Olof Lindblad

Thank you, Ian. As the first earnings call comes to a close, we look forward to answering your questions. Ian and I are also joined on this call by Mark Ein, Chairman of Lindblad Expeditions Holdings who is also available to respond to your questions. We also look very much forward to our next call as we become more familiar with the investment community and you more familiar with our unique position in the travel industry. There will undoubtedly be positive tangible news to report on, as well, once certain components of our growth have been formally agreed to and we are at liberty to convey their content.

To reiterate, the balance sheet is strong, the capital base robust and the market opportunity immense. We intend to capitalize on the combination of these three factors to drive our business forward.

Now I'd like to turn this over to the operator to initiate the question and answer portion of the call.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before

pressing the keys. To withdraw your question, please press star then two. In the interest of time, we ask that you please limit yourself to one question. At this time we will pause momentarily to assemble our roster.

We have a question from Mark Foster from Kirr Marbach & Company. Please go ahead.

Mark Foster

Good morning.

Sven-Olof Lindblad

Good morning.

Mark Foster

First off, thanks for doing this call so quickly out of the gate. It's very helpful. So in your prepared remarks, you talked a little bit about some opportunities for accelerated growth. I'm wondering if you can expand on that a little bit more. Are these individual ships that you're looking at? Are these groups of ships? How should we be thinking about those things rolling in?

Sven-Olof Lindblad

So, Sven Lindblad here and I'll answer that. So as you of course know, we have a plan and then at the same time have a tremendous amount of capital, and we are also in a very fragmented industry. And we have found that a variety of opportunities have come our way, none of which I can speak to in detail, that represent segments of the industry that we're in which I will expand to include the adventure expedition industry more broadly than purely ships.

So, we are actively looking at what the opportunities are in the more short-term because A, we have the position and B, we have the capital and it is a great, great opportunity to consolidate in certain areas where those opportunities exist. We do believe that in the not too distant future as Ian had mentioned, we will be able to disclose more specifically, but at the moment all these conversations are confidential and we must keep them that way.

Mark Foster

So if you buy a ship in terms of retrofit or renovation, timing wise how quickly could a ship get into your fleet and begin generating business?

Sven-Olof Lindblad

The answer to that is it always depends. In certain instances, people who are willing to and were interested in buying a ship that may be at a date forward determined by any number of factors. In certain instances, it happens more quickly, in certain instances there is more renovation required and in certain instances less, so every ship, if you look at the ships in our fleet, they all have a different story in terms of when they became available, what was required, what kind of lead time, and all of those things are very much taken into consideration before any decisions are made.

Mark Foster

Okay. Thanks.

Operator

Again, if you would like to ask a question, please press star then one on your touchtone phone. We have a question from Eric Gomberg from Dane Capital Management. Please go ahead.

Eric Gomberg

Hi. To reiterate the last caller, thanks very much for doing the call so quickly after closing the merger acquisition. Just building on the last question, it sounds like you may do something broader within the adventure travel space and I was wondering if there's any reason you couldn't leverage the *National Geographic* brand with any potential product extensions outside of cruise?

Sven-Olof Lindblad

The answer to that question is—obviously the partnership with *National Geographic* creates opportunities to leverage up all kinds of things that we would perhaps not be as levered with on our own should we say. So we look upon ourselves as jointly engaged in the travel industry and we look jointly at where the opportunities are.

Eric Gomberg

Thank you. And if I could just ask a quick follow-up? Has there been any difference in their efforts to market—kind of post the closing of the merger given they now have an equity interest in Lindblad, and obviously have extended their relationship to 2025 with you?

Sven-Olof Lindblad

Well, *National Geographic* has identified the fact that travel is a major growth area for them that will continue on into the future and grow. And so their plans in general in the travel industry have just—they've put exponentially more effort into them and certainly as it relates to their involvement with us, so their having an option with us has accelerated their interest in developing and pushing for growth on an accelerated basis.

Eric Gomberg

Thanks so much and best of luck.

Sven-Olof Lindblad

Thank you.

Operator

And this will conclude our question and answer session. I would like to turn the conference back over to Sven Lindblad for any closing remarks.

CONCLUSION

Sven-Olof Lindblad

So finally I'd just like to say that we are most fortunate in having a very dedicated workforce. This is very much a human-based enterprise. A workforce that is inspired by our dual mission to do commercially well while at the same time conducting ourselves in a socially and relevant manner. Our footprint in conservation and education is substantial, together with *National Geographic* which we believe matters a great deal to our guests, to the communities and places we explore, and the inspired manner in which our employees relate to our guests and literally wake up each day gratified to have such a dedicated and able workforce involved all over the globe.

Thank you all very much for joining today's call and for your interest and support. We look forward to further conversations with you as we continue to drive our business forward.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines.