

Lindblad Expeditions Holdings, Inc.
Third Quarter 2016 Financial Results
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CORPORATE PARTICIPANTS

Craig Felenstein – *Chief Financial Officer*

Sven Lindblad – *Founder and Chief Executive Officer*

Ian Lindblad – *Chief Operating Officer*

PRESENTATION

Operator

Good morning and welcome to the Lindblad Expeditions Third Quarter 2016 Earnings Conference Call. All participants will be in 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. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Craig Felenstein, Chief Financial Officer. Please go ahead.

Craig Felenstein

Thank you, operator. Good morning, everyone, and thank you for joining us for Lindblad's Third Quarter 2016 Earnings Call. Joining me today is Sven Lindblad, our Founder and Chief Executive Officer and Ian Rogers, our Chief Operating Officer. Sven will begin with some opening comments and I will follow with some details on our third quarter results. You can find our latest earnings release in the Investor Relations section of our website.

Before we get started let me remind everyone that 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 forecasts or estimates and we undertake no obligation to update any forward-looking statements. If you would like more information on the risks involved in these 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 exposures are contained in the company's earnings release.

And with that out of the way, let me turn the call over to Sven.

Sven Lindblad

Thanks, Craig, and thank you, everyone, for joining us this morning. Craig's going to walk you through our financial results and full-year expectations in a few moments, but before he does, I'd like to provide some color on how the business is operating today and provide some insight as to why I'm confident that the opportunities in front of us to expand our reach and provide sustained growth over the foreseeable future.

Our primary focus today is the same as when Lindblad Expeditions was founded in 1979 with a groundbreaking expedition to Tanzania. Please understand it is ultimately all about the guest and delivering an experience that fosters exploration and discovery through unique offerings that are immersive and a very high standard all led by the finest expedition teams in the industry. As we've been doing this consistently now for nearly 40 years, our credibility makes us uniquely positioned to capitalize on the growing demand for experiential travel.

Experience matters a great deal. Planning and executing these expeditions is extremely complex and I firmly believe that we understand that better than anyone. We have spent years exploring the world, fine-tuning itineraries, and developing team relationships, while investing in vessels and amenities so

that we can deliver unparalleled experiences to our guests. That is why we are able to generate net yields of over \$1,000 per night and why guests who travel with us keep returning.

In fact, over one-third of the guests in 2016 have travelled with Lindblad previously. At the same time, we are attracting more new guests than ever before and we are confident that there is significant opportunity to expand by creating new expedition opportunities on new expedition vessels.

As we have discussed before, it's hard to look at our business from a quarterly perspective as they may be impacted by both planned and unplanned events. The third quarter this year is a great example of that. First of all, there were fewer available guest nights than the same period in 2015. The reason, configuration of itineraries, particularly on Orion and Explorer. On the Orion, the third quarter was fully deployed with revenue days in 2015. In 2016, an unplanned dry dock, and earlier positioning to Antarctica, a core destination for us, diminished available guest nights. On Explorer we also had an additional voyage in 2015 in the quarter.

What's most important however, is that on an annual basis, there is very little fluctuation in available guests' nights, despite some significant swings from quarter to quarter one year to the next. Each year produces its own sets of challenges which we regularly find creative ways to overcome. In 2016, broadly, there were two external factors that most certainly had an effect and created downward pressure: the continuing drum beat of terrorist attacks in Europe beginning in late 2015 and the regular media attention to the Zika virus during prime booking time. Terrorism certainly had an effect on Orion voyage in continental Europe, and the perception of Zika had some effect on our Galapagos and Amazon expeditions. And while the European component will not be a factor in the fourth quarter, Zika will have a broader effect as we begin our expeditions in Central America and Mexico.

But despite these rather serious external forces, occupancy in 2016 should be only about two points below 2015 without any significant incentives or discounts. It's an important point because we made a strategic decision not to offer wide scale widely publicized discounts to inflate short-term results.

In fact, net yields actually went up. We always employ tactical responses to any form of shortfall, but always with a view as to how any tactic will affect our long-term prospect.

One thing we are particularly good at is adjusting to an ever-changing world. If we see lackluster interest in new ideas, we have no hesitation in changing course. For example, we have significantly reduced our exposure in 2017 to continental Europe, shifting instead to northern and sub-arctic geographies. Already this change is proving to be a good move.

We have a particular focus in Iceland for example, and Iceland is turning out to be one of the most popular geographies in the world for expedition travel [indiscernible].

Another strength is our ability to roll out new locations without overcommitting our self. Our upcoming expeditions to Cuba are a good example of that. We have chartered a vessel called the Panorama II, which takes 44 people and have developed an expedition that will provide our guests with a real flavor for this intriguing culture and wildlife throughout this captivating location.

Early demand has been encouraging, and while we are only scheduled for a few months of voyages in 2017, we're excited about the opportunity this new geography has to offer. We're also excited about our various new builds which are in progress and on budget. The National Geographic Endeavour II is now in Ecuador and is on target to be ready for operations this December.

We did see a bit of a slowdown in bookings for Endeavour I in the latter part of this year as folks waited for the new vessel to be ready. But demand for the new Endeavour II has been very, very strong, and

we are really eager for our guests to experience all it has to offer. 2017 will mark the fiftieth anniversary of my father Lars-Eric Lindblad's first expedition to the Galapagos, and I couldn't be prouder of the relationships he had built and contributions we have made to help protect this remarkable place. And we intend to take full advantage of the fiftieth anniversary and our communications throughout the world.

Looking at the new build, the National Geographic Quest is currently on schedule for delivery late in Q2 2017, and we'll see real opportunity to further capitalize on the robust demand for expeditions to Alaska and growing interest in the geography such as British Columbia. Bookings for these itineraries have been robust and we are anxious to add this state of the art vessel to our fleet. Construction is also well underway on our second new coastal build scheduled for delivery Q2 of 2018. And we are already diligently analyzing the various details behind the third Blue-Water vessel to be completed in 2019.

As we expand our fleet we are continuing to explore ways to grow our land-based expeditions, something we were very, very much involved with up until 9/11 in 2001, most notably by focusing on maximizing the opportunity around our recent acquisition of Natural Habitat. We think there's a real opportunity to leverage our shift in land-based expeditions to the loyal guests of both companies, and we are just beginning to explore all the opportunities that only this leading land-based operator provides.

So, as you can see we are really excited about the opportunities we have to expand this business moving forward. I know short-term fluctuations can be noisy and there is a huge global audience that wants to immerse themselves in exploration and learning. Nobody is better positioned to do that than we are to capitalize on this growing trend.

With a proven track record of delivering for our guests a robust and expanding product offering, deep and meaningful relationships across the globe, the most knowledgeable staff in the industry, and a powerful alliance with an iconic brand, National Geographic, we are as confident as ever that we can deliver sustained growth and build long-term shareholder value.

Now, please let me turn the call back to Craig to walk you through our financial results.

Craig Felenstein

Thanks, Sven. I am extremely excited to have joined Lindblad and I look forward to working with this amazing team to capitalize on the many opportunities we see in front of us. I also look forward to connecting with each of you over the next few months to further discuss our business and its prospects.

Turning to the third quarter, on a reported basis, Lindblad delivered revenue growth of 21% and adjusted EBITDA growth of 10%. These results included contributions from Natural Habitat, which was acquired during the second quarter of 2016 and which remains firmly on plan to achieve its financial objectives for the year.

The Lindblad segment reported a 4% revenue decline versus a year ago primarily due to 9% lower available guest nights. A majority of this change year-on-year was planned so we can reposition the Explorer from St. John's directly down to Chile to take advantage of the Southern Hemisphere season as soon as practical. Similarly, as Orion headed south, it had less voyage days since it was traveling from Europe versus transitioning from Australia a year ago. Orion also canceled the voyage in September due to some necessary repairs which resulted in lost revenue as well as some unplanned dry dock expense.

As Sven just mentioned, despite some of the noise in the marketplace, we still expanded our net yield

by 8% this past quarter to over \$1,000 per night. The primary drivers of this growth were increased pricing from higher rates as well as itinerary changes versus a year ago.

As we increased our net yield, we were also able to slightly grow our higher occupancy rates to 90.8% in the third quarter versus 90.5% in the same period a year ago. We do anticipate a decrease in occupancy during Q4 primarily related to the retirement of the Endeavour as well as some softness from the items that Sven mentioned earlier. While we are tactically responding to this new decline, our primary focus remains very much delivering on our long-term growth opportunities. Also in Q4, please note that the dry dock schedule will be very similar to the fourth quarter of a year ago.

Shifting to the cost side of the business, Lindblad's segment operating expenses were down 12% versus the third quarter a year ago as adjusted net cruise costs declined 5% driven primarily by lower costs of tours and a decline in sales and marketing expense. On a per night basis, adjusted net cruise costs increased 4%, reflecting the lower available guest nights. Please note that the prior year did include \$5.5 million of merger-related expenses while the current year also includes additional depreciation related to the early retirement of the Endeavour.

Costs of tours at the Lindblad segment declined 13% this past quarter versus 2015 as we continue to benefit from the lower fuel costs which decreased 22% year-on-year. Fuel costs in Q3 were 2.9% of revenue versus 3.6% the same period a year ago. This past quarter we also saw decline in other costs tied to lower available guest nights such as air and maintenance expense.

Elsewhere on the cost side, selling and marketing expense declined 7% in the quarter at the Lindblad segment primarily reflecting lower commissions related to the revenue decline. G&A expense increased 7% excluding stock-based compensation primarily related to the high personnel expenses and public company costs.

Overall, the lower cost base offset the impact of the lower available guest nights and the Lindblad segment grew adjusted EBITDA by 6%. Total company net income in the quarter was \$7.4 million or \$0.16 per share as compared to \$4.4 million or \$0.10 per share in the third quarter of 2015, as the improved operating performance was partially offset by the accelerated depreciation related to the Endeavour in anticipation of its retirement at the end of the current year. 2015 also included \$5.5 million in merger expenses related to the transaction of capital acquisition.

Turning to our balance sheet, we remain extremely well positioned to invest in future growth opportunities. We ended the quarter with \$149 million in unrestricted cash. Free cash flow for the past nine months to date in 2016 was in use of \$35 million, but that included \$47 million in spending on the three new vessels, including \$27 million on Endeavour II. Including only maintenance CapEx, free cash flow was up \$12 million year-to-date.

Given the strength of our balance sheet, the confidence we have in our long-term growth opportunity and the belief that the current share price is not reflective of the value of the company and our prospects, our board has authorized the increase in our existing repurchase plan to \$35 million from the original \$20 million. We have spent approximately \$11 million since the plan was implemented in the fourth quarter of 2015, repurchasing 25% of the outstanding warrants. It is important to note that our first priority for capital allocation is investing in our existing business and external growth opportunities that will enhance our long-term growth profile.

Looking at the full year 2016, the Lindblad segment had 95% of its projected ticket revenue on the books as of October 31, 2016. While we continue to see increased bookings month-on-month versus 2015, at this point the majority of those reservations relate to 2017 and 2018. So, we do not anticipate

booking any significant additional net revenue for 2016.

Additionally, please note that Natural Habitat has seasonality to their results with a significant portion of their annual adjusted EBITDA typically recognized during the fourth quarter.

Thanks for your time this morning, and now Sven, Ian, and I will be happy to answer any questions you might have.

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 your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. Once more, that's star then one to ask a question.

The first question is from Robert Kirkpatrick at Cardinal Capital.

Robert Kirkpatrick

Good morning. Could you talk a little bit more about the voyage that was canceled in terms of the Orion and how often does something like that happen, what were the costs and what was done with the passengers?

Ian Lindblad

Sure, this is Ian. I can talk briefly in regards to the Orion. The Orion experienced an event related to one of its stabilizers to the ship. And although there was no safety impact in the vessel, we decided that the best thing to do before that ship returned to the Antarctic was to get that stabilizer repaired for the benefit of the guests who would be on board in perhaps a more extreme operating environment.

So, we looked at our voyages, the ship was already positioned in Lisbon, we have familiarity with that yard. So, we took one week out of service. We canceled that voyage and rebooked as many guests as wanted to move to an alternate voyage, and we were able to replace the stabilizer of the vessel in one week, which reflects the size of our vessels and our operating efficiency and being able to make those repairs quickly and efficiently. And the ship resumed its itinerary.

How often does this occur? Very rarely. We have the most experienced expedition captains, officers, and engineers on our fleet, and safety is our number one priority. So we take extreme care, but events do happen from time to time and we minimize any effects.

Robert Kirkpatrick

Okay, and then secondly to what extent can you help us understand the seasonality of the Natural Habitat business now that we have the business one full quarter we've seen the financial results there? But help us understand first quarter, second quarter, third quarter, fourth quarter, how things flow for that business.

Ian Lindblad

Well, the most profitable activity of Natural Habitat takes place in the northern part of Canada, primarily in October, which is centered around experiences to view polar bears. That is the largest single segment. And, so therefore, the fourth quarter becomes the most profitable segment.

Craig Felenstein

This is Craig. From a revenue perspective, you'll see that the back half traditionally—now obviously didn't own it [audio disruption] the first half this year, but the back half of the year from a revenue perspective is certainly the bigger half. And then on an EBITDA perspective, it is also true that the back half of the year is the most weighted for that business especially in the fourth quarter. So, you'll see a majority that comes through in Q4 then next year we'll be on it for the full year, you'll see the revenue back half weighted and the EBITDA more weighted to the fourth quarter.

Robert Kirkpatrick

And during the first half of the year, or the first quarter, second quarter, is the business EBITDA positive or does it go into a loss position during those parts of the year?

Craig Felenstein

Yes, it really depends on the year and certainly where the bookings go. Typically it's been positive but obviously it really depends on how much activity they have in a given period. Although the reality is again you're going to see the majority of the results in the fourth quarter.

Robert Kirkpatrick

All right. Great. Thank you so much.

Operator

Once again, to ask a question, you may press star then one. Our next question is from Eric Gomberg at Dane Capital.

Eric Gomberg

Hi. Good morning. I was just hoping you could touch a little bit more on the repurchase plan you've had at the plan out since last fall and you haven't bought anything back since January and now you're upping it, and you said you'd look at your first use of excess capital as growth opportunity. It seems like there's plenty of excess capital. Should we read in that you'll be back active in the market now that you've upped the buyback?

Craig Felenstein

Yes. I'm certainly not going to say obviously what our intention is in the short-term but obviously the board would not have authorized an increase to the plan if we didn't expect to be active under the plan. One thing to remember about this year is that the second quarter we were prohibited from buying back because we were looking at the Natural Habitat acquisition. So, during the second quarter and then coming out of the second quarter that was the case.

Then obviously with the transition at the CFO level, there were some things on hold until I came on board, but the reality is the board is fully behind the repurchase plan. That's why they increased the authorization. And certainly when we look at where the shares are trading today and the capital that we have on hand and the strength of our balance sheet, we see a significant opportunity to be active over time.

Eric Gomberg

Fair enough. Thanks for that. I have a couple more just quick ones. On the Endeavour II, is it fair to assume that on a like-for-like basis versus the current Endeavour there should be fairly meaningful greater profitability, just getting rid of Endeavour for scrap, less dry docking, better efficiency, etc., on Endeavour II? Is that a fair assumption?

Sven Lindblad

Yes, Eric. As we announced the acquisition of the Endeavour II, operating efficiencies increased

because you require less crew to maintain and to carry out a day-by-day operation as well as the newness of the engines and the equipment on board will mean that our fuel consumption will be less. And there are operating efficiencies as well as being very skilled in terms of cabin allocations and being able to reconfigure the ships so that we can maximize yield in a most efficient manner.

Eric Gomberg

Okay, thanks, and then just one last one, Craig, I think you said in your remarks that bookings have improved month-on-month. Is that, first did I hear that right, and second are you talking sequentially that bookings seem to be strengthening or are they improving month-on-month on a year-over-year basis? So, the strength going into '17 is better than the strength was going into '16.

Craig Felenstein

Yes, I was talking year-on-year, not month-on-month. So, if you look at the 2016 months versus the 2015 months, the bookings have been up for each of the last seven months and we've continued to see that strength pretty consistently. I think it speaks to the momentum that's behind the business today and we expect that to continue going forward and will continue to push on all the levers that we can push to drive the business in the short-term while we continue to focus on the long-term.

Eric Gomberg

All right, great. Thanks so much, guys.

Craig Felenstein

Thank you.

Operator

The next question is from Roger Kirkpatrick of Cardinal Capital.

Roger Kirkpatrick

And so if I were to look at the percent of forward year revenue that's booked, so we're talking about 2017 now, and compare that with the percent of forward revenue booked a year ago, where would we be standing?

Craig Felenstein

Right now we're still behind on 2017 versus 2016, very similar to where we were at the end of the second quarter, I should say very similar to the comments we made at the end of the second quarter which was that some of the things that Sven talked about got us out of the gate a little slower this year than it got us out of the gate last year. That being said, the gap today is certainly significantly less than it was at the end of the second quarter and it continues to close. What we'll do on the next earnings call, which will be our year end call, we'll provide much greater clarity on where 2017 is shaping up.

Roger Kirkpatrick

Great. Thank you so much.

Craig Felenstein

Thank you.

Operator

Once more, you may press star one if you'd like to ask a question. Seeing no further questions, this concludes our question and answer session. I would like to turn the conference back over to Craig Felenstein for any closing remarks.

CONCLUSION**Craig Felenstein**

Sure. Thank you, everybody, for joining us. We really appreciate your time and as I said I look forward to getting to know all you guys. So, if you have any questions to follow up, please give me a call in our office and we can catch up over the next few weeks. Thanks for joining us.

Operator

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