Lindblad Expeditions, Inc.

Fourth Quarter 2016 Financial Results

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CORPORATE PARTICIPANTS

Sven-Olof Lindblad - *Chief Executive Officer and President*

Craig Felenstein - *Chief Financial Officer*

Ian Rogers - *Chief Operating Officer, Vice President and Treasurer*

PRESENTATION

Operator
Good morning and welcome to the Lindblad Expeditions' Fourth Quarter 2016 Financial Results 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 telephone keypad. To withdraw your question, please press star then two. Please also note today's event is being recorded.

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

Craig Felenstein
Thank you, operator. Good morning, everyone, and thank you for joining us for Lindblad's 2016 fourth quarter and full year 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 then I will follow with some details on our fourth quarter and full year results before we open the call up for Q&A. 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 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 the 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.

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

Sven-Olof Lindblad
Thanks, Craig. And thank you, everyone, for joining us this morning. I'm delighted to have the opportunity to talk to you today about Lindblad Expeditions, and would like to take a few minutes to discuss the company's performance in 2016 and some of the major events of the past year that shaped this financial result. I will then spend some time devoted to the path ahead and why I frankly have never felt more confident about the long-term prospects for the company.

As I believe most of you know, our reason to access public markets was to raise capital in a public currency so that we could capitalize on the growing opportunity we saw for the company to add capacity and make acquisitions to satisfy demand amongst our customers. We also discussed at the time that adding capacity in our industry has a lead time and until the capacity came online our growth opportunities and levers were frankly limited.

While 2016 was a year where we made significant progress in building our platform, our management team and opportunities set for the future but we fell short of our initial financial plan for a number of reasons, all of which we have discussed previously: concerns over terrorism following the Paris bombings and Brussels terrorist attacks; the incessant drumbeat and concern over Zika, which began to diminish interest for a time in tropical areas that we trade; a delay in timing of some of our marketing materials versus previous years.

Interestingly, given that our booking window is approximately nine months in duration, these items had very little impact on the first half of 2016 as we delivered 5% revenue growth, but that was reflective of the booking strength we generated prior to November 2015. We saw a significant slowdown in bookings towards the end of 2015 and during the first four months of 2016 from these issues, which ultimately put pressure on the second half of the year.

We also had to cancel several voyages this past year, most notably on the *Orion* due to a significant engine malfunction. Nothing of this magnitude had ever happened in our company's history. In fact I can count on one hand the number of incidents that have required the cancellation of multiple voyages, and while there will be some short-term financial ramifications, Craig will cover this of course, we were able to mitigate the overall impact through insurance coverage and our marine team's extremely efficient response. It should enable the vessel to return to normal operations in April of 2017 this year, just next month.

I think it is important to note that we went out of our way to meet the needs of any guests who were inconvenienced in any fashion and the end result was continued confidence in the ability to deliver on our guest experience. In fact, over 70% of the cancelled guests on the five voyages have already re-booked for future expeditions.

Despite all of the unique forces in 2016, occupancy this past year did remain over 90%, and we actually expanded our net yield slightly resisting, as we always have, a temptation of any meaningful discounting as a mechanism to buoy short-term results. We are fully committed for the long-term growth plans that you are all familiar with and will not erode our potential by engaging in these kinds of practices.

At the same time this past year we continued to strengthen the organization, building both our infrastructure and human capital necessary to grow our business robustly and profitably in the long-term, including solidifying our core executive team with Craig Felenstein as our CFO, and Phil Auerbach as our CCO, Chief Commercial Officer.

We also took several strategic steps this past year that we believe will further solidify the long-term growth prospects of the company through the investment in new capacity, which will come online shortly and through closing an acquisition that is a great, great complement to our existing business. We acquired Natural Habitat in May 2016 and frankly couldn't be more pleased with this acquisition.

Natural Habitat has already provided significant benefits and we have only just begun to explore the opportunities that each organization can provide for each other. Nat Hab is fully dedicated to nature travel with a longstanding strategic alliance with the World Wildlife Fund. They have a price point similar to ours. They provide an ability to offer land-based programs while keeping it in the family, so to speak. They provide the ability to cross-sell our marine products to their audience. They can grow with access to capital they previously didn't have, and they have a solid management team that is able to operate effectively and autonomously without creating a distraction for our core team.

This was a highly strategic acquisition providing all of the above and meaningful diversification. And as I sit here today I am more confident than I have ever have been that we will exceed our expectations from when we closed just 11 months ago. As we go forward Nat Hab confirms our view that there are a number of highly accretive tuck-in acquisition opportunities that could broaden our platform for our customer base, while growing and enhancing the economic opportunities of our company.

We will continue to explore these opportunities as we focus on maximizing the potential of our existing operations and adding capacity whenever we are confident we can do so at compelling rates of return. On that front, we launched the *Endeavour II* in December replacing the original *Endeavour* in the Galapagos. It was delivered on time and on budget. Bookings are strong and has been favorably adopted by our traveling public and our industry partners.

The National Geographic *Quest* is on pace for delivery and for its maiden voyage on June 26th. She is virtually sold out for the summer of 2017. This is the most ambitious passenger vessel built in the United States in decades, and when I visited the Arctic a couple of weeks ago, I was soundly impressed by the quality of work, and I am very, very excited by what it will do for our guests' experience. I'm actually quite proud that we were able to build this ship in the United States.

We are on pace for the sister ship of the *Quest*, the *Venture*, which will enter service in the second quarter of 2018, and we are close to finalizing the shipyard for our blue water vessel scheduled for delivery in 2019. We know that our decades of experience in expedition cruising and our deep understanding of what matters to our clientele will make this the most exciting and innovative expedition ship in the world.

We also saw significant booking growth in 2016 following the softness in the beginning of the year. In fact, since April of 2016 bookings for 2017 and beyond have eclipsed the previous year each month with January and February beating 2016 sales by 70%. And as we are committed to robust growth we have also put focused effort on accelerating our capacity in marketing and sales. This includes doubling our field sales force, developing a variety of new partnerships, reinvigorating our digital platform and our efforts in [indiscernible] media.

There is no question that the story of Lindblad Expedition is worthy of public relations and we are making great strides in that arena. I don't know if any of you saw CBS a couple of weeks ago, CBS morning and evening news but there were several stories that were broadcast from our ship, the National Geographic *Explorer* in the Antarctic.

Looking ahead we believe firmly that interest in the expedition category will only continue to expand. Given the complexity of both execution and the needs and wants of the expedition traveler there really is no substitute for experience in our 50-plus year history of expedition travel along with the value-added, longstanding partnership with National Geographic provides both the ability and the credibility that we believe is unmatched.

We intend to harvest the expanded interest in this category generated and use it to our advantage. In summation, 2017 is off to an extremely good start in terms of sales, in terms of fleet development and in terms of preparedness to deliver solid, long-term results. We are committed to being open to and unearthing opportunities that are brand appropriate and that will augment the core plan and we are extremely confident that we will meet our long-term financial goals as we enhance our preeminent position as leader in the maritime expedition travel sector.

Let me now please let me turn the call over to Craig to walk through our 2016 performance and 2017 financial outlook. Thank you.

Craig Felenstein
Thanks, Sven. Lindblad's sustained focus on our core mission of providing unparalleled guest experiences enabled the company to once again deliver high occupancy rates in 2016, while at the same

time expanding our net yield to $976 per night despite the headwinds that were present earlier in the year. And while the full year and fourth quarter financial results reflect some of the booking softness from the first half of 2016, we finished the year with bookings ahead of 2015, including over 50% growth in December versus the same month a year ago.

On a reported basis, Lindblad delivered revenue growth for the full year of 15%, while adjusted EBITDA declined 11%. These results include contributions from Natural Habitat, which was acquired during the second quarter of 2016. The Lindblad segment reported a 1% revenue decline primarily from lower other revenue for items such as airfare offers and trip extensions.

Guest ticket revenues were flat year-on-year in the fourth quarter as increased rates were offset by slightly lower available guest nights, primarily due to the National Geographic *Orion*'s planned repositioning during the third quarter, which we talked about previously, as well as from the cancellation of two voyages during the year to perform necessary repairs.

Occupancy for the year remained over 90%, but declined slightly from 2015 primarily due to lower occupancy on the National Geographic *Endeavour* in anticipation of its retirement at the end of the year. Booking on its replacement, the National Geographic *Endeavour II* have been very strong and we expect to see significant growth in the Galapagos in 2017, the 50th anniversary of Sven's father's first expedition to this amazing location.

Full year adjusted EBITDA at the Lindblad segment declined by 17% primarily due to the lower revenue as well as a 4% increase in operating expenses. Adjusted net cruise costs on a per night basis increased 7% primarily due to higher personnel expenses and public company costs as we executed on our long-term growth plan. Cost of tours was also up slightly due to planned dry dock expenses and higher charter costs, most notably from the addition of charter expeditions in Cuba during December. This was partially offset by a 21% reduction in fuel costs versus the prior year. Fuel costs for the year were 3.4% of revenue compared with 4.3% in 2015.

Turning now to the fourth quarter, on a reported basis, Lindblad delivered revenue growth of 21% or $10 million, while adjusted EBITDA declined $3 million. Excluding contributions from Natural Habitat, the Lindblad segment reported a 10% revenue decline primarily from lower occupancy in the fourth quarter. As we mentioned on our last call, this was anticipated due primarily to the retirement of the *Endeavour* as well as to booking headwinds that we talked about during the early part of 2016.

The revenue in the quarter was also impacted by approximately $1 million from the unplanned cancellation of a voyage on the National Geographic *Orion* due to a significant engine repair. As we indicated in our 8-K filing earlier this year, the engine repair will also impact the first quarter of 2017 as we cancelled four additional voyages in the Antarctic. While the majority of the guests on the canceled voyages, as Sven mentioned, have already rebooked with Lindblad for travel in 2017 or 2018, we do still anticipate a $9 million or $10 million impact to revenue in 2017 along with a $2 million to $3 million impact to EBITDA. The *Orion* is scheduled to resume normal operations in Europe in April of this year.

Net yield in the fourth quarter was down in large part due to the lower occupancy that we just discussed as well as from the impact of canceling the *Orion* Antarctic voyage in December, which typically garners higher yields. Fourth quarter adjusted EBITDA at the Lindblad segment declined by $6 million primarily due to the lower revenue as well as a 4% increase in operating expense.

Adjusted net cruise costs on a per night basis increased 4% primarily due to higher personnel and marketing expenses as we executed on our long-term growth strategy. Cost of tours in the fourth quarter declined slightly versus the same period a year ago as lower fuel and dry dock expenses were partially offset by higher charter costs, most notably, as I mentioned, from the addition of expeditions in Cuba during December. We also had reimbursement costs for guests that had to change travel plans due to the cancellation of the upcoming *Orion* voyages. Fuel costs in the fourth quarter were 16% below prior year and 4.4% of revenue compared with 4.7% in the fourth quarter of 2015.

Total company net income in the quarter was a loss of $8.4 million or $0.19 per share as compared to a loss of $4.4 million or $0.01 per share in the fourth quarter of 2015. Current quarter results include the lower operating results we just discussed as well as $1.2 million of other expenses, primarily related to the loss on disposal of the *Endeavour*. We also had accelerated depreciation on the *Endeavour*, in anticipation of its retirement.

Turning to our balance sheet, we remain extremely well positioned to invest in future growth opportunities. We ended the year with $135 million in unrestricted cash. Free cash flow for 2016 was a use of $45 million, including $37 million spent on the two new coastal vessels, and $33 million on the *Endeavour II*. Excluding these items and looking at only maintenance CapEx, free cash flow was $26 million in 2016.

Given the strength of our balance sheet, the confidence we have in our long-term growth opportunity and the belief that the company's share and warrant prices are not reflective of the value of the company and our prospects, we did repurchase over $4.9 million in shares and warrants during the fourth quarter under our $35 million stock and warrant repurchase plan. This included nearly 309,000 shares of stock and over 855,000 warrants.

For the full year 2016, we repurchased approximately $10.3 million in stock and warrants and as of March 1st we have approximately $15 million remaining under the existing plan. It is really 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.

Turning to the full year 2017, the Lindblad segment is currently pacing over $8 million ahead of the same point a year ago, despite the voyage cancellations on the *Orion*. This is primarily due to the additional inventory from the anticipated launch of the National Geographic *Quest* in June and from additional charter expeditions in Cuba in 2017.

We are currently at 82% of our full year projected ticket revenues for 2017, including the additional inventory, versus 86% of the 2016 full year ticket revenue at the same time a year ago.

Factoring in the current operating environment, the impact of the *Orion* cancellations and anticipated contributions from Natural Habitat we expect total company tour revenue in 2017 between $278 (million) to $284 million; that would be 15% to 17% growth versus 2016. We expect adjusted EBITDA between $50 (million) to $52 million or 20% to 25% growth versus 2016. And as Sven mentioned, this is very important, we also remain firmly on track to meet the long-term financial objectives that were laid out when the company went public in 2015.

Please note that these expectations are for the current expectations for the first quarter are to be down year-on-year due to the impact of the *Orion* cancellations, while Q3 and Q4 results will benefit from the launch of the National Geographic *Quest*.

Similar in 2016, the majority of our dry dock timing in the upcoming year is planned for the second and fourth quarter. Additionally, as I mentioned last quarter, please note that Natural Habitat has seasonality to their results with the significant portion of their revenue in the second half of the year and the majority 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 that you may have.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Today's first question comes from Greg Badishkanian of Citi. Please go ahead.

Fred Wightman
Hi, guys this is actually Fred Wightman on for Greg. I was just hoping you could rationalize or walk us through I think you said you were 82% booked for 2017 versus 86% last year. I know that you gave some figures on the prepared remarks about recent trends. I think you said January and February were up and December was up 50%. Could you bridge those two numbers along with some of the stronger recent commentary that you outlined?

Craig Felenstein
Sure. So, the real key for 2017 in terms of where we are versus 2016 is that we have a significant amount of additional inventory in 2017. And that really is predominately due to two items. The first is the launch of the National Geographic *Quest*, which will launch at the end of June of the current year. So, that will provide us with significant amount of capacity and inventory to sell in 2017. And we also have additional voyages on our charters in Cuba in 2017. In the current year of 2016, we only had about one month in December and in 2017 we'll have the Cuba expeditions for the first three months as well as December for this year.

So, I think that's the first thing. The second thing that I would talk to is that the booking trends have as Sven mentioned been really strong since April of the last year. Since that point we have seen year-on-year growth in every single month. Since that point that growth has continued in the early part of this year in January and February and as of today we're not seeing any signs of it slowing down. Obviously we'll keep you guys updated on how we're doing as the year progresses but right now we feel very confident about our ability to reach our financial targets for the full year.

Fred Wightman
Okay, that makes sense. And then, if you look around the overall industry, we've seen some improving trends for North America source business to Europe. Is that consistent with what you guys are seeing as well, too? I just I know you have a longer booking window but should that be a benefit year-over-year?

Sven-Olof Lindblad
So, what we did for 2017 based on what happened in 2016, what we're seeing in 2016, we reduced our inventory in continental and Southern Europe. We did not know how long the effects would last of the sort of downward pressure in Europe and we moved the *Orion* in particular more into the northern parts, the Arctic and sub Artic parts of Europe.

And so, the balance between the two having reduced the inventory in continental Europe and the migration further North has turned out to be a good combination of inventory. And in general, Europe from everything I have heard in the industry, the interest in Europe is certainly increasing over what it was in 2016 where there was a huge amount of downward pressure.

Fred Wightman
Okay, great. Then just one last one, could you just talk about the early feedback from the Cuba itineraries?

Sven-Olof Lindblad
The early feedback from the Cuba itineraries has been frankly mixed. Cuba is a complex country to operate in. I believe we've had a very strong on the ground presence, our own presence working with the Cubans too, and with the folks we have chartered the ship from to operate there. It has been a lot of work but the level of work is diminishing as we get our arms around the realities of the system, if you will, which is inconsistent at best and needs a lot of focus in order to keep it on track.

But we feel good about it. It is not to be underestimated that working there is complex.

Fred Wightman
Okay, great. Thank you.

Operator
And ladies and gentlemen, as a brief reminder, if you would like to ask a question, please press star then one at this time.

Today's next question comes from Chris Woronka of Deutsche Bank. Please go ahead.

Chris Woronka
Hi, good morning, guys. I wanted to ask you on that data point you gave out on the $8 million being ahead $8 million on bookings, is that—if we normalized that and we took out *Quest*, Cuba and *Orion* and looked at maybe same-store, if that's possible, would that number still be positive or would it be closer flat?

Craig Felenstein
Hi, this is Craig. Thanks for the question, Chris. It's a hard question to answer because obviously the guess that are booked on those vessels may have opted for some of our other itineraries if they had decided to travel with us. But just from a pure math perspective if you take out the items that you just mentioned you probably would be pretty close to where you were at the same point a year ago and actually if you factor in—that's for when you factor in *Quest*.

If you factor in the Orion we certainly would be ahead, so that the cancellations on *Orion* certainly had presented a headwind for us looking at 2017. And if the *Orion* hadn't happened and you didn't have the *Quest* and you didn't have Cuba, you would still be ahead but that's obviously a lot of conjecture into that statement.

Chris Woronka
Sure, understood. And then on that, this will be your first full year of ownership. Can you maybe give us a little color on where you are in terms of some of this? I know they are operating pretty autonomously but in terms of some of the things you guys are—the benefits you guys are thinking of taking up, where are you in that process and what do you—how do you see that unfolding this year?

Sven-Olof Lindblad
So, one of the things that we believed would be the case, and has proven out, is that our traveler and the expeditions traveler and the Nat Hab traveler are very similar types of people and they have a great and strong allegiance to the companies they do business with. And so, we have found that the ability to

cross-sell has been increasing in terms of those results. And we really haven't yet made that effort fully but we intend to accelerate that effort this year because we were doing a multitude of tests on their side and on our side to see what the response was about this concept of crossover.

So, our traveler is actually quite omnivorous from the perspective of this isn't the only kind of travel they do and so they do like to take safaris, they do like to do things that are different in the nature space. And so, this has proven to be I think advantageous because now when a traveler of ours wants to go to East Africa, let's say on a safari, they go with Nat Hab in all likelihood rather than somebody else. And so it keeps it, hence the term, keeping it in the family.

So, that is a primary benefit. Also we are going to be developing land-based programs that we will more aggressively offer our past guests' audience under our brand in order to expand that interest. So, there's a bit of a learning curve about adaption between two companies that have very loyal customer followings but the key is that the inclinations or the interest and the economics are rather similar.

Ian Rogers
And just to add to that. We are also very fortunate that Nat Hab has some great ideas through Ben Bressler, the Founder and CEO, and now we're in a position where we're able to fund some of those capital expenditures. So, we have a rigorous program, a review of those capital expenditures but we're also able to take advantage of accelerating their growth. So, there are some exciting ideas coming up with regard to potential for their business in its own right and we're excited by those opportunities because there will be crossover as Sven mentioned.

Chris Woronka
Great. Thanks, that's helpful. One more for Craig I suppose. Well Craig, what are you thinking in terms of oil and kind of FX baked into the guidance?

Craig Felenstein
Sure. So, from a fuel perspective, we are expecting there to be an increase in 2017 versus 2016. We're not going to talk specifically about how much we assume but obviously given where prices are today we don't expect them to stay at these low levels. Hopefully they do and that will be an opportunity for us but we certainly don't anticipate that being the case throughout 2017.

So, on the fuel front that's where we are. On the FX front, I think it's important to know that the majority of our revenue, the vast majority of our revenue is actually in US dollars. So, there really is not any large impact to revenues from a currency perspective. On the cost side, about 90%-plus of our costs are also in US dollars. There is some costs in euros that obviously is susceptible to any foreign currency fluctuations. But given the amount of impact that we see from US dollar revenue of the cost, we don't bake in any kind of currency fluctuations into our forward-looking expectations.

Chris Woronka
Okay, very good. Thanks, guys.

CONCLUSION

Operator
And ladies and gentlemen this concludes our question-and-answer session. I would like to turn the conference back over to the management team for any final remarks.

Sven-Olof Lindblad
Thank you, everybody, for joining us today. We appreciate your time and if you have any follow-up

questions, please feel free to give me a call in our office in New York. Thanks.

Craig Felenstein
Thank you.

Operator
And thank you, gentlemen. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.