

Lindblad Expeditions Holdings, Inc.

2Q 2017 Financial Results

August 3, 2017 at 8:30 a.m. Eastern

CORPORATE PARTICIPANTS

Craig Felenstein – *Chief Financial Officer*

Sven Lindblad – *Founder and Chief Executive Officer*

Ian Rogers – *Chief Operating Officer*

PRESENTATION

Operator

Good morning, everyone, and welcome to the Lindblad Expeditions Second Quarter 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, and please note today's event is also being recorded.

At this time, I'd like to turn the conference call over to Mr. 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 second quarter 2017 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 second 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 forward-looking statements about expectations for the future. Those expectations are subject to known and to 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 would like more information on the risks involved in forward-looking statements, please see the company's SEC filings.

In addition, some of the 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 out of the way, let me turn the call over to Sven.

Sven Lindblad

Thanks, Craig, and good morning, everyone. I'm very pleased to report that the second quarter of 2017 once again generated strong forward reservations building on the booking strength we delivered over the past nine months. With particular emphasis on in-year revenue production, reservations for future travel have grown nearly 40% year-to-date from the same period a year ago. And as I mentioned last quarter, this demand is broad-based with growth across virtually all segments and destinations that we operate.

Craig will discuss our financial outlook in a moment, but this significant increase in advanced bookings has us extremely well positioned to deliver substantial growth in the back half of 2017 and through 2018. In fact, 2018 is more solidly booked at this point as a percentage of available revenue than 2015 was at the same point for 2016, and 2016 was for 2017.

Last month alone, bookings for future years' travel was up nearly 50% more than July a year ago, and

earlier this week, we had the highest booking day in the company's history. The clouds of uncertainty that affected 2016 and bled into 2017 have passed, and a more accelerated booking behavior has returned spurred by a variety of factors both internal and external including the positive entry of the National Geographic Endeavour II into the Galapagos market combined with highlighting the 50 years of expedition experience in the region, the excitement surrounding the launch of our first new vessel, the National Geographic Quest, and new, fresh marketing initiatives capitalizing on the ever-expanding audience seeking adventure and immersive experience.

Expedition travel is our sole focus, and that provides an understandable sense of confidence amongst our returning guests, as well as people undertaking this form of travel for the first time. We are convinced that as more activity is announced in the expedition space, we continue to differentiate ourselves by capitalizing on our heritage and our experience.

Experience matters a great deal, and we have spent 50 years exploring these locations, developing ideal itineraries, and building key relationships while investing in people, vessels, and equipment so that we can deliver unparalleled explorations for our guests. Organizing and executing these trips is extremely complex, and I firmly believe that our operating history, along with our ongoing commitment to putting the guest experience first gives us a unique competitive advantage.

Now, we're on the precipice of delivering on the investment thesis we put forth when the company accessed the public markets back in 2015. Given the large opportunity in the expedition market both today as well as anticipated into the future, we wanted to raise capital so that we could add capacity and make acquisitions to fill the significant excess demand.

I'm extremely pleased to announce that the next leg of that growth strategy is now firmly underway. Our newest ship, the National Geographic Quest, took on her first guests on July 29th. She's a beautiful ship, while at the same time able to provide the rigorous activity of an expedition vessel. Captains, expedition leaders, chefs, hotel managers all were deeply involved with the design in order to ensure that she is capable of meeting her mission to explore geography in depth, capable of being self-contained, while providing a very high level of comfort and service. This is, without a doubt, the most advanced passenger ship built in the US in decades.

The launch of the Quest was delayed just over a month from our original expectations primarily due to two issues: a miscalculated launch from land to sea in the shipyard that damaged the rudder and a propeller which necessitated the ship going into dry dock, and various technical issues that can develop when building a sophisticated prototype. However, we are now on track for the next phase of our expansion, and we will turn our attention to bringing online additional vessels in 2018 and 2019 as per our stated plan.

Demand for the Quest has been significant, and equally as important, we have not seen any degradation in reservations on our existing vessels, giving us further confidence that there is substantial demand that can be fulfilled with expanded capacity. We're also seeing very, very strong initial bookings for the National Geographic Venture, which is scheduled to launch next June, and we continue to work towards finalizing the contract with the selected shipyard for our new blue water ship.

This vessel is still planned for delivery in 2019. The key to any new building is rigorous preparation before a piece of steel is cut, and that is particularly so if we want to build the most sophisticated expedition ships in the world, which we absolutely do.

As we expand our capacity organically, we also continue to explore acquisitions and partnership opportunities that have potential to augment the growth plan already in place. We're now one year into

our acquisition of Natural Habitat, and it continues to exceed our original expectations with both brands benefiting substantially as we find productive and accelerated cross-selling opportunities across the audiences that we've discovered are extraordinarily compatible.

Just yesterday, we announced our new Base Camp Baja expeditions, which in partnership with Exhale Spa, will feature active and wellness-focused programs on the National Geographic Sea Bird. This is an initiative providing shorter three and four-day voyages in Baja, California opening the door for a whole new audience, which we believe will be leveraged more broadly in the future. We'll continue to explore all opportunities, we'll extend our mission, and allow us to bring new and interesting itineraries to our guests.

On a final note, over the last several months, we've enjoyed a variety of discussions with investors who are looking to better understand the opportunities ahead for Lindblad Expeditions. We welcome these discussions as they allow us to provide insights on what can sometimes be viewed as complex from the outside from the perspective of yields we can command, to the intricacies of geographies we explore, to the deep knowledge and ability of our ships' personnel, to the unique position we hold together with our partners at National Geographic.

I believe without a shadow of a doubt that expedition cruising is at its infancy with tremendous growth opportunity and that we at Lindblad Expeditions, National Geographic are in the best possible position to capitalize on this expansion in the months and years ahead.

So, now let me please turn the call back over to Craig.

Craig Felenstein

Thanks, Sven. As Sven mentioned, Lindblad has demonstrated sustained operating momentum over the last nine months with booking growth substantially ahead of the same period a year ago. Given that our booking window averages approximately nine months, this trend should translate into substantial revenue growth in the back half of this year and into 2018.

Included in these advance reservations is significant demand across our existing fleet as well as excitement for our new coastal vessels as the investment thesis that was laid out when the company went public in 2015 continues to come to fruition. The growing demand for expedition travel, combined with our expanding capacity and Lindblad's distinguished track record in delivering unparalleled expedition experiences has us poised to deliver increasing shareholder value in the years ahead.

There are some short-term hurdles, which I will discuss in a moment, but the initial demand for the National Geographic Quest and National Geographic Venture gives us confidence in the long-term growth targets we have laid out.

Turning to the second quarter, on a reported basis, Lindblad delivered revenue growth of 3% and adjusted EBITDA growth of 1% versus the second quarter of 2016. These results include the full quarter of contributions from Natural Habitat, which was acquired in early May of 2016. The Lindblad segment reported revenues of \$47 million, slightly below a year ago, primarily due to a declining ticket revenue as occupancy decreased to 85% from 92% in the second quarter of 2016.

The lower occupancy was partially offset by a 5% increase in available guest nights due to fewer dry dock days than a year ago, which included significant time for planned maintenance work on the Explorer and Orion. Net yield of \$941 declined 6% from the second quarter a year ago as slightly increased pricing was more than offset by the lower occupancy.

Looking ahead to the back half of the year, we do anticipate an increase in available guest nights due to the launch of the Quest in late July partially offset by some additional dry dock days in the fourth quarter. We also expect higher occupancy in the back half of the year as a result of the booking strength we previously mentioned.

Turning to the cost side of the business, Lindblad's segment operating expenses were down 3% versus a year ago, as lower cost of tours was offset by higher G&A expenses including a \$900,000 increase in stock-based compensation, mainly associated with Sven's distribution of his personal shares to the employee base. Additionally, 2016 included accelerated depreciation related to the December retirement of the National Geographic Endeavour and costs related to the May 2016 acquisition of Natural Habitat.

Excluding these items, stock-based compensation, acquisition costs, and G&A, total operating expenses were 2% lower than the second quarter a year ago primarily due to a decline in cost of tours as a result of fewer dry dock days in the current year, partially offset by an increase in G&A expenses mainly from increased employee cost as well as credit card commissions associated with the higher bookings.

Fuel costs in the quarter were 15% above prior year due to the additional operating nights, and fuel was 2.7% of revenue compared with 2.3% in the second quarter of 2016. Adjusted net cruise cost on a per-night basis increased 5% reflecting the decline in operating expenses despite the increase in available guest nights.

Overall, the Lindblad segment adjusted EBITDA declined 3% as the lower revenues were mostly offset by the decline in operating expenses. Total company net loss in the quarter improved \$1.9 million to \$2.6 million or \$0.06 per share primarily driven by foreign currency gains from forward contracts and lower interest expense due to capitalized interest related to the new vessel builds.

Turning to our balance sheet, we remain extremely well positioned to invest in future growth opportunities. We ended the quarter with \$99 million in unrestricted cash. Free cash flow for the six months ended June 30th was a use of \$15.5 million, including \$31 million spent on the new builds and an additional \$2.4 million spent on vessel repairs that is expected to be reimbursed ultimately by insurance. Including only maintenance capex, free cash flow was \$18.6 million for the first six months, and increase of \$14 million from the same period a year ago.

Looking at the full year, 2017, the Lindblad segment is currently pacing \$9 million ahead of the same point a year ago, despite the voyage cancellations on the Orion and Sea Lion in the first quarter. This is primarily due to additional inventory from the launch of the National Geographic Quest but from additional charter expeditions in Cuba. We are currently at 98% of our full-year projected ticket revenues for 2017 versus 98% of the 2016 full-year ticket revenues at the same exact time a year ago.

It is important to note that while the Quest will provide significant contributions for the remainder of the year, we did have to cancel four highly-booked voyages during July due to the delayed launch. It is estimated that the voyage cancellations will reduce our full-year estimates by approximately \$3.6 million in revenue and adjusted EBITDA by approximately \$3 million. We now expect total company tour revenue in 2017 between \$272 million and \$276 million and adjusted EBITDA between \$44 million and \$46 million.

Please remember that these forecasts also include the estimated \$9.1 million of revenue and \$6.5 million adjusted EBITDA impact from the Sea Lion and Orion voyage cancellations during the first quarter. These impacts are all short term, and we remain on track to meet the long-term financial

objectives that were laid out when the company went public in 2015.

Thank you very much for your time this morning. Now, Sven, Ian, and I would be happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, you may press star and then one on a touchtone telephone. If you are using a speakerphone, we do ask that you please pick up the handset before pressing the keys to ensure the best sound quality. To withdraw your question, you may press star and two. One again, that is star and then one to ask a question. We'll pause momentarily to assemble the roster.

Our first question today comes from George Kelly from Imperial Capital. Please go ahead with your question.

George Kelly

Hi, guys. A couple questions for you. First, when it comes to it sounds like the bookings momentum just continues to be strong in the second quarter. I'm wondering what internally you can attribute that to. Are there certain sales initiatives you've been working on, or what's driving that?

Sven Lindblad

Hi. Sven here. We continue to get more sophisticated with our marketing because we've really, really augmented our marketing and sales team, so that's part of it, of course. The other factor is there's, I believe, a significant growing interest in this kind of experiential travel, and we're harvesting that as well.

You know, the factors that sort of depressed 2016 to some degree, those are not there currently. So, the climate is better, the market is increasing, and we are getting ever more sophisticated in terms of how we interact with those two factors.

George Kelly

And that trend has continued since the quarter, it's continued. You've seen it in the last month or so as well.

Sven Lindblad

Correct.

Craig Felenstein

As Sven mentioned, not only has it continued, I would say in some cases, it's actually accelerated. As Sven mentioned during his comments, this week we actually had our highest booking day in the company's history on Monday, and the strength has continued throughout this week and July in general. So, some significant bookings for future revenues versus where we were at the same point a year ago. So, the strength is definitely sustained.

George Kelly

Wow, and has that bookings momentum allowed you to really turn up pricing?

Sven Lindblad

We have not elected to focus on increasing pricing. What we think the best play for us, we believe that our pricing is where it should be, and we believe that the growth should come from added inventory.

Craig Felenstein

The other thing to remember is that when you look at our pricing, a lot of our pricing has been set 9 to 12 months ago, so we tend to keep it consistent because obviously our vessels are so small that we tend to make sure that our guests across the vessels are paying a very similar price, so we tend not to adjust our prices too much during the year. There are instances where that may change, but for the most part we tend to be pretty consistent.

George Kelly

Okay. Then, two other questions. First on, there's been some maintenance issues with having—just over the last year or so, and then with the cancellations of Quest earlier this summer. Wondering how you're addressing that internally. Are there things that you're doing differently now, after you've kind of gone through some of this stuff, this unexpected stuff in the last year, year and a half?

Ian Rogers

This is Ian. I think from the perspective of the earlier incidents in the year, they were totally unrelated to any construction-related challenges with Quest, and on those specific issues, what was important to us was going back and doing some forensics on our recovery, obviously as well as the problem itself. We actually handled those recoveries very well and minimized the time out of service.

These are complex, mechanical vessels, and they are subject to sometimes unplanned events, and our reactions are very good. Our safety systems are continually monitored. We have internal and external resources devoted to that.

With regard to the Quest and the delay on the launch, as Sven suggested, this was a very sophisticated prototype vessel being built in the US under US flags, and challenges were to be expected. Having said that, we're monitoring every aspect of our operation to see how we can do better with regard to the Venture and obviously the blue water vessel, completely different proposition, but we're doing the same thing in the future.

Craig Felenstein

I also would add that, when you look at the instances from earlier in the year on the Orion and the Sea Lion, those were very specific items, and when you look at the history of the company, we have not had significant maintenance issues at all across the board at any point in our history. It just so happened that we, unfortunately, had two within a very short period of time that were very unique in nature, and as we talked about last quarter, we go through a rigorous maintenance schedule, and Ian kind of touched upon this, every year, both from a required perspective, but also from our internal perspective to make sure that these vessels are operating at peak efficiency.

The history of the company has proven that to always be the case, and we would expect that to be the case moving forward.

George Kelly

Okay. Thank you.

Operator

Once again, if you would like to ask a question, please press star and then one.

Our next question comes from Greg Pandy from Sidoti. Please go ahead with your question.

Greg Pandy

Hi, guys. Thanks for taking my call. Just one quick one, I guess. Given the four cancelled voyages, if I'm not mistaken, some of those guests will have the option to take a discounted tour, and historically, you guys don't have to discount.

So, can you give us any color on where you've seen those guests filter in throughout the year? Have they taken the option for a discounted tour, and is it mainly in 2017, or does it kind of push out into 2018? Thanks.

Sven Lindblad

It's Sven here. It's spread all over. So, we gave them a variety of options that they could consider as a consequence of the cancellation, primarily focused on making it as fair as possible to them.

So, they could get a full refund and then future credit on anything they wanted to do. They could transfer to another trip. They got, in essence, a 50% reduction on any alternative trip they chose, so some of them wound up going to—a good number wound up going on trips this summer where we still had a few beds here, a few beds there because we defined voyages that were similar price points but at the time of year they were planning to travel anyway. Some have chosen things in 2018.

The good news is most of them rebooked on something else, and what we wanted to achieve more than anything else was to keep the faith, if you will, and keep them interested and keep them involved going forward, and that turned out to be true. It felt very good from that perspective, and it's not concentrated in any particular area, so it's nicely spread out.

Greg Pandy

Okay. Thanks. That's helpful.

Sven Lindblad

Thank you.

Operator

Our next question comes from Emily Cetlin [ph] from Eaton Vance. Please go ahead with your question.

Emily Cetlin

Hi, guys. Thanks for taking my questions. Just quickly, I was wondering if you could talk about how occupancy has maybe been impacted on other ships by the launch of the new vessel.

Sven Lindblad

Well, first of all, in Alaska what we did knowing that the Quest was coming online this year and the Venture next year, is we took the other two ships that we had or have, and we created distinctly different itineraries, in part. One of the ships had the same itinerary, but the other one did something experimental, two distinctly different itineraries so that in future, we can differentiate rather than go head-to-head older ship versus newer ship.

Those alternative voyages, our new voyages, turned out to be very popular, and so the theory behind what we were trying to do proved out and makes us feel very, very good going forward, because now each ship can kind of do what's appropriate for them, their particular size, their particular number. So we won't have people saying, "Should I go on the new one or the old one?" because it's a different proposition.

Emily Cetlin

Okay, great. Then, could you talk a little bit about, I know that the majority of your customers who've been on trips before—are those kind of stats still the same? Have you seen an uptick in new customers just based on people getting interested in these kinds of trips? How does that kind of drive your occupancy?

Sven Lindblad

So, we're constantly focused on two channels, and then they break down to even more channels. But our past guests, and the percentage of past guests on any given voyage is entirely dependent on where it is, how new it is, and any number of factors. Then there are certain voyages that are more likely to bring in people for the first time. Alaska is one of those places, the Galapagos Islands is another example where 85% of the people are entirely new to us.

So, both those channels have to be vigorously pursued because then the new folks become the pipeline for some of the more esoteric and perhaps more expensive voyages. Now, we just launched a new idea that I touched on in my comments in Baja, California, which are three and four-night programs easily accessible, particularly from the west coast, where people can sort of try this kind of travel, and then hopefully transition into a deeper relationship down the line.

So, those funnels have to be vigorously pursued both new guests and maintaining the relationship with the guests who've already traveled with you.

Craig Felenstein

Emily, the one thing I would add is when you look at the amount of recurring guests that we get, it tends to be pretty consistent, somewhere 35%, 40%, somewhere in that range in any given year. What you're seeing now is those percentages hold. But what's interesting is the number of guests that we have has to increase because we obviously have more inventory, so for the percentages to hold the way they are, it means we are seeing more new guests in terms of absolute numbers come onto our platform while the percentages have pretty much held pretty consistent.

Emily Cetlin

Okay. Great. That's helpful. Then, the other thing that I just wanted to make sure I understood. So, I understand that occupancy kind of dropped this quarter as you had more available guest nights, but I just wanted to make sure I understood exactly why the guest nights sold year-over-year was down a little bit.

Craig Felenstein

Sure, so the primary driver of that really related to the bookings that we saw and we talked about pretty extensively regarding 2016. There were several times during the year in '16, both internal and external which caused bookings to be a little bit softer, whether it be some of the issues around Zika, whether it be some of the issues around terrorism, whether it be around our marketing materials getting out a little later than we wanted them to be last year. And if you recall back to the first quarter when I talked about our expectations for the second quarter, we did expect the occupancy level to be where it ended up.

It was not a surprise to us because we knew what the bookings were a year ago. So, a lot of those incidents, and there was some general softness last year at parts of the year kind of bled into this year, as Sven mentioned. And the good thing is we see that the winds have shifted, and as we look at the back half of this year that should certainly change to where we expect occupancy to be, which is more the lines of the high 80s, low 90 percent range.

Emily Cetlin

Okay. Great. So, just overall, you kind of expect it to be in the high 80s, low 90s for the year.

Craig Felenstein

I would say for the back half of the year.

Emily Cetlin

Okay, so the back half of the year. Okay. Great. Then, do you mind reiterating your guidance for the entire year?

Craig Felenstein

In terms of revenue and EBITDA? Sure.

Emily Cetlin

Yes, revenue and EBITDA.

Craig Felenstein

The revenue guidance for the year is revenues of \$272 million to \$276 million and adjusted EBITDA of \$44 million to \$46 million. The important thing to remember in those numbers is there is a significant amount of revenue, \$12 million or so, that was lost through the voyage cancellations and certainly another probably \$9 million or so loss of EBITDA from voyage cancellations. So, that is embedded in those numbers.

Emily Cetlin

Okay, and that \$12 million and \$9 million, that's just from Q1. That's not from the July cancellations?

Craig Felenstein

No, that includes the July cancellations. The impact in Q1 was about \$6.5 million on EBITDA and about \$9 million of revenue. The numbers that I just quoted include the additional impact of the Quest cancellations.

Emily Cetlin

Okay. Great. Okay. Thank you.

Craig Felenstein

Thank you.

Operator

Our next question comes from Greg Badishkanian from Citi. Please go ahead with your question.

Fred Whiten

Hi, guys. Good morning. It's actually Fred Whiten [ph] on for Greg. Just sort of staying on that last topic, can you walk through the impact of the Quest delays on guidance? Is sort of the impact being offset by insurance or anything in any way?

Craig Felenstein

Yes, so the numbers that I laid out in my prepared remarks of \$3.6 million of revenue and \$3 million of EBITDA impact from the Quest cancellation is the best estimate that we have today. That certainly can change as we may have to reimburse some additional costs associated with guests cancelling certain travel arrangements they may have had previously, but it shouldn't skew too far from that number. So, that would be the ultimate impact.

As far as the insurance piece of it there is right now, I would not assume any insurance offset to that. We certainly have some insurance opportunities in front of us, but we're still exploring those, and we certainly want to have a discussion with the yard and the implications from them. As everybody knows, we're building a second vessel, and we want to focus on that right now as well to make sure that the timeline there doesn't shift, so there's a lot of balls in the air right now, but right now the implications for the year, we think, are that \$3.6 million in revenue and \$3 million of EBITDA.

Fred Whiten

Okay. That makes sense. If we just look at some of the booking commentary, I believe last quarter you said you were up 60%. You're sort of up 40% now, year-to-date. Could you just sort of talk about A, what drove the deceleration? Is it just tougher compares? Then, just on the commentary, could you help us frame that figure on an apples-to-apples basis? Obviously it involves the Quest capacity and Venture as well.

Craig Felenstein

Sure. So, I would be very careful on calling this deceleration because while the numbers are a little bit lower, they do include the cancellations associated with the Quest. So, that certainly does skew the year-on-year growth expectations, because there were some bookings associated certainly with the Quest previously.

Here's the way I would say is when you look at the year-on-year, we are \$9 million ahead of where we would have been from a booking perspective a year ago, but it's important to remember that in that number, there is close to \$12 million of cancellation revenue. So, when you look at the year-on-year bookings, year-on-year bookings are over \$20 million up where they were a year ago at this point for '16, where we are for '17.

The other thing I think is important to note is when you look at 2018 for next year, we are close to 50% above bookings for next year where we were for the same point for '17 a year ago. Now, certainly we have more inventory associated with the Quest and associated with Venture as well as we had some voyage cancellations in '17, but I think it speaks to the momentum that the business has from a booking perspective moving forward.

Fred Whiten

Okay, great. Then, just one last one. If you look at some of your larger peers that are public that they're describing a pretty positive environment for both the back half of '17 and the then also early signs for '18, do you have a sense for how much you guys are benefiting from an overall positive cruise environment versus stuff that's sort of internal? Obviously, it's different. You guys are in a bit of a niche here, but just any thoughts there would be helpful.

Sven Lindblad

There's no question that when the climate is more positive, everybody benefits, including ourselves. It's an interesting question from the perspective of what can be attributed to the positive climate, what can be attributed to certain particular efforts made, and it's very difficult to be totally accurate about what that is. In combination, it's like a chemical reaction, and it's very, very positive.

Fred Whiten

Great. Thanks.

Operator

Our next question comes from Chris Woronka from Deutsche Bank. Please go ahead with your

question.

Chris Woronka

Hi. Good morning, guys. I want to ask you if it's possible to get a data point on where you're booked now for the Venture next year versus maybe where you were booked for the Quest at a similar time ahead of its opening last year.

Craig Felenstein

Sure. We obviously don't get into specific bookings by vessel, but what I will say is: we are operating in a much stronger environment now than we were probably a year ago. So future bookings obviously are better overall for the company at this point today than where they were a year ago.

I think the most important point in all this is kind of what Sven touched upon, which is that we are not seeing any degradation in anything across the fleet. So, the overall pie that we're looking at has certainly increased both from a Venture and Quest and new build perspective, but also when you factor in the Sea Bird and the Sea Lion, which operate in the same geographies, and they're not seeing any degradation, nor are we seeing an degradation across any other aspect of our fleet whether it be the Galapagos, whether it be the poles, whether it be South America.

All in, we're seeing a very strong booking environment across the board as we continue to see increased bookings on the Venture. So, I think it speaks to the health of the market and also the demand for this type of cruising experience.

Chris Woronka

Okay. Very good. Then, you guys talked a little bit about acquisitions and adjacent spaces. Can you maybe just talk a little bit about the environment, and are you closer to pulling the trigger? Is there something specific that you're looking at right now?

Craig Felenstein

I would say at any given moment we're looking at a lot of different things, both big and small, whether it be an acquisition, whether it be a strategic partnership, whether it be a marketing initiative, or things along those lines. We have various balls in the air at any given moment. Today, I would say we have a number of things in the hopper, but nothing more so than we had six-to-nine months ago.

There are a number of things that come our way because there are a fair amount of companies that would like to be involved with Lindblad, given the heritage of the company and the prospects that we have moving forward. We continue to explore all of those.

The lens that we look through an acquisition at is very strict because of the growth opportunity that we see in front of us. Organically, given the capacity that we have coming onboard for the next two-to-three years, we certainly see a significant amount of growth in front of us, and we're laser-focused on that. If we're going to veer from that and do an acquisition, it has to check a lot of boxes, just like Natural Habitat did. It doesn't mean you can't find those acquisitions; it just means we have a very strict lens when we look at them.

Chris Woronka

Sure. Got you. Then, just finally for me, I think just last month the Ritz Carlton confirmed that they're going ahead with this luxury yacht offering. How do you view that in the context of a competitive landscape?

Sven Lindblad

Well, there are obviously a bunch of new entrants into the “expedition space,” and I use quotes for a reason, because it’s a label that’s being used rather loosely at the moment as more and more ships are being ordered. And I think the net effect of that will be sort of an increase of noise as it relates to this kind of travel, because there’s a lot of rhetoric which is used that all sounds the same at a certain point, or much of it does.

So, there will obviously be a greater spotlight on the idea, and then I think people in this day and age are very, very smart, and they’ll do their research. I think ultimately, they will really begin to look critically at what is the relationship between the interest that’s been generated in themselves and who are the people that can actually deliver on what those expectations are. This is where I believe that our heritage and our experience, and our absolute laser, singular focus is going to work to our advantage.

So, for example, somebody may look at a Ritz Carlton that basically is in the luxury hotel business, and all of the sudden they’re going to transfer that to a ship business, and they’re going to probably ask, “Is that a rational transition?” If all of the sudden, we woke up one day and started offering bicycle tours, I think people would legitimately say well, how well equipped is Lindblad Expeditions based on what it does, its DNA, etc. Are they likely to be better than Backroads at delivering bicycle expeditions? I think a reasoned person would say probably not.

That’s a longwinded answer in many, many ways, but I think I give the public a lot more credit for making intelligent decisions about who they want to work with in relationship to a particular kind of activity.

Chris Woronka

That’s helpful. Great. Thanks, guys.

Sven Lindblad

Thanks, Chris.

Operator

Our next question comes from Joe Hovorka from Emerald Advisors. Please go ahead with your question.

Joe Hovorka

Thanks, guys. Just a couple of quick ones here. First, can you give your capacity growth rate for the third quarter, fourth quarter, and all of ’18 with all the new capacity coming on and so many other puts and takes?

Craig Felenstein

Sure. So, again, we’re not going to get too specific here. But when you look at the third quarter, there’s a number of components. Certainly, we have the cancellations of the Quest, which certainly play into the capacity growth overall. So, that’s going to be a challenge, but we do have different itineraries on the majority of our vessels. Fourth quarter will be a little bit cleaner, but if you’re looking at capacity overall in the third and fourth quarter, it’s just the maximum capacity.

In the third quarter, the capacity increase was somewhere in the low- to mid-teens overall with the addition of Quest in July. When you look at the fourth quarter, it should be somewhere in the high single-digits overall. That’s kind of the implication, but again, that’s not necessarily just the addition of Quest; it’s the change in itineraries.

Joe Hovorka

Okay, and for '18.

Craig Felenstein

I'm sorry. You're looking for the full year 2018, or are you looking for just the third and fourth quarter?

Joe Hovorka

The full year 2018.

Craig Felenstein

When you look at overall capacity for 2018, the Quest is certainly the biggest driver of that, so capacity should be up, and the Venture certainly at the back half of the year, capacity overall should be up somewhere in the high teens range.

Joe Hovorka

Okay. Then, if we add Quest and then Venture, as I think about it from a pricing standpoint, are those ships coming in at a yield that is comparable to the fleet, higher than the fleet, lower than the fleet?

Craig Felenstein

In terms of the new vessels—listen, I think it really depends on the vessel that you're talking about. Overall, the fleet, we like to see a net yield somewhere around \$1,000 a night. These vessels, it really depends on when you're operating them and what location you're operating them in. But all in all, we tend to shoot for pretty consistent yield across the fleet.

In the first year or so, they may have a little bit lower yield because there may be some additional costs in terms of launching the vessel to get them out the gate, but as they're operating full-bore, you should see yields very similar to the rest of the fleet.

Joe Hovorka

Okay, and then as far as the third vessel, the blue water vessel that you haven't yet ordered, when do you need to place an order so it makes the mid-year 2019 expected launch date?

Craig Felenstein

It really depends on some of the intricacies of the vessel build itself and the yard and their availability to build the vessel in terms of what other obligations they have over that time period. As we continue to negotiate on this existing contract with this existing yard, we still feel very comfortable about delivering the vessel during 2019.

The question is just when in 2019 will depend on when we ultimately sign the deal. We'd rather, if we had to push it a little bit, push it a little bit to make sure that the contract and the design and all the implications associated with the contract are done correctly. We're not doing that today, but we would gladly do that if we had to sacrifice a couple of months to make sure that the vessel is exactly how we want because we see years and years of service, obviously, associated with this vessel, and we want to make sure that we look to the long term, not just the short term.

Joe Hovorka

Sure. That makes sense. Have you chosen the yard yet, or are you still debating between yards as well?

Ian Rogers

This is Ian. We've chosen a yard out of a large selection, and we went through a down select process to three finalists, of which we went a lot further with design with two of those finalists. We have a single

yard that we're working with currently, and we're deeply engaged in those conversations, and they're extremely productive.

We want, as has been stated, the most innovative expedition vessel that reflects all of our knowledge, heritage experience as well as that combined with a shipyard and how to build such a vessel. So, that's what's taking some time, and it's very productive time for us.

Joe Hovorka

Okay. Great. Thanks, guys. That's all I had.

Sven Lindblad

Thank you.

Operator

Once again, if you would like to ask a question, please press star, then one.

Our next question is a follow-up from Emily Cetlin from Eaton Vance. Please go ahead with your question.

Emily Cetlin

Thanks for the follow-up. So, just quickly, with the blue water vessel, what's the cost range that you expect that be in? Is it kind of 140?

Craig Felenstein

We have not announced the size of the vessel yet, so we really can't get into the price of the vessel. What I will say is that the original estimate for the cost of the vessel was somewhere in the range that you just mentioned, and certainly we think we have an ability to be more aggressive on the price right now, given some of things that have taken place in the overall environment. But it's really hard to talk about the price until we talk about the design of the vessel, what it entails, and ultimately the size of the vessel.

Emily Cetlin

Okay. Great. Then, for the ship that's coming on next year, do you guys have kind of a projected price for that?

Craig Felenstein

The two coastal vessels that were being built, the Quest and the Venture, were both estimated to be somewhere in the \$48 million range or so. We should see a little bit of scale on the second vessel from building the first vessel, but we would expect the vessel contractor price is somewhere in that \$46 million to \$48 million range.

Emily Cetlin

Okay. Great. Then, can you just talk—have you guys seen any benefit—I know you guys kind of talked when you acquired Natural Habitat of marketing to each other's customers. Have you guys seen any benefit from that?

Sven Lindblad

Yes, hi. It's Sven here. Absolutely, and a significant benefit. In the millions of benefit cross-selling, but what we did do is we went into it carefully because what we wanted to do is really understand what was the relationship between the audience that we've cultivated and the audience that Nat Hab have

cultivated, and how would they react to offering each other's activities.

So, we moved on that quite slowly by intent, discovered that the audiences are remarkably compatible, not really a surprise, but we wanted that confirmed, and now we're getting more aggressive in terms of our cross-marketing. And it's proven to be a boom for both companies, or both brands, shall we say.

Emily Cetlin

Great. Thank you so much. I appreciate it.

CONCLUSION

Operator

Ladies and gentlemen at this time, I'm showing no additional question. I'd like to turn the conference call back over to management for any closing remarks.

Craig Felenstein

Thank you very much, everybody, for joining us today. Please let us know if you have any follow-up questions. Thanks.

Sven Lindblad

Thank you.

Operator

Ladies and gentlemen, we will now conclude today's conference call. We do thank you for attending. You may now disconnect your lines.