

Lindblad Expeditions Holdings, Inc.

First Quarter 2018 Financial Results Call and  
Webcast

May 3, 2018 at 8:30 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Sven Lindblad**, *Founder and Chief Executive Officer*

**Craig Felenstein**, *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good day and welcome to the Lindblad Expeditions, Inc. Reports First Quarter 2018 Financial Results Call and Webcast. 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 1 on a touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Mr. Felenstein. Please go ahead.

### **Craig Felenstein**

Thank you, Operator. Good morning, everyone, and thank you for joining us for Lindblad's First Quarter 2018 Earnings Call. With me on the call today is Sven Lindblad, our Founder and Chief Executive Officer. Sven will begin with some opening comments, and then I will follow with some details on our first quarter results before we open the call 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 forward-looking statements. Those expectations are subject to risks and uncertainties that may cause actual results and performance to be materially different from these expectations. The company cannot guarantee the accuracy of any forecasts or estimates, and we undertake no obligation to update any such 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, 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 Lindblad**

Thank you, Craig, and thanks to all of you for joining us on the call today. Lindblad is off to a very strong start in 2018, and I'm pleased to have the opportunity to review the company's performance during the first quarter, while highlighting some of the key initiatives that will enable us to build on this momentum moving forward.

The strong results we generated during Q1 highlight the opportunities we have as we add capacity as well as invest in new businesses with significant untapped potential. Both the Lindblad segment and Natural Habitat delivered record breaking first quarters in terms of revenue and earnings as more and more guests travel with us to destinations across the globe.

At the Lindblad segment, the increase was due in large part to the capacity added from launching the National Geographic Quest last July. Importantly, even as we have expanded our overall inventory, we have still maintained high occupancy levels across our fleet, while also growing net yields, a reflection of the significant demand of our expeditions, both new and — both from new and returning guests.

We are also seeing increased demand from our land-based offerings at Natural Habitat. The number of guests traveling across Nat Hab's diverse product offerings continues to expand, with

strong growth in all key destinations. Nat Hab is also benefiting significantly from cross-promotion across the Lindblad community, with a number of Lindblad guests traveling with Nat Hab up over 40 percent versus the first quarter a year ago. At the same time, Nat Hab's audience continues to embrace the offerings at Lindblad with booked guests for 2018, already up over 50 percent versus all of '17. So the thesis of accelerated cross-selling is certainly proving out in excess of our original expectations.

The Natural Habitat acquisition has been a great fit for Lindblad as well as our guests, and we continue to be on the lookout for additional acquisition opportunities and partnerships to broaden our product offerings, diversify our businesses, and expand our reach. Along those lines, we have recently hired a new head of business development to further accelerate the evaluation of potential opportunities, and we look forward to exploring any and all leads to further build value within our company.

At the same time, we are really excited about the growth ahead for our existing business. Current booking trends remain very strong, with Lindblad bookings during the first quarter of 2018 up over 20 percent versus the same period a year ago, and this booking strength is broad-based, with significant demand across all our vessels and itineraries. We also continue to explore new geographies and look for new destinations for all our guests. In Q1, we added an important destination to our mix when the National Geographic Quest explored Belize with seven departures that were nearly sold out. We also committed to re-enter Egypt, beginning in Q4, a destination that was once extremely important to Lindblad. Our first six departures in the fourth quarter and the first quarter of 2019 were in such high demand that we are now working to build back the available volume we once enjoyed. We also laid out plans recently for future deployment in Northern Alaska and the Russian Far East for mid-June to mid-September 2019 on the National Geographic Orion, and these departures are already filling up well over a year in advance.

In March, I traveled to Gdynia, Poland, along with our senior captain, our head of new builds, and our chief expedition officer, for an important ceremony in the first tangible development of our new Polar vessel, the National Geographic Endurance, slated for delivery in Q1 2020. We brought two coins which we welded into the keel with great fanfare, fulfilling a mariners' tradition. It was a special moment, after which we headed straight to the Norwegian Arctic for a one-week expedition to see, validate, and document the premise of why we were building this ship in the first place, to explore deeper, earlier, and later in Polar Regions, which hold such understandable fascination for our guests. The middle of March in the Arctic is spring, and it's spectacular; however, we would not be responsible to plan such possibilities without an ice class as high as the National Geographic Endurance, which will have the highest ice class designation of any passenger vessel built to date, when she launches.

Geography matters a great deal, and developing new access to the world's most spectacular places is a driving goal for our enterprise. This also becomes increasingly more important as we step up our engagement in foreign markets, broadening our reach beyond what is still a growing U.S. market. Success in this effort is not intended, nor needed, immediately; however it could and should represent a significant opportunity for future growth as we continue to expand our fleet.

Although I have mentioned it regularly on our earnings calls before, it is important to reiterate that the demand and interest in expedition travel is unprecedented in history. People seek adventure and exposure to the world's untraveled places. They want to learn, to feel, to record uniqueness. It is perhaps the greatest and most relevant description of luxury redefined not by creature comforts alone, but, more importantly, by intelligent opportunity, great navigators, scientists,

naturalists, photographers, historians, and compelling geography. Every human being now has the capacity to be a communicator in photos, videos, and words, simply with a device that fits in the palm of their hand. It is a burning hunger that people now have, enabled by technology, to experience and to share, and there is no question that an expedition where you travel — where a traveler becomes an explorer is a very compelling idea.

We have the good fortune, however, not to be following a trend, but having focused on expedition travel for decades, well before all of this was broadly sought after. There is legitimacy in tenure in that, and I believe that as the category grows, more and more people will realize that Lindblad Expeditions, combined with National Geographic, provides the highest possible level of authentic, meaningful, and responsible access to expedition travel.

2018 is really the new beginning of a plan we laid out in 2015. The National Geographic Quest will have her first full year of operation, and in Q4, we will launch her sister ship, the National Geographic Venture, both fulfilling increased demand in core geographies, and our new Polar vessel, the National Geographic Endurance, named in honor of Ernest Shackleton, Lindblad Expeditions' most revered explorer, will incorporate technical advances and create opportunities for guests beyond the reach of any contemporary ship, beginning in Q1 of 2020.

Our explorations of new markets are ongoing, exciting, and full of promise, and our decades-long commitment to do whatever it takes provide our guests with the most extraordinary experiences, invigorated by ever-growing explosive interest in expedition travel. We are off to a great start in 2018, and I believe this is just an early indication of what the future holds for Lindblad Expeditions, and we remain confident as ever in the growth opportunities in front of us as well as expanding long-range growth plans.

Thank you for your time this morning, and now let me turn the call over back over to Craig.

### **Craig Felenstein**

Thanks, Sven. As Sven discussed, the momentum we generated during the back half of 2017, has continued into the first quarter of 2018, as the strategic investments we have made and continue to make to expand our capacity are generating significant financial returns. As we add inventory, we have also been able to maintain high yields and occupancy levels, giving us further confidence in the long-term growth opportunities given the growing demand for high-quality, immersive, and authentic expedition travel.

Turning to the first quarter of 2018, on a reported basis, Lindblad delivered revenue growth of 31 percent versus the first quarter a year ago, and this revenue growth contributed to an \$11.9 million increase in adjusted EBITDA, to \$22.2 million. These results do include the impact of several voyage cancellations in the first quarter a year ago, and excluding the impact of these cancellations, we estimate that revenue would have increased 14 percent and adjusted EBITDA would have increased 33 percent year on year.

The substantial increase versus the first quarter a year ago was driven by the Lindblad segment, which generated 32 percent revenue growth on a reported basis, to \$70.5 million. This \$17 million increase was primarily due to a 26 percent rise in available guest nights, mostly from the launch of the National Geographic Quest in July 2017 as well as from the negative impact of the voyage cancellations on the first quarter a year ago.

The revenue growth this past quarter also reflects a 12 percent increase in net yield, to \$1,127 per night due to higher pricing across most of our itineraries and growth in occupancy from 87 percent to 91 percent due to broad-based demand across the entire fleet.

Excluding the impact of the voyage cancellations a year ago, we estimate that the Lindblad segment revenue growth would have been approximately 13 percent in the first quarter, due to an increase in available guest nights of approximately 10 percent as well as growth in net yields of 6 percent and occupancy expansion of 300 basis points.

Turning to the cost side of the business, Lindblad' segment operating expenses increased 10 percent on a reported basis, primarily driven by a 9 percent increase in cost of tours and a 21 percent increase in sales and marketing. The first quarter of 2018 also included a slight reduction in G&A expense due to lower stock-based compensation expense related to the shares granted under the CEO allocation plan a year ago and lower expense due to the majority of options being fully expensed at the end of 2017. These were offset by \$1 million of expense related to refinancing our credit facility and increased depreciation and amortization, both related to the addition of the National Geographic Quest to our fleet.

Excluding these one-time items, such as stock-based compensation, depreciation and amortization, and refinancing costs, as well as the impact of the voyage cancellations a year ago, the Lindblad segment operating expenses increased 7 percent versus the first quarter last year, due mostly to the addition of the National Geographic Quest and higher commission expenses due to the revenue growth we are generating in the current year.

Fuel costs in the quarter were 26 percent above prior year, due in large part to the additional operating nights on the Quest and the operation of the Orion this year versus not operating a year ago. Fuel was 3 percent of revenue, slightly below the 3.1 percent of revenue in the first quarter of 2017. Adjusted net cruise costs on a per-night basis declined to \$750 per night, due primarily to costs related to the cancelled voyages a year ago, such as guest reimbursements and operating costs that were not cancellable that had no corresponding guest nights. Excluding the estimated impact of the voyage cancellations, adjusted net cruise costs on a per-night basis was in line with the first quarter a year ago.

Overall, 32 percent revenue growth and stable cost base, drove an \$11 million increase in adjusted EBITDA in the Lindblad segment versus the first quarter a year ago, to \$20.9 million. Excluding the impact of the voyage cancellations a year ago, it is estimated that adjusted EBITDA would still have increased approximately \$4.6 million, or 28 percent, year on year.

At the Natural Habitat segment, revenues grew 20 percent, to \$12 million, due to additional departures and higher pricing. Adjusted EBITDA more than tripled, to \$1.3 million, as Natural Habitat demonstrated significant operating leverage, with a strong revenue growth due to the increased guest nights far outpacing a 12 percent increase in operating expense.

Total company net income available to common stockholders in the quarter, was \$10.8 million, or 24 cents a share, versus \$.6 million, or 1 cent a share reported in the first quarter a year ago. As the improved operating results and lower stock-based compensation expense were partially offset by costs associated with refinancing our credit facility and higher taxes — primarily due to net losses in the first quarter a year ago.

Turning to our balance sheet, we remain extremely well positioned to invest in future growth opportunities. We ended the quarter with \$97 million in unrestricted cash. Free cash flow for the

quarter [indiscernible] the use of \$4 million, but that included \$13 million spent on the new builds. Including only maintenance capex, free cash flow was \$8.6 million in the first quarter, an increase of \$10.4 million from the same period a year ago. In March of 2018, we also further expanded our financial flexibility by refinancing our existing \$175 million credit facility. We increased the size of the facility to \$200 million, extended the maturity of the loan out to 2025, and lowered the interest rate to LIBOR plus 350, a reduction of a full point versus our previous facility. We also were able to modify various covenants to provide for additional strategic and operational flexibility moving forward.

Turning to the full year 2018, we anticipate significant growth, driven by increased capacity from a full year of operating the National Geographic Quest and the impact of the voyage cancellations in 2017. So Lindblad's segment is currently pacing \$34 million ahead of the same point a year ago, and we are already at 94 percent of our full year projected ticket revenues for 2018, despite the additional inventory, as compared with 93 percent of the 2017 full year ticket revenue at the same time a year ago.

Given the current operating environment and the same booking trends, we continue to expect whole-company tour revenue in 2018, between \$308 and \$315 million, 16 to 18 percent growth versus 2017, and adjusted EBITDA between \$54 and \$57 million, or 24 to 31 percent growth versus 2017. Please remember, as I mentioned last quarter, full year results will include the negative impact associated with the launch of the National Geographic Venture in December, given the start-up costs associated with that vessel. 2018 will also include a \$1.5 million negative impact due to the adoption of the new revenue recognition rules under ASC 606. Previously, all revenue from voyages under ten days that started before quarter end, were recognized in the quarter the voyage departed, despite some of the operating days not taking place until the following quarter. Starting in 2018, we are required to recognize revenue in each quarter only for those days that actually operated within the current quarter, regardless of voyage start date and length.

Lastly, it is also important to note that the quarterly year-on-year results for the remainder of 2018 will be impacted by the timing differences of scheduled dry-docks versus a year ago. Most notably, in 2017, dry-docks for the Endeavor II and Orion were primarily completed during the second quarter, while in 2018, both the Endeavor and Orion will be in dry-dock during the end of Q3 and beginning of Q4. The ships and timing will certainly impact available guest nights and dry-dock in each quarter.

Thank you for your time this morning, and now Sven and I would be happy to answer any questions you have.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed, and you would like to withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster.

The first question comes from Chris Woronka of Deutsche Bank. Please go ahead.

**Steve Pazella [phonetic]**

Hey, guys, this is Steve Pazella on for Chris Woronka. Looking at the 1Q real strong growth year over year, even with adjusting for the voyage cancellations, can you talk about how that came in versus internal expectations and the decision to leave guidance unchanged? Is that just some conservatism, or are you facing some fuel headwinds? Can you comment on that?

**Craig Felenstein**

Sure. Certainly we had a very, very strong first quarter. If I was putting it versus our expectations, it certainly came in a little bit ahead of where we were looking at, but the year certainly had a cadence to it that we always expected, and that was given where the dry-docks were, that the first and second quarters would be the strongest quarters of the year, followed by some of the one-time items in Q3 and Q4 that I mentioned. I think, importantly, when you look at the trends, the operating trends of the business, they remain very, very strong. Way past the first and second quarter, we were already looking at very strong growth into 2019, but there are some of these anomalies in each of these quarters with regards to available guest nights as well as launching the Venture at the end of the year. They're going to play into the full year.

There's also some, I would say, relatively newer itineraries, which Sven can elaborate on in a second, later in the year, which still has a little bit of uncertainty around them, and that includes the launch of our Egypt product, it includes where we end up in the South Pacific, certainly, and we have launched some shorter Galapagos trips which Sven can get into a second. So all of these things, along with the price of fuel, certainly given where we are in the year, have resulted in our leaving guidance where it is right now. But as the second and third quarter play themselves out, we'll certainly update the full year expectations as results dictate.

Sven, do you want to talk a little bit about some of the itinerary changes?

**Sven Lindblad**

Well, one of the things you do — well, particularly when you're having such a good year, it's a great opportunity to test certain ideas. One of the levers that we believe are very important is to begin offering programs or a certain number of programs that are shorter, because there are certain constituencies that we have that just simply don't have the time. So, for example, in the Galapagos, we're testing some shorter programs in the fourth quarter just to see if that has any sort of resonance that we can build upon into the future. So in that it still is an experiment, we're still keeping our eyes on it, and it may not work 100 percent in the short term, although, frankly, I believe it will, but we don't know that for a fact.

We have launched a new initiative in Egypt in Q4 and into the first quarter of 2019 and well beyond that, and that is — people are responding to that incredibly well; however, we haven't been in Egypt for over a decade, and so we're keeping our eye on that closely. So I think that really responds to some of the things Craig was referring to.

**Steve Pazella**

Okay, great. Thanks. And then a lot has been made of 2019 overall industry supply growth. Can you talk about kind of what is competitive to your business and any early booking trends for next year? Thanks.

**Sven Lindblad**

Yeah, well, and Craig can perhaps provide more detail, but the booking trends for 2019 are very, very, very strong, in part because we've — we will have the full year — first full year of the second new ship, the National Geographic Venture, and we're opening up some new geographies. As it

relates to the competition, I believe what is happening is that there is much more interest in this sector, and so there is a lot more noise, if you will, conversation around the idea of expedition travel. I view that as a good thing, so it just gets more people jazzed, it gets more people incorporated and interested in this, and there's no question that as far as the public goes, this is absolutely one of the strongest growth trends in the travel industry, of course, not in absolute numbers, because it's still a relatively small niche, but in terms of growth measured against itself.

### **Craig Felenstein**

Sure, just to put a little color around some of the pacings that we're seeing for 2019. On the last call, we spoke about 2019 pacings being up around 40 percent. I'm happy to say that trends have continued, and we continue to be ahead of 2018 pacings, and, at the same time, up about 40 percent, which is nice to see. And the best part about it is, as Sven kind of touched upon it, is not only are we seeing nice pacing on some of the — our new vessel, the Venture, which is doing really well so far with its early bookings, but we're seeing nice bookings across the entire fleet as we continue to operate in some of our really strong geographies and also add some new geographies like the Russian Far East. So all in, I think we feel very confident about where we sit right now with relationship to 2019, but it's still obviously a ways to go.

### **Steve Pazella**

Okay, great. Thank you.

### **Operator**

The next question comes from George Kelly with Imperial Capital. Please go ahead.

### **George Kelly**

Hi, guys, thanks for taking my questions. The first one for Sven, you've been in the industry for quite a while now, and I was wondering if you could talk about sort of the state of the consumer and interest around this kind of travel. Have you ever seen the market so healthy?

### **Sven Lindblad**

Yeah, good morning, George. I absolutely, unequivocally have not seen it as healthy as this. It's — you know, and it's a confluence of factors, if I may expand a little bit. I think that people are becoming more and more aware of the fact that the environment matters, that it is of interest, that we ought to understand and know more about it, so I think part of it's driven intellectually on the part of people's desires. I think the factor that everybody now is basically a communicator and a storyteller, everybody likes to share this material, and so where are you going to go to do that that's more compelling than geographies like the Antarctic and the Galapagos in Alaska and places like this?

So I think it's a lot of factors that have come together. I think more and more people are traveling as families or traveling with friends, because they want these shared experiences, so it's just there are so many compelling reasons why this is growing at the level it is.

### **George Kelly**

Okay, that's helpful. Thanks. And then next question, sort of related, but as you think about pricing, I know it's — that generally, you know, you only sort of tweak pricing maybe a couple times a year — correct me if that's wrong — but does the way that you've absorbed this new capacity and the strengths in the consumer market, does that give you confidence? Do you think you could become more aggressive with pricing at any point in the next, say, couple years?

### **Sven Lindblad**

Well, here's our view on pricing. First of all, we believe that the biggest opportunity is adding inventory, broadening our offerings. If you get too aggressive with pricing, it can be problematic in one form or another. First of all, we're at the highest level of pricing in the industry, and if we get too much higher, it just creates too much opportunity for others to make an issue of that, if you will. So our play is really on broadening our offerings, and we think that's where the best opportunity by far exists.

And we want to be very, very careful, because, you know, at a certain juncture, you can reach a wall of sorts with pricing, and you regret it. It just — you just get too — I'm not going to use the word greedy, but there's a line there, you know, and we don't wish to cross it.

### **George Kelly**

Okay. Okay, that makes sense. And then, last, I guess you mentioned the Galapagos' shorter itineraries. Is there anything different in that market that's worth commenting on? Has anything changed just generally in the Galapagos?

### **Sven Lindblad**

No, this isn't a factor of anything changing in the Galapagos, and, by the way, these shorter itineraries, we're developing these in other parts of the world as well. We have some out of California that we're experimenting with, in Baja, California, that we're experimenting with, so the whole notion here is, you know, I and colleagues run into people all the time that say, "You know, we'd love to travel with you; however, we don't have that much time," and so, really, this is a response to what we've heard from a variety of people. And so what we're trying to do is — or what we are doing is we're creating programs where people can leave home and get back home entirely within a work week, if you will.

### **George Kelly**

Okay. Okay, gotcha. And just one last stab, a modeling question. On your full year guidance, can you quantify the impact — the negative impact from Venture, and are there any incremental dry-docks to what you had last year that — can you quantify that as well? Thank you.

### **Craig Felenstein**

Sure. So without getting too specific on the Venture, but it is several millions of dollars with regards to losses in the current year, just given the timing of the vessel, you have to hire a crew, you have to put supplies in, items on the vessel ahead of launching the vessel, and obviously some of those things you can't capitalize, so there's a fair amount of costs at the end of Q3 and into Q4 which will roll through. And then, given that the Venture won't really launch with guests towards — until the tail end of the year, there's not a lot of revenue to offset that in the current year. Certainly, that would be a negative in the current year, and we'll see a lot of the benefit from the launch of the Venture, both from an EBITDA as well as free cash flow in 2019.

So that is — that's the answer to that question. In terms of the dry-dock, the dry-dock schedule is actually — in totality, it's very similar this year to where it was a year ago. It's just really a shift in timing from predominantly in 2Q, the end of Q3 and the early part of Q4. The one exception to that really is the Quest. The Quest — sorry, not the Quest, — the Endeavour II which had launched at the end of 2016 and as a result, only had a shorter wet dock in 2017, whereas it will have a full dry-dock in 2018, but that's only a few extra days, so, all in all, the schedule will be very similar, just a shift in the quarters.

### **George Kelly**

Okay. Thank you.

**Operator**

Again, if you have a question, please press star, then 1. This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

**CONCLUSION****Craig Felenstein**

Thank you, everybody for joining us this morning. We appreciate your time, and if you have any follow-up questions, please don't hesitate to reach out. We'll be around most of the day. Thank you.

**Sven Lindblad**

Thank you.

**Operator**

I apologize, we have one more question if we may take it, please?

**Sven Lindblad**

Sure.

**Operator**

Oh, I'm sorry, they dropped their line. Okay. Thank you so much.

**Craig Felenstein**

All right. Thank you, everybody.

**Operator**

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