

Lindblad Expeditions Holdings, Inc.  
Fourth Quarter 2015 Earnings  
March 11, 2016 at 10:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**John McClain** – *Chief Financial Officer*

**Sven Lindblad** – *President/Chief Executive Officer*

## **PRESENTATION**

### **Operator**

Good morning and welcome to the Lindblad Expeditions Holdings Inc. Fourth Quarter 2015 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

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

### **John McClain**

Thank you, operator. Good morning, everyone, and thank you for joining us on the Fourth Quarter 2015 Earnings conference call. I'm joined today by Sven Lindblad, our President/Chief Executive Officer; Ian Rodgers, our Chief Operating Officer; and Mark Ein, our Chairman, is on the phone. Sven will start by providing opening comments on the business, and I'll follow with details on the results of the fourth quarter and full year before finally turning the call back to Sven for closing words. We'll then open the call to your questions.

Our press release for the fourth quarter and full year 2015 results was issued this morning and is available on our Investor Relations website. The company's comments today may include statements about expectations for the future. Those expectations are subject to known and 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'd like more information on the risks involved in forward-looking statements, please see the company's SEC filings.

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

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

### **Sven Lindblad**

Thank you, John, and to those of you joining us. First a quick financial summary. We've had a very positive quarter, which wrapped up a successful and transformative year for us. Revenue was \$46.5 million, an increase of \$1.7 million over 2014, representing a 3.8% revenue growth. Net yields for Q4 of 2015 was \$989 compared with \$901 in 2014, a 9.8% increase primarily due to increase in pricing and some changes in the deployment of our vessels.

Adjusted EBITDA was \$4.7 million compared to \$5.8 million in 2014. This does represent a decrease but is primarily due to our 96 passenger Endeavour's additional dry dock in Q4, leading to five fewer voyages in that period. Tour revenue for the full year 2015 was \$210 million, an increase of \$11.5 million or 5.8% compared to 2014. And the net yields were \$971 compared to \$950 for 2014. Adjusted EBITDA for the year was \$46.8 million compared to \$44.6 million in 2014.

So a lot was accomplished in 2015. We completed our merger with Capitol Acquisitions II. We entered into a new \$175 million debt facility, which enabled us to repay our former debt and generate substantial cash to be used in the business. At the end of the year, we had \$206 million on the balance sheet. This cash and the cash we generate from operations fully funds our current plans and enables us to pursue additional growth opportunities.

We finalized plans and began construction on our new 100-passenger US flagged vessels. We strengthened our fleet through a definitive agreement to purchase a ship, the *Via Australis*, a modern and effective vessel for our Galapagos operation. Just this week we finalized a \$45 million revolving credit agreement, which adds to our cash opportunities. We grew revenue by 5.8% and adjusted EBITDA by 4.9%. So, it was a good year and we're really, really well positioned for the future.

As with any year, there's some issues out there, which have to be considered and managed. Stock market fluctuations, the emergence of Zika, lingering effects, post-Paris being the most significant. The truth be known though, is that each year there are a variety of external effects that need to be faced, whether they're economic, viruses, political, etc. I believe our advantage is the fact that we're nimble, in other words our ability to alter roots if necessary at short notice, and a highly educated clientele that has a significant ability to separate fact from perception.

Advanced bookings for the first nine months are strong; although, the fourth quarter is slightly behind pacing, but we have plenty of runway ahead of us to correct that with focused tactical marketing. As of March 7<sup>th</sup>, 85% of expected guest ticket revenue was on the books compared with 89% at the same period for 2015. Yields grew almost 10% in 2015, and occupancy stayed strong.

For 2016, we see modest growth in yields and continued high occupancy. We will see accelerated top-line revenue growth as the new builds are completed in mid '17, and then again in '18, and mid '19. Until then we are actively looking for opportunistic expansion, both in terms of businesses that we may acquire and ships that may be available to augment the fleet. We are also looking at potential new roots, such as Cuba, where expedition operations would be financially attractive and very popular with our audience. We're also deep into augmenting our senior management team in order to fully support our growth objectives.

A major PR campaign is underway throughout the year to celebrate the fiftieth anniversary of my father, Lars-Eric Lindblad's first expedition to Antarctica, which literally gave birth to the idea of expedition travel. This is a significant milestone, which will be publicly launched in newspapers and magazines in upcoming weeks along with a high-profile series of events beginning at New York's Explorers Club on April 6<sup>th</sup>. And working with *National Geographic*, we're accelerating the use of their vast media platform, showcasing the values of expedition travel.

Now just a quick update on fleet related plans. Our plan calls for adding two new 100-passenger US vessels, the first for delivery in the second quarter of 2017, the second for Q2 of 2018. Contracts were finalized in December, construction has begun, and we expect delivery according to plan. We announced a signing of a definitive purchase agreement of the *Via Australis* on December 31<sup>st</sup>. We continue to expect the delivery of the vessel in April. Then after a refurbishment, the vessel is planned for deployment in the fourth quarter of 2016 in the Galapagos Islands.

Now I'd like to turn it back to John for a more in-depth review of the financials.

### **John McClain**

Thanks, Sven. We had a solid quarter and are really pleased with how the year ended. Now I'll walk you through summary review of the specifics. In the fourth quarter, the company generated four

revenue of \$46.5 million, representing an increase of \$1.7 million or 3.8% for the \$44.8 million in the fourth quarter of last year. The growth was primarily driven by \$3 million of higher guest ticket revenues derived from an increase in pricing and a change in vessel deployments. The increase in guest ticket revenues was partially offset by lower other revenues, and this was primarily related to reductions in cancellation fees and insurance revenue. Additionally, we had an increase in the amount of air incentives we provided this year, which was not offered in the prior year.

Now turning to the full year 2015, tour revenues amounted to \$210 million, which was an increase of 5.8% compared with \$198.5 million in 2014. Key drivers here were the price increases and the change in deployments with an additional increase related to adding voyages on the chartered fleet. These were partially offset by a slight decrease in occupancy. We also saw a greater air ticket sales and cancellation fees leading to an increase in other revenue of \$1.3 million.

Net yield in the quarter amounted to \$989, compared with \$901 in the fourth quarter '14, which represents an increase of 9.8%. The change was primarily related to an increase in pricing and change in deployments in the quarter. And, net yield for the full year was up 2.2% over 2014 at \$971, compared with \$950. We recorded 37,296 guest nights sold in the fourth quarter, which was flat to last year, but we had 4,201 guests, which is a 5.9% increase from the fourth quarter of last year. The occupancy rate in the fourth quarter was 93.3% compared with 88.1% last year. Demand was very strong in the quarter, while inventory was down due to the one additional dry dock that Sven mentioned on the *Endeavour*.

For the full year of 2015, occupancy was 91.8% compared with 92.9%. We increased capacity through additional voyages and benefited from this increased inventory with increased revenue, but the overall occupancy is slightly down due primarily to the African-Indian Ocean, Pacific, and Australia routes for the *Orion*, which we previously mentioned on our last call. For the year we recorded an additional 1,820 guest nights sold, a 1.1% increase, and 1,005 additional guests, which is an increase of over 5%. Adjusted net cruise cost per available guest night amounted to \$870 in the fourth quarter '15 compared with \$763 last year, which represents an increase of 14%. And this increase was in large part due to the increase in the dry dock costs as well as public company costs.

We continue to benefit from a lower cost of fuel in the fourth quarter compared with last year, but the benefit in the fourth quarter was less than it had been in prior quarters. Fuel costs represented 4.7% of tour revenue compared with 5.8% in the same period last year, and this represents a 15.7% decrease in the fuel expense for the quarter versus last year. We've not hedged fuel purchases historically, but continue to investigate the potential relative to our business model.

Adjusted EBITDA for the fourth quarter was \$4.7 million compared to \$5.8 million in the same period last year. The decline is primarily due to the additional dry dock cost that Sven mentioned. Adjusted EBITDA for the year was \$46.8, which was an increase of 4.9% from the prior year and ahead of the financial projections that we furnished in an 8-K that we filed with the SEC in April.

On the liquidity front, we remain extremely well positioned to fund upcoming projects. We ended the quarter with \$207 million in cash, excluding \$8 million of restricted cash compared with a debt balance of \$174 million.

Sven mentioned we just finalized a new \$45 million revolving credit facility, which provides us with additional financial flexibility to explore other growth opportunities. Overall, we're very pleased with where we stand after 2015, and we're on track to meet our future objectives.

With that, I'll turn the call back to Sven for closing remarks.

**Sven Lindblad**

Thank you, John. In summary, we really do have a tremendous opportunity in front of us and we're focused on making sure that we execute our plan and that we look for opportunities wherever they may arise.

And now we're happy to take your questions. Ian, John, and I are also joined on this call by Mark Ein, our chairman, and so please, any questions you may have we would be delighted to answer them.

**QUESTIONS AND ANSWERS****Operator**

Thank you, sir. At this time, the floor is open for your questions. To ask a question you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If your question has been addressed and you would like to withdraw from the queue, please press star then two.

And our first question will come from Greg Badishkanian of Citi. Please go ahead.

**Fred**

Hi, guys. Good morning. This is actually Fred on for Greg. I just wanted to touch quickly. You noted the 4Q weakness for next year that you were seeing, wondering if you could give us a little bit more info. Was that some specific itineraries or destinations that you're seeing the softness? And just, if you look at the overall bookings, they're down a little bit this year versus last year. Any more color on what you think is driving that would be helpful.

**John McClain**

Greg, this is John. How are you doing? You look at the total year, like you said, the bookings are down about \$2.8 million in total year-over-year, so it's really a small differential. But as we look to the fourth quarter, there's no one particular issue, it just seems that things have slowed a bit, and we work through with tactical and specific marketing, reworking itineraries. Sven had mentioned that we're nimble, we can change things, and we've looked to change a few for the fourth quarter now, and we'll just continue working that process as we have in the past. And, we think we'll be in good position to make that up.

**Fred**

Are you guys seeing any impact from Zika or any lingering impact from Paris? I think you briefly touched on that.

**John McClain**

Well, when you look at Zika, we've had some calls where folks ask about it, not many calls. And then ultimately most of the people are looking for information. We pass information on that we have. We get a fair number of folks take no action; some move their date of travel. And we've had a small number of folks that have canceled, but it's not been a significant impact in terms of what we've seen.

**Fred**

Okay, and then, just lastly, could you just touch on the thinking behind the new revolver? Is there something that you guys have in mind that you're going to utilize that for or is it just additional dry powder? How should we think about that?

**John McClain**

I think it's totally dry powder. I think one of the things that always helps me sleep at night is liquidity because you never know what could be out there. So, we are well positioned with this, but it certainly gives us financial flexibility to look and explore additional opportunities as they may come, and we can continue to be opportunistic, but nothing that we need it for, just good financial planning.

**Fred**

Okay, great. Then just one more, if I could squeeze it in. The roughly \$5 million from buybacks per quarter, is that how we should think about the cadence going forward?

**John McClain**

No. We had a \$20 million authorization, and we said we were going to be opportunistic with that and that's really all we'll say, not forecasting when, just we have about not little more than nine and change left and we'll continue to be opportunistic.

**Fred**

Great. Thanks.

**Operator**

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

The next question will come from Artem Fokin of Caro-Kann. Please go ahead.

**Artem Fokin**

Good morning. Could you talk a little bit more about the expedition of *Via Australis*, and if you could share what type of cash flow EBITDA or any other metrics of earnings you guys expect after you're fully integrated and put it on your platform compared to the purchase price? Any color which you can share would be helpful.

**John McClain**

How are you? This is John McClain. We don't talk about specific ships and there's competitive reasons why we do that. What we had said in the announcement when we made the acquisition is that there were several reasons for the acquisition, that being able to upgrade an existing fleet, which then gives us certain opportunities to drive certain revenues and efficiencies. So that our thinking behind that was a combination of strategic and financial, but we do not provide the guidance on a ship-by-ship basis.

**Artem Fokin**

Okay, understand. Fair enough. And at the time of the transaction, the management of both companies shared their vision why you're bullish on the industry, in which Lindblad operates. I don't think you reiterated much of that after you became public, and maybe just in high-level strokes, if you could share some of the thoughts, why you think demand will be able to absorb three new ships and whether you're worried about any new competitors entering the space. I think that would be helpful for the public.

**Sven Lindblad**

Sven Lindblad, here. Well first of all, as we've said all along, there is this tremendous baby boomer audience, which is our primary audience 75 million strong in the United States, the wealthiest demographic in the history of human existence. There are international opportunities. There is a significant migration away from wanting to own things and to develop and have experiences. So, the demographics and the psychographics play very, very well to expedition travel, and given our legacy and given our history and the authenticity with which we have approached the market for the last 50

years, if you go back to Lindblad travel and our partnership with *National Geographic* really puts us at the forefront of that kind of an idea. So we are very bullish on what we do for those reasons.

**Artem Fokin**

Excellent. Thank you.

**CONCLUSION**

**Operator**

And at this time, we will conclude the question and answer session. I would like to hand the conference back over to Mr. Lindblad for his final thoughts.

**Sven Lindblad**

Well thank you. Thank you for those of you still on the phone, thank you for joining us. Again, we are very pleased with the quarter, we're very pleased with the year, and we're very, very excited about the future. Thanks again.

**Operator**

Thank you, sir. This concludes today's conference call. We thank you for attending today's presentation. You may now disconnect your lines.