

Lindblad Expeditions

Lindblad Expeditions, Inc. Reports First Quarter 2016 Financial Results

Friday, May 6, 2016, 10:00 A. M. Eastern

CORPORATE PARTICIPANTS

Sven Lindblad - *President, Chief Executive Officer*

John McClain - *Chief Financial Officer*

Mark Ein - *Chairman*

Ian Rogers - *Chief Operating Officer*

PRESENTATION

Operator

Good morning and welcome to the Lindblad Expeditions Incorporated first quarter 2016 Financial Results conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded.

I would now like to turn the conference over to Mr. John McClain, CFO of Lindblad. Please go ahead.

John McClain

Thank you, Operator, and good morning, everyone, and thank you for joining us on our first quarter 2016 earnings conference call. Joining us on the call are Ian Rogers, our Chief Operating Officer, Mark Ein, our Chairman. Mark will have opening comments, then I'll follow with details on the results of the first quarter and then I'll turn it over to Ian, who will provide comments on other developments in the business and then we'll open the call to your questions. A press release for the first quarter 2016 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 performances suggested by these expectations. The Company cannot guarantee the accuracy of any forecasts or estimates and we undertake no obligation to update any forward-looking statements. If you'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 Mark.

Mark Ein

Thank you, John, and good morning, everyone. I want to start by letting all of you know that on Tuesday, late in the day, Sven, our fearless leader, Sven Lindblad, found out that he had a detached retina and needed to get some minor surgery done yesterday and he is recovering, he is actually on the phone, but we want Sven to recover as quickly as we can so the team and myself are going to take the majority of this call and tell you what's going on. But Sven is on the phone and he is recovering well.

It is a very busy time for Lindblad. The team is working extremely hard to both maximize our economics from the existing fleet and business today while simultaneously recruiting new talent to the senior management team and adding additional growth levers, including new lines of business and new capacity, which is really where the big value creation opportunity is. We're excited to fill you in on all of these activities this morning and so I'm going to hand it back over to John, who will talk about the financial results of the first quarter and then Ian will talk about a wide range of other topics and activities and I'll come back and close it out at the end. So, John?

John McClain

Thank you, Mark. We had a strong quarter and we're pleased with how the year's begun. The Company generated total revenue of \$61.6 million in the first quarter, which represents an increase of \$6.2 million, or 11.2%, from the \$55.4 million in the first quarter of 2015. The growth was primarily driven by \$6.1 million of higher guest ticket revenues derived from a change in vessel deployments, which yielded a 10% increase in guest nights sold and an increase in pricing. Net yield remains strong at \$1,008.00 in the quarter, compared with \$1,004.00 in the prior year quarter.

We recorded 47,619 guest nights sold in the first quarter, which was up 10.2% to last year, while we had 5,284 guests, which is a 5.9% increase from the first quarter in 2015. The occupancy rate in the quarter was 91.8%, compared with 92% in the first quarter last year. Demand was very strong in the quarter, while inventory was up due to a change in deployments.

Adjusted net cruise cost for available guest night amounted to \$670.00 in the first quarter of '16, compared with \$701.00 in the same period in the prior year, which represents a decrease of 4.1%. This decrease was due to the benefits of increased available guest nights and lower fuel costs exceeding the impact of higher costs for more voyages and public company costs.

We continue to benefit from the lower cost of fuel in the first quarter. Fuel cost represented 4.4% of tour revenue in the first quarter, compared with 5.5% in the same period last year. This represents a 17% decrease in the fuel expense, year over year. We don't anticipate such continued benefits for the remainder of the year and as we mentioned before, we've not hedged fuel purchases, historically, but continue to investigate the potential relative to our business model.

Adjusted EBITDA for the first quarter was \$17.6 million, compared with \$14.2 million in the same period last year and the increase is primarily due to the benefit of increased revenue from that 10% increase in guest nights sold exceeding the increase in variable cost to provide those additional guest nights and that the increase in public company costs. We've not repurchased any shares or warrants since late January and tend to focus our capital to growth initiatives similar to Natural Habitat.

On the liquidity front, we remain extremely well positioned to fund upcoming projects. We ended the quarter with \$182 million in cash, excluding \$15 million of restricted cash, compared with a debt balance of \$174 million and those amounts exclude the impacts of purchasing both Nat Hab and the *Endeavour II*, which occurred after the end of the quarter. Overall, we're very pleased with where we stand and we're on a track to meet our future objectives. With that, I'll turn the call over to Ian to share our activities related to the longer term of the business.

Ian Rogers

Thank you, John, and good morning to you all. I'd like to spend some time this morning talking about recent company events and our considerable efforts focused on the longer term building of the business. Yesterday, we announced the acquisition of 80.1% of the outstanding common stock of Natural Habitat, Inc., a leading adventure travel and eco-tourism company based in Boulder, Colorado, for \$20 million. The implied 2015 EBITDA purchase multiple for the acquisition is 5.4x, including the \$5 million of cash acquired at closing. The acquisition of Nat Hab provides Lindblad a platform for expansion into land-based offerings with a partner that is a strong, trusted and complementary brand, and entrepreneur who remains very driven, motivated

and focused on building his business and a company with a shared focus on nature and conservation. We are very excited by this opportunity and would like to direct you towards our separate press release and investor deck for much more detail on the transaction.

In addition, last week, we announced that we have launched our first 16 weekly expeditions in Cuba that will run from December 2016 through March 2017. These trips are new additions to our plan. We believe that we have created a Cuba offering that is very special and differentiated from others entering the market and that there will be strong demand long into the future for Cuba and all that it has to offer.

As we look forward, we do see some potential headwinds. A mix of factors, including things like the U.S. and global economics, the terrorist bombings in Europe, the earthquake in Ecuador, the Zika virus, and El Nino all impact how people feel and their willingness to book trips many months out. Some are waiting to book closer to their trip date. We have also seen an unanticipated softening on bookings on the *Endeavour* for late in the year. As you know, we will be replacing the *Endeavour* with the *Endeavour II* and the excitement regarding the new ship has some guests opting to wait for the new ship.

Lastly, on our own end, we were delayed in getting our core marketing catalog completed and mailed, which has given it two months less time to have an impact on future sales. We continue to respond to all of these challenges as we have in the past, with focused marketing and enhancements to our offerings.

Even with the impact of these events, our advance bookings for 2016 remain solid. As of April 30th, 89% of projected guest ticket revenue for 2016 was on the books, compared with 98% on the books at the same time in 2015 for traveling 2015, a reduction of approximately \$5.3 million in ticket revenue, much of which was in the fourth quarter. As I mentioned, we have a number of initiatives in place to drive revenue growth in this period.

To significantly enhance our marketing capabilities and to help execute our growth plan, we announced on Tuesday that we have recruited Phil Auerbach to the newly established position of Chief Commercial Officer. Phil brings us a great depth and breadth of new skills, tactics, and experiences, most recently responsible for all sales and marketing functions for Caesars' 9 Las Vegas properties, including CRM, social media, event and partnerships. For us, he will be responsible for all revenue production and will lead marketing, sales, digital product development, and strategic partnerships.

Our expansion requires an integrated commercial approach with an innovative leader to implement new growth strategies where we get even closer to our core existing customers and tap much more deeply into the vast untapped demand for new customers who are interested in this kind of travel. Phil is perfectly placed for this new role and will start at the end of May.

On our fleet, as we have discussed before, our plan calls for the addition of two new 100 passenger U.S.-flagged coastal vessels to be added to our fleet in 2017 and 2018. The builds are proceeding on schedule. The first vessel, which has been named the *National Geographic Quest*, is expected to be delivered in the second quarter of 2017 and will sail in Alaska and British Columbia during the summer of 2017. The second new build vessel is expected to be delivered in the second quarter of 2018.

On the *Via Australis*, which we have renamed the *National Geographic Endeavour II*, we took possession of the ship on April 25th and have begun refurbishment. We continue to plan for an

estimated deployment in the fourth quarter of this year. Lastly, we are diligently working on our previously announced plans for at least one blue water polar vessel to be delivered in 2019. Now I'd like to turn the call over to Mark to wrap it up.

Mark Ein

Thank you, Ian and John. In summary, as you have heard, Lindblad continues to post strong operating results. We have a tremendous opportunity in front of us and we're focused on recruiting world class talent to our team and executing our growth plan, both organically and through smart acquisitions, to capitalize on this opportunity. Now we're glad to take your questions. Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. Once again, if you have a question, please press star (*) then one (1).

There are no questions at this time. Oh, I stand corrected. We have a question from Eric Gomberg of Dane Capital Management. Please go ahead.

Eric Gomberg

Hi, thanks for taking my call. I'm just curious if you could talk a little bit about any expectations you have on the Natural Habitat acquisition and what type of cross selling opportunities you think are there.

Mark Ein

Thanks, Eric, this is Mark. If you look at the presentation that we shared yesterday around the acquisition, you'll see the last year's EBITDA that we shared. We haven't shared projections yet or may not specifically for that line of business. But as Ian said in his remarks, we think this is a really perfectly complementary company. It's got shared values, culture and a very shared similar demographic, but then more importantly, mutually, we do think that there's a lot of opportunities for us to cross sell.

Lindblad actually used to be in the land-based business and we know that a lot of our travelers are interested in that kind of travel and, similarly, a number, a large number of Natural Habitat customers are interested in our kind of maritime travel and so that really was the driver behind it was being able to capitalize on those things and, obviously, the Company also comes with a long term relationship with the World Wildlife Fund, which is a very important organization with a large set of relationships that Natural Habitat has very successfully tapped into and we certainly think and hope that we're going to find ways to tap into that, as well. So it was a terrific opportunity for us to buy a really nicely fitting business at a really attractive price and with a lot of upside, which will be driven from those cross marketing opportunities.

Eric Gomberg

Okay and just one follow on, you mentioned or in the opening remarks it was mentioned that you still have buyback authorization but it sounds like you're looking more towards growth initiatives. I'm just curious if you could maybe characterize what the acquisition pipeline looks like, what the opportunity set is there. Obviously, a 5.4x trailing looks pretty attractive, so do

you have a number of things of this ilk or is there a wide variety because at the same time? Your stock looks reasonably attractive as well as, especially with an authorization out there and a lot of dry powder on your balance sheet.

Mark Ein

Yes, so we always evaluate the three buckets for our capital, internal growth through adding capacity, which we know is very attractive to us, generates great returns. Opportunistically looking acquisitions, of which, since we completed our merger last year and became a public company, there's been a constant steady flow of things that we have seen or gone after and then, lastly, there's, obviously, also the opportunity to buy back our stock and warrants and we are looking at all three at all times and are looking for the highest best returns on that capital and at different times, all three are very attractive. As you said, we do have a good amount of liquidity and are going to continue to look at all three and be, hopefully, be judicious and smart in how we deploy it.

Eric Gomberg

All right, Mark, thank you.

Operator

This is the operator speaking. I'm here to inform you that those in the question and answer queue are to limit themselves to one question and one follow up.

That said, our next question comes from Mordecai Yavneh of Focus Capital Management. Please go ahead. Mr. Yavneh?

Mordecai Yavneh

Hello? Can you hear me?

Sven Lindblad

This is Sven. Yes, we can hear you.

Mordecai Yavneh

Congratulations on the great quarter. I just have some questions on the Nat Hab acquisition. Can you give some color on what Nat Hab's gross margins are and whether they're operating at capacity, where they have room to expand?

Mark Ein

Ian, do you want to?

Ian Rogers

Sure, we haven't disclosed operating margins publicly. With regard to expansion possibilities, just in general, a land-based offering is a variable cost model with very few limitations to geographic ability to offer trips and so we see that there is a lot of room for expansion as we look to grow the brand.

Mordecai Yavneh

Okay and are you planning to integrate the companies into one or is this basically just going to be sharing customer databases but operating them separately?

Ian Rogers

We're operating the companies separately and sharing databases to really maximize the

revenue potential.

Mordecai Yavneh

Lindblad is able to use the World Wildlife Fund's database that survives Nat Hab or that remains with Nat Hab?

Ian Rogers

The agreements are that Nat Hab shares its database, Lindblad shares its database.

Mordecai Yavneh

So that means you would get World Wildlife Fund's database that was shared with Nat Hab, also?

Mark Ein

I think on this, we're at the beginning of this journey. World Wildlife Fund did extend their, as we've said, extended their relationship with Nat Hab in connection with us, they're very supportive of it, but we're just at the very beginning of thinking through all the different ways that we're going to be able to leverage off each other's relationships and databases and as Ian said, it will be run independently. The entrepreneur who runs it, Ben Bressler, who is a terrific guy, really wanted to maintain some amount of independence and maintain his entrepreneurial spirit that's let him build it, but that said, also was looking to Lindblad to provide him resources and room for growth and also provide that back to us and so we're going to let it run fairly independently but also try to exploit synergies and relationships to our mutual benefit whenever we can.

Mordecai Yavneh

Okay and if I could just ask one more follow up, on the conference call yesterday, it was mentioned that Nat Hab already sells some of Lindblad's cruises. Do you have any, can you give like some idea of the number of, let's say, Lindblad's revenue that comes now from Nat Hab and how much more you can expect that you're hoping to gain from the synergies?

John McClain

Yes, it's very small right now so we hope to be able to sell our trips to some of their customers and vice versa. But right now, the amount, that crossover there, is very small.

Mordecai Yavneh

Okay, thank you so much. Congratulations again.

Mark Ein

Thank you.

Operator

Our next question comes from Robert Kirkpatrick of Cardinal Capital. Please go ahead.

Robert Kirkpatrick

Good morning. I was wondering if you could try to allocate or prioritize the impacts on the softness that you're seeing in the fourth quarter bookings between the new ship, the list of things that you cited at the beginning from the global economy to El Nino, to the delays in start getting out the catalog.

Ian Rogers

Thank you for your question. I think that the one thing you should bear in mind that pacing is only an indicator of bookings that appeared in time and does not necessarily represent where our final revenue will be. So we talked about potentially \$5 million off from our pacing of prior years but, as you mentioned, there are internal factors which we have corrected and our marketing material is out. The world factors are something we deal with every year and I think in previous conference calls, we've been very clear and as we presented Lindblad to the market, that we are very creative and go to long lengths to make sure those voyages fill as we anticipate them to fill. I think quantifying between each of the factors is something, really, that would be difficult to do. We're very much more interested in just making sure we hit every note that we can and filling those vessels to the targets we need.

Robert Kirkpatrick

So would, therefore, the softness in the *Endeavour* be the, probably the least one in terms of your thinking of it?

Ian Rogers

I don't think we can specifically identify those factors, as I discussed. I think the important thing is we have initiatives in place that will address both the specific items around *Endeavour*, worldwide events, there are a slew of them there together. We are operating in a multitude of geographic opportunities and so we have some diversification around that and then, finally, we've corrected our internal hiccup on the marketing production. So we are doing what we do best as a company and really move towards filling those vessels. I think that's the best way I can answer that question for you.

Robert Kirkpatrick

And then when we get to the second quarter, you'll give us a number that more reflects 2017 as opposed to 2016? Is that the way your data disclosure works?

John McClain

We'll think about it at that time because even when you get there, the amount of data relative to '17 is still pretty small, so we're thinking about that and how we'll handle it next quarter.

Robert Kirkpatrick

Great, thank you so much.

John McCain

Thank you.

Operator

This concludes our question and answer session. I would now like to turn the conference back over to Mr. Mark Ein, Chairman of Lindblad, for any closing remarks.

CONCLUSION

Mark Ein

Thank you, Operator, and thank you all for joining. Thank you to the team for doing a terrific job. As you can tell, the Company has an incredible amount on its plate and the team's doing a really terrific job executing on all fronts and we'll look forward to keeping in touch with all of you. Thank you.

Operator

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