

Lindblad Expeditions Holdings Inc.

Lindblad Expeditions, Inc. Reports Second  
Quarter 2016 Financial Results

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**CORPORATE PARTICIPANTS**

**Sven Lindblad** - *CEO*

**John McClain** - *CFO*

**Ian Rogers** - *COO*

**Mark Ein** - *Chairman*

## **PRESENTATION**

### **Operator**

Good day and welcome to the Lindblad Expeditions Incorporated Second Quarter 2016 Financial Results Conference 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 (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, please press star (\*) then one (1) on your touchtone phone; to withdraw your question, please press star (\*) then two (2) and in the interest of time, please limit yourself to two questions and then once your questions have been answered, jump back in the question and answer queue. 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. Mr. McClain, please go ahead.

### **John McClain**

I'm sorry. Yes, good morning, everybody, and thank you, Operator. Thanks for joining us on our second quarter 2016 earnings conference call. Joining us on the call is Sven Lindblad, our CEO; Ian Rogers, our Chief Operating Officer; and Mark Ein, our Chairman. Sven will have opening comments on the business, then I will follow with details on the results of the second quarter, and then we will open the call to your questions. Our press release for the second quarter of 2016 results was issued this morning and is available on our Investors 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 would like more information on the risks involved in forward-looking statements, please see the Company's SEC filings. In addition, with some of our comments we may reference non-GAAP financial measures, a reconciliation to 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 thanks, all of you, for joining us. First of all, I'd like to give you a bit of a financial summary and then look into how we view the future. The Company's financial results for Q2 2016 were in line with our expectations. Revenue was \$53.9 million, an increase of \$4.4 million over Q2 2015, reflecting the May 4 acquisition of Natural Habitat, Inc. Net yields for the Lindblad segment of the business were \$999.00 compared with \$963.00 for Q2 2015, an increase of 3.7%; and occupancy was fractionally up at 92%. Net income shows a loss of \$4.5 million, compared to net income of \$8.8 million in Q2 2015. That quarter included \$12.5 million of pretax income and \$5.5 million of pretax expense related to the July 2015 merger with Capital Acquisition II. Consolidated adjusted EBITDA for Q2 2016 was \$5.2 million, compared to \$12 million in the prior year. Of course, John is going to give you a much greater depth on these key numbers in a moment. Key elements of our business that have a particular effect on year-over-year quarterly results are the deployment of vessels, i.e. where they go and days out of service, either for repositioning or for planned maintenance drydock. These elements shift regularly as to both timing and length for a variety of reasons: fine turning of deployment because of changing conditions that could be economic or demand; and longer or shorter drydocks depending on where the ship is in its maintenance cycle of regulatory requirements. In this particular quarter, our two highest yielding ships were both in drydock for considerably longer than in Q2 2015 due to scheduling. It all balances out over the long-term, but in the quarterly

environment it can create swings in our quarterly results. If you combine the cost of drydocking with the loss of revenue producing days, it can on a quarterly basis appear to be greater variances than what we anticipate in the long-term. We're committed to results over a broader timeframe and I hope this is helping clarifying those variances. At the same time, there are cyclical events that pose challenges, events that, in one form or another, we have faced over decades, but clearly have effect. For example, in Q2 2015, our European programs were impacted both by terrorism and perceptions that the refugee situation in Greece would affect guest experience. This certainly depressed interest in specific geographies and caused an increase in cancellations. In many instances, however, it simply rerouted interest to another geography. Some other regions experienced a lift in interest as a counterbalance, such as Alaska, Northern Europe, and the Arctic. As we have experienced year in and year out, global circumstances create both challenges and opportunity. We have learned overtime ways to mitigate the challenges and in certain instances to develop new opportunities as a consequence. We spend more and more time further north in the summer with two of our ships as a response to external events in the changing climate, which, interestingly enough, allows us to be there earlier and later than in seasons past. It also happens to be where we do some of our best work and where we find the greatest demand. Really, the essence of our strength is a kind of Darwinian ability to adapt to changing circumstances combined with an every growing market and a very compelling value proposition. So occupancy is fractionally up and yields, too. However costs are up, as well, but for reasons that relate primarily to drydock deployment and some headwinds resulting, for example, in increased marketing and promotional costs and, of course, we are investing in infrastructure to drive our growth. At the same time, transitioning fully to the public market has added layers of cost over Q2 2015. However, and perhaps most relevant, is our commitment to build the infrastructure, the talent, the marketing platforms that are necessary for our transformational growth plan, which begins in earnest in 2017. Our key Executive team is now complete with the addition Phil Auerbach our new Chief Commercial Officer, and Craig Felenstein, who will join us on September 6 as our Chief Financial Officer. Phil has only been here since May 31, however, he's already added significant benefit, both with short-term tactical activities and strategic development for our future growth. And I couldn't be happier to have Craig joining the Executive team along with his highly relevant experience, particularly at Discovery and Fox, and his clear drive. The additions to our fleet are also proceeding as planned. The National Geographic Endeavor 2 is well underway in its refurbishment and adaptation for operating in the Galapagos Islands and is on target for delivery in time to begin service in January 2017. The National Geographic Quest is also well into construction and we expect an on time delivery in late Q2 2017 with operation beginning shortly thereafter. Our new charter programs for Cuba are on pace for a successful first year. This along with the acquisition in National Habitat or additions to the growth plan we presented to investors during the merger. I hope these insights are helpful. I continue to appreciate the myriad opportunities that come with being a public company, with investors who not only invest but often bring their skills, their experience, and many instances their networks to bear. The future, as we are well aware, has unknowns, it always has. However, it also has important knowns. There is a massive global audience that wants to explore and learn and experience that we, together with National Geographic, are in the best possible position to harness this interest that our commitment to building the smartest and most effective Executive team is persistent, that our growth plan is presented for our merger has already been augmented with our expansion into Cuba in the acquisition of Natural Habitat. So all in all, I'm extremely pleased about where we are and, more importantly, extremely pleased about where we're headed. Now I'd like to turn it back to John for a more in depth review of the financials.

### **John McClain**

Great, thank you, Sven. In the second quarter of 2016, the Company generated total revenue

of \$53.9 million, which represents an increase of \$4.4 million or 8.9% from the \$49.5 million in the second quarter of 2015. The growth was driven by an acquisition of Natural Habitat, Inc. on May 4. Excluding Natural Habitat acquisition, the Lindblad segment had total revenues of \$48.2 million, as compared with \$49.5 million in the prior year period, a 2.6% decrease driven primarily by the planned reduction in vessel operating days due to the drydock maintenance. At the Lindblad segment, net yield remained strong at \$999.00 in the second quarter, compared with \$963.00 in the prior year quarter, a 3.7% increase driven by pricing. We recorded 37,903 guest nights sold in the second quarter, compared with 40,597 last year, while we had 4,830 guests compared with 4,818. The occupancy rate in the second quarter was 92%, compared with 91.9% in the second quarter last year. Demand was strong in the quarter, while inventory down due to the drydocking. Adjusted net cruise per available guest night amounted to \$858.00 in the second quarter 2016, compared with \$691.00 in the same period in the prior year. This increase was due to the higher cost of tours due to an increase in drydock costs and an increase in charter cost related to additional charter voyages, partially offset by a decrease in fuel costs as well as an increase in general and administrative cost. And as the Company has transitioned to the public market and is fully engaged in executing on its transformational long-range growth plan, additional infrastructure required to support these efforts has increased general administrative expenses compared to last year. This includes the addition of talent, both at the executive level and across the organization of the Company, accounting a compliance cost and incremental insurance costs. We continue to benefit from a lower cost of fuel in the second quarter. Fuel costs represented 2.3% of the Lindblad's segment total revenue in the second quarter of '16, compared with 3.4% in the same period last year. This represents a 33% decrease in the fuel expense, year-over-year, and as we've mentioned before, we've not hedged fuel purchases, historically, but continue to investigate the potential relative to our business model. Consolidated adjusted EBITDA for the second quarter was \$5.2 million, compared with \$12 million in the same period in 2015. The decrease is primarily due to the increase in drydock activities for the quarter with a corresponding decrease in revenues and increase in expenses and the increase in G&A expenses, which I just discussed. We've not repurchased any shares or warrants since late January and tend to focus our capital on growth initiatives similar to Natural Habitat. On the liquidity front, we remain extremely well positioned to fund upcoming projects. We ended the quarter with \$151 million in cash, excluding \$18 million of restricted cash, compared with a debt balance of \$176 million. Overall, we're very pleased with where we stand and are on our track to meet our future objectives. And with that, Operator, we'll now take questions.

## **QUESTIONS AND ANSWERS**

### **Operator**

Thank you. We will now begin the question and answer session. To ask a question, you may press star (\*) then one (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 (\*) and then two (2). Once again, in the interest of time, please limit yourself to two questions and then once those questions have been answered, return to the question and answer queue if you have further questions. At this time, we will pause momentarily to assemble our roster. And our first question comes from Greg Badishkanian of Citi. Please go ahead.

### **Fred Wightman**

Hey, guys, good morning. This is actually Fred Wightman on for Greg. Just wondering if you could talk about the Natural Habitat integration effort so far and how you see sort of the run rate of that business?

**John McClain**

Well, as we had said early on, the acquisition of Natural Habitat was the acquisition of a standalone business. So while we looked at the potential for revenue synergies to be able to have them market into our database and for us to market into their database, we were not anticipating any cost synergies behind the scenes. So we've owned them since May 4, they are performing as expected, but there's really not much in terms of synergy that we expected on the cost side.

**Fred Wightman**

Okay, that make sense, and then just briefly, I think it was Sven mentioned in his script there was some uptick in European cancellations, could you just give a little bit more detail where you guys saw that?

**Sven Lindblad**

Yes, Sven here. Well, we saw it in Greece, in the Mediterranean, as a consequence of tremendous amount of noise in the news as related to refugees coming through Greece and we certainly saw it in Western Europe as a consequence, I believe, of the terrorist activities, both in Paris and in Brussels.

**Fred Wightman**

And could you just quantify? I mean, roughly speaking, ballpark what level the increase was or if multiple factors of cancelations, are people rebooking?

**John McClain**

No, it was by no means huge but there was, most definitely, it would have been a more robust season had these events not taken place. It was not double-digits or anything of that nature.

**Fred Wightman**

Great, thanks.

**Operator**

Our next question comes from Eric Gomberg of Dane Capital Management. Please go ahead.

**Eric Gomberg**

Hey, good morning, thanks for taking my questions. In the prepared remarks, you talked about the drawn plans for your transformational growth plans. So again, just maybe you could remind, is that simply the ships that you have on plan or what's the deal flow backlog look like? Are we looking at things, potentially like NatHab or things even more sizable and transformational?

**Sven Lindblad**

I think it's difficult for us to be specific about that. We have our eyes out all over the place for opportunities, things that fall within a set of criteria that would make sense for us, whether they be other ship operators, other ships, other land-based operations, anything that fits within, anything that's compatible with our business model, but more specific than that, I'd prefer not to get, I think.

**Eric Gomberg**

And I assume that you would do things that are [technical difficulty] both on brand and accretive. I saw Abercrombie & Kent was recently acquired in the very experiential travel space and I think it was at a fairly substantial multiple to where Lindblad trades. But I assume you guys would be

disciplined in your purchase prices.

**Sven Lindblad**

I believe we would be disciplined in our purchase prices, yes. [technical difficulty]

**John McClain**

So I guess, I think you saw that on the NatHab acquisition, where we certainly paid a reasonable EBITDA multiple.

**Eric Gomberg**

Yeah, no and that's certainly the impression I get from you guys. Just a couple of other things, I hope it's okay, in terms of expectations of drydocking, it seems you're more first half loaded than you have been in the past. Just so that we're adequately prepared, would you expect less drydocking in the back half of the year and, which could positively impact year-over-year compares?

**John McClain**

Yes, that's fair. If you look in, what happened in '15, the drydock which was also relatively consistent with '14, that the second and the fourth quarters are when we have the most significant. Last year, the fourth quarter was most significant; this year, the second quarter is the most significant. So we'll be down a little bit from what we saw in the fourth quarter last year.

**Eric Gomberg**

Okay and then just curious in terms of you have unveiled the Quest for next year, another ship for 2018, in your original Investor Presentation you have a larger Bluewater ship for '19. I'm just wondering, given what's going on in the energy space and kind of the weakness in shipping, if it'd become a buyer's market, where your pricing could potentially be more attractive or the terms could be more attractive on the '19 vessels, assuming you're going with that than you might have anticipated a year ago.

**John McClain**

Go ahead, Ian.

**Ian Rogers**

Yes, this is Ian, Eric. Absolutely, that's correct. The decline in the offshore business has proved very attractive, so pricing, particularly out of the European yards and some of the Southern European yards. So as you mentioned, Eric, our plan is to still build the two coastal vessels, which are well underway. We deepen the review process of the planning for the third Bluewater vessel and we would expect pricing to be more attractive than as originally laid out in our growth plan.

**Eric Gomberg**

Thank you very much.

**Operator**

And our next question comes from Chris Derrico of Macquarie. Please go ahead.

**Chris Derrico**

Hi guys. I had a question for you. With the increased size of the Chinese upper class, do you see that market as any potential growth in the future?

**Sven Lindblad**

We have historically focused on, primarily on the U.S. market because, and we still are focused primarily on the U.S. market because we believe for a whole variety of reasons it's the strongest and most valuable market. However, we are certainly exploring possibilities in foreign markets and are sort of in a phase of research as to what those opportunities might be. But by no means are we viewing the U.S. market as something that needs, per se, to be augmented by a foreign market, but a foreign market, if we find the right combination of circumstances that are cost effective and that would yield good results, we would certainly pursue that.

**Chris Derrico**

Thank you.

**Operator**

And our next question comes from Artem Fokin of a Caro Kamm. Please go ahead.

**Artem Fokin**

Hello, my first question is really about your capital expenditures. Would you mind breaking that down into what went in [technical difficulty] current rates and what went into paying for the new build?

**John McClain**

So while I try to flip through that, if you have another question?

**Artem Fokin**

Sure, I will go with the second one, so the second one is really more about the history of the Lindblad. Maybe you guys can share some qualitative statement and may be some numbers about performance of the Lindblad in '07, '08, '09, '10? Like, specifically, I'm targeting how well or fully the Company performed during the global financial crisis in terms of revenue, occupancy, yields, costs, et cetera?

**John McClain**

I'm sorry, can you repeat that? I missed that, I was trying to look for the other information. One more time?

**Artem Fokin**

Yes, of course, no worries. Could you guys comment a little bit on the performance of the Company during the global financial crisis?

**Ian Rogers**

Yes, so our performance during those periods is, was considerably better than the rest of the cruise business in terms of our demographic and we've talked about this extensively in terms of our Investor Presentations and when we came to market and we'd be happy to share that with you at a future time. But our audience tends to be somewhat isolated from the [technical difficulty] of the general economic environment, given, as I mentioned, their demographic state. So we were less affected during that period but we have not provided quantitative data around those elements.

**John McClain**

Great and on the purchase of property and equipment, the large majority of that, absent, say, \$3 million or \$4 million, is all in the new builds.

**Artem Fokin**

Okay, thank you for the conference question. Just a quick follow up on '08, '09. So I think you lost me a little bit, so in one sentence you said that you shared some information during the Road Show and then you said that now you cannot disclose anything. So those two are not consistent in my mind. So I probably missed something, could you clarify?

**Ian Rogers**

That is not my intent of that, of my response to that question. What I indicated was we had mentioned in the Road Show and disclosed some information about how the Company has performed over the last few years, which is not at odds with what I also said about we being less affected by economic downturns. And I think the most, the strongest point to take away from that discussion is that we are an experiential based travel company and I guess a really motivated and interested by the experiential elements of what we offer, which is very different to a straight product delivery.

**Artem Fokin**

Okay, thank you.

**Operator**

Once again, if you have a question, please press star (\*) and then one (1) on your touchtone phone and if you are using a speakerphone, please pick up your handset before pressing the keys. Once again, in the interest of time, please limit yourself to two questions. Our next question comes from Robert Kirkpatrick of Cargano Capital. Please go ahead.

**Robert Kirkpatrick**

Thank you and good morning. First of all, could you talk at all about how your bookings are shaping up for 2017, please?

**John McClain**

So, if you can see, while we quote in the release on where we are for '16, so we're a little bit behind. As we look to '17, we are also just a little bit behind but it's really early in the cycle and if you looked at the last few months that we had, our bookings have exceeded last year's bookings for the same month for the last, I think it's four months. So we think that some of the tactical efforts that we put forth are starting to payoff. But we're just slightly behind, but we're still really early in the game.

**Robert Kirkpatrick**

Okay and then secondly, is there a quantification or directional quantification you could give us in terms of the drydock expenses and what those were up, year-on-year, in 2016 second quarter versus 2015's?

**John McClain**

Yeah and I think it's, some of that may be in the release. It was up about \$2.5 million.

**Robert Kirkpatrick**

Great, thank you so much.

**John McClain**

You bet.

**Sven Lindblad**

Can I just add something, Sven here, to your first question? One of the things that, again, when we use the word cyclical, behavior, too, is cyclical and response to events are cyclical. One of the things I've discovered, literally over decades, is that there tends to be, external events tend, depending on what they are, of course, tend to produce some pretty reactionary or significant instant kind of response. But what I've also found is that that tends to die off very, very quickly and people go back to normal. There seems to be this embedded idea in people's minds that they want to get back to, quote/unquote, normalcy and the fact that bad things happened here and bad things happened there periodically, I think, is really, really baked into people's mindset these days. So at any point you may go down a little bit because a bomb went off somewhere or some event took place and then a month later or two months later, people take it in, they understand it and they go back to their habits. And so patterns, particularly as one focuses on anything that is related to a quarterly kind of issue, get a little bit hard because those events, whatever they may be, are not planned according to our definition of quarters. So they happened, they get assimilated, they get baked into the psyche and then people kind of move on. And these, there was a period of consistent drip of bad news in one form or another and that certainly did cause some depressed interest, but it's, as John said, in the last four months that sort of pent up demand, if you will, or that holding back or whatever you wish to call it, has reversed itself.

**Robert Kirkpatrick**

Thank you very much.

**John McClain**

We can take one more question.

**Operator**

It seems we have no further questions at this time.

**John McClain**

Great.

**Operator**

This concludes our question and answer session. I would like to turn the conference back over to Mr. Lindblad for any closing remarks.

**CONCLUSION****Sven Lindblad**

All right, well, thanks a lot for spending the time on a summer Monday morning. Certainly hope this information was helpful and then, more importantly and most importantly, that it gives a good understanding of the business, the reality both present and certainly as it relates to the future. I just want to reiterate we feel in a very good position as it relates to our future and we appreciate all of the folks who have chosen to invest in the enterprise. Thank you very much.

**Operator**

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