Lindblad Expeditions, Inc.

Third Quarter 2017 Financial Results

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CORPORATE PARTICIPANTS

Sven Lindblad - *President and CEO*

Craig Felenstein - *CFO*

PRESENTATION

Operator
Good morning, and welcome to the Lindblad Expeditions, Inc. Third Quarter 2017 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. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. 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 Craig Felenstein, Chief Financial Officer. Please go ahead.

Craig Felenstein
Thank you, operator. Good morning, everyone, and thank you for joining us for Lindblad's third quarter 2017 earnings call. With me on the call today is the 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 third quarter results. You can find our latest earnings release in the Investor Relations section of our website.

Before we get started, let me remind everyone that the company's comments today may include forward-looking statements about expectations for the future. Those expectations are subject to known and to unknown risks, uncertainties and other factors that may cause the company's actual results and performance in future periods to be materially different from any future results or performance suggested by these expectations. The company cannot guarantee the accuracy of any forecast or estimates, and we undertake no obligation to update any forward-looking statements. If you would like more information on the risks involved in forward-looking statements, please see the company's SEC filings.

In addition, some of 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
Thanks, Craig, and good morning, everybody, and thanks for joining us. I'm delighted with our strong third quarter performance on both the revenue and EBITDA fronts, the growth we delivered as a result of strong bookings we've generated over the last year, and firmly demonstrates the opportunity we have to grow Lindblad as we add capacity to meet the growing demand for expedition travel.

In short the thesis we laid out when we accessed through public markets back in 2015 is beginning to play out. The National Geographic Quest launched in July of 2017 and our guests actually loved the ship; this is a great reflection of our basic premise of focusing on the experience and what's outside while at the same time delivering a level of comfort and service previously unheard of on US ships of this size. I personally spent time on the Quest during September, and it was gratifying to see the fruits of our labor over the past two years and the resulting appreciation of our guests.

As we mentioned last quarter we did experience a later-than-planned delivery based on a variety of factors, the most relevant ones being the Quest as a prototype at a level of sophistication not seen in US ship building—passenger ship building in decades and the grounding of the ship during launch, which caused damage to a propeller and a rudder. The delay was short-term and bookings for the Quest remained very robust for the remainder of 2017 and for the first three quarters of 2018.

Reservations for the company overall also continue to be very strong. Bookings made in 2017 are up over 30% versus 2016, and while we're not seeing any additional significant bookings for the current year, we're seeing sustained momentum for 2018.

Bookings for 2018 travel are up 26% over the same period last year for 2017. This of course factors in a full year of the National Geographic Quest, but more importantly speaks of the sustained demand for expedition travel and Lindblad specifically. Craig will discuss our financial outlook in a moment, however, key indicators, future year strength, widespread enthusiasm about our first brand new ship, and no sign of cannibalization of existing ships are all very healthy indicators. And building the sister ship to the National Geographic Quest, the National Geographic Venture, with lessons learned from a prototype allows for improvement and also informs our team to better envision and plan for future new builds.

As to our next two new builds, we have elected to delay both by some months to ensure the quality we seek in all aspects of the vessel. We have challenged our marine team and the shipyards to build the most sophisticated ships of their kind and the devil is in the details. The details are now well planned for and fully understood by all parties essential for ships that are intended to explore some of the world's most remote places.

This morning we announced the signing of a contract with the Ulstein Shipyard in Norway to build a 69-cabin, state-of-the-art blue water vessel that will join the National Geographic Explorer and the National Geographic Orion as the third ice clash up in the Lindblad National Geographic fleet. This new vessel will have the ability to voyage anywhere around the globe and will specialize in polar travel with capabilities of exploring deep into the Antarctic and Arctic waters. She will be built with the Ulstein X-BOW design, allowing for greater comfort especially through rough waters, ensuring a better experience for our guests. The contract also includes options for two additional vessels, which will enable us to further expand our fleet in the years to come.

We are very excited by this next step in the evolution of our company, and we continue to believe that despite a significant number of new expedition ships in the market slated for 2018 and beyond, we can capitalize on the inevitable broadening of the category. The depth of experience, the focus, the deep understanding of what it takes to meaningfully deliver expeditions is I believe unparalleled at Lindblad, and of course the multi-faceted collaboration and brand value of National Geographic continues to be extremely relevant and powerful.

Looking more short-term 2017 to date has certainly had its share of external forces, albeit not with the intensity of 2016, and it clearly is a factor that needs to be anticipated. While we were not directly affected by the numerous hurricanes, they have hit some of our major markets. The initial comments made by the US administration affected momentum to Cuba and the recent State Department Advisories has exacerbated that further. Wildfires in the Pacific Northwest and the Columbia River also resulted in some diminishing of interest and cancellations. None of these factors individually have been significant, although they do add up to affect certain geographies and in aggregate do have some short-term impact. I do however consistently marvel at the resilience of our guests based on their time of life, the importance they place in this form of travel, and a trust that we will navigate challenges with their interests at the forefront.

Internally we're constantly looking for ways to better capitalize on the growing opportunities across the expedition space. Our marketing platforms are making significant strides in both efficiency and reach, more results with less direct mail for example. We have concluded a brand research exercise, which will help us articulate our value proposition for new audiences in more sophisticated ways, our use of data is improving exponentially as we better understand its applied value. Many new untraditional channels and

B2B have been discovered and developed, and channel results have improved pretty much across the board.

We're also looking closely at new geographies that can become relevant for both our own ships and for charter opportunities and consistently have feelers out and people in the field exploring those in detail. Some are complex, which we see as an asset. We always have and we will continue to be willing to do the hard work in advance to make geography both relevant and financially valuable. Without those efforts you can expect nothing but difficulty, and we are convinced that the R&D side of our approach is light years ahead of the competition.

Natural Habitat also continues to be a growing asset, exceeding our initial acquisition expectations. We are now more proactively marketing land-based trips to our audience, and they have discovered more and more how attractive our ship-based offerings are to their traditional clientele. We're still committed to discovering other acquisition opportunities. Nat Hab has proven to us that such opportunities are clearly accretive to the enterprise. So this aspect of our growth strategy deserves consistent focus.

And finally as I mentioned in our last call and the rest of the team continue to be enthusiastic about speaking to investors. I know that our business is very different to the traditional cruise market. I believe those that we have spoken to have felt they understand much better what the opportunity is and have found value in forthright discussion. It is our absolute intent to stay well on top of this niche both in terms of growth and in terms of yield. We are absolutely in the best position to continue to be a leader in expedition cruising and to benefit by an ever increasing interest in this space.

Craig.

Craig Felenstein
Thanks, Sven. As Sven mentioned the investment pieces that the company laid out when it went public in July of 2015 has started to come to fruition. The growing enthusiasm for expedition travel combined with our expanding capacity and distinguished track record and delivering unparalleled expedition experiences has begun to deliver significant financial growth.

The considerable demand surrounding the launch of the National Geographic Quest, without any material degradation in the occupancy for our existing fleet, gives us further confidence in the long-term growth opportunity for Lindblad Expeditions. While the timing of the initial growth targets have shifted a little due to be anticipated delivery schedule of the next two new builds, we are poised to deliver sustained financial growth and create increasing shareholder value in the years ahead.

Turning to the most recent quarter, Lindblad delivered revenue growth of 20% versus the third quarter a year ago, led by 20% growth at the Lindblad segment and a 17% increase at Natural Habitat. This revenue growth contributed to a 33% increase in adjusted EBITDA versus the third quarter a year ago with 27% growth at the Lindblad segment and a $1.2 million increase at Natural Habitat, nearly three times the adjusted EBITDA that Natural Habitat generated in the third quarter of 2016.

Looking at the segments individually, the Lindblad segment reported revenues of $67.5 million, an increase of $11.3 million versus the third quarter a year ago, primarily due to a 16% increase in available guest nights from the launch of the National Geographic Quest in July and to a lesser extent the cancellation of a voyage on the National Geographic Orion a year ago to repair a stabilizer. The revenue increase also reflects a 4% increase in net yield to $1,048 due to higher pricing and the impact of itinerary changes in Alaska, while occupancy across the fleet for the quarter remained over 90% despite the increased capacity from a year ago. The current quarter also included $248,000 of insurance proceeds related to the Orion cancellations earlier this year.

It is important to note that while the growth in the current quarter was fueled by the launch of the National Geographic Quest, we did cancel four highly booked voyages due to the delay from the original delivery date. If you exclude the impact from canceling these voyages, as well as the insurance proceeds I just mentioned from the Orion, we estimate that tour revenues of the Lindblad segment would have been increased by 25% and total company revenue would have increased 24% versus the third quarter a year ago.

Looking at the fourth quarter, we do anticipate significant revenue growth from an increase in available guest nights versus the fourth quarter of 2016. While we will have additional dry dock days in Q4, these will be offset by the launch of the Quest and additional capacity on the Orion as a result of the voyage cancellation for engine repairs in the fourth quarter a year ago. The current year also includes a Transatlantic positioning voyage on the Orion that we opened up to guests as the vessel travelled from Portugal to Chile in October ahead of the Antarctica season. We do anticipate a slight decline in occupancy in Q4 versus a year ago due to dispositioning voyage but this was always planned to sale at below normal occupancy levels, and the trip will add to revenue and EBITDA in the fourth quarter.

Turning to the cost side of the business, Lindblad segment operating expenses increased 19% primarily due to costs associated with the National Geographic Quest, $1.7 million in higher stock-based compensation mainly associated with Sven's distribution of his personal shares to the employee base earlier this year, and $1.4 million in executive severance expense. These increases were partially offset by accelerated depreciation a year ago related to the December retirement of the National Geographic Endeavor.

Excluding stock-based compensation, severance cost, and depreciation and amortization, total operating expenses were 16% higher than the third quarter a year ago, primarily from costs associated with operating the National Geographic Quest. Fuel costs in the quarter were 15% above prior year due mostly to the additional operating nights from the Quest. Fuel was 2.8% of revenue compared with 2.9% in the third quarter of 2016.

Adjusted net cruise costs on a per night basis did increase 2% reflecting some higher land costs due to the itinerary changes I discussed earlier.

Overall the 20% revenue growth and stable operating costs drove a 27% increase in Lindblad segment adjusted EBITDA versus the third quarter a year ago. Excluding the impact of the voyage cancellations on the Quest due to the delayed launch and the insurance proceeds in the quarter from Orion, we estimate adjusted EBITDA would have increased 40% at the Lindblad segment and 46% for the total company versus the third quarter a year ago.

Turning to the Natural Habitat segment, revenues of $17.1 million increased $2.5 million versus the third quarter a year ago from an increase in the number of guests. Natural Habitat also delivered significant operating leverage with the bulk of its revenue growth falling to adjusted EBITDA, which increased $1.2 million versus a year ago to $1.8 million this year. Total company net income attributable to Lindblad in the quarter was $9.3 million or $0.21 a share, an increase of 25% versus the $7.4 million or $0.16 a share reported in the third quarter a year ago, primarily driven by the improved operating results, partially offset by higher interest expense due to lower capitalized interest related to the new builds in the current quarter as well as increased income taxes.

Looking at our balance sheet we remain extremely well positioned to invest in future growth opportunities. We ended the quarter with $112 million in unrestricted cash. Free cash flow for the nine months ended September 30th was a use of $14.6 million which included $36 million spent on the new builds. Including only maintenance capex, free cash flow was $23.6 million for the first nine months, an increase of $11.6 million from the same period a year ago.

Looking at the full year 2017, the Lindblad segment is currently pacing approximately $9 million ahead of the same point a year ago, despite the voyage cancellations on the Orion and Sea Lion in the first quarter, primarily due to additional inventory from the launch of the National Geographic Quest, and from additional charter expeditions in Cuba. It is important to note that while Cuba has contributed to our revenue growth in the current year, we have seen an increase in cancellations following the State Department Advisory warning in October.

We are currently at 99% of our full-year projected ticket revenue for 2017 versus 100% of the full-year ticket revenue in 2016 at the same time a year ago. While we continue to see increased bookings month on month versus 2016, at this point the majority of those reservations relate to 2018 and 2019. So we do not anticipate booking any significant additional revenue for 2017.

Factoring in the cancellations associated with Cuba and current booking trends focused on 2018, we now expect total company total revenue in 2017 between $267 million and $272 million and adjusted EBITDA between $42 million and $44 million. Please remember that these forecasts also include the estimated $12.5 million revenue and $9.2 million adjusted EBITDA impact from the voyage cancellations on the Orion, Sea Lion, and Quest.

We will provide financial guidance for 2018 on our year-end call in March but please note that the National Geographic Venture is now scheduled to launch in the fourth quarter of 2018 and will have a purchase price of approximately $57 million. The changes versus our original expectations are primarily related to learnings associated with building and operating the National Geographic Quest. As Sven mentioned we have also announced this morning the signing of a contract to build a blue water vessel with Ulstein in Norway for approximately $135 million US. This total includes hedging costs on the contract. This state-of-the-art expedition vessel is currently scheduled for delivery in January 2020 with the potential for accelerated delivery to the fourth quarter of 2019.

Lindblad also has the option to order up to two additional vessels; the first for delivery 12 months after the initial vessel and the second 12 months thereafter. It is important to note that the shift in delivery dates for the new ships was a result of taking the appropriate time and measures in the design and contract discussion to ensure we will have the ideal vessels to deliver the most immersive, high quality expeditions for our guests. While the shift in delivery dates from May 2018 to the fourth quarter of 2018 for the Venture and from May 2019 to the end of 2019 or early 2020 for the blue water vessel does impact annual projections that were laid out back in 2015. The growth drivers for the company remain firmly in place and we are well on track to meet our long-term financial objectives.

Thanks for your time this morning, and now Sven and I will be happy to answer any questions that you might have.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one 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. At this time, we will pause momentarily to assemble our roster.

The first question comes from Greg Badishkanian of Citi. Please go ahead.

Jesse
Hi, this is actually Jesse [indiscernible]] on for Greg. So, a couple of quick ones. So, you reduced your full-year revenue guidance by $6 million, the range, and I think you had $3.6 million impact from the cancellations this quarter. So could you just kind of walk us through where that other $2.5 million came from?

Craig Felenstein
So, the decrease really relates to three, I would say, separate items. The first item certainly relates to Cuba. We have seen not a whole lot of new bookings coming in after the State Department warning in October, and we actually have seen a few cancellations. So we are not seeing that revenue come in as was originally expected. It will still be a profitable venture for us in Cuba but it certainly is not going to deliver the kind of returns that we originally expected.

The second is we are seeing a little bit of a falloff in other revenue, which is the items that happen around the voyage, such as extensions, options, insurance, cancellations, other revenue of that item. The reality of those items is that the bulk of that is not highly profitable from an EBITDA perspective because there are low margins on those items. But that is certainly impacting our fourth quarter expectations.

And then we have seen, as I mentioned in my prepared remarks, we have seen some shift in the bookings trends more towards 2018 than currently in 2017. So the quality of the bookings and the size of the bookings remains significant but we're seeing it more in 2018 than in 2017. So those are really the three factors that are causing us to lower guidance for the current year.

Jesse
Okay, thanks. And I had another one about kind of the deceleration from the bookings are up 60%, I think in the first quarter, then 40% in the second, and I think you said 30% for 2017 now. So will that kind of just go in tandem with pretty much everything you just covered right there?

Craig Felenstein
Yeah, the reality is as we look at the year overall the bookings have been strong throughout the year. When you examine the year-on-year growth, we have seen a significant monthly growth year-on-year throughout the entirety of 2017 versus 2016. We did see some strength towards the back half of 2016 last year that we are now [indiscernible] against in 2017. But we're still seeing nice double-digit growth in bookings even in the current months versus where we were a year ago, and that applies to not only 2018 but also some of the bookings that we're already seeing for 2019.

Jesse
Okay, great. Thanks.

Operator
The next question is from George Kelly of Imperial Capital. Please go ahead.

George Kelly
Hi, thanks for taking my questions. Back to guidance if we could actually, and just to be clear that the cancellations from the third quarter were included in previous guidance, were they not?

Craig Felenstein
Correct, so the Quest cancellations that was a known entity when we reported earnings after Q2 so the $3 million impact to EBITDA was already included. As I mentioned the three items that really are bringing our guidance down a little bit for 2017 relates to Cuba, the timing of bookings, and the flow of other

revenue.

George Kelly
Okay, and are you putting those in order of magnitude?

Craig Felenstein
I would say they're probably all pretty equal, with regards to the other revenue maybe a little bit less than the other two. But for the most part they're all pretty much the same size. I would say that applies from a revenue perspective.

From an EBITDA perspective the other revenue decline has not really impacted EBITDA all that dramatically because it's very low margin. So the other two items would really have impacted EBITDA more than the other revenue change.

George Kelly
Okay, and not to get too—but on your previous release and conference calls I think 98% of 2017 was booked. So can you just help me understand how if the other revenue is the smallest component of the change, can you help explain that?

Craig Felenstein
Yeah, sure. So what happens as we go through any normal years, our bookings happen so far in advance that typically our average booking window is about nine months. So as we get towards the end of the year what you're seeing is you see a lot of bookings continue, not a ton for the current year but the vast majority is for the following year. But you do see cancellations, but normal course of cancellations as certain bookings don't ultimately come to fruition as you get towards the end of the year.

So when you get to more towards the end of the third quarter into the early part of the fourth quarter you're seeing more cancellations typically than you are seeing bookings. It's not nothing out of the ordinary but it's the normal course of business. So in any given year you're going to see us be at a high percentage of our ticket revenue once we report even the end of the second quarter because at that point typically it's already August. And then you'll see some positives offset by some negatives for the remainder of the year.

That's why today we are expecting a little bit of positive bookings for the remainder of the year but that will be offset predominantly by any additional cancellations we have.

George Kelly
Okay, got you. Thank you.

Craig Felenstein
Thank you.

Operator
Again, if you have a question, please press star then one. The next question is from a Greg Pendy of Sidoti. Please go ahead.

Greg Pendy
Hi guys, thanks for taking my question. I just wanted to—I was just wondering on the net yields, I think you broke that down. You said some of that was just an itinerary change. I was just wondering how much of that—the net yield growth from a year-over-year perspective is coming just from a newer vessel in the fleet. Can you kind of give us some numbers on that?

Craig Felenstein
Sure, when you look at the additional net yield in the quarter you're seeing really a few factors. The first is we do have pricing across our fleet for the entire year. Okay, so whenever we look at our fleet and we look at what the opportunities are at any given moment, we do increase prices traditionally year-on-year. Sometimes some itineraries we raise more than others. We look at the demand opportunity, we look at the cost associated with these vessels, and we adjust prices accordingly. So the first really will be price increases.

The second would be we did change some itineraries. When we launched the Quest we did change some itineraries on some of our existing fleet, the Sea Bird and Sea Lion, which Sven could talk to a little bit in terms of the changes we made there. But by doing so we were able to increase the overall yield on these vessels a little bit, which certainly helped, and then obviously with the launch of Quest that's certainly played into the overall yield increase as well.

So Sven, do you want to talk a little bit about the change in the itineraries in Alaska?

Sven Lindblad
Well, when we launched the Quest we obviously didn't want to have the other older vessels running head to head with the same itineraries because then you'd have to focus too much on the difference between vessels, which is not in our estimation a good idea. So we've been experimenting with some different itineraries in Alaska to distinguish and differentiate the programs, which also interestingly enough allows us to come up with ideas that potentially attracts some different audiences.

So we shortened some of our Alaska itineraries on the Sea Bird and incorporated some land components. And so this was very experimental, turned out to be a very good idea; those were very, very well received. And in the long-term as a consequence of that, those have the potential of being more profitable than before because you're getting more people through the system, and you're incorporating some land as part of the equation. So we were very, very pleased about that and certainly that's the plan for 2018 and beyond.

Craig Felenstein
One other factor that I should mention with regards to the net yield is a year ago we were retiring the National Geographic Endeavor as well, so the yields on that vessel given the newer vessel this year has certainly gone up a little bit, that was not as significant as a factor as some of the other items we mentioned but it did play into the increase year-on-year in the third quarter as well.

Greg Pendy
Got it, that's helpful, thanks a lot.

CONCLUSION

Craig Felenstein
Okay, thank you, everybody, for joining us today. We appreciate you taking the time and if you have additional questions please give me a call in the New York office. I'm happy to answer anything that you have. Thanks.

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