

Lindblad Expeditions Holdings, Inc.
Third Quarter 2015 Earnings
November 9, 2015 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Ian Rogers – *Chief Financial Officer and Chief Operating Officer*

Sven-Olof Lindblad – *President and Chief Executive Officer*

Mark Ein – *Chairman of the Board*

PRESENTATION

Operator

Good day and welcome to the Lindblad Expeditions Holdings, Inc. Third Quarter 2015 Earnings 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. 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 call over to Mr. Ian Rogers, Chief Financial and Operating Officer of Lindblad. Mr. Rogers, the floor is yours, sir.

Ian Rogers

Thank you, operator. Good morning, everyone, and thank you for joining us on our Third Quarter 2015 Earnings conference call. I am joined today by Sven-Olof Lindblad, our President and Chief Executive Officer; and Mark Ein, our Chairman, who is on the phone. Sven will start by providing opening comments on the business, and I will follow with details on the results of the third quarter before finally turning the call back to Sven for closing words. We will then open the call to your questions.

Our press release for the third quarter 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 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.

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

Sven-Olof Lindblad

Thank you, Ian, and good morning to you all, and thanks for joining us today. We've had a very positive quarter, and I'm delighted to tell you about some important developments in the business. Let me start with the performance of our existing fleet. The company posted excellent results in the third quarter, both the owned and chartered vessels performed well, and the results were enhanced by some additional charter inventory and a few additional departures of the owned vessels. The result was a 13.8% increase in revenue and a 16.2% increase in adjusted EBITDA compared to the third quarter last year.

In the first nine months of this year, revenue grew by 6.4% and adjusted EBITDA grew by 8.8% when compared to last year. These results also demonstrate the resilience and nimbleness of our business as we made up for weak demand in Australia related to the downturn of the Australian economy and the value of its currency. What we did not know empirically on the last earnings call was how successfully we were able to redirect our efforts in our core US market, which made up most of the shortfall. Overall, we are very pleased with how 2015 is shaping up, we remain confident in the outlook for the rest of the year, and we are tracking in line with our plan.

Now I'd like to give you an update on our new build program. As we have discussed before, our plan calls for the addition of two new US flagged coastal vessels to be added to our fleet in 2017 and 2018. We are currently deep in the final details for these two coastal vessels with the expected deliveries on target for the second quarter of 2017 and 2018.

Importantly, I am pleased to tell you that in the third quarter we signed a letter of intent and paid a \$4 million non-refundable slot fee to secure capacity at a shipyard for the purpose of these builds. Negotiations of the final contract based on the letter of intent are ongoing, and we plan to start building before the year's end. We are pleased with the progress and look forward to adding these two new vessels to our fleet. As we mentioned before, these new vessels will be 100-passenger US flagged ships that will be deployed in geographies complementary to our existing US vessels where we have strong demand.

When we embarked upon the process of going public, I knew that it would not only provide us with the capital to expand our fleet, but it would also create a wide range of other opportunities for our business. This has certainly been my experience now that we have actually spent some time in the public realm. Clearly, the opportunities presented by combining a strong brand with available capital provide a potent mix. We've had many options opening up for us in terms of M&A, partnerships, recruiting, as well as general visibility of the company, which has been very positive. I know we'll be able to talk about a lot of great things on that front more concretely in the new future.

I'm also very pleased to talk to you about a recent addition to our management team. We announced a couple of weeks ago that John McClain is joining our team as chief financial officer. In fact, his first day is tomorrow, so he will join us for the next earnings conference call. We started the search process for a new CFO at the time we announced that we would become a public company in a merger with Capitol Acquisition, and we are pleased to have signed up a talent of John's caliber.

John comes to us with extensive leadership experience from a number of public companies across a range of industries including some notable travel and hospitality companies. Most recently he was the chief financial officer of The Jones Group until its sale to Sycamore Partners in April 2014. He has also held senior finance positions at Avis Budget Group, Cendant, Sirius Satellite Radio, and ITT Corporation. He has significant experience leading and overseeing all of the financial functions of large complex businesses over his distinguished career over two decades. His public company, financial market, and M&A expertise will be a significant valuable to Lindblad as we continue to execute on our growth plan. We are thrilled to welcome John aboard.

Ian Rogers, who has held the role as both chief financial officer and chief operating officer, will now focus on the COO role and be dedicated to driving Lindblad's existing operations and its significant growth initiatives.

On a final note, many people have asked me how it feels to be a public company. I've always believed in the value of robust partnerships. They broaden opportunity and broaden thinking. Being public has, in a way, exponentially broadened our community, and I've enjoyed the opportunity interact with our new partners, the investment community.

Now I'd like to turn the call over to Ian to review the financial results of the quarter.

Ian Rogers

Thank you, Sven. We had a strong quarter and are pleased with how the year is shaping up. I'll walk you through a review of some of the specifics. In the third quarter of 2015, the company generated four

revenue of \$58.6 million, which represents an increase of \$7.1 million or 13.8% from the \$51.5 million in the third quarter of 2014. The growth was primarily driven by \$5.7 million of higher guest ticket revenues derived from an increase in the number of voyages offered this year compared to last year both on chartered and owned vessels. In addition, a ship that dry docked in this quarter in 2014 underwent dry dock earlier in this year.

The increase in guest ticket revenues was partially offset by lower occupancy this year compared to last year. This was primarily related to the *National Geographic Orion* as a vessel across the Indian Ocean to return to Kimberley season in Australia and onto the Pacific before moving to Antarctica for the season. As we've mentioned before, the *Orion* will be redeployed to Europe in the summer of 2016, so it will actually not be repeating the Pacific and Kimberley itineraries next year.

Now turning to the first nine months of 2015, tour revenues amounted to \$163.5 million, which was an increase of 6.4% compared to \$153.7 million in the nine months of 2014. The key drivers here were the increase in guest ticket revenues from adding voyages on both the owned and chartered fleet as well as the impact of price increases. These were offset by a slight decrease in occupancy. We also saw a strong demand for pre- and post-voyage extensions and greater air ticket sales leading to an increase in other revenue of \$2.6 million.

Net yield in the quarter amounted to \$935 compared to \$950 in the third quarter of 2014, which represents a decrease of 1.6%. The change was primarily related to the decrease of occupancy in the quarter as well as a slight increase in commissions and other incentives. In fact, if you look at the gross yield, you will see that we have a slight increase of about 0.4% from \$1,096 in Q3 2014 to \$1,100 in Q3 2015. Net yield for the first nine months of 2015 was flat over 2014 at \$966 compared to \$965 in the first nine months of 2014.

It might be helpful to note that given we have a small fleet, we do see some swings in metrics like net yield from one quarter to the next based on specific itineraries offered, which charters are in season, and the dry dock schedules for a particular year. We remain focused on the overall picture for the fleet for the full year, and while we do not provide guidance on net yield, we remain confident that we are on track to meet the plan we shared with the market earlier this year; a plan which did not call for significant overall growth in 2015 compared to 2014.

We recorded 48,200 guest nights sold in the third quarter and 5,817 guests, which is a 15.3% increase from the third quarter in 2014. This comes from the additional voyages we had in the quarter and timing of the dry dock when compared to 2014. The occupancy rate in the third quarter of 2015 was 90.5% and occupancy for the full first nine months of 2015 was 91.4%. This is lower than our occupancy rate in the third quarter of 2014 which was 93.0% and the first nine months of 2014 which was 94.4%. We increased capacity through additional voyages and benefited from this increased inventory with increased revenue, but the overall occupancy level is slightly down primarily due to the Indian Ocean, Pacific, and Australia routes the *Orion* which we previously mentioned.

Adjusted net cruise cost per available guest night amounted to \$638 in the third quarter of 2015 compared to \$661 in the same period in the prior year, which represents a decrease of 3.4%. The decrease in adjusted net cruise cost was primarily driven by a reduction in the cost of fuel in the third quarter of 2015 compared to 2014 and a decrease in dry dock costs and related fleet expenses for the owned fleet.

We continued to benefit from a lower cost of fuel in the third quarter compared to last year. Fuel costs represented 3.6% of tour revenue in the third quarter of 2015 compared to 5.3% in the same period last year. This represents a 23% decrease in the fuel expense year-over-year. We have not hedged fuel

purchases historically, but continue to investigate the potential relative to our business model.

Adjusted EBITDA for the third quarter of 2015 was \$15.8 million compared to \$13.6 million in the same period in 2014, which represents an increase of 16.2%. Adjusted EBITDA for the nine months of 2015 amounted to \$42.1 million, which is an increase of 8.8% from the same period in the prior year. A reconciliation between adjusted EBITDA and GAAP net income is included in the financial data provided in our earnings release.

We recorded net income of \$4.4 million in the third quarter compared to \$7.3 million in the same period last year. This change in net income was primarily due to expenses related to the merger with Capital of \$5.5 million and stock-based compensation expense of \$1.2 million. As Sven mentioned, we are progressing well on the ordering of our two coastal vessel new builds having signed a non-binding letter of intent and paid \$4 million as a slot fee to secure the shipyard's capacity for these builds.

We are also announcing today that our board of directors has approved a \$20 million plan to repurchase stock and warrants. We have significant available liquidity beyond the planned investment in the expansion of our fleet, and so we've established this repurchase program to have the flexibility to opportunistically buy back our stock or warrants. This plan does not have a specific timeline and will continue until otherwise modified or terminated by the board.

As a reminder on the liquidity front, we're extremely well positioned to fund these upcoming projects. We ended the quarter with \$209 million in cash excluding \$9 million of restricted cash compared to a debt balance of \$175 million. Overall we are very pleased with where we stand after the first nine months of 2015, and we are on track to meet our objectives for 2015.

Looking ahead, our advanced bookings for 2016 remain strong. As of October the 15th, 63% of forecast ticket revenue for 2016 was on the books compared with 61% on books on the same date in 2014 for travel in 2015.

With that, I will turn the call over to Sven for his closing remarks.

Sven-Olof Lindblad

Thank you, Ian. In summary, we have a tremendous opportunity in front of us, and we're focused on executing our plan to capitalize on this opportunity. And now, we are happy to take your questions. Ian and I are also joined on this call by Mark Ein, Chairman of Lindblad Expeditions Holdings, who is available to respond to your questions.

I will now hand the call over to the operator to manage the question and answer session.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. Again, it is star then one to ask a question. At this time, we will just pause momentarily to assemble our roster.

The first question we have comes from Paresh Shah with Telos Asset Management. Please go ahead.

Paresh Shah

Good morning, gentlemen. Congratulations for excellent results during the quarter. I have just one quick question. I was trying to kind of get an understanding for the geographies where your guests kind of comes from, so I just wanted to know like how much does the China region kind of represent the guest, kind of breakdown? So that's all my question is.

Sven-Olof Lindblad

Alright. As we've said before, our primary market by far is the United States. It's a market we know, we understand, and we do have international business from all over the world, including China, but it is not a significant part of our business. We have strategically decided to focus our marketing efforts here in the United States where we believe we can get the best return for our investment to date, but in the future you never know. These are expanding markets, we're keeping our eye on them, and they do represent future opportunities.

Paresh Shah

Thank you.

Operator

Next we have Eric Gomberg of Dane Capital Management.

Eric Gomberg

Congratulations on a very strong quarter. I was hoping you could give maybe a little bit more color on 2016 just in terms of pricing of what you've booked so far and maybe some sense of the impact of changing *Orion's* geography.

Ian Rogers

Eric, thanks for your question. We don't talk specifically about individual vessels and don't issue guidance around that. Mostly competitive reasons dictate that, but with regard to pricing for 2016, our forward booking pace indicates that our pricing remains strong and our booking pace remains strong.

Eric Gomberg

Excellent. And the LOIs for the two vessels, I realize it has not been fully negotiated, but is the prospective price kind of in line with what you've talked about previously?

Ian Rogers

We have not issued public guidance around those prices, but we have no indication that there are reasons why we will not be able to sign those contracts at the amounts that are close to what we indicate in our investment thesis.

Eric Gomberg

Sure. And on the M&A side, are you looking mostly at just bite-size acquisitions or are you looking at things that could be more substantial and really add scale to the company? So a wide range or a narrow range?

Sven-Olof Lindblad

I believe that we are looking at a wide range. We're very open as to opportunities, and they could be bite-size or they could be far more substantial than that.

Eric Gomberg

Okay. And then just one last question, are there any anticipated dry dock or other expenses in the fourth quarter? Because it would seem, based on where your EBITDA is through nine months, that what you had laid out previously as projections for this year could end up being fairly conservative

relative to where you stand today unless there is certain one-time fourth quarter costs.

Ian Rogers

Eric, we're not going to speculate on that, but there are no unusual movements in the last quarter of 2015.

Eric Gomberg

Okay. That sounds good.

CONCLUSION

Operator

Well showing no further questions at this time, we will go ahead and conclude our question and answer session. I would now like to turn the conference call back over to management for any closing remarks. Gentlemen?

Sven-Olof Lindblad

Thanks very much for joining us today. We appreciate your interest and support and look forward to further conversations with you going forward. Have a nice day.

Operator

And you also, sir. And we thank you and the management team for your time today. The conference call is now concluded. At this time, you may disconnect your lines. Again, we thank you all for attending today's presentation. Take care and have a great day.