



Lazydays Holdings, Inc.

Second Quarter 2022 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Debbie Harrell, *Corporate Controller*

Robert DeVincenzi, *Interim Chief Executive Officer & Director*

Nicholas Tomashot, *Chief Financial Officer, Treasurer & Secretary*

CONFERENCE CALL PARTICIPANTS

Steven Dyer, *Craig-Hallum Capital Group*

Michael Swartz, *Truist Securities*

Frederick Wightman, *Wolfe Research*

PRESENTATION

Operator

At this time, I would like to welcome everyone to the Lazydays Holdings, Inc. Second Quarter 2022 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise.

Thank you. Debbie Harrell, Corporate Controller, you may begin your conference.

Debbie Harrell

Thank you, Operator. Good morning, and thank you for joining us for our second quarter 2022 financial results conference call. I'm Debbie Harrell, Corporate Controller at Lazydays.

We issued the Company's earnings press release this morning. A copy of the earnings release is available under the Events & Presentations section of the Investor Relations page of our website, and has been furnished as an exhibit to our current report on Form 8-K with the SEC.

With me on the call today are Mr. Bob DeVincenzi, our interim Chief Executive Officer; and Mr. Nick Tomashot, our Chief Financial Officer.

As a reminder, please note that some of the information you will hear today during our discussion may consist of forward-looking statements, including, without limitation, statements regarding unit sales, revenue, gross margins, operating expenses, stock-based compensation expense, taxes, product mix shift and geographic expansion. Actual results or trends for future periods could differ materially from the

forward-looking statements as a result of many factors. For additional information, please refer to the risk factors discussed in the Form 10-K filed with the SEC on March 11, 2022.

We will also discuss non-GAAP measures of financial performance that we believe are useful for understanding the Company's results, including EBITDA and Adjusted EBITDA. Please refer to our earnings press release for reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

For the three months ended June 30, 2022 and 2021, the financial information presented represents the operating results of Lazydays Holdings, Inc.

Now it is my pleasure to introduce Bob DeVincenzi, who will provide some opening remarks before Nick Tomashot shares an overview of the 2022 second quarter financials.

Robert DeVincenzi

Thank you, Debbie. Let me start by providing a few financial performance highlights.

The second quarter of our 2022 financial year again demonstrated remarkable performance. We are pleased with our ability to respond to the industry normalization underway that I referred to in our first quarter conference call.

In our preliminary second quarter results, which were released on July 20, 2022, we indicated an expectation of reporting revenue of \$373.6 million, Adjusted EBITDA of \$38.4 million and net income of \$31.8 million. Today, we are announcing results that conform identically with our earlier expressed expectations. Nick Tomashot will provide more detail on our second quarter financial results a bit later in the call.

Those that track and predict the performance of our industry are forecasting decelerating wholesale shipments, especially for towable models and the need to moderate OEM production for the remainder of the year. At a retail level, these same experts noted 2022 year-to-date retail sales down in the neighborhood of 23% year-over-year through May, and forecasted full year retail unit sales ending at or around 2019 levels.

At Lazydays, we have seen towable inventories normalize, while many motorized products remain below desired levels. Although gross margins continue to be strong when compared to the same period a year ago, moving forward, we do expect some reduction in gross profit percentage as increased supply drives increased price competition.

We are maintaining a cautious outlook for the remainder of 2022, but are pleased with the level of prospect engagement we are seeing. We are focused on assuring that our inventory position is rightsized to fit the expected levels of demand. We are also focused on leaning into the market and further improving our digital engagement with prospects to get them to our dealerships to see firsthand with the RV lifestyle and Lazydays can offer.

As a result of our marketing engagement efforts, demand continued to be solid, although shifting somewhat as new unit volumes were down approximately 12% from the same period a year ago, while preowned units were up approximately 12%. We continue to be pleased with the mix of new and pre-owned unit sales we generated, supported by our strategy to ensure that we can offer choices of both new products and preowned products at our dealerships.

Average sales price or ASP of new units of approximately \$89,000 and approximately \$70,000 for new preowned units continued to be strong during the period.

As I mentioned, our digital and in-person prospect engagement continue to be excellent in Q2. Increases in new unit inventories, coupled with more attractive market-driven pricing, continue to draw both prospective owners and existing owners seeking to trade their units to our website and to our dealerships.

We are very focused on using data and analytics to target audiences more effectively. Our objective is to maintain our digital agility to complement the customer-focused and flexible posture we maintain with our customers in our dealership locations. In both of these environments, we strive to rapidly adjust the demand and market shifts and product preferences as they occur in real time so we can provide the product or service that best suits the customer.

Shifting to our strategic investments and efforts during Q2, we repurchased \$38.2 million of Lazydays common stock, consistent with our previously announced share repurchase program. Our share repurchases over the last 12 months now total approximately \$50 million.

Given our substantial cash resources, we continue to remain focused on growth with all of our previously announced greenfield dealerships continuing to advance. These include new dealership locations planned in Surprise, Arizona, Wilmington, Ohio, Council Bluffs, Iowa and Fort Pierce, Florida. And subsequent to the end and addressed as a subsequent event in our 10-Q, we completed the acquisition of Dave's Claremore RV on July 23. We have welcomed the staff and customers, the Lazydays RV of Tulsa, and look forward to continuing to serve and expand this important market.

As I said in our last call, we continue to evaluate additional greenfield dealership locations and have identified and advanced our work targeting a set of attractive new markets. We also made progress in Q2 in further advancing our dealership acquisition opportunities. We continue to see promising and actionable opportunities to enter many new markets for Lazydays, and we'll continue to share our plans as they mature.

I would also like to note another subsequent event that I am very pleased to reinforce with all of our stakeholders. As previously released on July 14, 2022, the Board has appointed John North as our next Chief Executive Officer. As Chris Shackleton, our Board Chairman, has said, and I will paraphrase, we could not be more excited with the combination of John's operational strengths, his disciplined growth orientation and a superb judgment in allocated capital through business cycles. The Board sees this combination of skills as highly relevant as we assess a widening range of compelling investment opportunities to drive shareholder value.

We expect that John will join the company on September 6th of 2022, and at that time, I will end my service as interim Chief Executive Officer and return to my post on the Board of Directors. We look forward to welcoming John to the Lazydays family.

I will now turn the call over to Nick Tomashot, who will provide a more complete overview of 2022 second quarter financial results.

Nicholas Tomashot

Thank you, Bob. Please note that unless stated otherwise, the 2022 second quarter results comparisons are versus the same three-month period ended June 30, 2021.

Total revenues for the second quarter were \$373.6 million, up \$50.8 million or 15.7% from 2021. Revenue for the quarter from the sale of recreational vehicles, or RVs, was \$337.3 million, up \$47.1 million or 16.2%. Total RV unit sales, excluding wholesale units, were 4,052, down 156 units or 3.7%. Q2 revenue from the sale of new recreational vehicles was \$219.2 million, up \$17.6 million or 8.7%. New RV unit sales were 2,455 down 325 units or 11.7%. The average selling price of new RVs for the quarter was \$89,300 and up 17,200 or 23.9%.

Moving to preowned RV sales, pre-owned revenue for the quarter was \$118.1 million, up \$29.4 million or 33.1%. Pre-owned RV units sold, excluding wholesale units, were 1,597, up 169 units or 11.8%. The average selling price of pre-owned recreational vehicles was \$70,400, up 11,000 or 18.5% versus the second quarter of 2021.

Revenues in our other channels consisted of sales of parts, accessories and related service, finance and insurance or F&I revenue, as well as campground and miscellaneous revenue. In total, revenue from these other lines of business was \$36.2 million, up \$3.6 million or 11.2% compared to 2021. The increase was driven by an F&I revenue increase of \$1.6 million or 8.3% to \$21.4 million; plus parts and service revenue increase of \$2 million or 16.8% to \$14.1 million.

Q2 gross profit, excluding noncash last-in-first-out or LIFO adjustments was \$101.2 million, up 14.8 million versus 2021. Gross margin excluding LIFO adjustments increased between the two periods to 27.1% compared to 26.8% in 2021, with the change driven by an increase in average selling price for both new and pre-owned units as well as an increase in the number of pre-owned units sold relative to new units.

Including noncash LIFO adjustments, which had a net unfavorable swing between periods of 1.7 million compared to prior year, gross profit for the quarter was \$99.3 million, up 13.1 million or 15.2%.

Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was \$61.5 million, up 16.7 million compared to prior year. This increase is primarily attributable to overhead associated with the Portland, Oregon, Vancouver, Washington and Milwaukee, Wisconsin dealerships acquired in August 2021. Overhead associated with the Monticello, Minnesota dealership opened in 2022, as well as increased marketing expense, support costs and investments in IT infrastructure and compliance.

SG&A as a percentage of gross profit ex LIFO increased from 51.8% in Q2 2021 to 60.8% in 2022 reflecting the increased overhead from our acquisitions and additional items mentioned above.

Amortization of stock-based compensation increased \$0.4 million and depreciation and amortization increased \$0.7 million compared to prior year.

Net income for the second quarter was \$31.8 million as compared to \$25.3 million in 2021.

Adjusted EBITDA for the quarter was \$38.4 million, down \$2.8 million or 6.8%. Adjusted EBITDA margin decreased by 250 basis points to 10.3% from 12.8% in 2021. Please refer to our earnings release for a table, which includes a reconciliation of net income to Adjusted EBITDA.

Now turning to our June 30 balance sheet and our financial position, we had cash on hand of \$105.4 million and net working capital of \$121.2 million, with cash \$7.2 million higher than December 31, 2021. This increase includes the impact of cash used in operating activities of \$31.7 million, and cash paid for the purchases of property and equipment and acquisitions of \$12.7 million, offset by cash provided by financing activities of \$51.7 million.

Operating cash flow includes the negative impact of a \$79.2 million increase in inventory as RV inventory continued to recover from depleted levels. The cash impact of this inventory increase was offset by an \$89.5 million more planned cash inflow reflected in cash provided by financing activities.

Cash provided by financing activities also includes cash outflows of \$38.2 million for the repurchase of over 2.2 million shares of common stock at an average price of approximately \$16.94.

As of June 30, 2022, we had \$321.7 million in inventory, consisting of \$268 million in new vehicles, \$58.5 million in pre-owned vehicles, approximately \$8 million in parts inventory and LIFO reserves of \$12.8 million.

As of June 30, 2022, we had no borrowings under our \$25 million revolving credit facility, \$8.6 million of term loans outstanding and \$282.3 million in gross notes payable on our floor plan facility. We also had approximately \$1.8 million outstanding on notes payable related to acquisitions and a mortgage on property of approximately \$5.5 million.

Thank you. I'd now like to turn the call back over to Bob DeVincenzi. Bob?

Robert DeVincenzi

Thank you, Nick. In closing, I would like to say that the Board and myself continue to be appreciative of the commitment and performance of the executive team and all Lazydays partners. The recent period has called upon us to adapt to changing conditions in our industry and in the macroeconomic environment. I am pleased with the agile and (inaudible) team that we have to both compete in the marketplace and meet the needs of prospective RV owners and customers.

Let's open the call up to questions.

Operator

Your first question comes from the line of Steve Dyer from Craig-Hallum.

Steven Dyer

Question, you talked about inventory in towables normalizing. I'm curious to see what you're or what you're seeing on the trading environment. Specifically, are you seeing an abnormal amount of trade-ins from people who perhaps decided to try RV during COVID and that's been a fun couple of years and now they're going back to getting on planes. Anything abnormal there in the trading environment?

Nicholas Tomashot

No, nothing to really note, not even anecdotally.

Steven Dyer

Okay. You had talked, Nick, a little bit about expecting lower gross margins going forward, which clearly, I think it's understandable given everything that's going on. Are you able to directionally or quantify that at all for modeling purposes?

Nicholas Tomashot

Yes, but we're actually targeting a trend. We do a lot of sensitivity analysis around this and 2019, especially the second half, was exceptionally low and so we model normalization to be more around where we were prior to that compression that we took in the middle of 2019.

Steven Dyer

So, 21%, 22% area, if I'm looking correctly.

Nicholas Tomashot

Yes.

Steven Dyer

Would you expect that to start right away in Q3, or is there some runoff and just some good pricing you're getting still on the motorized?

Nicholas Tomashot

Yes, we were up quarter-on-quarter compared to prior year, but we were trending down. I'd call it more normalizing over the course of the second quarter, and we're seeing that continue in July. It's not across the board, too. We're really being selective about which brands and which product and at which locations we're taking the margins down.

Steven Dyer

You gave a buyback number of 2.2 million shares and change. Just so that I'm clear, was that a Q2 number or a first half of the year number? It looks like first half of the year. I just want to make sure.

Nicholas Tomashot

Yes, it is first half.

Steven Dyer

Then lastly for me, and I'll pass it along. You guys have great balance sheet, and you've still been able to deploy it, quite a bit of it, in the way of greenfield acquisitions and buybacks. Going forward with the industry normalizing, is there a level of cash that you feel like you need or want to run the business? Then what's the methodology for the excess in terms of deployment? Is there a specific thinking around ROI on buybacks with your stocks at certain levels versus greenfield versus acquisitions, or is there, particularly with the new CEO, is there more of a tilt towards growing and consolidating? Any color there would be helpful.

Robert DeVincenzi

Steve, I'll take that, this is Bob. I think the way the Board thinks about capital allocation is it's not formulaic, specifically because the greenfield returns that we are modeling are fairly constant, and we think our ability to predict them—predict the performance of the greenfields is very high. Acquisition modeling is a little more variable because acquisition pricing is changing in the marketplace, and that drives a different return profile and a different IRR. Then the share buybacks that we're doing when we're buying in open market conditions are influenced by the deliberations of the Board and defining the price thresholds at which the Company will purchase. I can't tell you this formulaic. It's fairly dynamic and it relates to how each of those three investment choices are changing on a periodic basis.

Operator

Your next question comes from the line of Mike Swartz from Truist Securities.

Michael Swartz

Just a quick question. I'm looking at the segment margins here, new and used product that you held up fairly well in the quarter. But I would assume some of that sequentially was greater heavier mix of used. Can you maybe talk about the new unit margins during the quarter? Maybe what the exit rate looked at just as we think about modeling that going forward?

Nicholas Tomashot

We really don't break those margins out. I will say, though, that the quarter-on-quarter compared to prior year, our new margins were up. We were, for the quarter, down less than 100 basis points sequentially

versus Q1, but our exit rate was definitely lower than that. I'll just reiterate what I mentioned to Steve is that we're still well above what we would call normal margins and have been trying to be very purposeful about managing the trade-off between margins and moving volumes of where we want our inventory to be. But I can't get specific.

Michael Swartz

I think we've all heard from others in the RV space that retail demand improved as the quarter progressed, and it sounds like it gets better into July as well. Maybe just talk about it, is that something that you saw and maybe discuss what you're seeing from your core consumer just in terms of their appetite to buy RVs?

Nicholas Tomashot

Yes. I would just say we did see a strengthening in lead generation and order activity going into July. I think one of the factors is you're starting to see more promotion, not just by us but by other dealers. There's a really nice Baird survey that shows the trends on dealers that are saying they're offering promotional activity. You'll just see across the industry, manufacturing that are allowing us to advertise met pricing. This promotion activity, I believe, is driving interest. We've actually seen a correlation with brands we were targeting for promotion and a bump in lead generation.

Operator

Your next question comes from the line of Fred Wightman from Wolfe Research.

Frederick Wightman

Maybe just to follow up on that. It seems like prime are driving demand for new. But if you think about the shift that you're seeing to used, I mean, that unit number was meaning higher for used relative to new. What is the consumer feedback that you're getting? Is it just price sensitivity? Is it the increased availability for some of these motorized units on the used side? What do you think is driving that?

Nicholas Tomashot

I think probably the price differential between the new and the used is the cost of being stepped up, and we're passing those through. But we love the preowned business. In fact, I don't even call it used. I call it preowned. In fact, we were very thoughtful about loading up on used as much as we could to augment the lack of being able to find new product. In fact, we're rebalancing a little bit between the new and the used as we get our stock levels where we want on the newer product.

Frederick Wightman

On a go-forward basis, right? The used inventory? Okay. Then just lastly, overall thoughts on what you're hearing or seeing in terms of shipment levels from the manufacturers. Do you feel like they're being prudent? Do you feel like they've cut production more quickly than they had in '18 and '19? What is your wholesale feedback or commentary?

Robert DeVincenzi

Yes. I'll echo what Camping World shared yesterday. Our backlog of orders that we're waiting on is lower than it would typically be at this time of the year. We're working on really rebalancing our inventory, getting the assortment where we want. As Camping World had mentioned, see us taking down inventories a bit between now and the next few months. Then just remember, we're—our cycle is a little different because of the large camp operation. We will be seeing some stocking up at the end of the calendar year as we move into Super Show, which is in January.

Frederick Wightman

Then just lastly, I know that it's not a big piece of the business, but anything that you're seeing on the campground demand that you guys own and operate? Uptick in cancellations or demand relative to the past few years on the booking front? Anything you could share?

Robert DeVincenzi

Nothing unusual sequentially that we've seen in terms of activity. But I will point you to some of the KOA statistics that were shared. You're still seeing people are being active in using their RVs based on the bookings information we've seen from KOA and what we've seen internally isn't much different.

Operator

There are no further questions at this time. Mr. Bob DeVincenzi, I turn the call back over to you for some closing remarks.

Robert DeVincenzi

Thank you very much. The only thing I'd like to add to conclude the call is to thank everyone for participating in our second quarter 2022 conference call. We look forward to speaking to you at our next opportunity. Thank you all very much.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.