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Lazydays Holdings, Inc.

First Quarter 2021 Business Update

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Steven Dyer, *Craig-Hallum*

Fred Wightman, *Wolfe Research*

PRESENTATION

Operator

Welcome to the Lazydays Holdings, Inc. First Quarter 2021 Business Update.

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Debbie Harrell, Corporate Controller. Please go ahead.

Debbie Harrell

Thank you.

Good morning and thank you for joining us for our Business Update Conference Call.

I'm Debbie Harrell, Corporate Controller at Lazydays. With me on the call today are Mr. Bill Murnane, our Chairman and Chief Executive Officer, and Mr. Nick Tomashot, our Chief Financial Officer.

As a reminder, please note that some of the information that 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, financial estimates, 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 8-K filed with the SEC on March 18, 2021.

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.

Now it is my pleasure to introduce Nick Tomashot, who will provide an overview of our response to the recent SEC statement on accounting for warrants and our key results for the first quarter.

Nick Tomashot

Thank you, Debbie.

Given the circumstances described in our press release, which we'll discuss further, our call agenda won't be what we would typically follow. On this call, we'll cover three areas. First, I'll provide an update on the SPAC warrant accounting and restatement. Second, I'll provide a summary of key results for our first quarter. Finally, Bill will provide comments on our first quarter and how our business is trending in the second quarter. We will then open up for questions.

First, regarding the SPAC warrant accounting, we issued a press release on Monday, May 24, where we shared our analysis and expected restatement impacts related to the April 12 SPAC warrant guidance provided by the SEC. The restatements described in the press release are based on a technical analysis by the Company in consultation with third-party advisers and is subject to audit by Marcum LLP, the Company's independent auditors for the 2020 10-K filing.

This restatement pertains to two classes of warrants. The first impacted class we will refer to as PIPE warrants. These are warrants convertible to approximately 2.5 million shares of common stock that were issued in conjunction with the private investment in public equity, or PIPE, transaction that occurred with the SPAC merger transaction. The second class impact that we will refer to as private SPAC warrants. These are warrants convertible to 155,000 shares of common that were private placement warrants issued in conjunction with the original SPAC IPO. The Company's analysis indicates that a third class of warrants convertible to 2 million shares of common stock, which are public warrants issued in relation to the Company's SPAC merger transaction or public SPAC warrants, are not impacted and will continue to be accounted for as equity.

Consistent with market practice amongst SPACs, we had been accounting for all three classes of warrants as equity under a fixed accounting model. However, based on April 12 SEC statement, we will be restating our historical financial statements to instead account for the PIPE warrants and the private SPAC warrants as liabilities that are mark-to-market each reporting period. In general, marking these warrant liabilities to market means that as our stock price increases, the warrant liability increases and we recognize an additional noncash nonoperating expense in our income statement, with the opposite effect where we would recognize nonoperating income when our stock price declines.

As of March 31, 2021, we had PIPE warrants convertible to approximately 1.5 million shares of common stock outstanding, which represent approximately 58% of the PIPE warrants originally issued, and private SPAC warrants convertible to 155,000 shares of common stock outstanding, which represents 100% of the private SPAC warrants originally issued. We'd like to reiterate that the Company anticipates the restatement will have no impact on our previously reported revenue, gross profit, income from operations and net cash provided by operating activities for the years 2018, '19 or '20. We further expect that there will be no impact on previously communicated Adjusted EBITDA for these periods as well.

Next, we'd like to share the second item on our call agenda, which is an update on our first quarter results. Unfortunately, we will not be able to file our first quarter 10-Q until the restatement through 2020 is completed, adjustments are audited by Marcum, and the restated 10-K is filed. We will then file our first quarter 10-Q, which will have been reviewed by RSM, our recently appointed auditors for 2021. We anticipate this process will take about four to six weeks.

Since we anticipate that this accounting change will have no impact on our key operating results, including revenue, gross profit, income from operations, net cash provided by operating activities, and Adjusted EBITDA, in order to provide investors with the best, most current information we have available, we'd like to share our Q1 key financial metrics on this call. As these results have not been reviewed by RSM and filed in a 10-Q, they should be considered preliminary and subject to adjustment. Please also note that, unless stated otherwise, the quarter and fiscal year results comparisons are versus the same three-month period ended March 31, 2020.

Revenues for the first quarter were $271 million, up $80.1 million or 42% from 2020. Revenue from the sale of recreational vehicles, or RVs, was $244.9 million for the quarter, up $77.7 million or 46.5%. Total RV unit sales, excluding wholesale units, were 3,197, up 781 units or 32.3%.

Q1 revenue from the sale of new recreational vehicles was $167.4 million, up $65 million or 63.4%. New RV unit sales were 2,125, up 758 units or 55.4%. The average selling price of new RVs for the quarter was $78,400, up $4,000 or 5.4%.

Moving on to pre-owned RVs. Q1 revenue was $77.5 million, up $12.8 million or 19.7%. Pre-owned units sold, excluding wholesale units, were 1,072, up 23 units or 2.2%. The average selling price of pre-owned recreational vehicles was $67,800, up 14.9% versus the first quarter of 2020.

Revenue in our other channels consist of sales of parts, accessories and related service, finance and insurance, or F&I, revenue, as well as campground and miscellaneous revenues. In total, revenue from these other lines of business was $26.1 million, up $2.4 million or 10.3% compared to 2020. The increase was driven by an F&I revenue increase of $3.3 million or 29.6% to $14.6 million, offset by 4.7% or $0.5 million decrease in parts and service revenue that was driven by service capacity being absorbed to support RV deliveries. Service revenue for internal service work is eliminated, and the cost reflected in the cost of goods sold is for our RV sales. In addition, we saw a $0.4 million decrease in campground and miscellaneous revenue.

Q1 gross profit, excluding noncash last in first out, or LIFO, adjustments was $66 million, up $24.3 million or 58.4% versus 2020. Gross margin, excluding LIFO adjustments, increased between the two periods to 24.4%, compared to 21.7% in 2020 with the change driven by RV sales margin growth related to lower available inventory as well as improved margins across our other lines of business. Including the noncash LIFO adjustments, which had a net unfavorable swing between the periods of $1.7 million compared to prior year, gross profit for the quarter was $64.1 million, up $22.6 million or 54.6%.

Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $37.7 million, up $6.6 million compared to prior year. This increase is attributable to overhead associated with our new service center in Houston, which opened in February of 2020, the Phoenix dealership acquired in May 2020, the Elkhart dealership acquired in October 2020, the Burns Harbor dealership we acquired in December 2020, our new Nashville location, which started up operations in January of this year, and the Louisville Tennessee dealership, which we acquired in March 2021, plus increased performance wages as a result of the increased unit sales and profitability for the quarter. This was all partially offset by overhead reductions taken in the second quarter of 2020.

SG&A as a percentage of gross profit, ex LIFO, improved from 74.7% in Q1 of last year to 57.2% in 2021, reflecting improved margins and operating leverage.

Amortization of stock-based compensation decreased $0.3 million, and depreciation and amortization increased $0.6 million compared to prior year.

Before the impact of the SPAC warrant accounting change, net income for the first quarter was $15.6 million compared to $3 million in 2020. This $12.6 million improvement was a net result of the just discussed increase in sales and gross profit relative to our overhead expenses.

Driven by the appreciation of the Company's stock over the quarter and the exercise of a little more than 1 million warrants, the noncash nonoperating expense impact related to warrant accounting was approximately $6.5 million, which would reduce the net income quoted above. Again, please note that the warrant adjustments are still under audit and these numbers are subject to change.

Adjusted EBITDA for the quarter was $27.8 million, up $18.3 million or 192%. Adjusted EBITDA margin increased by 520 basis points to 10.2% from 5% in 2020. Our completed earnings release will include a table reconciling net income to Adjusted EBITDA.

Now turning to the March 31 balance sheet and our financial position.

We had cash on hand of $79.5 million and net working capital of $54.6 million, with cash $16 million higher than December 31, 2020. This increase in cash includes the impact of cash used to invest in growth initiatives, including our first quarter acquisition, our Nashville start-up, as well as the first quarter benefit of approximately $11.5 million realized from the cash exercise of warrants.

At the end of Q1, we had $112.5 million in inventory, down $3.7 million versus December 31, 2020. Q1 ending inventory consisted of $82.4 million in new vehicles, which was down $10 million; $30.1 million in pre-owned vehicles, which was up $7.2 million; approximately $5.5 million in parts inventory, up $1 million; and LIFO reserves of $5.5 million, an increase of $1.9 million.

As of March 31, 2021, we had no borrowings under our $5 million revolving credit facility, $12 million of term loans outstanding, and $92.9 million in gross notes payable on our floor plan facility. We also had approximately $4.4 million outstanding on notes payable related to acquisitions, $8.2 million of PPP loans outstanding, and a mortgage balance of approximately $5.9 million.

Thank you for your time this morning. Now I'd like to turn the call over to Bill Murnane.

Bill Murnane

Thank you, Nick. Good morning, everyone.

We continue to experience very strong demand for RVs, and inventory continues to be tight. The combination of robust demand and tight inventory has had and continues to have a very positive impact on our margins. April was one of the strongest months in our history, and May is shaping up to be equally strong, and we expect this strong demand to continue in the foreseeable future.

Our inventory declined modestly in Q1, and inventory has continued to decline this quarter to date. Our dealership inventory is well below historical and desired levels. OEM production levels are recovering from the impact of the pandemic, and we expect OEM production to improve throughout Calendar Year 2021, but we don't expect our inventory levels to improve much, if at all, until later this year after the summer season begins to wind down.

We believe that dealer inventories will not normalize until the second half of 2022 at the earliest. We believe the significant supply/demand imbalance will continue for the next year and will allow us to maintain elevated margins throughout Calendar Year 2021 and likely into Calendar Year 2022.

The unprecedented demand for RVs combined with the tight inventory conditions are keeping our pending sale backlog at a historical high. As a reminder, pending sales are contracts for units that are sold but have not been delivered to the dealership by the OEM.

Our growth pipeline remains very healthy and active. We recently announced our letter of intent to acquire B. Young RV dealerships in Portland, Oregon, and Vancouver, Washington markets. B. Young fits perfectly with our strategy to acquire the strongest RV dealerships with the best teams and outstanding brands in the top national markets. We are very excited to welcome the B. Young team into the Lazydays family of dealerships, and we look forward to helping them grow market share in the very strong Pacific Northwest RV market.

In addition, we are working on adding many new RV dealerships to our network over the next 12 to 18 months. These dealerships will be both acquired and greenfield dealerships. Currently, we have line of sight to having at least 20 fully operational dealerships by the end of 2022. Today, we are operating 12 dealerships and one dedicated service center. It is a very busy and exciting time to be part of Lazydays. We look forward to giving you more details on our new dealerships as our plans continue to develop.

As we grow, we never lose our focus on improving our ability to provide a best-in-class customer experience and service excellence. We have several new initiatives in place and are investing sizable human and financial resources into people, processes and technology that will help us deliver the best RV purchasing and service experience in the country to all of our wonderful customers.

That is all for our prepared remarks.

Operator, please open the line for questions.

Operator

Our first question comes from Steven Dyer with Craig-Hallum. Your line is now open.

Steven Dyer

Good morning, you guys.

A question for you, so we've seen some of the, I guess, perceived COVID beneficiaries, let's say, kind of start to normalize in terms of demand, but RVs kind of keep going. Curious sort of how you characterize, I mean, is this people who got involved last year who are trading up, or sort of what does the average customer look like these days?

Bill Murnane

I think, similar with the past, Steve, the average customer has certainly demographically gone down in age just because we're getting a lot of new entrants into the market, so a lot of people kind of 40 and under. That doesn't mean the 65 and over, the baby boomers, aren't still buying heavily, they have been. Remember they're entering their retirement years, and that's always been a very, very strong demographic for us, and maybe it's been accelerated a little bit as a result of the pandemic.

But on average, we're just seeing more new entrants from younger people into the market, but it's strong across the demographic spectrum.

Steve Dyer

Got it. Then you talked about sort of line of sight to close to 2x the dealerships by the end of next year combination. Can you help sort of talk about how many of those you'd anticipate being greenfield, how many are acquired? Maybe, I guess, anecdotally, sort of similar acquisitions to the ones you've done, are you looking bigger? Any color there would be helpful.

Bill Murnane

Yes. I think they're about 50-50 between acquired dealerships and greenfield dealerships. Keep in mind, we typically are working greenfield dealerships for a fairly long period of time before we announce them because we have to get our plans approved by the local communities before we fully commit to that. Otherwise, they have a lot of leverage on forcing us to do expensive things on a dealership site.

We are pretty far down the path on a number of greenfield dealerships that we have not announced yet but we're extremely confident will become dealerships sometime next year. Yes, I think our sweet spot seems to be in $40 million to $100 million range for dealership is where we like to be. We don't always start there but that's where we like to get to. I think these will all fit into kind of that category, somewhere between $30 million, $40 million to $100 million in revenues, with trying to push it up more towards the $75 million, $100 million range as time goes on.

Steven Dyer

Sure, okay. Then, I guess, lastly for me, speaking of greenfield, we're coming up on a year and half into the Houston stand-alone service center. What are sort of the early returns there? What are you seeing sort of versus your hopes or expectations? Would you anticipate there being an opportunity to do more of those in the future? Thanks.

Bill Murnane

On Houston, we had a lot of good learning that came out of it. I think we probably were not as proactive as we needed to be. I think we mentioned this in past calls, on the promotion to try and get customers into that dealership. I think the natural tendency for RV customers is to go back to the dealership where you bought the RV, and we saw that in Houston. It took us some time to figure out how to market that dealership to generate more of a backlog.

We're pretty confident we've got that formula now, but it took us a while to get that traction, and we have a very strong backlog there now. Once you create the awareness, then that business tends to return because we provide a very good experience. But yes, we think it's going to be a very successful service center. It's only been around a little while now. We would anticipate going forward you'll see more of those, although we've still got some time to prove out that this is a very robust strategy.

Steven Dyer

Got it, thanks, guys.

Operator

Our next question comes from Fred Wightman with Wolfe. Your line is open

Fred Wightman

Hi, guys, good morning. Thanks for taking the question.

Bill, on the fourth quarter call, you had mentioned that you guys were targeting same-store sales growth even as you face some tougher compares that started in May. I'm wondering if you could put some of the qualitative commentary that you made about the April strength and the continued May strength into context with those targets and maybe just talk about if you still think you can grow same-store sales for the balance of this year.

Bill Murnane

Yes, that's certainly our goal. Remember, Fred, it's dealer specific. Certain markets, we have larger market shares than others, and it's harder to grow market share where you already have a large market share. But it's certainly our goal in every dealership to continue to grow market share.

Fred Wightman

Maybe just said differently, I mean, based on sort of the 4Q call to now, do you think that those targets are more achievable, less achievable, similarly achievable, based on the demand that you're seeing in the market?

Bill Murnane

I would say same.

Fred Wightman

Same? Okay. I guess just to put the—you guys usually give some color around the pace of OEM shipments relative to consumer demand that you're seeing. I think on the fourth quarter call, it was sort of equal to slightly below consumer demand. Where does the sort of inflow and outflow of products stand today?

Bill Murnane

Well, I think I made the comment that we've seen inventory decrease in the last couple of months. In Q1, it decreased over Q4, and it's decreased in the last couple of months. That would indicate that demand is stronger than shipments in right now.

Nick Tomashot

With our backlog, quite a bit of the inbound product already has an order associated with it.

Bill Murnane

But we're not seeing our pending really come down at this point. We're selling it as fast as they can ship it in, and it appears we're selling it a little faster than they can get it.

Fred Wightman

Perfect. Just to follow up on that backlog comment, I mean, have you seen any change in terms of conversions as far as sales leads or any signs of cancellations or people who put down money or sort of indicate interest are still showing up and taking delivery of the product as well?

Bill Murnane

No, we haven't seen any discernible change there.

Fred Wightman

Perfect, thanks guys.

Operator

There are no further questions in queue at this time. I'll turn the call over to Bill Murnane for closing comments.

Bill Murnane

Yes. Thanks, everyone. Thanks for your time today.

We apologize for the issues we're dealing with on the warrants, although it's really out of our control and more of an SEC thing at this point in time. But we're committed to getting through it as quickly as possible. I just want to reiterate something Nick said, that it has no impact on our operational performance. It's strictly a balance sheet issue. From a performance standpoint and a cash generation standpoint, it has zero impact on Lazydays. We're just going to keep marching forward. We'll do what the SEC tells us to do, and we'll get through it as fast as possible.

Thank you. Have a great month, everyone. Bye.

Operator

This concludes today's conference call. Thank you for participating.