Lazydays Holdings, Inc.

Second Quarter 2021

August 5, 2021

10:00 AM

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Lazydays Holdings Inc. Second Quarter 2021 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during that time, please press (*) (1) on your touchtone phone.

As a reminder, today's call is being recorded.

I will now hand today's call over to Debbie Harrell. Please go ahead.

Debbie Harrell: Thank you, operator.

Good morning and thank you for joining us for our second quarter 2021 financial results conference call. I'm Debbie Harrell, Corporate Control at Lazydays.

We issued the company's earnings press release this morning. A copy of the earnings release is available under the Events and Presentation 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. 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 you will hear today during our discussion may consist of forward-looking statements, including without limitation statements regarding unit sales, revenue, growth margin, 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 statement as a result of many factors. For additional information, please refer to the risk factors discussed in the Form 8-K filed with the FCC on August 5, 2021.

We also will discuss non-GAAP financial 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 2021 second-quarter financials.

Nicholas Tomashot: Thank you, Debbie.

Please note that unless stated otherwise, the second-quarter results comparisons are versus the same three-month period ended June 30, 2020.

Revenues for the second quarter were $322.8 million, up $108.8 million, or 50.9% from 2020. This is a record quarterly revenue for Lazydays, surpassing our previous record of $271 million set just last quarter. Revenue from the sale of recreational vehicles or RVs was $290.2 million for the quarter, up $98.7 million, or 51.5%. Total RV unit sales, excluding wholesale units, were 4208, up 1258 units, or 42.3%.

Q2 revenue from the sale of new recreational vehicles was $201.6 million, up $72.2 million, or 52.8%. New RV unit sales for 2780, up 935 units or 50.7%. The average selling price for new RVs for the quarter was $72,100, up $2600 or 3.7%. Q2 revenue from the sale of preowned RVs was $88.7 million, up $26.6 million or 42.7%.

Preowned RV units sold excluding wholesale units were 1428, up 323 units, or 29.2%. The average selling price of preowned recreational vehicles was $59,400, up 12.7% versus the second quarter of 2020.

Revenue on our other channels consisted of sales of parts, accessories and related services. Finance and Insurance, or F and I revenue, as well as campground and miscellaneous revenue. In total, revenue from these other lines of business was $32.6

million, up $10.1 million or 45%, compared to 2020. The increase was driven by an ethanol revenue increase of $7 million, or 54.7%, $19.7 million, a 31.8%, or $2.9 million increase in parks and service revenue and a $.2 million increase in campground and miscellaneous revenue.

Q2 gross profit excluding non-cash last in first out or LIFO adjustments was $86.4 million, up $42.7 million or 97.6% versus 2020. Gross margin, excluding LIFO adjustments, increased 640 basis points between the two periods to 26.8% compared to 20.4% in 2020, with a change driven by increased RV sales margins and a market with strong consumer demand and constrained inventory.

Including the non-cash LIFO adjustments, we've had a net unfavorable swing between the periods of $.4 million compared to the prior year. Gross profit for the quarter was $86.2 million, up $42.2 million or 96.2%. Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $44.8 million, up $16.5 million compared to prior year. This increase is attributable to the overhead associated with the Phenix dealership acquired in May 2020. The Elkhart dealership acquired in October. The Burns Harbor dealership acquired in December. Our Greenfield, Nashville location was started operations in January 2021. The Louisville, Tennessee dealership acquired in March 2021, plus increased performance wages as a result of increased RV sales and margins for the quarter. SG&A has a percentage of gross profit decreased from 64.3% in Q2 2020 to 52% in Q2 2021.

Depreciated--depreciation and amortization increased $.7 million compared to the prior year. This brings operating income to $37.3 million for the quarter, nearly three times Q2 2020s operating--income of $12.6 million.

Pretax income for the quarter includes the impact of non-cash operating expense associated with the change in fair value of warrant liabilities of $6.8 million and $2.8 million in Q2, 2021 and 2020, respectively, as well as the Q2 2021 $6.1 million pretax benefit associated with the forgiveness of a portion of the company's PPPs.

Net income for the third--for the second quarter was $25.3 million or $1.21 per share diluted, almost five times Q2 2020s net income of $5.3 million or $.25 per share.

Adjusted EBITDA for the quarter was $41.3 million, which is an all-time quarterly record for Lazydays and a $26.4 million or 177% increase versus prior year. Adjusted EBITDA margin improved by 580 basis points to 12.8% from 7% in 2020. Please refer to our earnings release for our table, which includes a reconciliation of net income to adjusted EBITA.

Now, turning to the June 30th balance sheet and our financial position, we had cash on hand of $104.3 million and net working capital of $82.6 million, with cash up $40.8 million versus December 31, 2020. This increase in cash includes the impacts of cash used to invest in growth initiatives, including our first quarter acquisition, as well as the first quarter benefit of approximate--approximately $11.5 million realized from the cash exercise of warrants.

At the end of Q2, we had $87.3 million in inventory, down $20 million versus December 31, 2020. Q2 ending inventory consisted of $55.9 million in new vehicles, down $36.5 million, $31.5 million in preowned vehicles, up $8.5 million, approximately $5.6 million in parts inventory, up $1.1 million in LIFO reserves of $5.7 million, an increase of $2.1 million.

As of June 30, 2021, we had no borrowings under our recently expanded $25 million revolving credit facility, $11.3 million in term loans outstanding and $64 million in gross notes payable on our floorplan facility. We also had approximately $3.6 million outstanding on notes payable related to acquisitions, $2 million of PPP loans outstanding, and a mortgage balance of approximately $5.9 million.

Thank you for your time. And now I'd like to turn the call over to Bill Murnane.

William Murnane: Thank you, Nick. Good morning, everyone. Thanks for joining us here today.

We are very proud to have set another quarterly revenue and EBITDA record in Q2. In addition, our growth continues to outpace the market and our competitors. I want to thank all of the Lazydays employees for the hard work and dedication they put forth to achieve these records and achievements. We have a remarkable team here at Lazydays.

We continue to experience very strong demand for RVs. And inventory continues to be tight. The combination of robust demand and lean inventory has had and continues to have a very positive impact on our margins. Demand continued to be strong in July, and we expect this strong demand to continue into the foreseeable future.

Our inventory declined in Q2, but inventory has improved modestly in July. Our dealership inventories continue to be well below historical and desired levels. We don’t expect our inventory levels to improve significantly until later this year, after the summer season ends. We do not believe dealer inventories will normalize until the second half of 2022.

The significant supply-demand imbalance will likely continue for the next year, which should allow us to maintain elevated margins throughout calendar year 2021 and well into calendar year 2022.

Our growth pipeline remains very healthy and active. Yesterday we announced that we closed on the acquisition of the B. Young RV dealerships in Portland, Oregon and Vancouver--in Portland, Oregon and the Vancouver, Washington markets. These new dealerships have been branded Lazydays RV of Portland and Lazydays RV of Vancouver. These dealerships fit perfectly with our strategy to acquire the best dealerships, with the best management teams and the best brands in the top national markets.

We are very selective about the dealerships we acquire. And we are very excited to welcome Lazydays RV of Portland and Lazydays RV of Vancouver into the Lazydays family of dealerships. We look forward to helping these dealerships grow market share in the very strong Pacific Northwest RV market.

Excuse me.

While we are on the topic of new dealerships and growth, I would like to spend a few minutes discussing Lazydays' growth opportunities because I want to make sure our investors fully understand the numerous ways Lazydays can grow. We have multiple paths for growth, and we believe we can generate above-market growth in both good and bad economic environments while consistently outperforming our competitors.

First, we can generate substantial growth by expanding geographically through acquisition or building out new or greenfield dealerships. Currently, we have 15 distribution points in our network. By the end of this year, we will have at least 17 distribution points. By the end of 2022, we should have at least 22 distribution points and could easily have more. Keep in mind that some of our competitors have well over 150 distribution points. We have just 15 today.

The geographic--white space for us to expand into is massive. We should be able to add five to ten dealerships per year to our network for the next ten years or more. Keep in mind that the ROI (PH) we get on acquired and greenfield dealerships is double or triple our cost of capital, so there is considerable value being created with each new dealership.

We could expand faster than this, but it is important to us that each new dealership provide the same great customer experience our customers expect from Lazydays. To implement and train to the Lazydays processes and procedures takes time. And it is very important to us that we do this properly so we can provide a great customer experience. As a result, we're very methodical and disciplined in our approach to growth. We can also expand geographically in good times and bad. And given the strength of our balance sheet, we believe our opportunity to expand geographically will likely accelerate in more challenging economic objects back in a more challenging economic environment.

Next, we can grow by improving our market share at many of our existing dealerships, especially acquired or greenfield dealerships. It is common for us to be able to double or triple the market share of a new--of newly acquired dealership during the first few years of ownership. The growth of greenfield dealerships can be even more dramatic. As an example, our Nashville dealership that opened just a few months ago this past January has quickly become one of the largest RV dealerships in the Nashville market.

We improve market share by using our proprietary systems to generate more leads and convert these leads at high conversion rates. We also believe we can increase market share in good times and bad times. And we believe our effectiveness at increasing market share will be even greater when inventory normalizes.

We can grow by expanding our preowned vehicle inventory and sales. We have proprietary systems for procuring preowned inventory, and these systems have allowed us to double our year-over-year preowned inventory purchases in a very competitive, preowned inventory market. Our preowned inventory sales growth has outpaced the market, and we expect this strong performance on preowned sales to continue into the foreseeable future.

In addition to revenue growth from geographic expansion, market share gains and preowned sales, we can generate added earnings growth by improving margins considerably at many of our existing dealerships. We improve margins by attaining higher F&I penetration and attachment rates, by increasing service capacity and productivity, and by improving our product mix. It is common for us to double F&I contribution rates at an acquired dealership within the first two years of ownership. Like market share, we can improve margins in good and bad economic environments.

As we grow, we never lose our focus on improving our ability to provide a best-in-class customer experience and service excellence. We continue to have several customer, employee and service-focused 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.

That is all for our prepared remarks, operator. Please open the line for questions.

Operator: As a reminder, if you would like to ask a question, please press (*) (1) on your telephone keypad.

You do have a question from the line of Joe Altobello with Raymond James.

Unknown: Hey, guys. This is actually Adam on for Joe. I was curious. I appreciate the color you gave on--kind of your outlook for, you know, five to ten per year, looking at future dealerships. And obviously, you guys have been quite active, mentioning B. Young most recently. I was just curious, I would assume this may be the case, but I wanted to confirm with you guys in terms of, you know, is inbound call volume from dealers looking to sell increasing for you guys? And what trends are you seeing in terms of multiples that you might be being asked to pay versus maybe historical levels?

Unknown: Yeah, good question, Adam, and thank you.

We--have seen the inbound volume. It’s definitely active out there. We’ve seen that increase. Multiples have come up some, and--dealers are asking for more. And in addition, you know, earnings in this environment are up given that we are being very, very selective in--what we choose to pursue and what we choose to transact on. We will--aggressively pursue an outstanding dealership like B. Young in Portland, like Burlington in the Milwaukee market, like all the dealerships that we have purchased we believe are outstanding and leaders in their market. And we will certainly be aggressive in pursuing them.

But we’re very disciplined. We’re not going to--we probably turn down ten opportunities for every one we transact on. We’re not going to just chase dealers to chase dealers. We want to be the best. Being the biggest isn’t that important to us. Being the best is very important for us.

Unknown: Awesome. That is super helpful. That's all for me. Thanks, guys.

Operator: Your next question is from the line of Michael Swartz with Truist Securities.

Michael Swartz: Hey, guys, good morning.

A couple of questions for me just regards to the top line during the quarter. Can you maybe give us a sense of how much acquired revenue was in that line? I'm just trying to back into comparable m store sales metric, if possible?

Unknown: Yeah, Michael, we don't disclose that at this point in time. Maybe we will sometime in the future. We just have, you know, a couple of dealerships that are quite large. And just for competitive reasons, we don't--disclose--store.

Unknown: Okay.

And just on the new inventory front, then, I think you said inventories in general down in the 30% range. Can you maybe give us a sense of what your new inventory or your stocking levels look like if you--were to look at it on a per door basis? I'm just trying to understand what that looks like. Kind of apples to apples.

Unknown: Can you say that again?

Unknown: How much are same-store inventories down, which we don't breakout as well?

Unknown: Yeah, we--haven't been breaking that out as well. I think we did give you some color on what inventory did this quarter and what it did in July. It is up in July a little bit, so but we don't expect much change in inventory until the fall at the earliest.

Unknown: Okay.

And then, a final question for me, just on vehicle margins. I think you did about 21% in the quarter if I'm doing the math correctly. Could you maybe give us a sense of how much of the year-over-year improvement is being driven by what's called product mix versus pricing versus just the supply, you know, the demand and supply dynamic out there in the market today?

Unknown: yeah, it's hard. It's really hard to break that out. I mean, we're not--the short of--the short supply is--very beneficial to margins. There's very little discounting going on out there. It's--we don't need it to do that. And--that's a big driver of m the increased margins in this environment. So, yeah, that's probably the best answer I can give you. We--you know, it's really hard in this environment to understand what m things are having an impact.

We are--making great progress on things like F&I penetration and improving our attachment rates on F&I., So we know that they're having a great impact, but it's really hard to break out which--components are having the biggest impact on margins.

Unknown: Yeah, well, and I just will say--in a market when you have short lead times if you know you can replenish a unit and restock, and you may give a little on margins if you can sell some F&I around that. There's no incentive to do that in the current market when you're not only having to wait on units, but your book of your--orders that are pending is--you've already got units presold before they even hit the lot and a lot of cases.

Unknown: Okay, thank you.

Operator: Your next question is from the line of Steve Dyer with Craig-Hallum Capital.

Unknown: Morning, guys. Ryan on for Steve. I'm curious and helpful kind of laying out the--opportunity to expand the distribution points. Any way to break that out, or I guess any thoughts on stand-alone service centers like you've recently put up relative to kind of the full service by sell service?

Unknown: Yeah, so we have in the 17 and the 22 that we reference for 2021 and 2022, Ryan, just one, our Houston--our Houston Service Center is--service only. As we get beyond 2022, we certainly think there will be more service-only distribution points, but those are all full dealerships that have sales and service except for the one Houston one.

Unknown: And then, within those 17 and 22, how many of those are greenfield versus M&A?

Unknown: Well, I think we--have one M&A deal coming up here in the next month or two with Burlington that we've announced. And the other one will be a greenfield. And that will be--I think that one's in the Minnesota dealership that we've added. And then, the majority of the 22 additions will be greenfields. We haven't disclosed them because we--before we disclosed them, we like to have our plans fully approved by the municipalities, but the majority of those are greenfields, so there's a good chance we could add a lot more acquisitions in there as well. We'll have to see how that goes.

Unknown: Helpful. Thanks, guys. That's it for me.

Operator: Your next question is from the line of Fred Wightman with Wolfe Research.

Fred Wightman: Hey, guys, good morning.

I'm just wondering if you could just sort of touch on the price increase environment that you're seeing from OEM's as we think about shifting from all of the year 2021 to 2022? And then what, if any, feedback you're seeing at the customer level from this?

Unknown: Yeah, we--are seeing increases come through. The last couple of months, we definitely see a fair amount of price increases. I don't have a good--it's best not to comment on, I guess, the percentage, but there are--I would call them significant, some of them. We have not had any pushback from customers at this point. We are protecting ourselves. So if we get a price increase on a presold unit, we will--we are protected with the customer. And we have not had any significant pushback from customers at all on that, so.

Unknown: And again, it's a very tight supply market. So if that changes somewhere down the road, I think we'll probably get more pushback. Right now, it's--right now, we're not.

Fred Wightman: Great, and if we think about that pick-up that you touched on from the July shipment rates, is that mostly the end of the 2021 model year or are you guys starting to see some 2022 product come through as well?

Unknown: We've got a fair amount of 2022 product coming through, don't we?

Unknown: Yeah. It's starting to come.

Unknown: Yeah.

Unknown: So the 2022's coming in. I don't have a good feel for what the--what the breakdown of that is.

Unknown: No, qualitatively, that's--super helpful.

Just one final one. You guys have sort of touched on posting, you know, positive comps on a same-store sales basis even as you start to lap some of the tougher comparisons. I know you guys don't guide, and I know you don't like to touch on--

same store sales too much. But qualitatively, any change in sort of that thinking? Are you more or less confident sitting here today than you were when you sort of introduced those targets at the start of the year?

Unknown: What targets are we discussing? I'm not sure I understand the question.

Unknown: You guys had touched on sort of posting positive comps even if you started to lap tougher compares, you know, in the May, June and July timeframe. I'm just wondering if you're still confident posting positive sales in the back half of the year?

Unknown: Do you want to go?

Unknown: Yeah, we're--we track our comps. We actually look at both to compare the growth versus 2019 and 2020 on the same-store basis, and even with the wrap, we're comparing favorably.

Unknown: Thanks, guys.

Operator: Your next question is from the line of David Kanhem with Kanhem Wealth Management.

David Kanhem: Good morning, guys. Congratulations.

Unknown: Thanks, David.

Unknown: Good morning.

David Kanhem: So in the auto industry now, there seems to be a trend amongst dealers, too, because of the supply, because of these supply-demand dynamics, to add what they're calling a market adjustment to the invoice, which is essentially 100% profit for the dealership. Are we seeing that anywhere in the industry because we have a similar dynamic of such high demand and limited supply? And is this something that you would consider?

David Kanhem: We are not seeing that in the industry. And we're--and we're--I think, David, we're still not where dealers are charging full MSP. So I think until we get to a point--whereas in the auto industry, I think most people are paying full MSRP for product today. In fact, in some places, I think they're paying more. I think until we reach the point where we're getting full MSRP, I don't think that would be taking place in our industry. And quite frankly, I don't know if we'll ever get to a point. Our margins are very healthy right now, but we're--we've still got some room to get to MSRP pricing.

David Kanhem: Okay.

And then, the second question, in regards to capital allocation. The balance sheet is very strong. And typically, you've paid, according to your deck, like three to four times or two to four times EBITDA for acquisitions. If I take the liberty of using $125 million of EBITDA for this year, which seems attainable, and I use $22 million fully diluted shares, I come up with an adjusted enterprise value of $287 million. So I'm--convert--I'm assuming full conversion of the warrants. You get

$53 million in cash. So on a pro forma basis, I have about a $287 million enterprise value and a stock trading 2.3 times EBITDA, which is really below your target level for deploying capital in acquisitions. Given that--given those numbers and stats, is a stock buyback or tender a more serious consideration to you and to the rest of the board at this juncture?

Unknown: Yeah, I think we, as you know, David, we--are constantly evaluating the best use of our capital and how to best allocate it. Right now, we have--we find that the best use and allocation is to grow. And you're going to see that some of the dealerships we buy are--larger and more expensive. And--I think you're going to see that with the one we just transacted on in B. Young. It's quite, quite a large dealership and quite a strong dealership, so--we're expending capital on that at a very high ROI, I might add. But it is a big use of capital for us relatively.

It depends on what the future brings. If we find that we can't deploy capital in high ROI investments, then we will certainly consider other uses for that capital. But right now, certainly, in this market, it appears like we have plenty of opportunity to deploy that capital.

David Kanhem: So if I understand correctly, if you can do acquisitions at a very high ROI, let's say three times, three and a half times EBITDA, even though mathematically that's a higher multiple than your stock, you'll still do that. You'll ignore buying back your stock at a lower multiple and a higher ROI just because you can deploy at good levels on acquisitions. Is that what you're saying?

Unknown: No, that's not what I'm saying. What I'm saying is the board is very disciplined in how we allocate capital. And we evaluate our use of capital in a way that we are deploying it towards our highest to get the highest return on that capital. That's what I'm saying.

David Kanhem: Okay.

Unknown Kanhem: And we--talk about that regularly with the board. We're very focused on that.

David Kanhem: Okay. I mean, I wasn't aware that you were able to deploy capital at, you know, 2-2.3 times EBITDA and acquisitions. My understanding was that it was at a higher multiple. So it just seems like you're doing--you're not going to buy back stock. You just want to do acquisitions even if it's more costly.

And just a follow-up on that. You know, one of your competitors is trading at a much higher multiple than you guys. I ran through the same math. They're probably 5 to 5.2 times their--pro forma EBITDA run rate. And they're taking a balanced approach and buying back stock. And investors seem to like that. So I just want to put that out there. You know, unfortunately, we are trading at almost a ridiculous multiple. And I think that that may be one of the components that investors are contemplating. You know, and ultimately having a reluctance to buy our stock and pay up for it.

So that’s pretty much all I have, guys. Good luck. And hope you close the year strong. Thank you.

Unknown: Thanks, David.

Unknown: Thanks.

Operator: Your next question is from the line of Craig Raymond with Baird.

Craig Kennison: Yeah, hi, this is Craig Kennison. Thanks for taking my question. Good to catch up, Bill and Nick. It’s been a helpful call. I’m curious about the sourcing capabilities that you have on the used side. I know it’s very difficult to procure used inventory today, at least as difficult as it is to buy new. Are there any investments you can make given your scale and kind of emerging national footprint to really enhance what you do on the sourcing side and maybe even develop online sourcing tools that position you better to acquire that inventory?

William Murnane: Yeah, I think, Craig, we--believe we are positioned. We have lots of tools. And we are not disclosing them because we believe they are proprietary. But we have some, we think, state-of-the-art tools, industry-leading tools that are allowing us to really expand our used inventory procurement, so. And we don’t see an end to, you know, the continued growth of that. We’ll continue to add resources as necessary.

At some point, there needs to be a human being interacting with the seller. But we--we’re pretty confident. And I think our performance in the last year has demonstrated that we have a very strong used procurement process. And it’s--very effective. And we don’t see any and our ability to continue to grow our procured--our preowned inventory.

Craig Kennison: Okay, thanks, Bill.

William Murnane: You’re welcome, Craig. Thank you.

Operator: As a reminder to ask a question, press (*) (1) on your telephone keypad. Again, to ask a question, press (*) (1).

At this time, there are no further questions. I’ll hand the call back over to the presenters for any closing remarks.

Unknown: No closing remarks, just thank you, everyone, for joining us today. And we look forward to speaking with you again next quarter. Have a great day, everyone.

Unknown: Thanks.

Operator: This does conclude Lazydays Holding Inc.’s second-quarter 2021 financial results conference call. Thank you for joining. You may now disconnect.