



**Lazydays Holdings, Inc.**

**Third Quarter 2021 Financial Results Conference Call**

**November 4, 2021**

## C O R P O R A T E P A R T I C I P A N T S

**Debbie Harrell**, *Corporate Controller*

**Nick Tomashot**, *Chief Financial Officer*

**Bill Murnane**, *Chairman and Chief Executive Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Ryan Sigdahl**, *Craig-Hallum*

**Fred Wightman**, *Wolfe Research*

## P R E S E N T A T I O N

### Operator

Good morning. At this time, I would like to welcome everyone to the Lazydays Inc. Third Quarter 2021 Financial Results Conference Call.

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

### Debbie Harrell

Thank you, Emma. Good morning, and thank you for joining us for our Third Quarter 2021 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 and 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. 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, and gross margins, operating expenses, financial estimates, stock-based compensation expense, taxes, product mix shift, and geographical 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 2021 third quarter finance.

**Nick Tomashot**

Thanks, Debbie. First of all, I've had a cold I can't shake for the last couple of weeks. So, I apologize in advance if I start coughing.

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

Revenues for the third quarter were \$318.7 million, up \$103 million or 48% from 2020. Revenue from the sale of recreational vehicles, or RVs, was \$285.8 million for the quarter, up \$91.2 million or 47%. Total RV unit sales, excluding wholesale units, were 3,609, up 1,014 units or 39%.

Q3 revenue from the sale of new RVs was \$181.4 million, up \$51.1 million or 39%. New unit sales were 2,192, up 547 units or 33%. The average selling price of new RVs for the quarter was \$82,800, up \$5,900 or 8%. Q3 revenue from the sale of pre-owned RVs was \$104.4 million, up \$40.2 million or 63%. Pre-owned RV units sold excluding wholesale units were 1,417, up 467 units or 49%. The average selling price of pre-owned recreational vehicles was \$70,900, up 13% versus the third quarter of 2020.

Revenues at our other channels consisted of the 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 \$32.9 million (phon), up \$11.8 million or 56% compared to 2020. The increase was driven by an F&I revenue increase of \$9.1 million, or 82% to \$20.1 million and a 29% or \$2.8 million increase in parts and service revenue that was driven by increased retail and warranty external service work. These numbers exclude internal service work associated with the delivery of RVs sold. Internal revenue is eliminated when we consolidate our results with the internal cost of deliveries reflected in the cost of goods sold of our RV sales.

Q3 gross profit excluding non-cash last-in-first-out, or LIFO adjustments, was \$89.6 million, up \$41.7 million, or 87%, versus 2020. Gross margin excluding LIFO adjustments increased between the two periods to 28.1% compared to 22.2% in 2020, with a change driven by increased RV sales margins and a market with high consumer demand and constrained inventory. Including non-cash LIFO adjustments, which had a net swing between periods of \$0.8 million compared to prior year, gross profit for the quarter was \$90.3 million, up \$40.9 million or 83%.

Excluding transaction costs, stock-based compensation, and depreciation and amortization, SG&A for the quarter was \$47.6 million, up \$19 million compared to the prior year. This increase is attributable to overhead associated with the Elkhart dealership acquired in October 2020, the Burns Harbor dealership acquired in December 2020, the Louisville, Tennessee dealership acquired in March 2021, and the Portland, Oregon, Vancouver, Washington, and Milwaukee, Wisconsin dealerships acquired in August 2021, as well as increased performance wages as a result of the increased unit sales and margins for the quarter. SG&A as a percentage of gross profit improved from 58% in Q3, 2020 to 53% in Q3, 2021.

Amortization and stock-based compensation decreased \$0.09 million and depreciation and amortization increased \$1 million compared to prior year.

Before the impact of the SPAC Warrant Accounting change, net income for the third quarter was \$28.8 million, as compared to \$11.6 million in 2020. This \$17.2 million improvement was the net result of the just discussed increase in sales and gross profit relative to overhead expenses. Driven by depreciation and the Company's stock over the quarter, there was a \$2.2 million non-cash non-operating benefit to net income related to warrant accounting, which increases to \$28.8 million net income I just quoted for the quarter to \$31 million.

Adjusted EBITDA for the quarter was an all-time record for Lazydays at \$41.5 million, up \$22.4 million or 118%. Adjusted EBITDA margin increased by 420 basis points to 13% from 8.8% in 2020. Please refer to our earnings release for a table which includes a reconciliation of net income to Adjusted EBITDA.

Recapping September year-to-date results at a high level, total unit sales were 11,014, up 3,053 or 38%. New units were 7,097 year-to-date, up to 2,204 or 46% and preowned units were 3,917, up 813 or 26%. Total revenue was \$913 million for the first three quarters of the year, up \$292 million or 47%. Gross profit including LIFO was \$241 million, up \$106 million or 79%.

Excluding non-cash non-operating SPAC Warrant Accounting impact, net income was \$76.2 million, up \$53.6 million or 236%. Including the SPAC Warrant Accounting impact net income was \$65.1 million, up \$52.7 million or 424%. Year-to-date Adjusted EBITDA was \$110.6 million, up \$67.1 million or 155%.

Now, turning to the September 30 balance sheet and our financial position, we had cash on hand of \$67 million and net working capital of \$72.2 million, with cash up \$3.5 million versus December 31, 2020. This increase in cash includes the impacts of cash used to invest in growth initiatives, including our acquisition of four locations in Tennessee, Oregon, Washington, and Wisconsin, as well as cash inflows realized of approximately \$11.5 million from the first quarter cash exercise of warrants and \$8.3 million from the third quarter exercise of options.

At the end of Q3, we had \$140.7 million in inventory, up \$24.5 million versus December 31, 2020. Q3 ending inventory consisted of \$83.4 million in new vehicles, down \$9 million, \$54.9 million of pre-owned vehicles, up \$31.9 million, approximately \$7.5 million in parts inventory, up \$3 million, and LIFO reserves of \$5 million, an increase of \$1.4 million.

As of September 30, 2021, we had no borrowings under our \$25 million revolving credit facility, \$10.8 million of term loans outstanding, and \$94.7 million in gross notes payable on our \$327 million floor plan facility. We also had approximately \$2.9 million outstanding on notes payable related to acquisitions, \$1.4 million of PPP loans outstanding, and a mortgage balance of approximately \$5.8 million.

Thank you. I'm glad I made it through without coughing, and now I'll turn the call over to Bill Murnane.

**Bill Murnane**

All right. Thanks, Nick and nice job. Hopefully I won't cough either. Good morning, everyone.

We are very proud to have set another quarterly revenue and EBITDA record in the third quarter. I want to thank all the Lazydays employees for their hard work and dedication they put into accomplishing these results. We have a remarkable team here at Lazydays and our back-to-back record quarters are a tribute to their exceptional effort and performance.

In addition to setting another Company record, we gained meaningful market share during the quarter by significantly outgrowing the market and our competitors. In a quarter where year-over-year national RV unit sales declined substantially, we managed to grow unit sales by almost 40%.

These extraordinary results reflect our team's commitment, focus, and discipline around executing on our strategic initiatives. The fourth quarter is off to a great start as demand and margins remained strong in October. Our year-over-year unit revenue and EBITDA growth in October was very similar to our third quarter growth rates for these categories. Gross margins were also very strong in October. We expect strong demand and margins to continue into the foreseeable future.

Our inventories increased in the third quarter, and our total inventories increased faster than our motorized inventories. Our dealership inventories continued to be well-below historical and desired levels, and we don't expect our inventory levels to normalize until sometime in the second half of 2022. We believe the supply/demand imbalance will continue for the next year, which should allow us to maintain elevated margins throughout the balance of 2021 and well into calendar 2022.

Our growth pipeline remains very healthy and active. During the quarter, we acquired Burlington RV and its dealership in the Milwaukee Wisconsin market. We also acquired B. Young RV and its dealerships in the Portland, Oregon, and Vancouver, Washington markets. These are all exceptionally strong dealerships that fit perfectly with our strategy to acquire the best dealerships and the best teams and the best brands in the top markets—in the top national markets.

We also recently announced new greenfield projects in the Omaha, Nebraska and Fort Pierce, Florida markets. We are able to acquire great properties and great brands for these dealerships, and we are excited about their growth potential. We expect these new dealerships to commence operations in the fourth quarter of 2022. We're working on additional greenfield projects, and we hope to announce them soon.

For the foreseeable future, we will likely be more focused on greenfield projects rather than acquisitions. As you know, we are very selective about the dealerships we acquire. Given the current market environment, we are finding price expectations to be above what we deem reasonable.

In addition, we are finding that most of the dealerships that are currently for sale don't meet the high-quality standards that are required to become a Lazydays dealership. This doesn't mean we won't continue to make acquisitions. When we find high quality dealerships like Burlington and B. Young for sale at reasonable prices, we will make our best effort to bring them into the Lazydays family. It is imperative that all our dealerships meet the standards that are representative of our strong brand and meet our customer expectations. As I've often said, we don't have to be the biggest, but we must be the best.

I've discussed in the past that our greenfield dealerships typically generate a higher return on investment than acquired dealerships. Given that we will likely have more greenfield projects, I would like to revisit the greenfield dealership economics. Keep in mind that when we greenfield a dealership, we always build exactly the facility we want, that represents Lazydays high quality standards, and we can locate the dealership in an optimal location. This is not always the case with acquired dealerships.

Our Nashville dealership was a greenfield dealership. So, I will use it as an example to demonstrate the powerful economics behind a greenfield project. We commenced operations in Nashville in January of this year, or just ten months ago. One of our REIT partners funded 100% of the land development for the Nashville dealership in return for Lazydays signing a long-term lease on the property. So, we did not have to use any of our cash to develop the Nashville dealership property. We use REIT partners with acquired or greenfield dealership properties because the return we can get on newer acquired dealership operations is far superior to the returns we get on real estate.

The returns we get on newer acquired dealership operations are well north of 50%. Real estate returns are in the low to mid-teens depending on leverage. So, we prefer to allocate our capital towards new

dealership operations. Our floor plan lenders fund most of our inventory investment in new dealerships, so procuring inventory doesn't require much of our cash either. Our only real cash outlay for greenfield is some small startup costs related to working capital, advisor fees, and a month or two of negative operating cash flow. We conservatively estimate our startup cash investment to be \$500,000, although Nashville was much lower than this amount.

In Nashville, we were profitable in January; our very first month of operation. So, there wasn't much negative operating cash flow in Nashville. Nashville, today, 10 months later has annualized revenue well above \$50 million and has a market share above 20%. We believe Nashville will ultimately be \$100 million dealership. In addition, annualized EBITDA in Nashville is currently well north of \$5 million. You can see that the cash-on-cash payback in Nashville was measured in weeks or maybe a month. The ROI on Nashville is far above 50%.

We believe we can get returns similar to Nashville on all greenfield dealership projects. Our goal is to add 5 to 10 dealerships per year to our network, and that goal won't change for a very long time. We will continue to add both acquired and greenfield dealerships, although we expect to be adding more greenfield dealerships given the current market conditions. As I said in the past, we have numerous ways we can grow. We can grow by improving market share at our existing dealerships, we can grow by acquiring new dealerships, and we can grow by greenfield in new dealerships.

Regardless of the growth path we take, we believe we can generate above market growth in both good and bad economic environments while consistently outperforming our competitors as we did in the third quarter. As we grow, we never lose focus on improving our ability to provide a best-in-class customer experience and service excellence.

Our best-in-class customer experience and service excellence are at the core of everything we do. We have several customer, employee, and services 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 purchase and service experience in the country.

That is all for our prepared remarks. Emma, please open the line for questions.

**Operator**

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

**Ryan Sigdahl**

Good morning. Ryan on for Steve.

**Bill Murnane**

Good morning, Ryan.

**Ryan Sigdahl**

Given the acceleration on the greenfield development, want to start there. Challenging inventory and labor markets today, albeit those hopefully will normalize at some point, but how do you think about sourcing inventory, stocking these lots, hiring people that there's more investment needed there relative to acquiring existing operations?

**Bill Murnane**

Yes. When you say there's more investment, what do you mean?

**Ryan Sigdahl**

Well, you just have to start from zero on the inventory and the people side versus acquiring an existing dealership with a lot of people working there.

**Bill Murnane**

We have very strong relationships with the OEMs. Two things, I think, one, we believe that probably by the time we start to open our two most recent greenfield operations, Omaha and Fort Pierce, inventory is going to be back in balance. We don't expect any issue getting inventory. Please keep in mind that Nashville opened in the middle of the pandemic. We certainly didn't have any trouble getting inventory for that operation.

So, we don't think inventory is going to be an issue at all, as we expand, and the tight inventory situation is not going to last forever. By the time we really get cranking on these greenfields, there'll be plenty of inventory to put on the lots, or at least we believe.

We also have not had trouble attracting people. We have a huge database of people who would love to work for Lazydays. We just don't have positions for them today. Regardless of the position in the organization, we're a preferred employer. We don't have issues attracting people typically, especially when we enter a new market. We don't think we'll have issues there either, Ryan.

**Ryan Sigdahl**

Great, and then just on the development pipeline within the greenfield, can you talk through the pipeline of how many locations, sites, etc. that you guys have identified? Then how all of that licensing and what goes into that process?

**Bill Murnane**

Yes, the process is pretty straightforward. We start by looking at the largest 50, 60 markets in the country, and we're only in a handful of them. Then we start looking for properties in those areas. We find properties that are optimal for us.

Then we are always having conversations with the OEMs. We're always able to get good product in most markets. We're continuing to expand. As we get bigger, we get very good treatment from the OEMs in terms of procuring product, but really it will come down to where we find the best properties available. We're not going to settle on a sub-optimal property. If we're looking at 50 or 60 markets, we'll just go to the market where we find the best situation.

We, quite frankly, think we're going to have a lot backed up. We'll have a very strong pipeline of greenfield to go after. But it's going to come down to where the best properties are in the biggest 60 markets.

**Ryan Sigdahl**

Great. Moving on, your largest competitor said they expect profitability or EBITDA to be higher next year, year-over-year. Does that seem reasonable for your business, even if we assume some normalization of pricing margins, etc. and maybe even the back half of next year.

**Bill Murnane**



Yes. I mean given our growth trajectory, it certainly seems reasonable.

**Ryan Sigdahl**

Good. Last question for me, and then I'll turn it over to the others. Your new to used ratio was closer to one-to-one several years ago. Now, it's closer to two-to-one new versus used. How do you think about that ratio longer term? Then how much opportunity do you think there is from a focus standpoint on new versus used?

**Bill Murnane**

Yes, used has been a focus area for us forever. It's not anything new or different. We've always gotten some of our best margins on used, and we've always put a lot of energy into procuring use. Now, the trading ratios have definitely dropped especially as a lot of new entrants have entered the market. So, there isn't as big a traded in opportunity, but as you can see, we expanded used—what did we do, about 50% this quarter, Nick, our used sale?

**Nick Tomashot**

Yes, 49%.

**Bill Murnane**

Yes, 49%. So, we have a pretty robust, we think, a little bit proprietary procurement process for used, and I think our growth in used demonstrates that. So, with the tough market for getting new, we certainly have been able to procure our fair share of used, and we've probably put a little more effort into that given the shortage of new product but...

**Nick Tomashot**

Yes, our used inventory is up compared to where we finished 2020. We haven't gotten any less selective about what we put on our lot.

**Bill Murnane**

Yes, where we continue to generate prices. So, used has been something we've been focused on for a long time. We haven't changed that focus, and we won't change our focus, but it is helping currently given the shortage of new product out there.

**Ryan Sigdahl**

Great, thanks guys. Good luck.

**Bill Murnane**

Thanks, Ryan.

**Operator**

Your next question comes from the line of Fred Wightman with Wolfe Research. Your line is now open.

**Fred Wightman**



Hey, guys, thanks for the question. Maybe just to follow-up on that last comment about inventory, that was up sequentially and year-over-year, granted off of a very low base, and there's probably some acquisition impact. But could you just dig into where you're sort of seeing the biggest improvement? I know that you gave some numbers about used inventory stepping up, but are you seeing any change in sort of the trade in ratios? Are you having more success on the third-party side? How are you sort of seeing that trend?

**Bill Murnane**

Yes, the trade ratios are down, right. So, we're forced to go out to the market and buy the wholesale products directly. We're having great success doing that. But trade ratios are down just because there's so many new entrants into the market. You're not getting as many products traded in. The majority of our growth is coming from third-party purchases.

**Fred Wightman**

Okay. Has that trade ratio, understanding that it's down from where it was normally, has that changed at all really this year, or is it still sort of super low?

**Bill Murnane**

It's gotten a little better in the last quarter. It's improved a little in the last quarter, the trade ratio, so we're seeing some improvement there.

**Fred Wightman**

Okay, helpful. Then maybe just one final one on the gross margin side, you guys were up on the 600 basis points, you sort of touched on the impact of demand and the tight supply and sort of the pricing environment, but how do you guys see that going forward, on sort of a sustainable rate, how should we be thinking about that?

**Bill Murnane**

Our crystal ball, like I said, we see it sustaining for the foreseeable future. We don't see anything on the horizon right now that's going to change that.

**Fred Wightman**

Okay. Thanks, guys.

**Operator**

There are no further questions at this time. Bill Murnane, I turn the call back over to you.

**Bill Murnane**

All right. Well, thank you, everyone, for joining us this morning. We'll continue to keep our heads down and keep driving and growing the business, but we appreciate all your support. Have a great day. Thank you.

**Nick Tomashot**

Thanks.

**Operator**

This concludes today's conference call. You may now disconnect.