Lazydays Holdings, Inc.

First Quarter 2022 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Debbie Harrell, *Corporate Controller*

Robert DeVincenzi, *Interim Chief Executive Officer*

Nicholas Tomashot, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Steve Dyer, *Craig-Hallum Capital Group*

Michael Swartz, *Truist Financial Corp*

Craig Kennison, *Robert W. Baird & Co.*

PRESENTATION

Operator

Hello.. At this time I would like to welcome everyone to the Lazydays Holdings, Inc. First Quarter 2022 Financial Results.

After the speakers' remarks, there will be a question-and-answer session.

Debbie Harrell, you may begin your conference.

Debbie Harrell

Thank you, Operator. Good morning and thank you for joining us for our First 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 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. 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 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, stock-based compensation expense, taxes, product mix shift, and geographic expansions.

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 May 5, 2022.

We also will 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 March 31, 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 first quarter financials.

Robert DeVincenzi

Thank you, Debbie.

Before we start our commentary relating to our first quarter 2022 results, let me note a press release we issued yesterday. We announced our most recent letter of intent, which supports our planned acquisition of Dave's Claremore RV located in beautiful Claremore, right outside of Tulsa, Oklahoma. Dave's is a substantial dealer for Forest River, Thor, and East to West products. We expect to finalize the acquisition within 90 days.

Dave's is named for Dave Pierce, who along with his wife Gloria started the business 35 years ago. Stephanie Pierce, Dave and Gloria's daughter, is now the majority owner and President of the dealership and we're pleased to be entrusted to extend the legacy of this multi-generational dealership into the future. This acquisition will take our dealer and service footprint to 18 locations and with the four Greenfield Dealership sites that we have announced in our in-development, our dealership footprint will expand to 22. We look forward to welcoming Dave's Claremore RV and their customers in Oklahoma, Arkansas, Missouri, and Kansas to the Lazydays family.

Now, as it relates to our Q1 2022 period, let me start by providing a few financial performance highlights. The first quarter of our 2022 financial year again demonstrated remarkable performance and provided an excellent start to the new year. In our preliminary first quarter results, which we released on April 20, 2022, we indicated an expectation of reporting revenue of $376 million, Adjusted EBITDA of $44.8 million, and net income of $27.5 million. Today, we're announcing revenue of $376.2 million, Adjusted EBITDA of $44.8 million, and net income of $28.3 million, each in line with our earlier expressed expectations. Nick Tomashot will provide more detail on our first quarter results a bit later in the call.

During the first quarter period, we were pleased with the performance of the business, with most of our dealerships delivering retail unit, service, and parts revenue, and gross profit levels exceeding the same period a year ago. Demand continued to be robust, and our retail units sold were up over the same period a year ago.

We were pleased with the mix of new and pre-owned unit sales we generated, supported by our strategy to assure that we can offer both new products and pre-owned products purchased on the open market or accepted in trade associated with a new unit sale. Average unit sales price, or ASP, of approximately $89,000 continued to be strong in the period as customers confirmed the willingness to pay for the value associated with the RV lifestyle.

Our prospect engagement continued to be excellent in Q1. We are pleased with our ability to meet our future customers online through our innovative use of data and analytics via the phone or in-person with a greeting and a handshake in one of our dealerships.

During the Q1 period, we saw improvement in our inventory position as we, along with our OEM partners, worked to get our lots stocked for the spring selling season. Although the industry continues to work to restore motorized inventory levels, our towable product inventory has made great progress towards full recovery. As we all read in the various industry outlets, the industry is working through a process of normalization: normalization of inventory and scarcity and normalization of demand, as other forms of recreational travel recover.

The industry has also talked quite a bit about pricing and margins as the market normalizes. With regard to inventory and scarcity, we are focused on prudently managing our new and pre-owned inventory levels. As for pricing and margins, we are fortunate to offer, through our OEM relationships, both high value in premium brands, models, and floor plans, which we believe result in superior consumer preference and willingness to pay.

We're also responding to the normalization of the industry by making adjustments in our marketing efforts in terms of when and how we engage with prospective RV owners and help them along with our RV community to see the opportunities associated with the lifestyle. We're very focused on opportunistically improving Lazydays share of voice and fully utilizing our data and analytics to drive our digital engagement strategy to more effectively target markets and market segments.

Shifting to our strategic investments in efforts during Q1, we did repurchase $19.2 million of Lazydays common stock, consistent with our previously announced share repurchase program. Our share repurchases over the last 12 months totaled $31.2 million. We also continued to focus on growth with the aforementioned Greenfield Dealership developments in Surprise, Arizona, Wilmington, Ohio, Council Bluffs, Iowa, and Fort Pierce, Florida, and subsequent to the close of Q1, the acquisition of Dave's Claremore RV. We continued to evaluate new Greenfield Dealership locations and acquisition opportunities. We see promising and actionable opportunities to enter new markets and we will continue to share our plans as they mature.

As previously disclosed, on March 9, 2022, the Company received a non-binding, unsolicited proposal from B. Riley to acquire the Company for $25 per share. The Company evaluated the offer and ultimately rejected it on March 14,2022. I can assure all shareholders that the Company was professionally advised as to its governance obligations, its disclosure obligations, and in the process of its evaluation of the offer. The ultimate response to the offer was unanimous with all directors voting to reject the overture.

I would like to offer an update on the CEO search that is ongoing under the direction of the Board. The search continues with the assistance of a leading search firm. The Board has evaluated numerous well-qualified executives and has had advanced interactions with a promising subset of candidates. These interactions continue although at the present time we have no announcements to make.

The Board, and myself personally, are appreciative of the commitment and performance of the executive team and all Lazydays partners as we work together every day to move the business forward and make new customers for life.

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

Nicholas Tomashot

Thank you, Bob.

Please note that unless stated otherwise, the 2022 first quarter results comparisons are versus the same three-month period ended March 31, 2021.

Revenues for the first quarter were $376.2 million, up $105.2 million or 38.8% from 2021. Revenue for the quarter from the sale of recreational vehicles, or RV,s was $340.5 million, up $95.6 million or 39%. Total RV unit sales, excluding wholesale units, were 3,748, up 551 units or 17.2%. Q1 revenue from the sale of new recreational vehicles was $217.4 million, up $50 million or 29.9%.

New RV unit sales were 2,270, up 145 units or 6.8%. The average selling price of new RVs for the quarter was $95,600, up $17,200 or 21.9%. Q1 revenue from the sale of pre-owned RVs was $123 million, up $45.5 million or 58.8%. Pre-owned RV units sold, excluding wholesale units, were 1,478, up 406 units or 37.9%. The average selling price of pre-owned recreational vehicles was $78,800, up $11,000 or 16.2% versus the first 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 $35.7 million, up $9.6 million or 36.7% compared to 2021. The increase was driven by an F&I revenue increase of $7 million, or 48.1%, to $21.6 million, and a parts and service revenue increase of $2.4 million or 23.4%, $12.7 million.

Q1 gross profit excluding non-cash, last in first out or LIFO adjustments was $101.6 million, up $35.6 million versus 2021. Gross margin excluding LIFO adjustments increased between the two periods to 27% compared to 24.4% in 2021, with the change driven by increases in units sold and average selling price, including non-cash LIFO adjustments, which had a net unfavorable swing between periods of $0.6 million compared to prior year.

Gross profit for the quarter was $99.2 million, up $35.1 million or 54.7%. Excluding transaction costs, stock-based compensation and depreciation and amortization, SG&A for the quarter was $55.9 million, up $18.2 million compared to prior year. This increase is attributable to overhead associated with the Maryville, Tennessee dealership acquired in March 2021, overhead associated with the Portland, Oregon, Vancouver, Washington, and Milwaukee, Wisconsin dealerships acquired in August 2021, and overhead associated with the Monticello, Minnesota dealership, which we opened in March 2022.

SG&A as a percentage of gross profit ex-LIFO decreased from 58.8% in Q1 2021 to 56.4% in 2022, reflecting improved gross profit and margins, partially offset by increased overhead from the acquisitions we've mentioned above. Amortization of stock-based compensation increased $0.2 million, and depreciation and amortization increased $0.9 million compared to prior year.

Net income for the first quarter was $28.3 million as compared to $8.8 million in 2021. This was driven by improved RV sales and gross profit relative to overhead expenses previously discussed. Adjusted EBITDA for the quarter was $44.8 million, up $16.9 million or 60.9%. This was record quarterly EBITDA performance by Lazydays. Adjusted EBITDA margin increased by 160 basis points to 11.9% from 10.3% in 2021. Please refer to our earnings release for our table, which includes a reconciliation of net income to Adjusted EBITDA.

Now, turning to the March 31 balance sheet and our financial position, we had cash on hand of $89.6 million and net working capital of $112.4 million, with cash $8.6 million in December 31, 2021. This decrease includes the impact of cash used in operating activities of $17.4 million, and cash paid for purchases of property and equipment and acquisitions of $7.5 million, offset by cash provided by financing activities of $16.8 million.

Operating cash flow includes the negative impacts of a $41.4 million increase in inventory as RV inventory continues to recover from depleted levels. The cash impact of this inventory increase is offset by a $38.1 million Floorplan cash inflow reflected in cash provided by financing activities. Cash provided by financing activities also includes cash outflows of $19.2 million for the repurchase of 1,086,797 shares of common stock at an average price of approximately $17.64.

As of March 31, 2022, we had $284 million in inventory consisting of $217.3 million in new vehicles, $69.2 million in pre-owned vehicles, approximately $8.4 million in parts inventory, and LIFO reserves of $10.9 million. As of March 31, 2022, we had no borrowings under our $25 million revolving credit facility, $9.4 million of term loans outstanding, and $230.9 million in gross notes payable on our Floorplan facility.

We also had approximately $0.8 million outstanding on those payable related to acquisitions, $0.2 million of PPP loans outstanding, and a mortgage on property of approximately $5.6 million.

Thank you. Now, I'd like to turn the call over to Bob DeVincenzi.

Robert DeVincenzi

Thanks, Nick.

As we look ahead into our second quarter and beyond, we believe that we are well-positioned to address the opportunities and challenges that the external environment may present. We enjoy excellent dealership locations, a strong brand identity, superior service capabilities, and relationships with premier OEMs that provide outstanding products to increasingly well-educated consumers. We also have built the business with an agile operating model in mind and an innovative approach to using data and analytics to maximize our connection with prospective customers.

In closing, as I said, when we ended the Q4 2021 and year-end conference call, we will continue to allocate capital to various investments that support the long-term growth of Lazydays shareholder value. During the Q1 period and subsequently, we have delivered on that objective with greenfield announcements and an additional acquisition while at the same time executing on our share buyback program. We will continue to balance investments in our core business to generate future cash flow growth with opportunities to invest through share buyback. This balance will continue to be the focus of leadership team and the Board.

We will now open up the call for questions.

Operator

Your first question comes from Steve Dyer with Craig-Hallum. Your line is open.

Steve Dyer

Thank you. Good morning.

I know you don't give a lot in the way of guidance, but looking forward I guess directionally, could help us think through how you're thinking about both same-store sales year-over-year as well as maybe the pace of acquisitions we've seen vis-a-vis recent years? Guess just really trying to get some sense as to what you see the core business of stores doing on a go-forward basis.

Robert DeVincenzi

Sure, Steve. Thanks very much for the question.

Nick, do you want to handle the question and then I'll make a couple of comments on Steve's question about acquisitions going forward?

Nicholas Tomashot

Yes. As Bob mentioned, we're still seeing strong inbound interest in RVs. I would say sequentially, it's leveling off to tapering, in particular on the towable side where we're getting closer to normal levels of inventory. The motorized side, though, there's still some scarcity there. So, year-on-year, we're still seeing nice margins, improved margins sequentially, starting to taper a little bit, but it's hard to tell because the first quarter margins are typically a little bit lower than they are in the fourth quarter.

With regard to acquisitions, Bob had mentioned earlier in his comments that we're evaluating what that right pace is for us, and I'll let him add some color around what we're working on.

Robert DeVincenzi

Thanks, Nick.

So Steve, I think it's important to note the focus that we have on growth. Of course, we have two primary mechanisms to grow the business in addition to our organic store growth. One of those is greenfields, and of course the second is acquisitions. Greenfields, as you know, we exclusively control, subject to the availability of real estate, appropriate markets for us to enter, and the availability of brands. So, we have pretty good visibility on our greenfield growth plan, although I'm not prepared to share more detail beyond what we have commented on in this call, at this time at least.

With respect to our acquisition plans, those are less controllable, less controllable than greenfield, of course, because there are counterparties to deal with, and we're actively engaged in evaluating a set of alternatives. But I really don't have the ability to confidently express to you a number and a pacing expectation that I would be comfortable and confident in delivering against.

I hope you can appreciate the imprecision of that element of our growth plan.

Steve Dyer

Yes, that makes sense. Helpful.

You've talked a little bit about inventory. Should we read into it that it's pretty much back to where you want it? It sounds like certainly on the total side, but just understanding, trying to manage the supply and demand aspect. Would you say you're relatively fully inventoried for what you see from a demand perspective?

Robert DeVincenzi

Yes. Thanks.

Nick, do you want to pick that one up?

Nicholas Tomashot

Yes, so we don't target an absolute inventory level. We target turns or sell-through. On the towable side, particularly on the lower price points where we want to be in terms of inventory, there are some of the higher-end, higher-price point towables that we would like to have a bit more of. Then on the motorized, we definitely could take additional stock.

Historically, we've said that we're 60/40 roughly between towable and motorized. As we've been adding locations, that's getting closer to around two-thirds, one-third and as you know, the industry is around 90/10. We do skew towards motorized. The pros and cons of it are we would prefer more product, but while there is scarcity, we believe we will continue to see the same kinds of margins we've been seeing.

Steve Dyer

Got it. Okay. That's it for me. Thank you.

Robert DeVincenzi

Thank you, Steve.

Operator

Your next question comes from Mike Swartz with Truist Securities. Your line is open.

Robert DeVincenzi

Great. Hello Mike.

Michael Swartz

Hey, how are you? Good morning. Just maybe a question, maybe more a clarification for Nick, just in terms of the vehicle margins. During the quarter I understand that there's seasonality that can be impacted by mix. But can you just talk about maybe the exit rate on those margins relative to what you reported in the quarter at around I think 20%?

Nicholas Tomashot

Yes, I think we were pretty consistent across the quarter. I've been kind of watching them, especially with the ASPs going up so much and with the cost increases. I've been looking at per vehicle grosses and they were relatively flat over the course of the quarter.

Michael Swartz

Okay. That's helpful. I guess from the standpoint of acquisitions and new store additions, I understand you can't really give us a timing or scope, scale of that, but can you just talk about what we should think about or how should we think about just I guess your ability to acquire from a bandwidth standpoint, whether that's financial, whether that's just management integration of these? Is it four to six a year or is it two to three? I'm just trying to get a sense of the general scale, scope where you are in today.

Robert DeVincenzi

Yes, Mike, I wouldn't want to offer anymore guidance on that than we have offered previously. Although I will say that the Company has the cash capacity to execute the growth plan that we are internally planning in implementing. Of course, as you know, where we're securing greenfields locations, we tend to

secure that real estate and build the improvement and then ultimately implement all these buyback structure with the financial partner, which puts us in a position of needing to finance that process during the construction period, ultimately bringing the cash back and of the business.

We feel like we have an appropriate level of internal resource allocated to doing both greenfield evaluation and greenfield implementation and acquisition evaluation, and acquisition implementation. Beyond that, I really wouldn't have any other comment to offer beyond what we've guided previously.

Michael Swartz

Fair enough. Thanks a lot.

Robert DeVincenzi

Yes, thanks for the question, Mike. Appreciate it.

Operator

Your next question comes from Craig Kennison with Baird. Your line is open.

Craig Kennison

Hey, good morning. Thanks for taking my question.

We're in a rising rate environment, clearly Fed policy is now aimed at moderating demand so that we can meet supply at a lower price, I guess. I'm curious, your businesses on the front lines of that. Have you seen any change in your consumer behavior as rates rise?

Robert DeVincenzi

Great question, Craig.

Nick, would you like to address that one?

Nicholas Tomashot

Yes. In fact, there was one of the analysts on this call I think, I can't recall who it was, had done a survey. Us, as well as other dealers that were surveyed, still haven't seen interest rates or gas prices having an impact on demand yet. I'm not saying that won't continue, but so far, we haven't really seen it have an impact. There is some data out there that the number of miles at an RV has actually driven aren't really substantial enough relative to the total cost of ownership, but gas prices can be a pinch.

A lot of consumers, it's really how big the payment is that's really a factor rather than the sticker price for the units or the interest rates on their loan. But so far, we haven't seen any impact.

Craig Kennison

It's a very helpful comment. I've been curious about that point you make about the monthly payment because I would think a like for like unit is significantly more expensive today. The monthly payment has gone up because your ASP has gone up on a unit, a typical unit. So to the extent you could see inflation maybe drop, and you don't see so much pressure on an ASP, do you think your consumer can absorb some of these higher rates because it's better than actually higher prices?

Robert DeVincenzi

Yes. I think we mention in our comments that we're seeing our average selling prices going up. But the other thing I'd point out is we have a whole array of products at various price points. You'd almost have to evaluate each person that walks into the door in terms of what they would've bought in the previous pricing environment versus today. But we can put anybody in a unit from anything from $10,000 to $20,000 up to $100,000. It's hard to tell whether people are being selective, whether they're going up or down because of differences in the relative prices of products.

Craig Kennison

Got it. Hey, thank you so much.

Robert DeVincenzi

Thank you, Craig.

Operator

There are no further questions at this time. Mr. DeVincenzi, I turn the call over to you.

Robert DeVincenzi

Great. Thank you, Stephanie. I'd like to thank everybody for participating in our conference call, and we certainly look forward to updating you further on our next call when we report our second quarter results. Thank you all for joining us.

Operator

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