

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

BXG.N - Q4 2017 Bluegreen Vacations Corp Earnings Presentation

EVENT DATE/TIME: MARCH 06, 2018 / NTS GMT



CORPORATE PARTICIPANTS

Danielle O'Brien *Bluegreen Vacations Corporation - IR*

Shawn Pearson *Bluegreen Vacations Corporation - President and CEO*

Tony Puleo *Bluegreen Vacations Corporation - EVP, CFO and Treasurer*

PRESENTATION

Danielle O'Brien - *Bluegreen Vacations Corporation - IR*

Good afternoon, everyone. Thank you for joining Bluegreen Vacations' discussion on its financial results and activities during the fourth quarter and full year ended December 31, 2017. Today's business update will feature Bluegreen Vacations' Chief Executive Officer Shawn B. Pearson, and Chief Financial Officer Tony Puleo.

Before beginning our call, I would like to remind listeners that this pre-recorded business update may contain forward-looking statements based largely on current expectations of Bluegreen Vacations that involve a number of risks and uncertainties. All opinions, forecasts, projections, future plans or other statements other than statements of historical fact are forward-looking statements. We can give no assurance that such expectations will prove to have been correct.

Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by these forward-looking statements, and are subject to a number of risks and uncertainties that are subject to change based on factors which are in many instances beyond the Company's control. Risks and uncertainties include, without limitation, risks associated with the Company's ability to successfully implement current anticipated plans, generate earnings and long-term growth, and increase shareholder value.

Additional detailed risks and uncertainties are described in Bluegreen Vacations' annual report on Form 10-K, which is expected to be filed on or about March 7, 2018 for the year ended December 31, 2017, and are available to view on the SEC's website, www.SEC.gov, and on Bluegreen Vacations' website, www.bluegreenvacations.com.

We have also provided a supplementary earnings slide deck which is available on our website. Listeners should not place undue reliance on any forward-looking statement which speaks only as of the date made. Bluegreen Vacations cautions that the foregoing factors are not exclusive, and we do not undertake and specifically disclaim any obligation to update or supplement any forward-looking statement.

I will now turn it over to Shawn B. Pearson, Chief Executive Officer. Shawn?

Shawn Pearson - *Bluegreen Vacations Corporation - President and CEO*

Thank you. Hello, everyone. We are pleased to review Bluegreen Vacations' fourth quarter and full-year 2017 results, our first quarter as a public company following our successful initial public offering in November 2017.

Bluegreen is a leading vacation ownership company that strategically markets and sells vacation ownership interest or VOIs in targeted, popular, high-traffic leisure destinations throughout the United States. Our network consists of 67 resorts, which comprise 43 club resorts where our owners have the right to use most of the units in conjunction with their vacation ownership; 24 club associate resorts where our owners have the right to use a limited number of their units in connection with their VOI ownership.

Bluegreen currently manages 48 of those resorts for management fees, which yield highly predictable recurring cash flows. Bluegreen has a flexible model with a balanced mix of developed and capital-light inventory. Working with our third-party developers allows us to generate fees from selling and marketing their VOIs, which averaged a 69% commission in 2017 compared to 68% in 2016, without incurring the upfront capital investment generally associated with resort acquisitions and development.



We believe we are well positioned in a fast-growing market and have a unique opportunity in our industry with a differentiated target customer base and multiple sales channels through strategic relationships to reach new owner leads.

We are targeting the largest and fastest-growing demographic, Middle America, with a focus on the millennials who look for affordable vacation properties and resorts. We offer customers a differentiated product with our resorts, providing an experience rather than just a hotel. As of December 31, 2017, we had approximately 213,000 owners. Our focus on sales to new customers and a commitment to delivering quality vacation experiences has generated net owner growth of 2% in 2017.

We continue to believe in our drive-to strategy, with 85% of our owners living within a four-hour drive of our resorts, allowing our customers the option to save on airfare and with this added flexibility provide them with the ability to take more frequent trips.

Bluegreen has a substantial resort and club management business that provides predictable, long-term revenue streams. Our management contracts are typically structured as cost-plus with automatic renewals, and to date we have had 100% renewal rate on our club resort management contracts, which demonstrates our ability to retain these sticky relationships and provide best-in-class service to our resort homeowners' associations.

I'd like to take a moment to review our core operating and growth initiatives that were established at the time of our IPO. We believe the combination of our flexible capital-light business model, our highly predictable revenue streams, strong partnerships with Choice and Bass Pro, an experienced management team coupled with our digital innovation and customer experience enhancements and our ability to increase scale and grow our business, will result in new customer acquisitions, increased VOI sales, and long-term value creation for our shareholders.

Enhancing our owners' experiences remains a top priority, and we will continually seek new ways to add value and flexibility for our owners, including customer-facing technology improvements. We are focused on fulfilling our owners' needs for flexibility and choice by seeking and added new destinations, expansion of owner programs including our robust Traveler Plus program, and by the addition of new partnerships to offer increased vacation options.

In addition to our already proven sales and marketing platform, we remain focused on generating new owner leads through our strategic marketing alliances with Choice and Bass Pro, which remain core to growing our future VOI sales. As you know, late last year we extended our exclusive strategic relationship with Choice Hotels through 2032. This important partnership which generates a growing portion of our new sales prospects enables us to leverage Choice Hotels brands, customer relationships and marketing channels to sell vacation packages.

This partnership is a direct fit with our target demographic. This expanded relationship provides Bluegreen with greater access to Choice's fastest-growing 35 million loyalty members, as well as additional flexibility for our owners by integrating access to Choice Hotels' product offering. We continue to test new ways to generate sales prospects with a focus on improving cost efficiencies.

Bass Pro, which also has a direct demographic match with our Bluegreen's targeted customer, is a long-term exclusive in-store marketing relationship to sell vacation packages and capitalize on the estimated 120 million people that visit Bass Pro Shops each year. We currently have on-site kiosks in 68 Bass Pro stores, and are excited to announce that our Bass Pro virtual reality pilot program is now operational in two locations, Memphis Tennessee, which was launched in January, and Springfield, Missouri, which was launched on February 23.

Springfield is Bass Pro Shops' flagship store, and by working with our partners from Bass Pro's nearby headquarters we believe we can create a desirable attraction to drive traffic for higher sales of our vacation packages. In Memphis, we are testing virtual reality concept in one of our newest VOI sales centers, where we are looking to bring the Bluegreen Vacation experiences to potential customers as a part of their sales presentation.

As you know, Bass Pro has acquired Cabela's, doubling their store count and expanding their footprint West into the Northeast, consistent and aligned with our expansion strategy. Plans for expansion have yet to be formalized, but we continue to work with Bass Pro regarding the future growth opportunities for Bluegreen.

At the core of most of our marketing programs is the sale of discounted vacation packages as an enticement to a prospective owner. These discounted vacation packages have a weighted average price of \$175 and have a short-term stay in close proximity to one of our resort sales offices, and typically require participation in a sales presentation.

Additionally, our vacation packages may include certain incentives such as a MasterCard reward, Bass Pro Shops and Tanger gift cards or a cruise certificate, depending on the offer. Most importantly, these vacation package programs allow us to have extended contact with our marketing guests prior to them participating in the sales presentation, which we believe results in improved efficiencies in these frontline marketing programs compared to other frontline programs with shorter lead times.

In addition to the new Memphis, Tennessee sales center, we recently opened a new sales center at the Hotel Blake in Chicago, Illinois, which is a resort in which we have been selling VOIs on behalf of one of our fee-based service clients. Several years ago we operated an off-site sales center in the Chicago area, so we know the market well and are excited to be able to share the Bluegreen Vacation story with a new generation of marketing guests.

In addition to increasing sales, one of our highest priorities remains improving operating and cost efficiencies across all customer touch points. In the fourth quarter, we implemented a companywide initiative to streamline and align operations to facilitate future growth and investment in innovation. We identified areas that we can eliminate redundant operational and support functions, which we believe will make us more nimble for future growth.

Most of the identified changes were made in the second half of 2017, although we will continue to pursue improvements as we move forward. The 2017 corporate realignment initiative resulted in an estimated reduction in the Company's annual salaries and benefits expense of \$19.5 million. The Company expects to apply a portion of these savings towards additional associates and expenditures for growth-driving initiatives this year, particularly in various digital projects including website enhancement, online vacation package booking, virtual reality kiosks, and improvements in our customer relation management.

In addition, as part of our 2017 initiatives, we made several executive promotions and leadership changes. We are confident that we have the right organization and team to help position Bluegreen for growth and industry leadership in 2018 and beyond. With that, I will turn it over to Tony for additional financial results. Tony?

Tony Puleo - *Bluegreen Vacations Corporation - EVP, CFO and Treasurer*

Thanks, Shawn. We are pleased with our financial and operating results, which showed continued growth across our business lines and improved profit margins from our sales and other operations. My remarks today will include a review of our fourth-quarter and full-year financial and operating results, as well as a discussion of a number of one-time and other items that impacted our results which are not expected to impact our ongoing operations.

Beginning with our financial results for the fourth quarter of 2017, net income for the fourth quarter was \$66.5 million or \$0.91 per fully diluted share, compared to net income of \$25.6 million, or \$0.36 per fully diluted share in the fourth quarter of 2016. This increase can be primarily attributable to a \$47.7 million income tax benefit in the fourth quarter of 2017, as deferred tax liabilities were reduced as a result of the Tax Cuts and Jobs Act of 2017. The tax act reduced the statutory federal income tax rate to 21% from 35%.

As a result of the tax act, the Company provisionally estimates that its effective combined federal and state income tax rate will decrease from a historical 39% to a range of 26% to 28% in 2018. Because the Company expects to pay lower income taxes on its deferred tax items in future years, it is required to recognize the \$47.7 million benefit for those lower taxes in the quarterly period when the new tax rates were enacted. We believe the income tax changes will enable us to better compete in our fast-growing market by providing more free cash flow, which we anticipate we will primarily utilize to grow our resort footprint and sales and marketing infrastructure, with a focus on innovation and enhancing our customer experience at every touch point.

In addition, our results in the fourth quarter of 2017 reflect the following: a 5% increase in systemwide sales net, a reduction in selling and marketing costs of 51% during the three months ended December 31, 2017, compared to 52% in the same period of 2016, and a 14% increase in resort operations and club management revenue with a corresponding 10% increase in related pretax profits during the three months ended December 31, 2017, compared to the same period in 2016.

The increase in systemwide sales was driven by an 11% increase in sales volume per guest known as VPG, partially offset by a 7% reduction in salesforce. During 2017, we began screening the credit qualifications of potential marketing guests, resulting in the higher VPG but also a higher cost per tour and a lower number of tours in the three months ended December 31, 2017. We believe this screening should ultimately result in improved efficiencies in our sales and marketing process, and intend to continue to refine the process.

In the second quarter of 2017, the Company reintroduce sales of low pointed introductory packages which we had previously eliminated during 2016. The sale of these introductory packages during the fourth quarter of 2017 also improved VPGs by increasing conversion rates, partially offset by lower average sale price per transaction.

Finally, the percentage of our sales to our existing owners increased to 51% in the fourth quarter of 2017, compared to 47% in 2016. This increase also contributed to the higher VPGs in the quarter and in the reduction of our selling and marketing expenses previously discussed.

Despite the growth in sales and management revenues and the improvement in our selling and marketing expenses, income before noncontrolling interest and provision for income taxes was \$29 million for the fourth quarter of 2017, a decrease of 23% compared to \$37.6 million for the fourth quarter of 2016. This decrease was primarily a result of a \$4.8 million payment to Bass Pro in connection with an issue raised by Bass Pro regarding the computation of the prior sales commission paid to Bass Pro in connection with the sales of VOIs.

This payment was expensed during the three months ended December 31, 2017. While we believe the amount of commissions originally paid was consistent with the terms and intent of the parties' agreement and intend to continue discussions with Bass Pro regarding such payments, the resolution of this issue could result in an increase of our marketing expenses in the future.

Also in the fourth quarter of 2017, we recorded a \$2.2 million accrual for severance costs related to the corporate realignment initiative that Shawn spoke of earlier on this call, and a \$6.6 million increase in the estimated uncollectible VOI notes receivable. This increase reflected the increase in the amount of our finance sales, as gross sales of VOIs increased to \$80.9 million for the three months ended December 31, 2017, compared to \$76.9 million for the same period in 2016.

Approximately 40% of our sales in the fourth quarter of 2017 were realized in cash within 30 days of sale; hence, 60% of such sales resulted in VOI notes receivable for our customers. And, of course, we provide an estimate of uncollectible VOI notes receivable on all of our finance sales cumulatively for the remaining life of such notes as a reduction of our gross sales of VOIs each quarter.

In addition, as we have previously disclosed, we continue to receive letters from attorneys who purport to represent certain VOI owners and who have encouraged such owners to become delinquent and ultimately default on their obligations. We believe these letters have increased our average annual default rate to 8.5% for 2017 compared to 7.5% in 2016.

As a result of this increased default letter, we have recognized a \$1 million increase in the estimated uncollectible VOI notes receivable related to prior-year sales in the fourth quarter of 2017. We believe that these attorneys and third-party businesses who engage them on behalf of the VOI owners they solicited are ultimately damaging the credit of the VOI owners, often without the owner having a full understanding of the potential outcome. We have taken steps to educate our owner base that the best course of action should they have any question about their ownership in the Bluegreen Vacation Club is to call us.

Finally, the increase in our estimated uncollectible VOI notes receivable in the fourth quarter of 2017 was also impacted by the fact that the estimated uncollectible VOI notes receivable in the fourth quarter of 2016 was reduced by \$3.4 million, in order to adjust our estimates for these charges for the full year of 2016. So for the three months ended December 31, 2017, our total adjusted EBITDA was \$35.6 million compared to \$35.8 million for the three months ended December 31, 2016.

Now turning to our full-year 2017 results. Net income for the full year of 2017 was \$125.5 million or \$1.76 per fully diluted share, compared to \$75 million or \$1.06 per fully diluted share. The variance can be primarily attributable to the \$47.7 million income tax benefit recognized in connection with the tax act, as I previously discussed. Income before noncontrolling interest and provision for income tax was \$135.3 million for 2017, an increase of 8% compared to \$124.9 million for 2016.

This increase is highlighted by the income associated with a 2% increase in sales, an 8% increase in resort operations and club management revenue with a corresponding 2% increase in the related pretax profits during 2017 compared to 2016, and also a reduction in cost of VOIs sold, the 7% of sales of VOIs in 2017 from 10% in 2016.

While our cost of sales has been favorably impacted by adjustments to the carrying value of our inventory reflecting the price increases we enacted in 2016 and 2017, we also have effectively lowered our cost of sales from historical levels through the purchase and sale of inventory we acquire from homeowners' associations and other owners, typically at a significant discount to retail pricing. We refer to this low-cost inventory as secondary market. There is no assurance that secondary market inventory will be available to us at these levels in the future.

These increases were partially offset by the \$4.8 million payment to Bass Pro discussed above, expense of \$5.8 million related to severance costs for the corporate realignment initiative, including severance costs associated with the retirement of an executive in September of 2017 and also an increase in estimated uncollectible VOI notes receivable to 16% of gross sales of VOIs in 2017, from 14% in 2016.

This increase was due to realizing a lower percentage of gross sales of VOIs in cash within 30 days of sale. It was 39% in 2017 compared to 41% in 2016 and, therefore, an increase in the percentage of finance sales requiring an additional estimate of uncollectible VOI notes receivable. In addition, we experienced an increase in the average annual default rate to 8.5% in 2017 from 7.5%, primarily due to the receipt of attorney letters discussed above.

I'd like to highlight that in 2017, we adopted risk-based pricing pursuant to which buyers' interest rates are now determined based on their FICO score at the point-of-sale. As a result, the Company has realized 2017 loan originations after 30-day payoff same as cash, with a weighted average FICO score of 724 compared to 716 for the year ended 2016. We are optimistic that this higher FICO profile will result in lower default rates in the future, although there can be no assurances that will be the case.

For the full year of 2017, total adjusted EBITDA was \$148.6 million compared to \$137.9 million for the full year 2016. We have a very flexible business model which allows us to change the mix of certain parameters to adjust to market conditions over time. Four of those parameters and where we came out from a mix perspective in 2017 are: first, capital-light revenue as a percentage of total revenue. This percentage was 67% in 2017 versus 60% in 2016. We intend to continue to pursue a predominantly capital-light strategy for the foreseeable future.

Second, sales on behalf of our fee-based clients. These sales represented 54% of our systemwide sales in 2017, compared to 49% in 2016. Our targeted goal is that 52% of our systemwide sales will be for our fee-based service clients in 2018.

Third, sales to new customers. Sales to new customers were 51% of systemwide sales in 2017, compared to 54% in 2016. We intend to continue to drive new owner growth by pursuing approximately 50% of our sales being from new customers in 2018.

And fourth, the percentage of our sales that were realized in cash within 30 days of sale. This percentage was 39% in 2017, compared to 41% in 2016.

I'd now like to take a minute to discuss our required adoption of the new accounting guidance regarding revenue from contracts with customers. We adopted the new guidance on January 1, 2018, and will be using the full retrospective method to restate each prior-year period presented, beginning with the quarter ended March 31, 2018.

We expect the adoption of this new accounting standard will impact the following areas: our financial statements will reflect a gross versus net presentation for payroll and insurance premium reimbursements related to resorts managed by us and on behalf of third parties; the new accounting standard will remove certain existing bright line tests regarding determination of the adequacy of the buyers commitment to the timing of the

recognition of VOI sales. We believe that the recognition of fee-based sales commissions revenue, ancillary revenues, and rental revenues will remain materially unchanged.

We estimate that the adoption of the standard will result in the retrospective recognition of additional other fee-based services revenue of \$52.6 million and \$49.6 million for the years ended December 31, 2017 and 2016 respectively, with a corresponding increase in expenses of \$53.3 million and \$52.6 million for the years ended December 31, 2017 and 2016 respectively.

These are primarily due to the gross presentation for payroll and insurance premiums reimbursements related to resorts managed by us and on behalf of third parties. In addition, we believe that this standard will result in the retrospective recognition of additional sales of VOI revenue of \$12.6 million and \$14.8 million for the years ended December 31, 2017 and 2016 respectively, due to the timing of recognition of VOI revenue related to the removal of certain bright line tests regarding the determination of the adequacy of the buyers commitments.

The related retrospective impact of these changes on net income attributable to Bluegreen Vacations shareholders is expected to be \$9 million or \$0.13 per fully diluted share in 2017, and \$7 million or \$0.10 per fully diluted share in 2016. These changes and the related balance sheet impacts will be discussed in detail in our annual report on Form 10-K, which will be filed on or about March 7, 2018.

At year-end, our balance sheet was well-funded with \$197.3 million in unrestricted cash, \$1.2 billion in assets, and \$382.2 million in Bluegreen shareholder equity. Non-receivable back debt to equity was down to 0.4 to 1 at 12/31/17, versus 0.6 to 1 at 12/31/2016.

In January, we announced our Board of Directors declared a cash dividend payment of \$0.15 per share of common stock payable to shareholders of record on January 16, 2018. It is our intention to continue to pay quarterly cash dividends on our common stock, but would note the declaration of such payments is at the discretion of our Board of Directors, which will be based on the Company's financial condition, operations, capital requirements, available cash, among other conditions.

We have a long track record of producing strong free cash flow, which provides us with a strong foundation for reinvestment in our business; to grow our resort network geographically, and to create meaningful value for our shareholders.

In closing, we are excited about the opportunities that lie ahead for Bluegreen and remain focused on executing our strategy. Thank you for your attention today.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.