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BXG.N - Q1 2018 Bluegreen Vacations Corp Earnings Presentation

EVENT DATE/TIME: MAY 03, 2018 / NTS GMT



## CORPORATE PARTICIPANTS

**Anthony M. Puleo** *Bluegreen Vacations Corporation - Executive VP, CFO, Treasurer, Secretary & President of Bluegreen Treasury Services*

**Famous P. Rhodes** *Bluegreen Vacations Corporation - Executive VP & CMO*

**Shawn B. Pearson** *Bluegreen Vacations Corporation - President, CEO & Director*

## PRESENTATION

### Operator

Good afternoon, everyone. Thank you for joining Bluegreen Vacations discussion of its first quarter 2018 financial and operating results. Today's business update will feature Bluegreen Vacations' Chief Executive Officer, Shawn B. Pearson; Chief Marketing Officer, Famous Rhodes; and Chief Financial Officer, Tony Puleo.

Before we begin our call, I would like to remind listeners that this prerecorded 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 be 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 on long-term growth and increase shareholder value. Additional detailed risks and uncertainties are described in Bluegreen Vacations' annual report on Form 10-K filed for the year ended December 31, 2017, and its quarterly report on Form 10-Q, which is expected to be filed on or about May 4, 2018, for the quarter ended March 31, 2018, and available to view on the SEC's website at [www.sec.gov](http://www.sec.gov) and on Bluegreen Vacations' website, [www.bluegreenvacations.com](http://www.bluegreenvacations.com).

We have also provided a supplementary earning slide deck, which is available on our website. Listeners should not place undue reliance on any forward-looking statements, 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 disclaims any obligation to update or supplement any forward-looking statements.

I'll now turn it over to Shawn Pearson, Chief Executive Officer. Shawn?

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**Shawn B. Pearson** - *Bluegreen Vacations Corporation - President, CEO & Director*

Thank you, and hello, everyone. We are pleased to report our financial and operating results for the first quarter 2018, our first full quarter as a public company. We believe that our first quarter's results, which included a 12% increase in earnings per share and a 2.5% increase in systemwide sales of vacation ownership interests, or VOIs, compared to the first quarter of 2017 reflect the execution of the strategic initiatives set out at the time of our initial public offering in November of 2017.

We intend to continue to execute our drive-through strategy, support our growth initiatives and enhance the experience of our customers and VOI owners. Bluegreen has significant growth opportunities, and we believe that our powerful sales and marketing platform, in conjunction with our strategic marketing relationships, will fuel growth of our large and loyal customer base.

We also have established channels to continue to bolster sales from our core demographic, including our strong relationships with nationally recognized brands, Bass Pro and Choice Hotels, both of which have a customer base aligned with our core demographics.

For the trailing 12 months ending March 31, 2018, we realized a 2% annual net new owner growth and now have approximately 212,000 owners in our Vacation Club. We continue to pursue organic growth opportunities to enhance our customers' experience and advance our technology



and digital offerings for customers, which Famous Rhodes will discuss in a moment. We believe our Vacation Club offers our owners and potential owners exceptional value and flexibility with access to resorts and premier vacation destinations offering world-class amenities, accommodations and experiences.

As of March 31, 2018, our resort network included 43 Club Resorts, where our owners have the right to use a majority of their resort units in connection with their VOI ownership; and 24 Club Associate Resorts, where our owners have the right to use a number of the resort units in connection with their VOI ownership. We also manage 49 of these resorts, which is a meaningful revenue driver, up from 47 as of March 31, 2017. Our new resorts under management are located in Charleston, South Carolina and Banner Elk in North Carolina.

In addition to organic opportunities, we continue to seek new ways to add value and flexibility, which includes adding new resorts to our network. Subsequent to quarter end, we announced the addition of a high-quality experiential resort to our network, which we are extremely excited to offer to our owners the ability to visit.

In April, the company announced the acquisition of the Éilan Hotel & Spa in San Antonio, Texas for approximately \$34.3 million. This is a fantastic addition to our resort portfolio and is consistent with our core strategies on multiple fronts.

First, the property offers our owners not just a hotel room but an experiential, immersive, luxury travel experience in the quintessential Texas Hill country. The Éilan property is 165-guest room boutique hotel, featuring a high-end spa, resort-style pool, a state-of-the-art fitness center, tennis courts and virtual golf. It is in a highly desirable location near shopping, dining and entertainment as well as the San Antonio Museum of Art, Texas Wine Country and a Six Flags theme park.

Second, San Antonio is a brand-new market for us and entering Texas is aligned with our western expansion initiatives. With over 10% of our owners living in Texas and the surrounding states, this resort is highly consistent with our drive-through strategy, and we expect it will be a top destination for many of our owners.

And third, consistent with our focus on identifying new owners, Bluegreen plans to locate a 13,000-square foot sales center at the resort, which will support our pursuit of prospects and owner growth. The acquisition is also expected to further leverage Bluegreen's existing marketing platforms, which include the 7 Bass Pro shops in Texas as well as our recently expanded relationship with Choice Hotels.

Bluegreen continues to reach new customers to drive sales into our flow within our core demographic through our strategic marketing relationships with Choice Hotels and Bass Pro as well as through offer kiosks in 19 outlet malls located near Bluegreen resorts, each offer us a variety of channels to generate leads. Choice Hotels has an award winning loyalty program and with our relationship, gives us access to Choice's 35 million loyalty numbers. In addition 36 Bluegreen resorts were included in Choice's upscale Ascend Hotel Collection as of quarter end.

We also sold vacation packages in 68 Bass Pro shops, giving us access to the estimated 120 million people who visit Bass Pro shops each year. While Bass Pro continues to work through the integration of Cabela's, which doubled their store count, we continue to work with Bass Pro regarding future growth opportunities for Bluegreen and our joint venture partnership. These opportunities are in addition to our already robust and proven sales and marketing platform.

Lastly, as we previously reported, we made several executive promotions and leadership changes as part of our 2017 initiatives with the goal of building an optimal leadership team. I'm excited that we now have also added Jorge de la Osa as Chief Legal and Compliance Officer. Jorge brings us a wealth of knowledge and legal experience in the vacation ownership industry. This is an especially important role because, as you know, our industry has increasingly become a target of predatory exit firms and attorneys claiming they can eliminate VOI owners' obligations. These firms are encouraging delinquencies, defaults by our owners on their loans, harming both the VOI owner's credit and reputation and eliminating our ability to communicate with our owners through cease and desist letters. Bluegreen is committed to maintaining the integrity of the vacation ownership industry and protecting our owners. One of Jorge's primary responsibilities at Bluegreen will be addressing these frivolous claims. We have taken and intend to continue to take a proactive approach in dealing with fraudulent companies and individuals. He will lead a team in both Boca Raton and Orlando and in addition to his responsibilities at Bluegreen, he will be working with ARDA, the American Resort Development Association, as a thought leader in establishing best practices for addressing these widespread issues.

In closing, we believe that we are uniquely positioned within a fast-growing, exciting industry with a best-in-class leadership team. I'm excited about the growth opportunities ahead for Bluegreen and look forward to continuing to execute our strategic initiatives to create value for our shareholders in 2018 and beyond.

With that, I will turn it over to Famous for an update on our digital initiatives. Famous?

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**Famous P. Rhodes** - *Bluegreen Vacations Corporation - Executive VP & CMO*

Thanks, Shawn. We continue to focus on improving our digital capabilities to add value and flexibility to our owner experience. Our team is hard at work developing and testing new innovative experiences at retail stores and sales centers as seen with our most recent initiative, virtual reality. Virtual reality technology allows travelers to immerse themselves in the great outdoors and Bluegreen Vacations resorts in a unique way that a static image does not. During the quarter, we successfully launched our virtual reality pilot program in 2 Bass Pro locations, Memphis, Tennessee; and Springfield, Missouri. Springfield is Bass Pro's flagship outdoor-themed retail entertainment experience and is the #1 tourist destination in Missouri, attracting 4 million families, sportsmen and outdoor enthusiasts every year. Both locations attract high foot traffic in over 500,000 square feet of interactive retail shopping experiences, making them both fantastic locations to test the rollout of our virtual reality program. Connecting with consumers in these physical retail settings with immersive technology helps the consumer understand the breadth of the product offering in a unique manner and allows Bluegreen Vacations to personalize an experience.

The Wilderness Club at Big Cedar Resort is featured in the first version of the experience with 360-degree videos featured in the Oculus Rift stations. The experience is extended to the resort experiences and rooms of the Big Cedar Resort, with virtual walk-through experiences of the various rooms available at the resort. We are in the early phase of the rollout and will be monitoring closely the performance of the virtual reality stations at both locations.

Content is a key driver of engagement, and we are focused on building resort and experience-related content to support the engagement of our owners and consumers. We are confident that building an enhanced video content for the end user that is easy to use and can be navigated through quickly will promote increased vacation package sales and in turn drive marketing efficiencies.

In addition to a virtual reality program rollout, we are working to make website updates to enhance our owners' experiences. We believe that by improving our front-end technology capabilities, we will be able to provide easier, quicker and more flexible booking to increase brand awareness and reputation and improve customer service through self-service capabilities. The team is focused on owner and consumer feedback in the development of digital experiences as we continue a customer-first approach. Our enhanced website is being developed to provide our owners and prospective owners quick and easy access to destination images, activities, resort amenities and information and booking. While we are still in the early days in our digital initiatives, we believe that we have taken the steps to our continued investments in site core, sales force and our internal development efforts to build the foundation necessary to launch more robust digital marketing campaigns and features in the second half of 2018.

We also continue to test our omnichannel marketing approach with Choice. Bluegreen is now more prominently featured on Choice's website and within their digital marketing. This provides our owners with an integrated and seamless booking experience at our Ascend-affiliated resorts and gives Choice members access to vacation packages offered by Bluegreen. The omnichannel approach enhances our visibility and increases brand exposure. When an owner visits Choice's website and chooses a Bluegreen resort, our logo and brand identity is clear, making Bluegreen's brand easily recognizable to Choice's 35 million loyalty members.

Additionally, Bluegreen has recently started e-mail campaigns to market vacation packages to Choice members. Our team continues to test and evolve new technologies and channels to introduce Bluegreen Vacations to the millions of consumers we reach, using our sales and marketing platform as well as strategic marketing relationships.

With that, I will turn it over to Tony for an update on our financial results. Tony?



**Anthony M. Puleo** - *Bluegreen Vacations Corporation - Executive VP, CFO, Treasurer, Secretary & President of Bluegreen Treasury Services*

Thanks, Famous. We are pleased with our first quarter 2018 financial results, which demonstrate growth across key operating and financial metrics as well as operating margin improvement. My remarks today will include a review of our first quarter financial and operating results as well as a brief discussion of a few items outside of normal operations that we experienced in the quarter.

Beginning with our financial results. Net income for the first quarter was \$21 million or \$0.28 per share compared to \$17.6 million for \$0.25 per share for the 3 months ended March 31, 2017. Our earnings benefited from a 3% increase in total revenues, improved operating margins and lower income taxes, which were partially offset by the comparatively higher cost of changes and additions to our management team, including the addition of our CEO and CMO positions later in 2017, at approximately \$500,000 of severance costs incurred during the first quarter of 2018.

In addition, we incurred \$1.4 million of higher legal costs associated with Bluegreen's new strategy to defend rather than settle frivolous lawsuits that arise in the normal course of business, with the goal of discouraging future actions. We've had strong early success obtaining court dismissals in our favor and intend to continue this strategy.

Income before noncontrolling interest and provision for income taxes was \$30.8 million for the first quarter of 2018 compared to \$30.9 million for the first quarter of 2017.

Turning to our first quarter 2018 segment results. Systemwide sales of VOIs increased 2.5% to \$132.8 million from \$129.6 million in the first quarter of 2017. Selling and marketing costs decreased to 49% of systemwide sales of VOIs from 52% in the 2017 period, driven by an 8.5% increase in average volume per guest, or VPG, and the elimination of certain fixed costs associated with our corporate realignment initiative. In addition, we realized lower cost of sales of 3% versus 6% in the first quarter of 2017 due to the continuing success of the company's secondary market program as well as benefits from approximately 36% of our VOI sales coming from a resort that we acquired in 2017 that had a relatively lower cost than our other VOIs. We believe our cost of sales will range from 6% to 10% for the year ending December 31, 2018. These improvements were partially offset by weather-related challenges that caused temporary closing of certain sale centers during the quarter as well as trip cancellations due to weather that reduced marketing tours in many locations.

Resort operations and club management revenue increased 9% to \$41.5 million from \$38 million in the first quarter of 2017. Resort operations and club management operating profit increased a robust 15%. Total adjusted EBITDA for resort operations and management increased 14% to \$12.1 million from \$10.6 million in the same period of 2017.

Our marketing teams continue to operate efficiently, and we continue to refine our process to screen the credit qualifications of new customers. As previously discussed, we believe that this screening should ultimately result in improved efficiencies in our sales and marketing process, with the goal of identifying a higher number of qualified customers from our marketing channels. During the first quarter of 2018 versus the first quarter of 2017, the number of total guest tours decreased by 6%, and sales to our conversion ratio increased 14%. The number of new guest tours decreased 11%, and sales to our conversion ratio for new guests rose an impressive 18%, which we believe is a testament to our more targeted marketing efforts.

Bluegreen has a flexible inventory model with a balanced mix of developed and capital light inventory. Capital light revenue as a percentage total revenue was 75% in the first quarter of 2018 versus 65% in the same period in 2017. I'd like to note that both of these comparative numbers are higher than historically presented in part due to the adoption of the new revenue recognition standards, which resulted in a gross-up of our resort management revenues. As previously mentioned, we intend to continue to pursue a predominately capital light strategy for the foreseeable future.

Sales on behalf of our fee-based clients represented 52% of systemwide sales of VOIs versus 51% in the first quarter of 2017. As we discussed in our last quarter business update, our targeted goal is a mix of 52% fee-based sales in 2018, which we see as an optimal mix of developed and capital light revenues, and demonstrates our ability to adjust the mix over time should we see fit.

Sales to new customers were 46% of systemwide sales in the first quarter 2018 compared to 48% in the same period of 2017. The percentage of our sales, which were realized in cash within 30 days from sale, increased to 43% during the 3 months ended March 31, 2018, from 42% during the 3 months ended March 31, 2017. This resulted in a decrease in the portion of such sales that required estimate of losses for uncollectible VOI notes



receivable. Such estimates reduce our reported revenues. We also have experienced higher-than-expected prepayments, including those related to equity trade transactions in certain pools also resulting in a decrease in estimated losses for those pools.

As Shawn mentioned earlier, we continue to receive letters from attorneys purporting to represent our owners who encourage delinquencies and defaults. For the 12 months ended March 31, 2018, the average annual default rate increased to 8.35% from 7.63% in the same period of the previous year but is down from 8.5% for the 12 months ended December 31, 2017. We look forward to Jorge joining our leadership team and working together to address this industry-wide issue.

Turning to our balance sheet. At March 31, 2018, our balance sheet remains strong with \$167.8 million in unrestricted cash, \$1.2 billion in assets and \$400.4 million in Bluegreen shareholders equity. Additionally, Bluegreen had \$221.9 million of availability under its \$365 million of credit and receivable purchase facilities.

On March 12, 2018, the company renewed its \$50 million revolving timeshare receivables hypothecation facility with Liberty Bank. The revolving credit period will now run through March 2020, maturing in March 2023. Bluegreen plans to continue to use the facility to finance vacation ownership interest notes receivable. Subsequent to quarter end, on April 6, 2018, Bluegreen and Bluegreen/Big Cedar Vacations, LLC renewed our nonrecourse VOI notes receivable purchase facility with Quorum Federal Credit Union. As previously discussed, Quorum has agreed to purchase on a revolving basis, eligible VOI notes receivable in an amount up to an aggregate \$50 million purchase price. Quorum purchase facilities purchase period is now extended from June 30, 2018 to June 30, 2020.

In April, we announced that our Board of Directors declared a cash dividend payment of \$0.15 per share of common stock payable to shareholders of record on April 30, 2018.

In closing, we believe that we have built a track record of producing strong free cash flow and efficiently reinvesting our cash to enhance our owner and customer experience. We are excited about both the internal and external growth opportunities for Bluegreen, and we look forward to continuing to pursue our stated growth initiatives and creating value for our shareholders.

Thank you for joining us today.

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