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BXG.N - Q2 2018 Bluegreen Vacations Corp Earnings Call

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Operator

Good afternoon, everyone. Thank you for joining Bluegreen Vacations' discussion of its Second Quarter 2018 Financial and Operating Results. Today's business update will feature Bluegreen Vacations' Chief Executive Officer, Shawn B. Pearson, and Chief Financial Officer, Tony Puleo.

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 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 and 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 August 3, 2018 for the quarter ended June 30, 2018 and available to view on the SEC's website at 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'll now turn it over to Shawn Pearson, Chief Executive Officer. Shawn?

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

Thank you, Danielle, and hello, everyone.

Our second quarter results can be characterized by improvement in our average sales volume per guest, known as VPG, and close ratio, expansion of our resort footprint in target geographies and continued execution of our differentiated strategy to grow VOI sales and resort management revenue, which we believe will result in meaningful value creation for shareholders.

As this is only our second full quarter since completing our IPO last November, I'd like to briefly review key aspects of our business model and strategy. Bluegreen Vacations is a leading, pure-play vacation ownership company with what we believe is a unique strategy to reach our core demographic. It combines exclusive marketing partnerships to attract new potential customers, with an expanded number of sales centers to grow frontline sales. These complement our goals of delivering vacation experiences which capture the authentic, local charm of our exciting destinations.

The quality of the experiences we deliver has also allowed us to grow in-house sales to our existing customers, which we strive to maintain at what we believe is a healthy mix of approximately 50% of our sales. Our drive-to strategy, with a portfolio of resorts within easy driving distance of our customers and prospects, attracts a Middle American, younger demographic that sets us apart from industry peers. In fact, 85% of our owners live within a 4 hour drive to a Bluegreen resort. This eliminates the need to plan a flight and opens the door for shorter, more frequent stays at our resorts.

Our balanced approach to growing ownership is achieved through our sales and marketing platform, which as of June 30 included 24 sales offices. We achieve frontline sales to new owners by driving traffic to our sales centers, today primarily through our one-way, exclusive marketing relationships with Bass Pro and Choice Hotels. These marketing relationships give us vacation package sales presence in 68 Bass Pro stores and access to Choice Privileges loyalty program members. We also have a package sales presence in 20 outlet malls. We believe these marketing relationships are aligned with our core demographic.

Now I would like to give you more color about a recent event regarding our relationship with Bass Pro Shops. As you know, in October 2017, Bass Pro raised an issue about the treatment of defaults in the computation of the commissions payable to them. While we believed then, and continue to believe now, that Bass Pro's commission has always been computed and paid consistent with both the terms and the intent of our agreement, and in order to demonstrate our good faith and commitment to the relationship, we paid the \$4.8 million disputed amount to Bass Pro in October 2017, but advised Bass Pro at the time that we disagreed with their position and desired to discuss the matter further.

While this and other outstanding issues remain unresolved, we continue to work closely with Bass Pro in the normal course of our alliance and joint venture partnership. On May 30, 2018, our Chairman of the Board, Alan B. Levan, and I held a very positive meeting with Bass Pro founder and CEO, Johnny Morris. Our discussions centered around their integration of Cabela's and additional alliance opportunities, including Bluegreen's future expansion into Cabela's stores. But the resolution of the commission calculation was deferred.

On July 23, 2018, Bass Pro again raised the issue regarding commission adjustments for defaults, requested additional information and additionally questioned the amounts payable under our agreement, including reimbursements paid to Bluegreen. The issues raised by Bass Pro have not impacted current operations under the marketing agreement or relative to the Bluegreen/Big Cedar joint venture.

We intend to formally respond to Bass Pro with our view on these matters and intend to provide Bass Pro with all appropriately requested information. We have been down the road of discussing issues raised by Bass Pro before during the course of our 18-year relationship. In each case, we have reached a mutually satisfactory resolution, and we anticipate that a meeting will soon be arranged where we will resolve the issues raised as well as focus on the mutually beneficial opportunities to add value for both Bass Pro and Bluegreen.

During the second quarter, we continued to execute strategies that involved the efficiency of our marketing guest tours. While this has resulted in tours with higher conversion rates and VPGs, this tailored approach has led to a lower number of tours and fewer packages sold than in prior year. However, we continue to believe that over time our marketing growth initiatives will result in an increase in the number of tours and that we are attracting the right owners for long-term success.

Regarding our Choice Hotels marketing initiatives, we are testing and implementing new programs which we believe offer opportunities to expand our marketing channels with Choice, including several digital initiatives. Our expanded access to Choice's guests, loyalty program members has given us the opportunity to interact and engage customers through digital channels, which include identifying targeted social ads and emails as well as identifying customers that align with our core demographic through search engine optimization and efforts. We look forward to the additional marketing opportunities as a result of Choice's acquisition of the brand and the franchise business of WoodSpring Suites earlier this year.

We remain focused on identifying additional strategic marketing alliances with companies whose customer core demographic base is aligned with ours, and we see ample opportunity in the marketplace. We are in conversations with a number of prospective companies with a national presence as well as local and regional branding opportunities. We believe that the flexibility gained from not being tied exclusively to one single strategic marketing partner is a competitive advantage that we believe will fuel our future growth.

Under the leadership of our Chief Marketing Officer, Famous Rhodes, we continue to develop and test initiatives in the digital area. You see this in our further refinement of our utilization of virtual reality in package sales settings through our marketing alliances and in our frontline sales offices. We believe, in the near to intermediate term, our digital initiatives will be focused on improving marketing package activations.

Historically, only approximately 60% of vacation packages sold were used. We refer to this as our rate of package activation. We're developing digital approaches to increase activations and have begun to see some early success. We are still in the early days for these initiatives, but if successful, more activations should mean more tours and increased efficiency in our marketing cost-per-package sales programs.

We announced expansions in 3 destinations during the quarter, consistent with our growth strategy. In April, we announced our acquisition of the Elan Hotel and Spa in San Antonio, Texas for approximately \$34.3 million. This 165 guest room boutique hotel is our first property in the key Texas market, where approximately 10% of our customers are located. The Elan features a spa, resort-style pools, fitness center, tennis courts and virtual golf.

Driven by incremental vacation package sales to tour this location, we see an opportunity to bolster frontline sales, and we plan to add a 13,000 square-foot sales office at the resort by year-end. This experiential resort grows our ability to offer owners unique destinations capitalizing on the Texas Hill country experience.

In May, we announced our fee-based service agreement with The Marquis, located in New Orleans. The Marquis adds 94 units of resort inventory at our second resort in New Orleans and is only 1 mile away from our Club La Pension Resort, a destination that is in extremely high demand with our owners.

This fee-based sales agreement helps increase our return on invested capital. Additionally, we plan to boost frontline and in-house sales in New Orleans by converting the resort's 5,800 square-foot ground floor commercial space into a frontline sales center and by converting one unit within the resort into an in-house sales facility to serve existing owners. Both sales centers are expected to be operational by fourth quarter 2018.

In June, we announced an exclusive agreement to acquire inventory, and by 2021 the resort management contract, at The Manhattan Club in New York City. This is another example of our capital-light secondary program, as the agreement gives us the exclusive right, on a noncommitted basis, to acquire the remaining timeshare inventory at The Manhattan Club through periodic purchases. This also expands our sales opportunity in a key market, with plans to open a 2,500 square-foot sales center in New York by year-end.

These agreements demonstrate our execution on our stated goals since going public last November. We are expanding our footprint in the West, in the Northeast, while simultaneously growing our sales presence in these key markets as well as in New Orleans, where we see an opportunity through our experience at Club La Pension. These transactions also reflect our balanced approach to both developed and capital-light VOI sales.

In addition to these three sales centers already discussed, Bluegreen is expanding 6 other sales centers that are expected to be opened by the summer of 2019. When finished, Bluegreen will have completed its most significant sales center expansion in years, with an addition of over 80,000 square feet of prime sales center space. Since our IPO, our sales have substantially been same-store growth. These expansions of our sales center presence, supported by expected incremental marketing, will be key to our growth.

Let me comment briefly on our progress addressing an industrywide cease and desist issue. As you know, we along with others in the industry have been targeted by predatory law firms that purport they can eliminate VOI owner's obligation, which encourages delinquencies and owner defaults. As we advised you last quarter, we are taking a more proactive stance. Our new Chief Legal and Compliance Officer, Jorge de la Osa, who joined us in June with substantial industry experience, is already making progress as are the efforts of the entire timeshare industry.

Multiple third-party timeshare exit firms have filed termination of representation notices regarding more than 150 vacation club owner contracts. While it is still in the early days for our proactive strategy, we are encouraged and intend to continue fighting these frivolous claims by aggressively addressing this industrywide problem.

In summary, we remain dedicated to executing our strategy, including expanding our resort footprint in new and exciting Western and Northeastern markets, leveraging our sales and marketing platform, exploring new and expanded or additional partnerships that are in line with our target customer demographic and testing digital strategies and expanding our sales footprint. Our leadership team and board look forward to the rest of 2018.

Now our Chief Financial officer, Tony Puleo, will take us through the numbers. Tony?

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

Thank you, Shawn.

Our second quarter results demonstrated growth across key operating and financial metrics as well as margin improvement in certain areas. I'll begin with the financial results for the second quarter.

Net income for the second quarter was \$26.7 million, or \$0.36 per share, compared to \$24 million, or \$0.34 per share, for the three months ended June 30, 2017. We recognized a 4% increase in total revenues and improved resort management operating margin, a lower sales and marketing cost percentage and a lower effective income tax rate, which were partially offset by an increase in corporate overhead expenses and a higher cost of sales percentage.

Our corporate overhead increased \$4.4 million compared to the prior year quarter, partially due to ongoing higher legal costs as a result of our new strategy to defend rather than settle lawsuits that we believe are frivolous. In addition, after several years of favorable self-insured health care costs, we have experienced healthcare and related benefit expenses this year in excess of our original estimates, which resulted in a \$1.9 million increase in corporate overhead in the second quarter of 2018 as compared to the second quarter of 2017. Since going public last year, we've incurred expenditures related to public and investor relations, which were \$647,000 for the quarter. Lastly, in connection with information technology and other digital investments, we've incurred higher depreciation expense of \$510,000.

Income before noncontrolling interest and provision for income tax was \$39.4 million for the second quarter of 2018, a decrease of 8% compared to \$42.8 million for the second quarter of 2017. Adjusted EBITDA was \$41.9 million for the 2018 quarter, down 3% from the comparable prior year period.

In addition to the corporate overhead variances I mentioned, we realized a higher percentage of cost of VOIs sold of 10% versus 3% in the second quarter of 2017. The increase was primarily due to a benefit to cost of VOIs sold of \$5.1 million in the second quarter of 2017 associated with a significant price matrix change resulting in a price increase in 2017 with no such price increase in cost of VOIs sold benefit in 2018. This 2017 benefit was recognized in accordance with the relative sales value method of accounting in accordance with GAAP. If we adjusted the 2017 quarter to exclude this benefit, the cost of VOIs sold, adjusted EBITDA would have reflected a 5% increase and earnings per share would have increased 23% in the second quarter of 2018.

Turning to our second quarter 2018 segment results, systemwide sales of VOIs increased 3% to \$172 million from \$166.4 million in the second quarter of 2017. This growth reflected an increase in the sale-to-tour conversion ratio partially offset by a decrease in the number of guest tours. The sale-to-tour conversion ratio increased by 12% in the second quarter of 2018 versus the second quarter of 2017.

Our sales increases are almost all due to same-store sales increases, as we only added one small sales office, primarily focused on sales to existing owners, since this time in 2017. Selling and marketing costs decreased to 48% of systemwide sales of VOIs from 52% in the 2017 period driven by a 12% increase in the average sales volume per guest, or BPG, and the elimination of certain fixed costs associated with our corporate realignment initiative.

In our resort operations and club management segment, revenue increased 14% and operating profit increased 25%. Since June 30, 2017, we added two new management contracts, which benefited the second quarter of 2018, specifically in New Orleans, Louisiana and Banner Elk, North Carolina.

We have a flexible business model, which includes both capital-light and traditional revenue streams. Our capital-light revenue as a percentage of total revenue was 70% in the second quarter of 2018 versus 68% in the second quarter of 2017. We believe our balanced strategy benefits shareholders, and we intend to continue to pursue it.

Sales on behalf of our fee-based clients represented 52% of systemwide sales of VOIs net versus 56% in the second quarter of 2017. As previously mentioned, our targeted goal for 2018 is 52%, which we believe demonstrates our ability to achieve what we see as an optimal mix in the current economic environment.

Sales to new customers were 51% of systemwide sales compared to 53% in the second quarter of 2017. This mix resulted in net new owner growth of 3% over the past year. We believe our focus on net new owner growth differentiates us from our industry peer set.

Our provision for loan losses as a percentage of gross sales of VOIs was 16% during the three months ended June 30, 2018 compared to 18% for the three months ended June 30, 2017. The decrease in the provision for loan loss is due primarily to the impact of additional reserves on prior year's originations taken in the second quarter of 2017 as well as the impact of an increase in our weighted average FICO score in 2018 compared to prior years.

Turning now to our default rates, for the 12 months ended June 30, 2018, average annual default rates were 8.43%, up slightly from 7.96% in 2017. We continue to receive letters from attorneys purporting to represent VOI owners who have encouraged the owners to become delinquent and ultimately default on their obligations. As Shawn and I have both discussed in the past, we are taking a more aggressive stand on this issue.

Now turning to our balance sheet, our balance sheet remains strong with \$205.7 million in unrestricted cash and cash equivalents, \$1.3 billion in assets and \$415.9 million in Bluegreen shareholders' equity. As of June 30, 2018, Bluegreen had \$140.5 million of availability under its \$365 million of credit and receivable purchase facilities.

In April, Bluegreen and Bluegreen/Big Cedar Vacations, LLC renewed its nonrecourse VOI notes receivable purchase facility with Quorum Federal Credit Union. As previously disclosed, Quorum has agreed to purchase, on a revolving basis, eligible VOI notes receivable in an amount of up to an aggregate \$50 million purchase price. The amendment to the Quorum purchase facility extended the purchase period from June 30, 2018 to June 30, 2020.

Lastly, as part of our ongoing effort to return capital to shareholders, in July our board of directors declared a cash dividend payment of \$0.15 per share of common stock payable on August 15, 2018 to shareholders of record on July 31, 2018.

In closing, we are excited about the infrastructure we're putting in place to grow in the future. Since going public, our earnings have grown through essentially a same-store portfolio of sales center and resort footprints. As we enhance our portfolio of resorts and bolster our sales and marketing platform, we see an opportunity to further grow revenue, improve our margins and deliver meaningful returns for our shareholders and experiences for our owners.

Thank you again for joining us today.

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