Bluegreen Vacations Corporation (NYSE: BXG)

4th Quarter and Year-End 2017 Pre-Recorded Business Update (Transcript)
March 6, 2018

Danielle O'Brien – Investor Relations

Good afternoon everyone. Thank you for joining Bluegreen Vacation's 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 Vacation's 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 currently anticipated plans, generate earnings and long-term growth, and increase shareholder value.

Additional detailed risks and uncertainties are described in Bluegreen Vacation's 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, https://www.sec.gov, and on Bluegreen Vacation's 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 – President and Chief Executive Officer

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 Interests, or VOIs, in targeted popular, high-traffic leisure destinations throughout the United States. Our network consists of 67 resorts, which comprises of 43 Club Resorts, where our owners have the right to use most of the units in conjunction with their vacation ownership, and 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 current focus on millennials, who look for affordable vacation properties and resorts. We offer our 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 4-hour drive of our resorts, allowing our customers the option to save on airfare, and with this added flexibility, provide them 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 a 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 home owners' associations.

I'd like to take a moment to review our core operating and growth initiatives were established at the time of our IPO. We believe the combination of our flexible, capital-light business model, highly predictable revenue streams, strong partnerships with Choice and Bass Pro, and 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' experience remains a top priority, and we are continuously seeking ways to add value and flexibility for our owners, including customer-facing technology improvements. We are focused on fulfilling our owners' need for flexibility and choice by seeking to add 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 base of 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 efficiency. Bass Pro, which also has a direct demographic match with 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, TN, which was launched in January, and Springfield, MO, which was launched on February 23rd. Springfield is Bass Pro Shop's 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're testing the virtual reality concepts in one of our newest VOI sales centers, where we are looking to bring Bluegreen Vacation Club 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 and to 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 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 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 a 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've been selling VOIs on behalf of one our fee-based service clients. Several years ago, we operated an offsite sales center in the Chicago area, so we know the market well and are excited to be able to share the Bluegreen Vacation Club 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 Company-wide initiative to streamline and realign operations to facilitate future growth and investment in innovation. We identified areas where we could 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 further 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 toward additional associates and expenditures for growth-driving initiatives this year, particularly various digital projects including website enhancement, online vacation package booking, virtual reality kiosks, and improvements to our customer relationship 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 – Chief Financial Officer

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 discussion of a number of one-time and other items and that impacted our results, and which are not expected to impact our on-going operations.

Beginning with our financial results for the fourth quarter 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 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 touchpoint.

In addition, our results in the Fourth Quarter of 2017 reflect the following: A 5% increase in system-wide sales, net; a reduction in selling and marketing costs to 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 pre-tax profits during the three months ended December 31, 2017 compared to the same period in 2016.

The increase in system-wide sales was driven by an 11% increase in sales volume per guest (known as "VPG"), partially offset by a 7% reduction in sales tours. 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 that 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 reintroduced sales of low-pointed, introductory packages, which we had previously eliminated during 2016. The sale of these introductory packages also improved VPG's by increasing conversion rates, partially offset by lower average sales prices 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 the same period in 2016. This increase also contributed to higher VPG's in the quarter, and the reduction in our selling and marketing expenses previously discussed.

Despite the growth in sales and management revenues and improvement in our selling and marketing expenses, Income before non-controlling interest and provision for income tax was $29.0 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 payment, the resolution of this issue could result in an increase in 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 estimated uncollectable VOI notes receivable. This increase reflected the increase in the amount of our financed 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 from our customers. Of course, we provide an estimate of uncollectable VOI notes receivable on our financed 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 level, we have recognized a $1.0 million increase in the estimated uncollectable VOI notes receivable related to prior years' 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 uncollectable VOI notes receivable in the fourth quarter of 2017 was also impacted by the fact that the estimated uncollectable VOI notes receivable in the fourth quarter of 2016 was reduced by $3.4 million in order to adjust our estimate for these charges for the full year of 2016.

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 2017 was $125.5 million, or $1.76 per fully diluted share, compared to net income of $75.0 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 non-controlling 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 the corresponding 2% increase in related pre-tax profits during 2017 compared to 2016; and also, a reduction in cost of VOIs sold to 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 2017; and also, an increase in estimated uncollectable 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 financed sales requiring an additional estimate of uncollectable 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 the attorney letters discussed above.

I'd like to highlight that in 2017, we adopted "risk-based pricing" pursuant to which, buyer's 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 pay-offs, 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 this 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 system-wide sales in 2017, compared to 49% in 2016. Our targeted goal is that 52% of our system-wide sales will be for our Fee-Based Service Clients in 2018. Third, sales to new customers. Sales to new customers were 51% of system-wide 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 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 period presented beginning with the quarter ending 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 the determination of the adequacy of the buyer's commitment for the timing of the recognition of VOI sales. We believe that the recognition of fee-based sales commission revenue, ancillary revenues, and rental revenues will remain materially unchanged. We estimate that the adoption of this 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 VOIs 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 buyer's commitment. The related retrospective impact of these changes on net income attributable to Bluegreen Vacation's shareholders is expected to be $9.0 million or $0.13 per fully diluted share in 2017 and $7.0 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 shareholders' equity. Non-receivable-backed debt to equity was down to 0.4:1 at 12/31/17 versus 0.6:1 at 12/31/16.

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 that 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 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.