Bluegreen Vacations Corporation (NYSE: BXG)

2nd Quarter 2019 Pre-Recorded Business Update

August 6, 2019

Evelyn Infurna – Investor Relations

Thank you for joining us today to review Bluegreen Vacations' Second Quarter 2019 Financial and Operating Results. Today's business update will be presented by Bluegreen Vacations' Chief Executive Officer, Shawn Pearson, and Chief Financial Officer, Tony Puleo.

I'dlike to remind listeners that this pre-recorded business update might 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 relationships with its strategic partners and its 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 Vacations' Annual Report on Form 10-K for the year ended December 31, 2018, filed on March 8, 2019 and on its Quarterly Report on Form 10-Q for the three months ended June 30 filed on or about August 6, 2019, both of which are available to view on the SEC's website, www.sec.gov, and on Bluegreen Vacations' website, www.bluegreenvacations.com. We've 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 the call over to Shawn Pearson, Chief Executive Officer. Shawn?

SHAWN PEARSON – CHIEF EXECUTIVE OFFICER

Thank you for joining us today. As previously announced, during the second quarter we reached an agreement with our long-time partner Bass Pro Shops. It was an encouraging result. The amended Bass Pro agreement not only re-establishes our presence in Bass Pro stores, it also outlines our expansion into Cabela's, a key factor in our growth plans that we expect will provide us with meaningful additional outlets and access to our target demographic.

I'd like to review some of the key elements of our arrangement with Bass Pro. Specifically, Bluegreen has exclusive access to both Bass Pro and Cabela's stores. We are currently selling vacation packages in 67 Bass Pro Stores and, once fully rolled out, Bluegreen expects to have a presence in no less than 60 Cabela's stores.

The Cabela's store rollout is anticipated to proceed with at least 10 stores between now and the end of 2019, an additional 30 stores phased in throughout 2020 and 20 additional stores phased in throughout 2021.

While the financial terms of our agreement with Bass Pro were significant, we believe that settling the dispute made good business sense. We could have litigated for several years or get back to business. We chose to get back to business. Tony will provide additional details.

While the amended agreement with Bass Pro and the potential marketing tour flow that is anticipated were certainly the highlights of the quarter, the dispute itself was a contributing factor to the softness of our second quarter financial results. The negotiation, resolution and documentation of the agreement with Bass Pro were time consuming for our key executives and we believe the public nature of the dispute resulted in canceled guest tours and attrition in staffing at certain of our sales offices which had an impact on sales in the quarter. We also missed some key summer vacation package sales weeks in the Bass Pro stores, including Memorial Day weekend and it took some time to ramp our operations back up post-settlement, which was also adversely impacted by the loss of marketing associates during the period. We anticipate that the gap in Bass Pro package sales will have an adverse impact on sales over the next 12 months.

While we recognize in the short term there will be variability in our results, we continue to believe we have a strong, multifaceted platform that will support growth in shareholder value over time. We previously told you that it was our expectation that 2019 would be a "rebuilding year," but given the duration of the issues with Bass Pro and the impact on our operations, we now expect that the first half of 2020 will be part of that rebuilding period as well.

Despite the disruption experienced, we are pleased to report that year-over-year sales to our existing owners were up 3%, driven by a 3% increase in owner sales tours.

The continued strength of sales to existing owners supports our view that our owners value their Bluegreen experience and they want to broaden their vacation options with us. As we reestablish our presence in Bass Pro stores and expand our channels through Cabela's, we believe that we will be in a position to generate higher sales volume to new guests, an important step in re-invigorating growth.

Even though we were not in a position to sell packages in Bass Pro stores for several weeks during the quarter, resulting in a decrease in package sales at Bass Pro stores, package sales in the quarter nonetheless continued the positive trend of growth we observed earlier in the year, growing 7% compared to prior year period. We would remind you that package sales can take a while to translate into tours as there is typically a 6 to 18-month gap between package sales and tours. Further, the growth in package sales during the quarter occurred in channels that are typically not as efficient as Bass Pro package sales.

As we advised you on our call for last quarter, the Marquee resort in New Orleans opened its doors to guests in June. Our goal for the Marquee is to provide a one-of-a-kind stay tied to New Orleans' rich history, and we are pleased to report that the early feedback from our owners and guests is positive. Additionally, we are thankful we did not experience any significant negative impact from Tropical Storm Barry in July. All of our guests and associates safely weathered the storm.

In addition, the performances of sales offices that we opened at the Marquee and the Eilan Hotel & Spa in Texas continue to exceed our expectations. We believe the Eilan, in particular, will further benefit from the tour flow we expect to generate in the future at the Bass Pro and Cabela's stores in Texas.

We are equally pleased with the progress being made in dealing with timeshare exit firms. While it's too early to call this a positive trend, provision for loan losses in the second quarter declined 150 basis points to 14.9%. We believe our zero-tolerance policy in dealing with these firms that charge fees and provide no meaningful service has been effective, including litigating with certain of these timeshare exit firms. Recently, as a result of a law suit that we filed against one such firm, the defendant decided to close their doors and file for bankruptcy. We also have several other initiatives to address this issue, including those with the goal of assisting owners that need to end their Bluegreen ownership. We believe our efforts will continue to translate into lower default rates and a corresponding lower provision for loan losses.

We have and expect to continue to experience compression in our operating margins, primarily related to our cost of VOIs sold and the net carrying cost of inventory and we expect these factors will impact our results for the remainder of 2019 and into 2020. Tony will discuss this further in a moment.

Our Resort Operations and Club Management business segment for the quarter posted a 9.1% growth in revenue and a 5.4% growth in Segment EBITDA as compared to second quarter of 2018, as we benefited from higher management fees and higher third-party commissions on rentals. This business segment generates recurring revenues for us and its capital-light contribution to our EBITDA in the second quarter was $14.5 million.

We view the events that transpired in the quarter as very beneficial for both Bluegreen and our shareholders. While we are not satisfied with the results for the quarter and we now anticipate that our rebuilding period will take longer than previously anticipated, we are encouraged by where we are headed. Most importantly, we are pleased to once again be building on our 19-year relationship with Bass Pro and we look forward to strengthening our operations in this key distribution channel.

Tony will now provide a detailed review of our second quarter results. Tony?

Tony Puleo – EVP and Chief Financial Officer

Thanks, Shawn. My remarks today will include a review of our second quarter operating results and our financial position. Briefly, with regard to the Bass Pro settlement, the financial terms included a $20 million payment made to them in June 2019, as well an additional $20 million payment to be paid in 5 installments of $4 million each commencing in 2020 and a $1.5 million write-off of a prepayment to Bass Pro under our previous marketing arrangement. The impact of this settlement is evident in our results as the net present value of the entire amount, which, along with associated legal fees totaled $39.1 million, was expensed in the second quarter of 2019. While the negotiated amount paid to settle all prior disputes and issues with Bass Pro was higher than we anticipated, we believe that the expected future positive impact on our business of strengthening this key alliance was preferable to what would have been prolonged litigation costs had we not reached a resolution.

Our new arrangement with Bass Pro includes an annual license fee of $70,000 per Bass Pro and Cabela's store accessed, plus an additional $32 per vacation package sold. The per annum license fee will be prorated for 2019. While we believe the variable portion of our fee arrangement aligns our interests with Bass Pro to cooperate for success selling vacation packages in their stores, while working together to ensure that we adhere to the highest customer service standards, we expect this new fee arrangement to result in an 11% increase in marketing costs associated with the Bass Pro channel.

Starting with operations, system-wide VOI sales declined 4.9% as compared to the second quarter of 2018, on a modest 60 basis point decline in guest tours and a 4.1% lower conversion rate. New guest tours of 40,473 were 3 percent lower than the second quarter of 2018 while the sale to tour conversion ratio for this group fell to 13.6% from 14.8% the prior year. This reflects that although our vacation package pipeline is recovering, we have not been able to achieve conversion rates at previous levels. We are working on various strategies to improve our performance in this regard.

Sales mix was led by sales to existing owners at 53% of VOIs sold this quarter, compared to 49% in the comparable prior year quarter.

Moving on to our earnings. We recorded a net loss of $11.2 million for the second quarter of 2019 for a $0.15 loss per share compared to net income of $26.7 million or $0.36 earnings per share in the second quarter of 2018. As I mentioned, the entire net present value of the settlement with Bass Pro was expensed in the second quarter of 2019, representing a charge of $0.39 per share.

Adjusted EBITDA in the second quarter was $28.7 million, down 32% from the prior year period. The change in adjusted EBITDA primarily reflects the impact of lower system-wide VOI sales, and the ongoing compression of our operating margin discussed on prior calls, primarily due to increases in the cost of VOIs sold and the net carrying cost of inventory. Note that we added back the impact of the Bass Pro settlement to Adjusted EBITDA in the quarter.

As Shawn discussed earlier, we had a favorable comparison in our provision for loan losses at 14.9%, 150 basis points lower than a year ago. The improvement was driven by lower default rates, which decreased to an average annual rate of 8.14% compared to 8.43% last year, resulting in a lower adjustment to our provision for loan losses on prior year originations than in prior quarters; while we saw a meaningful drop in the quarter and we are anticipating loan losses to stabilize and decline as our strategies in dealing with timeshare exit firms take hold, it is too soon to tell whether the second quarter was an aberration or if we have reached a lower loan loss provision sooner than expected. While every quarter may not have this favorable a comparison to the prior year, we currently anticipate that the third and fourth quarters of 2019 will have provisions for loan losses below our previous expectations and within the range of 16% to 18%.

Cost of VOIs sold in the quarter was 15.5%, up roughly 550 basis points reflecting the composition of the VOIs sold. We do expect to see the Cost of VOIs sold trend back to a range of 10% to 15% for the remainder of 2019, as we previously advised you in our first quarter discussion.

Net carrying cost of inventory in the second quarter rose to $5.3 million from $1.7 million in the second quarter of 2018. The increase, which is in line with our previously communicated expectations for 2019, reflects the carrying costs associated with the acquisition of the Éilan Hotel & Spa in April of 2018 along with increased maintenance fees, developer subsidies and decreased operating profits from our sampler program. We believe that these higher net carrying costs will continue for the rest of 2019 and into 2020.

Selling and marketing expenses fell slightly to $83.0 million in the quarter as compared to $83.3 million in 2018 but increased to 51% of system-wide sales from 48%. The higher percentage in the quarter is due to higher cost per guest tour and lower VPGs.

Corporate overhead decreased slightly to $18.6 million in the second quarter of 2019 compared to $18.9 million in the second quarter of 2018, reflecting a decrease in legal expenses, healthcare costs and executive compensation expenses.

Turning to our financial position. Our balance sheet remains solid as we ended the second quarter with $180.2 million in unrestricted cash, $1.4 billion in assets and availability of $150.6 million under Bluegreen's $365.0 million of credit facilities subject to available collateral and the terms of the facilities.

The Company's net debt to EBITDA ratio, excluding receivable-backed notes payable, was a low 0.23. Our balance sheet amply supports our growth initiatives and provides us with the flexibility to reinvest in our business, including the pursuit of additional property acquisitions like those completed in 2018, while at the same time providing cash dividends to our shareholders.

On July 30, 2019, our Board of Directors declared a cash dividend of $0.17 per share of common stock for the third quarter. This dividend is payable on August 27, 2019 to shareholders of record on August 13, 2019. We believe that Bluegreen provides an attractive dividend yield within the timeshare space.

In conclusion, we believe we are now well positioned to build upon the significant infrastructure improvements and longer-term growth initiatives that have been put in place. We continue to see encouraging trends in certain of our marketing channels and are moving forward in our efforts to protect our Vacation Club owners from predatory timeshare exit firms. With the Bass Pro issues resolved, we are looking forward to reestablishing our presence in Bass Pro stores and proceeding with an expansion into Cabela's. 2019 and at least the first half of 2020 will continue to be "reset" years for us, and while we expect our results to continue to be impacted by ongoing margin compression, we are optimistic about the future and our ability to achieve significant growth in the years ahead. We believe we have managed our balance sheet and leverage well, providing us with both stability and flexibility as we pursue our long-term goals.

We look forward to providing you with quarterly updates on our progress as the year proceeds.

Thank you for joining us today.