Bluegreen Vacations Corporation (NYSE: BXG)

2nd Quarter 2018 Pre-Recorded Business Update (Transcript)

August 2, 2018

Danielle O'Brien – Investor Relations

Good afternoon, everyone. Thank you for joining Bluegreen Vacation's discussion of its second quarter 2018 financial and operating results.

Today's business update will feature Bluegreen Vacation's 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 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 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, 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, 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 pureplay 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 goal 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 four-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 30th, 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 a 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 recent events 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, 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 agreements, 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 mutually beneficial opportunities to add value for both Bass Pro and Bluegreen.

During the second quarter, we continued to execute strategies that improved 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 and loyalty programs membership has given us the opportunities 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 efforts. We look forward to 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 customers’ 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 any 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 sale 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 costs for package sale programs.

We announced expansions in three destinations during the quarter, consistent with our growth strategy. In April we announced our acquisition of Éilan Hotel & 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 Éilan 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 Marquee located in New Orleans. The Marquee adds 94 units of resort inventory, at our second resort in New Orleans and is only one 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 resorts' 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 non-committed 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 have expanded our footprint in the West and Northeast, while simultaneously growing our sales presence in these key markets as well as in New Orleans, where we've seen 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 the three sales centers already discussed, Bluegreen is expanding six other sales centers that are expected to be open by the summer of 2019. When finished, Bluegreen will have completed its most significant sales center expansions in years, with the addition of over 80,000 square feet of prime sales center space. Since our IPO, our sales have substantially been from "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 the industry-wide 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 owners' obligations, 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 industry-wide 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 opportunities for expanded or additional partnerships that are in-line with our target customer demographic, 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?

Tony Puleo – EVP, Chief Financial Officer

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 financial results for the second quarter. Net income for the second quarter was $26.7 million, or $0.36 per share, compared to $24.0 million, or $0.34 per share for the three months ended June 30, 2017. We recognized a 4% increase in total revenues, an 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 law suits that we believe are frivolous. In addition, after several years of favorable self-insured health care costs, we have experienced health care 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 non-controlling interest and provision for income tax was $39.4 million for the second quarter of 2018, a decrease of 8.0%, 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 and 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 to 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, system-wide sales of VOIs increased 3% to $172.0 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 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 system-wide sales of VOIs from 52% in the 2017 period, driven by a 12% increase in Average Sales Volume Per Guest, or VPG, 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 2018 versus 68% in 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 system-wide sales of VOIs, net vs. 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 system-wide 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 twelve 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 remained 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 non-recourse 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 $50.0 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 centers 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 for joining us today.