



Lindblad Expeditions (LIND: \$15.75 Outperform; \$21 PT)

Revisiting the Stock After Positive Management Meetings—Maintaining Our Outperform Rating and Raising Our Price Target to \$21 from \$18

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Key Data	
Symbol:	LIND
Price (4/4/19):	\$15.75
Rating:	Outperform
Price Target:	\$21
Estimates:	
2019E EBITDA:	\$67.9
2020E EBITDA:	\$85.1
2021E EBITDA:	\$97.2
2019E EV/EBITDA:	12.5x
2020E EV/EBITDA:	10.0x
2021E EV/EBITDA:	8.7x

Figure 1. Lindblad Expeditions—Key Company Data, *Intraday Prices as of 4/4/19

Key Data	FY: Dec	2018E		2019E		2020E		2021E		
		Old	Act	Old	New	Old	New	Old	New	
Price:	\$15.75	EBITDA:								
Price Target:	\$21.00	Q1	22.2A	22.2	24.4	24.4	--	--	--	--
52-Week Range:	\$10.34-\$16.40	Q2	11.5A	11.5	13.3	13.3	--	--	--	--
Market Cap (\$mn):	729	Q3	17.1A	17.1	27.0	27.0	--	--	--	--
Shares Out. (mn):	46.3	Q4	6.0	4.1	3.2	3.2	--	--	--	--
Warrant value (\$mn):	50.5	Year	56.8	54.8	67.9	67.9	85.1	85.1	--	97.2
Avg. Daily Vol.:	175,000	EV/EBITDA:		15.5x		12.5x		10.0x		8.7x
Total Debt (\$mn)*:	190	Revenue (\$mn)								
Net Debt (\$mn)*:	68	Q1	82A	82	96	96	--	--	--	--
EV (\$mn):	848	Q2	69A	69	80	80	--	--	--	--
Dividend:	0.00	Q3	87A	87	99	99	--	--	--	--
Dividend yield:	na	Q4	75	71	77	77	--	--	--	--
		Year	314	310	352	352	386	386	--	418

*Intraday prices as of 10:15 am EST.
Sources: Company data and Imperial Capital, LLC.

Financial Summary

Lindblad Expeditions (LIND) generated sales of \$310mn and adjusted EBITDA of \$55mn in the latest twelve month (LTM) period ended 12/31/18. The company had \$122mn in cash and \$190mn in debt as of that date.

View and Valuation

We are maintaining our Outperform rating on LIND shares and raising our one-year price target to \$21 from \$18. Our price target is 33% above the share price and is based on 11x 2021E EBITDA.

Rationale

In this report, we **1)** review our recent management meetings, **2)** update our estimates and valuation outlook, and **3)** highlight two areas of potential value creation we believe are under-appreciated. As previously stated, we are raising our one-year price target to \$21; we see potential for further upside for the shares, as explained in our scenario analysis in Figure 4.

Management Meeting Highlights

We met with CFO Craig Felenstein in Boston on 3/28/19. Key highlights include:

General tone: Management spoke positively about industry dynamics. Several geographies, including Alaska, Antarctica, and the Galapagos, have shown bookings strength.

Competition: When asked about competition and capacity expansion, management noted that it has not seen discounting or yield pressure. The company appears somewhat shielded from the competitive “noise” due to its unique offering, focused more on education and experiential voyages than on offering “shiniest” hardware. Also important to note, the +25 new ships in the pipeline represent a very small portion of global cruising.

Expansion: Recent expansion efforts have been successful. Natural Habitat, majority acquired in 2016 for approximately \$20mn, has grown revenue/EBITDA to \$63mn and 7mn in 2018 from \$35mn and 3mn, respectively, in 2016. New ships have been similarly successful, with occupancy and yields showing improvement in 2018 despite added capacity – and early bookings on the Endurance have been strong. Management appears interested in further expansion, and all options (organic expansion, M&A, distressed opportunities, etc.) are being considered.

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Additional information is available upon request.

Capitalization

Figure 2. Lindblad Expeditions—Capitalization as of 12/31/18, Prices as of 4/4/19

			Debt		Net Debt		Net Debt			Price / YTM			Interest Exp.		
			Face		Face		Market			Analysis			Analysis		
LTM Revenue	(12/31/18)	310													
LTM ADJ EBITDA	(12/31/18)	55													
LTM EBITDA %	(12/31/18)	17.7%													
LTM FCF	(12/31/18)	2													
Settlement Date		NA													
	M/S&P		Cum.	LTM	Net	LTM	Net	LTM	Net	LTM				Rate/	Est.
	Rating	Balance	Debt	EBITDA	Debt	EBITDA	Debt	Debt	Debt	EBITDA	Price	YTM	Mat.	Coup.	Int. Exp.
			Face	Mult.	Face	Mult.	Mkt	Mkt	Mult.						
Cash		122													
LT Liabilities															
Secured Credit Facility		190	190		68		190	68					05/08/21	LIBOR + 4.5%	10.5
Total		190	190	3.5x	68	1.2x	190	68	1.2x						10.5
Common Equity															
Warrants (LINDW)		51													
Common Stock (LIND)		729													
Total Equity		780			848	15.5x	15.75	46.3						Interest	10.5

Sources: Company data and Imperial Capital, LLC.

Management Meeting Highlights (continued)

Asia: Management continues to explore options to better-target Asian guests. Certain challenges remain, including differences in travel preferences and booking patterns. We believe more aggressive expansion in Asia is a longer-term opportunity.

Disney: Management appears optimistic regarding Disney's acquisition of National Geographic, a partner of LIND. Disney's portfolio of travel assets is more complimentary than Fox, the previous owner.

Margin: Margin leverage should materialize with fleet expansion, most particularly in corporate overhead, marketing, and marine staff. We further discuss margin leverage below.

CRM/pricing update: Technology enhancements rolling out in 2019/2020 will allow management to better target guests and offer dynamic pricing. We believe these changes could help drive yield and occupancy improvements over time. Pricing is currently static, not allowing much flexibility – a unique (and dated) model in consumer services. In the future, pricing could flex depending on trip timing/occupancy/etc. Aggressive discounting, in an effort to fill vessels, is unlikely.

Ancillary revenue: Trip extensions and apparel could provide additional revenue opportunities.

Estimate and Valuation Update

Estimate revisions: We are introducing 2021 estimates that incorporate a full year of Endurance and partial-year contribution from the second new polar vessel (still unnamed) expected to be delivered in September 2021. We are maintaining our 2019/2020 estimates.

Mapping out the key metrics: Figure 3 maps out key financial metrics through 2021. As shown, and barring any major changes in the booking environment or consumer behavior, LIND's operating cash flow can easily provide for the planned new vessels entering the fleet in 1Q20 and 4Q21. We estimate the company to exit 2021 with less than \$150mn in net debt, while tracking toward +\$125mn in EBITDA. Remember the contribution from LIND's second new polar vessel will be relatively insignificant until 2022.

Figure 3. Lindblad Expeditions—Key Financial Metrics, 2017-2021E

	2017	2018	2019	2020	2021
Revenue	266.5	309.7	352.3	386.3	417.5
EBITDA	43.5	54.8	67.9	85.1	97.2
Margin	16.3%	17.7%	19.3%	22.0%	23.3%
Operating CF	52.9	56.4	71.4	86.8	97.9
New Vessels	70.0	40.2	70.0	142.0	60.0
Maint Capex	10.5	14.1	18.0	18.0	22.0
Total Capex	80.5	54.3	88.0	160.0	82.0
Adj FCF (ex new vessels)	42.4	42.2	53.4	68.8	75.9
FCF	(27.6)	2.0	(16.6)	(73.2)	15.9
Net Cash	(62.4)	(68.0)	(82.6)	(155.8)	(139.8)

Sources: Company data and Imperial Capital, LLC.

Scenario analysis: Figure 4 further expands the model shown above, detailing profitability/valuation at the conclusion of LIND's new-builds. As shown, using 11.0x EBITDA (7% FCF yield) drives a \$25 scenario. We believe the market will pay for this scenario in 2021/2022.

As shown, the model adds \$30mn in 2022 EBITDA using a 17% ROIC on the second polar vessel and 6% organic growth. FCF will ramp as new build capex concludes.

Figure 4. Lindblad Expeditions—Scenario Analysis

YE21 Capitalization		2022 Scenario		YE21 Valuation	
S/O	46.3	EBITDA - 2021	97.2	EV/EBITDA	11.0
Warrants	10.1	2nd Polar	25.5	EV	1,413
Price	15.75	Organic	5.8	Net Cash	(23.7)
Equity Market Cap	889	2022 EBITDA	128	Market Cap	1,437
Net Cash - YE21	(140)	FCF - 2021	15.9	Share Price	25.46
Warrant Contribution	116	FCF - 2022	95.0	FCF Yield	6.6%
Adj Net Cash	(23.7)				

Sources: Company data and Imperial Capital, LLC.

Other Areas of Value

Scale benefits: We believe LIND would see considerable margin expansion with scale – either as an acquisition candidate or by growing its fleet and/or land-based offerings.

To understand the acquisition candidate dynamics, the recent Silversea transaction is instructive. In mid-2018, Royal Caribbean acquired a majority stake in luxury/expedition cruise line Silversea at a valuation of \$2bn, or 14x pre-synergy EBITDA. At the time of acquisition, Silversea was tracking toward approximately \$600mn in revenue (according to Moody's) and \$140mn in EBITDA.

Royal commented after the announcement that it expected to gain significant synergies in a range of expense categories, including credit card fees, port fees, procurement, sales and marketing, and corporate overhead. All in, management guided for approximately \$40mn in synergies, a considerable amount given the EBITDA base of \$140mn.

We believe LIND would carry a similar margin opportunity in a transaction. As shown in Figure 5, LIND's EBITDA margin is well below that of the large cruise operators and more consistent with Silversea's pre-synergy financial profile. If we theorize that LIND would carry ~700bp of margin improvement by combining with a major cruise line, as was the case with Silversea, it would represent an incremental \$20mn of EBITDA in 2019 (\$88mn total).

Figure 5. Lindblad Expeditions—Comparing the Cruise Operators

	CCL	NCLH	RCL	Silversea		LIND
				Pre-Syn	Post-Syn	
Revenue	20,113	6,408	11,021	600	600	352
GPM	57.3%	60.9%	56.7%	na	na	51.9%
EBITDA	5,654	2,038	3,518	140	180	68
EBITDA Mgn	28.1%	31.8%	31.9%	23.3%	30.0%	19.3%

Sources: Company data and Imperial Capital, LLC.

Another route to margin expansion is capacity growth – something management has been aggressively pursuing. The company recently announced a second polar class vessel, and we believe acquisitions and distressed ship purchases are regularly assessed. LIND's balance sheet and big customer list would support a more aggressive expansion strategy, especially given the potential cash inflow if LIND's warrants are exercised.

Technology enhancements: In our view, the enhancements being made to LIND's tech platform could also drive margin improvement over time through better occupancy and yields.

Since 2013, LIND's occupancy has ranged from 87-93%, well below the large cruise operators that carry >100% occupancy. While LIND is unlikely to ever carry ~100% occupancy, dynamic pricing and CRM enhancements could help drive improvement. We estimate that each 100bp in occupancy adds approximately \$3/2mn to revenue/EBITDA.

Yields may also benefit from the enhancements. As mentioned, LIND is introducing dynamic pricing and will likely change how it sets and markets pricing for its voyages. With popular itineraries selling out well in advance, there is likely room for yield improvement.

Figure 6. Lindblad Expeditions—Income Statement, 2016-2021E

Lindblad Expeditions (LIND)	2016	2017	1Q18 March	2Q18 June	3Q18 Sept	4Q18 Dec	2018	1Q19E March	2Q19E June	3Q19E Sept	4Q19E Dec	2019E	2020E	2021E
Tour Revenue	242.3	266.5	82.4	69.5	87.2	70.6	309.7	96.4	80.3	99.0	76.6	352.3	386.3	417.5
<i>Growth</i>	15.4%	10.0%	30.5%	25.0%	3.1%	11.7%	16.2%	17.0%	15.5%	13.5%	8.5%	13.7%	9.7%	8.1%
Cost of Tours	119.0	135.5	35.9	33.8	45.0	39.1	153.7	42.8	38.8	43.6	44.3	169.6	183.8	198.7
Gross Profit	123.4	131.0	46.5	35.7	42.3	31.5	156.0	53.6	41.4	55.5	32.3	182.7	202.5	218.8
General and Administrative	51.9	60.5	15.1	15.9	14.7	17.3	62.9	16.0	16.3	16.0	18.5	66.8	68.0	68.0
Selling and Marketing	39.1	42.4	12.1	10.6	12.3	12.1	47.0	15.4	14.0	15.2	13.2	57.8	62.2	66.4
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation and Amortization	18.4	17.4	5.0	5.0	5.0	5.7	20.8	6.0	6.0	6.0	6.0	24.0	28.0	30.0
Operating Income	14.0	10.7	14.4	4.2	10.3	(3.5)	25.3	16.2	5.1	18.3	(5.5)	34.1	44.3	54.4
Interest Expense	(10.1)	(9.7)	(2.7)	(2.9)	(2.4)	(2.8)	(10.8)	(2.8)	(2.8)	(2.8)	(2.8)	(11.2)	(12.0)	(12.0)
Other	(2.0)	1.5	(0.4)	(1.3)	0.2	(0.8)	(2.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	1.9	2.5	11.2	0.1	8.0	(7.1)	12.2	13.4	2.3	15.5	(8.3)	22.9	32.3	42.4
Taxes	3.2	(10.0)	(0.3)	(0.2)	(2.7)	2.6	(0.6)	(1.3)	(0.2)	(1.5)	0.8	(2.3)	(3.2)	(4.2)
Noncontrolling Interest	0.1	(1.1)	(0.1)	0.3	(0.3)	(0.1)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	5.2	(8.6)	10.8	0.1	5.1	(4.6)	11.4	12.0	2.1	13.9	(7.4)	20.6	29.0	38.1
GAAP EPS	\$0.11	(\$0.19)	\$0.24	\$0.00	\$0.11	(\$0.10)	\$0.24	\$0.26	\$0.05	\$0.30	(\$0.16)	\$0.45	\$0.62	\$0.80
Shares Outstanding	46.5	44.6	45.7	46.4	47.7	45.4	46.3	45.6	45.8	46.0	46.2	45.9	46.7	47.5
Adj EBITDA	41.7	43.5	22.2	11.5	17.1	4.1	54.8	24.4	13.3	27.0	3.2	67.9	85.1	97.2
FCF	(44.5)	(27.6)	(4.0)	(2.7)	0.5	8.3	2.0	(7.8)	7.3	(19.4)	3.3	(16.6)	(73.2)	15.9
Gross Margin	50.9%	49.1%	56.5%	51.3%	48.5%	44.6%	50.4%	55.6%	51.6%	56.0%	42.1%	51.9%	52.4%	52.4%
General and Administrative	21.4%	22.7%	18.3%	22.9%	16.9%	24.4%	20.3%	16.6%	20.3%	16.2%	24.1%	19.0%	17.6%	16.3%
Selling and Marketing	16.1%	15.9%	14.6%	15.2%	14.0%	17.1%	15.2%	16.0%	17.4%	15.4%	17.3%	16.4%	16.1%	15.9%
Taxes	-172.0%	404.4%	2.5%	333.8%	33.5%	36.1%	5.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Operating Income	5.8%	4.0%	17.4%	6.1%	11.8%	-5.0%	8.2%	16.8%	6.4%	18.4%	-7.1%	9.7%	11.5%	13.0%
EBITDA	17.2%	16.3%	26.9%	16.5%	19.6%	5.8%	17.7%	25.3%	16.6%	27.2%	4.2%	19.3%	22.0%	23.3%

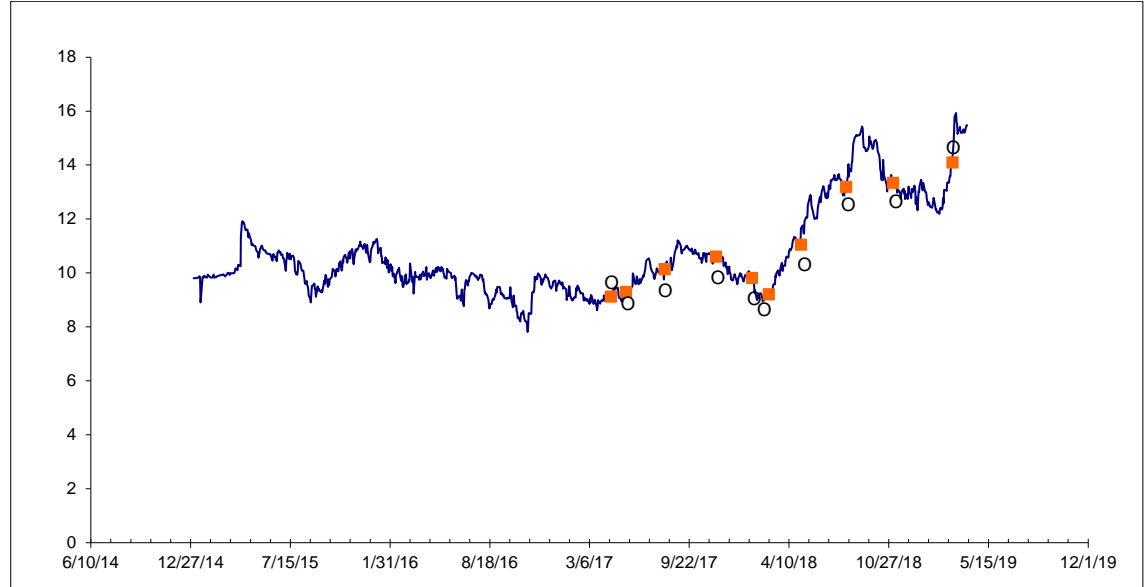
Sources: Company data and Imperial Capital, LLC.

Risk Factors

- **Regulation:** Many geographies in which LIND operates are heavily regulated, such as the Galapagos and Antarctica.
- **Consumer:** Changes in consumer spending or sentiment could negatively impact LIND.
- **Competition:** LIND competes against many other cruise and travel companies. The expedition cruise industry is becoming increasingly competitive.

Price Chart and Ratings History

Figure 7. Lindblad Expeditions—Price Chart and Ratings History



Description	Price	IC Rating	Report Date
Common Stock	\$14.09	Outperform	3/4/19
Common Stock	\$13.34	Outperform	11/5/18
Common Stock	\$13.19	Outperform	8/3/18
Common Stock	\$11.05	Outperform	5/4/18
Common Stock	\$9.21	Outperform	3/1/18
Common Stock	\$9.81	Outperform	1/26/18
Common Stock	\$10.60	Outperform	11/15/17
Common Stock	\$10.14	Outperform	8/4/17
Common Stock	\$9.29	Outperform	5/18/17
Common Stock	\$9.12	Outperform	4/18/17

Sources: Bloomberg and Imperial Capital, LLC.

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Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	65.29%	Outperform: TRR expected to exceed basket by at least 10%
In-Line	29.75%	In-Line: TRR expected to be in-line with basket
Underperform	4.96%	Underperform: TRR expected to underperform basket by at least 10%
This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 1/1/18 through 12/31/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 12/31/18, IC has provided investment banking services to 12.66% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 11.11% of companies with equity rated an In-Line. As of 12/31/18.		
Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)		
Buy: TRR expected to exceed basket by at least 10%		
Hold: TRR expected to be in-line with basket		
Sell: TRR expected to underperform basket by at least 10%		
Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.		

For a discussion of the valuation methods used to determine our price target, if any, please see page(s) 1. See page 5 for the risks that may impede achievement of such price target, and page 5 for our ratings history and price chart.

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