

# **LINDBLAD Expeditions (LIND and LINDW)**

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# About Caro-Kann Capital LLC

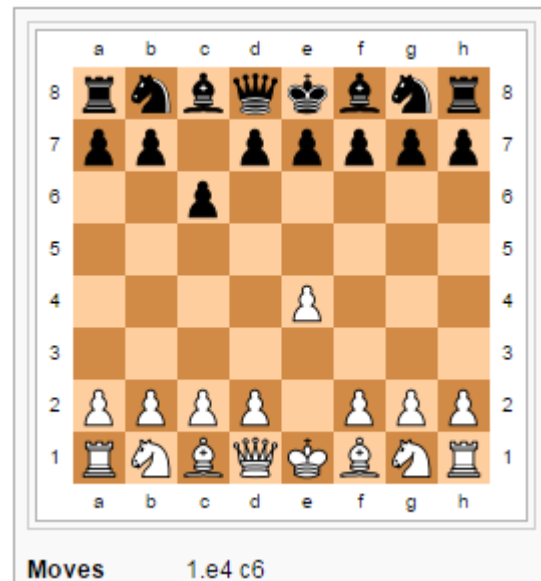
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- General Partner of Caro-Kann Capital Fund LP, a private investment partnership
- Launched in March 2015
- Focus on small and mid-cap companies undergoing extraordinary corporate events and / or experiencing rapid changes in their shareholder bases

# Caro-Kann Defense

## Caro-Kann Defense

- Chess defense against the king's pawn opening
- The opening is named after the English player Horatio Caro and the Austrian player Marcus Kann who analyzed it in 1886\*
- Caro-Kann Defense is more solid and robust than many alternatives and, thus, Black enjoys a significantly smaller chance of losing
- However, due to a strong position and pawn structure, Caro-Kann Defense results in a strong likelihood of Black winning later



\* Wikipedia. The graphic display ([http://en.wikipedia.org/wiki/Caro%E2%80%93Kann\\_Defence](http://en.wikipedia.org/wiki/Caro%E2%80%93Kann_Defence))





# What Does Lindblad Do?

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- Leader in global expedition cruising
- Typical price = ~\$1,000 per night
- High engagement experience (e.g., zoologists, photographers and other National Geographic personnel on board)
- Exclusive partnership with National Geographic
- Destinations
  - Antarctica
  - Galapagos
  - Arctic
  - Baja California
  - Alaska
  - Patagonia
  - Central America
  - Others



# Why Is LIND Mispriced?

	<b>Mispricing Factor</b>	<b>Importance</b>	<b>Comments</b>
<b>1</b>	<b>Recent SPAC</b>		Investors hate SPACs (rightfully so!)
<b>2</b>	<b>ZIKA Virus</b>		ZIKA Virus creates short-term scare
<b>3</b>	<b>Valuation Methodology Mismatch and Time Arbitrage</b>		To properly value LIND one needs to look 3 – 4 years out; people are impatient
<b>4</b>	<b>Little Sellside Coverage</b>		Only Citi and Credit Suisse published initiation reports. CS later dropped coverage due to an analyst departure.

**Multiple factors contribute to LIND's mispricing**

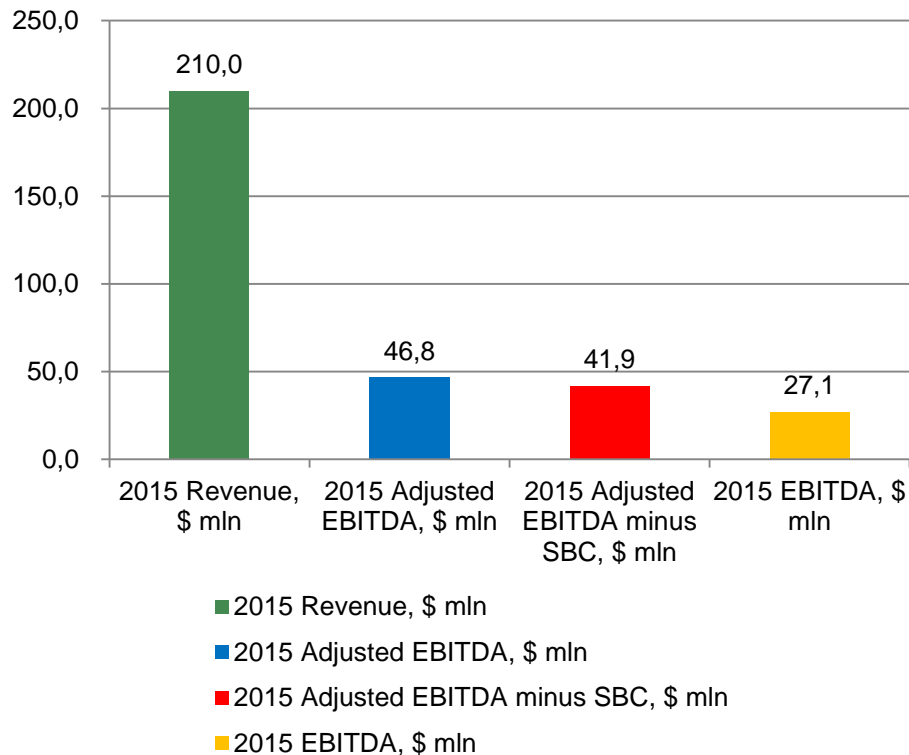
## Capital Structure at a Glance

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Share outstanding, thousands	46,123
Share Price, \$ (as of June 17, 2016)	\$9.13
<b>Market Cap, mln</b>	<b>\$421</b>
less Cash, mln	\$182
plus Debt, mln	\$163
<b>EV, mln</b>	<b>402.3</b>
Market Cap ex-Cash	\$239

# Key Financial Metrics at a Glance

## Key Financial Metrics



## Comments

1

2015 had ~\$13.3M of transaction related expenses => large difference between EBITDA and Adjusted EBITDA

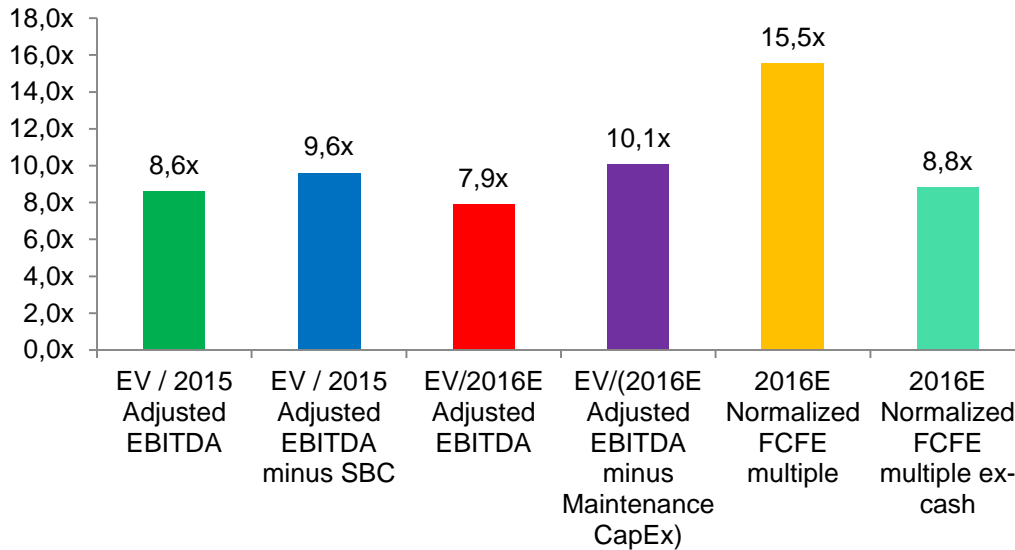
2

2015 Stock-based compensation (SBC) is elevated due to grants of incentive packages to managers after CLAC II / LIND merger was complete



# Valuation at a Glance

## Valuation at a Glance



- EV / 2015 Adjusted EBITDA
- EV / 2015 Adjusted EBITDA minus SBC
- EV/2016E Adjusted EBITDA
- EV/(2016E Adjusted EBITDA minus Maintenance CapEx)
- 2016E Normalized FCFE multiple
- 2016E Normalized FCFE multiple ex-cash

## Comments

- 1 Large cash position makes FCFE multiple / FCFE Yield misleading and punitive.
- 2 FCFE Multiple Ex-Cash (and without including any interest earned on such cash balance) is more meaningful.
- 3 Cash will be used to fund build out of 3 new ships.
- 4 Lack of applicable valuation multiple creates lots of confusion for investors.
- 5 Valuing LIND 4-5 years out is the most conceptually accurate approach. However, people lack patience.
- 6 “Peers” (CCL, RCL, and NCLH) trade at 9x – 10.5x EV/EBITDA.

# LIND Has a Strong MOAT

*High ROIC Should Be Sustained in the Future*

Source of Sustainable Competitive Advantage	Comments
<b>1</b> <b>Partnership with National Geographic</b>	<ul style="list-style-type: none"><li>• Exclusive rights to use NatGeo brand for cruises</li><li>• Recently extended Partnership Agreement until 12/31/2025</li><li>• NatGeo has an option to acquire ~5% of shares at \$10.00</li></ul>
<b>2</b> <b>LIND's Own Brand</b>	<ul style="list-style-type: none"><li>• 43%, 49%, and 46% of sales for 2015, 2014, and 2013 are through direct channel</li><li>• 37% of guests are repeat customers while 10% of guests have done 5 more trips</li></ul>
<b>3</b> <b>Learning Curve</b>	<ul style="list-style-type: none"><li>• LIND has been doing this for 30 years</li><li>• Doing cruises in remote locations is a tough job and requires substantial learning and experience</li></ul>

# Sven-Olof Lindblad – “Intelligent Fanatic”

## Biography

(Source: 2015-09-17 LIND Presentation)

### Sven-Olaf Lindblad, Founder



- Founded Lindblad in 1979
- Formed multi-faceted strategic alliance with NatGeo
- Founding member of Ocean Elders
- Chairman of Lindblad National Geographic fund
- UN Environmental Program Global 500 Roll of honor

## What We Like

- 1 Long History
- 2 From \$0 to >\$210M revenue business
- 3 Passion
- 4 Family tradition and name

# Mark Ein – Investor and Capital Allocator

## Biography

*(Source: 2015-09-17 LIND Presentation)*

### Mark D. Ein, Chairman



- Chairman and CEO of Capitol I and Capitol Acquisition II
- Early stages involvement with the companies that reached \$1 billion valuations
- On the board of directors of civic and philanthropic organisations

## What We Like

- 1 Business and investing background
- 2 One successful SPAC in the past
- 3 Serves as checks and balances with regard to the founder's passion as far as shareholder value creation goes

# Mark Ein's First SPAC – Two Harbors Investment Corp.

*(Source: 2015-09-17 LIND Presentation)*

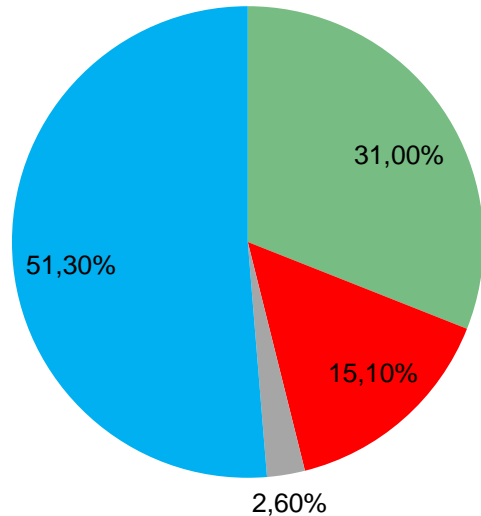
## Success of Capitol Acquisition I

On October 29, 2009, Capitol I, in Partnership with Pine River Capital Management created Two Harbor Investment Corp. (NYSE: TWO), a mortgage REITs, formed to capitalize on severe dislocation in the RMBS Market.

- 17.9% annualized return over the 5 years since closing
- Market Cap grew from \$119m to \$4.4bn(including spin-off) in only 5 years
- Raised \$3.3bn through 9 follow-on offerings and \$321m from warrant exercise
- Spun off Silver Bay Realty Trust (NYSE: SBY), the first publicly traded single-family housing REIT, with an additional market cap of \$580m



# High Insider Ownership Creates Strong Alignment of Incentives



- Sven-Olof Lindblad, CEO and Founder
- Mark D. Ein, Chairman
- Other Insiders
- Free float

## Comments



- 1 Mr. Lindblad, CEO and Founder, “cashed” out “only” ~\$100M in a transaction.
- 2 Mr. Lindblad’s current stake is worth ~\$130M.

# Cash on the Balance Sheet Will Be Used to Fund Growth

## *Contracts for Two Coastal Vessels Have Been Already Signed*

(Source: 2015-09-17 LIND Presentation)

- Lindblad signed contracts to build two new coastal vessels to be delivered in 2017 and 2018
- A third blue water vessel is expected to be delivered in 2019 (contract yet to be signed)

	COASTAL VESSEL 1 / COASTAL VESSEL 2		BLUE WATER VESSEL
			
Delivery Timing	2017	2018	2019
Cabins (est.)	50		85
Guests (est.)	100		170
Total Cost	\$40 - \$45 million		\$130 - \$135 million
ROIC <sup>(1)</sup>	~23%		~17%

# LIND Shares Are Attractive but Warrants Are Even More So

## *What You Need to Know About Warrants (LINDW)*

LINDW Features	Comments
<b>1</b> Strike Price and Cap	<ul style="list-style-type: none"><li>• Strike price = \$11.50</li><li>• Effective cap = \$24 (warrants get redeemed at \$24)</li></ul>
<b>2</b> Expiration	<ul style="list-style-type: none"><li>• July 2020 (5 years after the merger became effective)</li></ul>
<b>3</b> Warrant Buyback	<ul style="list-style-type: none"><li>• 11/09/2015: approved a \$20M stock and warrant repurchase plan</li><li>• LIND has repurchased 4.06M warrants at an average price of \$2.69 (total = \$10.9M) as of 1Q 2016</li><li>• No shares have been repurchased as of 1Q 2016</li><li>• Warrants are heavily owned by insiders (~6.1M out of 12.04M or ~49.3%)</li></ul>



# LIND: Cash Model

Lindblad: Cash Model	2016	2017	2018	2019	2020
Guests	19,624	21,655	24,035	27,820	29,527
		10.3%	11.0%	15.7%	6.1%
Gross current Revenue	217	226	224	234	239
<i>growth y-o-y</i>	6.4%	4.1%	(0.9%)	4.5%	2.1%
New ship revenue	0	15	40	85	114
<i>growth y-o-y</i>			166.7%	112.5%	34.1%
Total revenue	217	241	264	319	353
<i>growth y-o-y</i>	6.4%	11.1%	9.5%	20.8%	10.7%
Current Adjusted EBITDA	51	53	52	54	55
<i>growth y-o-y</i>	13.3%	3.9%	(1.9%)	3.8%	1.9%
<i>margin, %</i>	23.5%	23.5%	23.2%	23.1%	23.0%
New ship Adjusted EBITDA	0	0	15	31	42
<i>New ship Adjusted EBITDA margin, %</i>			37.5%	36.5%	36.8%
Adjusted EBITDA	51.0	53.0	67.0	85.0	97.0
<i>growth y-o-y</i>	13.3%	3.9%	26.4%	26.9%	14.1%
<i>Adjusted EBITDA margin, %</i>	23.5%	22.0%	25.4%	26.6%	27.5%
Interest Expense	(9)	(9)	(9)	(9)	(9)
MCX	(11)	(8)	(9)	(16)	(16)
<i>MCX as % of Sales, %</i>	5.1%	3.3%	3.4%	5.0%	4.5%
Cash Taxes	(2.5)	(2.5)	(6.0)	(7.0)	(9.0)
<b>FCFE</b>	<b>\$28</b>	<b>\$33</b>	<b>\$43</b>	<b>\$53</b>	<b>\$63</b>
<b>CapEx Schedule</b>					
COASTAL Vessel 1	(\$46.00)				
COASTAL Vessel 2	(\$22.40)	(\$22.40)			
Blue Water Vessel	(\$33.75)	(\$33.75)	(\$33.75)	(\$33.75)	
Via Australis	(\$28.00)				
<b>Total Growth CapEx</b>	<b>(\$130.15)</b>	<b>(\$56.15)</b>	<b>(\$33.75)</b>	<b>(\$33.75)</b>	<b>\$0.00</b>
Cash BOP	207	105	83	92	111
FCFE	28.5	33.5	43.0	53.0	63.0
Growth CapEx	(130.2)	(56.2)	(33.8)	(33.8)	0.0
<b>Cash EOP</b>	<b>105</b>	<b>83</b>	<b>92</b>	<b>111</b>	<b>174</b>

# LIND: 2020 EV/EBITDA Valuation and 2020 FCFE Valuation

2020F Adjusted EBITDA Valuation	
2020F Adjusted EBITDA	\$97.00
Multiple	12.0x
EV	\$1,164
Debt	163.1
Cash on B/S	173.9
Cash from warrant exercise	138.5
Minus cash spent on warrant repurchases	0.0
<b>Market Cap</b>	<b>\$1,313</b>
FD S/O, mln	46.1
Assumed dilution per year	2.0%
# years	4.0
Dilution due to share issuances	3.80
Dilution from warrants	12.0
Founder shares (vest if stock is above \$13)	1.25
FS S/O in 2020	63.2
<b>Target price</b>	<b>\$20.77</b>
<i>Stock Upside</i>	127.5%
<i>Stock IRR</i>	26.2%
Today day	6/18/2016
Future day	12/31/2019
Years	3.5
Warrant intrinsic value	<b>\$9.27</b>
<i>Warrant upside</i>	271.0%
<i>Warrant IRR</i>	44.87%

2020E FCFE Valuation	
FCFF 2020E	\$63.0
FCFE Yield, %	7.00%
Implied market cap	\$899.4
Cash on B/S	173.9
Cash from warrant exercise	138.5
Total Cash	312.4
Implied market cap + cash	\$1,212
FS S/O in 2020	63.2
<b>Target share price</b>	<b>\$19.17</b>
<i>Stock Upside</i>	109.9%
<i>Stock IRR</i>	23.3%
Warrant intrinsic value	<b>\$7.67</b>
<i>Warrant upside</i>	206.7%
<i>Warrant IRR</i>	37.3%

# Sources of Additional Upside:







## *Smart Capital Allocation of Excess Cash*

Key Driver	Comments
<b>1</b> Ships Acquisitions in the Secondary Market	<ul style="list-style-type: none"><li>• LIND has done it in the past (e.g., Orion acquisition in 2013)</li><li>• Orion: 102 guest ship, acquired from a small Australian operators for ~\$30M</li><li>• Playbook: renovate the ship, put it on the LIND's platform, put National Geographic brand, charge "LIND prices"</li><li>• Substantially lower an acquisition multiple</li></ul>
<b>2</b> M&A Transactions in Adjacent Space	<ul style="list-style-type: none"><li>• Acquired Natural Habitat Adventures on 5/5/2016</li><li>• Paid 5.5x EV/EBITDA for capital light business</li></ul>

**Further value accretive transactions are likely.  
But we are NOT paying for this optionality!!!**

# LIND Summary

## *LIND Meets Our Investment Checklist Key Requirements*

	<b>Factor / Metric</b>	<b>Fulfilled?</b>	<b>Comments</b>
1	<b>Understandable / analyzable business</b>		LIND's business is quite simple to understand.
2	<b>Do I understand why this opportunity exists?</b>		Ex-SPAC, Zika virus, time arbitrage.
3	<b>Strong Moat</b>		Strong brands (NatGen + LIND) + learning curve create a strong moat.
4	<b>High insider ownership, motivated management, and capital allocation skills</b>		All requirements are met.
5	<b>Attractive Valuation</b>		LIND is cheap on all metrics.
6	<b>Little Sellside Coverage</b>		Initiation reports exist but sellside engagement / awareness are low.

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# Appendix

# Fleet

## Fleet

(Source: 2015-09-17 LIND Presentation)



Owned	Cabin	Guest	Date Built / Rebuilt
National Geographic Explorer	81	148	1982 / 2008
National Geographic Orion	53	102	2003
National Geographic Endeavour	56	95	1966
National Geographic Sea Bird	31	62	1981
National Geographic Islander	24	47	1995
National Geographic Sea Lion	31	62	1982

## Comments

- 6 owned ships and 4 chartered ships.
- The oldest ship (National Geographic Endeavour) was built in 1966 => 50 years in service!
- National Geographic Endeavour is being retired and replaced with Via Australis acquired for \$18M and additional \$10M will be spend to renovate it.
- No further replacements on the horizon.

# LIND vs. Big 4 Mass Market Players (1):

## *LIND's Business Model Is Significantly More Attractive*

Metric	Mass Market	LIND
<b>1</b> <b>Industry Structure</b>	<ul style="list-style-type: none"><li>• Top 4 (RCL, CCL, NCLH, MSC) players control ~85%</li></ul>	<ul style="list-style-type: none"><li>• Fragmented industry</li></ul>
<b>2</b> <b>Basis of Competition</b>	<ul style="list-style-type: none"><li>• Ship quality</li><li>• Need to invest a lot into new build ships and upgrades</li><li>• MCX = ~6% - 10% of revenue</li></ul>	<ul style="list-style-type: none"><li>• Quality of experience</li><li>• Ships become less important (see age of LIND's ships)</li><li>• MCX = ~3% - 4.5% of revenue</li></ul>
<b>3</b> <b>Brand and Customer Loyalty</b>	<ul style="list-style-type: none"><li>• No disclosure</li><li>• Unlikely that mass market players would not have disclosed these data points if they were favorable</li></ul>	<ul style="list-style-type: none"><li>• 37% of guests are repeat customers (2 trips or more) and 10% of guests have done 5 or more trips</li></ul>

# LIND vs. Big 4 Mass Market Players (2):

## *LIND's Business Model Is Significantly More Attractive*

Metric	Mass Market	LIND
<b>4</b> <b>Distribution</b>	<ul style="list-style-type: none"><li>• Little disclosure</li><li>• RCL wrote in its 2015 Annual Report that the travel agencies continue to be the largest distribution channel</li></ul>	<ul style="list-style-type: none"><li>• Direct channels has the largest share (43%, 49% and 46% of guest ticket revenues for 2015, 2014 and 2013)</li></ul>



# Questions and Further Inquiry

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