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PLYA.OQ - Q1 2018 Playa Hotels & Resorts NV Earnings Call

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CORPORATE PARTICIPANTS

Bruce D. Wardinski *Playa Hotels & Resorts N.V. - Chairman & CEO*

Ryan Hymel *Playa Hotels & Resorts N.V. - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Bennett Smedes Rose *Citigroup Inc, Research Division - Director and Analyst*

Chris Jon Woronka *Deutsche Bank AG, Research Division - Research Analyst*

Paul Richard Penney *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

PRESENTATION

Operator

Good morning. My name is Louie, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter Playa Hotel Earnings Call. (Operator Instructions) Thank you.

Mr. Ryan Hymel, you may begin your conference.

Ryan Hymel - *Playa Hotels & Resorts N.V. - Executive VP & CFO*

Thank you, Louie. I appreciate it.

Good morning, everyone, and welcome to Playa's 2018 First Quarter Earnings Call.

Before we begin, like always, I'd like to remind participants that many of our comments today will be considered forward-looking statements and are subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated. Forward-looking statements made today are effective only as of today, and the company undertakes no obligation to update forward-looking statements. For a discussion of some of the factors that could cause actual results to differ, please review the Risk Factors section of our most recent filings, and we've updated our IR website at investors.playaresorts.com with today's supplemental presentation and recent quarterly releases.

Also, as we discuss certain non-GAAP measures, it may be helpful to review the reconciliations to GAAP located in our press release.

On today's call, Bruce Wardinski, playa's Chairman and CEO, will provide an overview of the current operating environment and discuss key operational highlights. He will provide some perspective on 2018, including our recent acquisition announcement of a portfolio of resorts in Jamaica purchased from Sagicor. Bruce will then turn the call back over to me, and I will address our Q1 results and other financial matters for the company. We will then take your questions.

With that, I'll turn the call over to Bruce.

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

Great. Thanks, Ryan. Good morning, and thanks to all of you for joining us today.

The first quarter was another successful period for Playa strategically, operationally and financially.



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I remain extremely bullish in my assertion that Playa will continue to enhance and grow its position as the leader in the all-inclusive space, a high-growth, very profitable and extremely fragmented sector. I am particularly excited about the near- and long-term prospects for our company in light of our recent announcements and a few new strategic initiatives I'm going to speak with you about today. I'm adamant that Playa remains a largely underappreciated story with an immense amount of upside in the current base of EBITDA, which Ryan will address with you later in this call.

I will now provide an update and report on many of the strategic initiatives, including some new projects we are working on.

First, we continue to make substantial progress as we move toward closing on the Sagicor portfolio, which is scheduled to be completed by the end of May. As a reminder, in March, we announced that we had signed definitive agreements with Sagicor Group Jamaica Limited to acquire a portfolio of cash-flowing assets with additional density, a management contract and developable land in Jamaica, which will immediately add an additional 1,326 owned rooms to our portfolio and various new brands, including Hilton. The existing assets include the 495-room Hilton Rose Hall, the 268-room Jewel Runaway Bay, the 250-room Jewel Dunn's River, the 225-room Jewel Paradise Cove an 88-room tower and spa, Jewel Palmyra, 2 developable land sites with density of up to 700 rooms and a management contract at the Jewel Grande. The existing assets are currently managed by a U.S. third-party operator, and upon the closing of the transaction, Playa will be able to immediately internalize and save over \$2 million of annual management fees.

Playa has contracted to purchase this portfolio for 20 million shares of Playa common stock and \$100 million in cash, with the equivalent of approximately \$300 million in total consideration. The purchase price for the 4 existing resorts equates to an implied going-in multiple of approximately 9x based on 2017 adjusted EBITDA -- I'm sorry, and based on 2017 adjusted EBITDA after internal management fees and approximately 8.5x based on a pro forma run rate of 2018 adjusted EBITDA. Obviously, these are very attractive multiples. This portfolio of assets allows Playa to diversify geographically.

At closing, the percentage of Playa's owned rooms in Jamaica will grow from 10% to 26% of Playa's total portfolio, from 620 rooms to 1,946 rooms. This deal increases our footprint in one of the best all-inclusive markets in the Caribbean, with strong government backing for the travel and tourism industry.

Inbound arrivals into Jamaica grew by 3% in 2017 to reach 2.3 million visitors with over 95% of tourist visits for leisure purposes. Jamaica is also a market where Playa has an existing operating platform that can be scaled to create significant operational synergies, including preferred rates with OTAs and tour operators, purchasing and centralized services synergies and cost synergies by integrating several functions, including accounting, marketing, legal, procurement and insurance.

Our historical track record, management expertise, strong regional presence, long-term customer relationships and powerful brands will all contribute to significantly improving the Sagicor portfolio's performance. Again, we look forward to closing this transaction in late May and incorporating these resorts into our portfolio.

Second, as we discussed on our last call, we are incredibly excited about our new affiliation with Hilton and plugging into their powerful reservation system. As a reminder, we recently extended our preferred relationship with Hyatt in exchange for lifting the brand restriction on Playa's ability to own and operate all-inclusive resorts under the Hilton, Marriott, Intercontinental and Accor brands. Up until now, we were unable to work with any of those brands. We believe this is a very significant event for Playa as it expands greatly the total addressable market and allows Playa to greatly increase the number of resorts we can operate in each market and makes Playa the partner of choice for potential transactions and management contracts. We've already held numerous meetings with the members of the Hilton organization, including senior members of their brand and development team, and have discussed various projects and conversion opportunities, both within the existing Playa portfolio as well as in our pipeline.

My stated objective is to build a distinctive portfolio of recognizable, branded hotels that will outperform the market, and the results thus far of the Hyatt properties prove that this thesis works.



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In 2017, our Hyatt Ziva and Zilara in Cancun and Puerto Vallarta recorded direct business ranging from 20% to 25% of total revenue. At the Hyatts in Los Cabos and Jamaica, where there is a large group presence, our direct business plus group business was 50% and 40%, respectively. On top of this, our Hyatt resorts have far less of a reliance on tour operator and wholesale business, ranging only 22% to 37% of the total.

What this adds up to is continued financial outperformance, particularly on package rates. In 2017, our Hyatt portfolio's package rates increased 9.4%, even in the face of market headwinds, while our remaining portfolio increased 2.7%. I cannot stress enough how significant this development is as we now have a full spectrum of brand relationships at our disposal and will yield some very exciting deal sourcing opportunities.

Third, we've begun working toward the creation of a Playa vacation club. For those of you who aren't familiar with this concept, a vacation club is a membership-based travel club whereby guest purchase memberships ranging from 5 to up to 40 years. In return for their purchase, members receive discounted pricing on future vacation and other VIP perks and amenities. This concept is well known in our markets and offers a competitive product versus timeshare companies.

A vacation club would offer an immense amount of value to Playa: First, in the form of commissions a club pays to Playa resorts for the memberships sold; but much more importantly, the club serves as a loyalty program for our resorts. It takes a customer, who previously would have been booking through wholesale travel agents or OTA channels, and shifts them to a direct customer and a very sticky customer at that. It establishes a long-term relationship with a guest, and club members typically spend more on non-package items such as spa treatments and other upgrades. Club members also act as a great base of occupancy and allow us to yield-manage more efficiently and can be supportive during the off-season.

While I cannot yet share the specifics of how this will be structured and when this will be completed, I can say, however, that we are very focused on launching this in the near term.

Next, we continue to explore various forms of ownership structures for opportunities in our deal pipeline, including joint ventures and sliver equity. We are also exploring the possibility of making minority investments in a fund with outside institutional investors to make acquisitions. All of these options allow Playa to gain partial ownership interest in assets as well as long-term, high-margin management agreements, all while limiting Playa's required capital commitment. The net result will be faster and more profitable growth for our company.

Next, now that the brand restrictions have been lifted, we've been aggressively exploring conversion, expansion and rebranding opportunities, both in our existing portfolio as well as our deal pipeline. To that end, we've revamped and reprioritized our investment CapEx projects to include some new and very exciting opportunities with incredibly high returns on invested capital. We're expanding on our winners and focusing on the lowest-risk and highest-return projects. You'll find a summary of all of these projects outlined on Slide 4 in the supplemental deck posted on our IR website as well as in the slide for today's webcast so you may follow along as I walk through them now.

On Slide 8, you will see our plans for a complete rebranding and renovation of our 513-room Royal in Playa Del Carmen. This resort has been a huge part of our success since we acquired it in 2013 and has seen its EBITDA improve significantly over the last few years, including reaching over \$27 million in 2017. This resort lacks a true brand, and given the fact that there are various resorts up and down the Yucatán Peninsula that use the word Royal in their name, we feel that a U.S. consumer-recognizable brand will greatly improve our financial results there. This resort has a base of extremely loyal customers, but very few of these guests book directly. In fact, the hotel only had 15% direct bookings in 2017. We have not made any material investment in the property since its acquisition, and therefore, we will look to complete a rebranding and room renovation in late 2018. Cost estimates are very preliminary, but we would look to spend between \$18 million to \$22 million, with a forecasted stabilized incremental EBITDA yield on investment of approximately 20%.

On the next slide, you'll see we are planning a rooms expansion in our flagship Hyatt Ziva Cancun. This property has been a grand slam home run for Playa. And as I discussed on our last call, the property's EBITDA has increased over 400% since prior to its conversion, representing an incremental EBITDA yield on investment of 33%. We own the land parcel directly adjacent to the property, and we've been given initial indication that we could add an additional 100 to 125 rooms, all, very importantly, without disruption to the guests. This tower could assimilate instantly with the existing property, and the project is estimated to take place in 2019. Adding rooms to successful, existing resorts, in our opinion, is one of the highest and best uses of our capital, yielding well above average returns. Cost estimates are very preliminary, but we would look to spend approximately \$25 million, with a forecasted stabilized incremental EBITDA yield on investment in the high 30s.



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Next, we've outlined plans to renovate and expand our Hyatt Zilara in Cancun. This property, much like THE Royal, has been extremely successful without the benefit of any capital investment since we purchased the property. We've added a new spa and fitness facility, but the rooms and lobby remain largely the same as they were when we purchased the asset in 2013. The package rates have plateaued as of late given the lack of investment. And again, we believe completing our planned rooms renovation, along with expanding the property by approximately another 70 rooms, will yield well above average returns. The rough plan would be to close the property in Q3 of 2019 and execute the renovation and expansion in time for high season 2020. Cost estimates are very preliminary here also, but we would look to spend between \$35 million to \$37 million, with a forecasted stabilized incremental EBITDA yield on investment of well over 20%.

We've also included our previously announced plans for an expansion of approximately 80 to 100 new rooms at the Hilton Rose Hall. Playa is assuming the franchise agreement for the Hilton Rose Hall and will continue to market the resort as a Hilton all-inclusive property. The rooms expansion project is estimated to take place in 2019, and we would look to spend between \$20 million to \$22 million, with a forecasted stabilized incremental EBITDA yield on investment of well over 30%.

And lastly, we plan to expand upon the 88-room tower and spa, currently known as Jewel Palmyra, by constructing 300 new rooms on a 4.5-acre developable site adjacent to our Hyatt Ziva and Zilara Rose Hall. This new, 388-room resort will become the future Hyatt Ziva Rose Hall, and the current Hyatt Ziva Rose Hall will be repositioned and integrated into our existing Hyatt Zilara at Rose Hall, essentially increasing our count on adult rooms and having a brand-new all-ages resort. This project is estimated to begin in 2019 and finish by late 2020, with an estimated project cost of \$80 million to \$90 million, with a forecasted stabilized incremental EBITDA yield on investment of over 20%.

As we've stated before, it is our goal to build a distinctive portfolio of recognizable branded hotels that will continue to outperform the market, as our Hyatts have already demonstrated. Again, the fact that Playa now has a full spectrum of brands at our disposal has allowed us to take a fresh look at our capital plans over the next few years and focus on the highest and best use of our capital. As you'll hear from Ryan, our company is set up for strong results in 2018 but, more importantly, significant EBITDA growth in 2019 and beyond.

Our full year 2018 guidance will increase with the closing of the Sagicor transaction. And as its earning power is added to the Playa portfolio, along with the incremental EBITDA from the opening of Hyatt Ziva and Zilara Cap Cana and the strategic initiatives I just outlined, Playa will generate very significant growth and profitability and free cash flow.

With that, I will turn it back over to Ryan to discuss our first quarter 2018 results.

Ryan Hymel - *Playa Hotels & Resorts N.V. - Executive VP & CFO*

Thanks, Bruce.

Before we get to the first quarter results, much like last call, I want to provide some additional color on a few of the topics that we get questions on. In particular, the effects of perceived crime in Mexico and the state of emergency in Jamaica that we discussed on the last call.

The effects in Jamaica, while meaningful, were quick and relatively short lived. Our Ziva and Zilara Rose Hall certainly felt the impact in January and February, but the demand quickly returned. While the hotel will finish the year behind our internal 2018 budget, it will far exceed 2017 results and see EBITDA increases of over 20% from last year. In Mexico, the recent news around perceived increases in crime have certainly had an impact on Playa, but it's important to note that it has not had an effect on tourist arrivals, demand for the destination nor our occupancy. International airport traffic into Cancun and Los Cabos' airports was up 7.2% and 5.3%, respectively, in the first quarter. And Playa's Mexico portfolio still achieved 88% occupancy in the quarter, up 60 bps over last year, and Playa's Cancun portfolio specifically sit at over 90% full for the quarter. This has, however, had an effect on the booking curve, as we discussed last quarter, where we're seeing guests book later than they traditionally would in recent years. This has also had an effect on our package rates, which you can see in the results. As we discussed, many of our occupancy-focused competitors defensively drop their rates, which, in turn, puts pressure on the destination as a whole. We will and continue to employ the strategy of not defensively lowering our ADRs as much as we can to allow us to hold our position while letting our competitors sell out the resorts quickly at suboptimal pricing. This strategy has served us well in the past and even in this quarter and maintains the integrity of our rates over the long term, which is always going to be a focus of Playa.



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As you saw from our first quarter results and as we projected on our last quarterly call, package ADR was down slightly in Mexico and package RevPAR was only down 60 bps even with all the increased headwinds.

And lastly, as an update, we're beginning to see some very positive momentum in our Panama Jack properties. While we're still projecting to be behind last year through the majority of 2018, as we discussed last call, we are projecting strong package rate growth in the later part of this year as we've seen booking pace pick up through trade channels and, more encouragingly, through our own playaresorts.com website.

So with these items as a backup, I'd like to now get in our first quarter results.

In the first quarter, we saw net package RevPAR grow 1%, and this was driven by a slight uptick in overall ADR growth of 90 bps. And our revenue also includes an increase in net non-package revenue of 5.2%, and this all led to a total net revenue increase of 1.5%.

Resort EBITDA for owned portfolio sit at \$82.6 million, a slight increase over the prior year, and adjusted EBITDA margin was down 40 bps to just under 48%, which is still incredibly, incredibly strong.

Our Hyatt properties, just like every quarter, continued to outperform. And Bruce touched on some of the reasons why earlier, but in this quarter, it was no different. Net package RevPAR grew 6.3% for the Hyatts, driven by ADR growth of 3.4% and resort EBITDA growth of 9.8%.

In the Yucatán, our net package RevPAR decreased 1%. This was driven by an ADR decrease of down 70 bps and a slight decrease in occupancy. Resort EBITDA was down 8% over the prior year, representing a 330 basis point decrease in resort EBITDA margin. The decrease was primarily a result of all the properties in this segment but was offset by continued strong performance of Hyatt Ziva Cancun, which accounted for a \$1 million EBITDA increase over -- year-over-year.

On the Pacific Coast, results were largely flat. A net package RevPAR growth of 80 bps driven by an increase in occupancy up to 81% but offset by net package ADR decreases of over 3%. Resort EBITDA of just under \$14 million decreased 3% over the prior year, and that represents a 230 basis point decrease in EBITDA margin to a still incredibly strong 48%.

Our resorts in the Caribbean achieved a net package RevPAR growth of 4.1%, and this was driven by ADR growth of just under 5%. Our Ziva and Zilara Rose Hall property again continued to perform well, which had ADR growth of 11.4% and RevPAR growth of 9.8% compared to prior year. And again, that's even with the earlier headwinds that we discussed. Another bright spot was Dreams La Romana, which had a great quarter with an ADR growth of 6.4% and RevPAR growth of 5.4% compared to last year.

Resort EBITDA in the Caribbean was \$29.1 million and increased 16.6% compared to the prior year, mainly driven by the improvement at our Rose Hall property, the 2 Hyatts in Jamaica. Another factor that we can't ignore that contributed to the increased EBITDA was a gain from business interruption insurance proceeds of a little over \$1 million received at Dreams Punta Cana in February for the hurricane that hit it back in the end of the last year. This all represents a 460 basis point increase in EBITDA margin to 45% for the Caribbean.

Turning our attention to the balance sheet.

At the end of the quarter, the company held \$140 million in cash and equivalents. Our total interest-bearing debt was \$904 million comprised fully of our Term Loan B secured debt due 2024. At the end of the quarter, there were no amounts on the company's \$100 million outstanding credit facility. And thus far, we have spent, as you saw in the materials, \$75 million on the development of our 750-room Ziva and Zilara in Cap Cana, and that includes purchasing the land. So adjusted net debt, excluding that Cap Cana spending, is \$689 million.

I'd like to now turn our attention to our updated 2018 outlook and beyond.

As I mentioned at the beginning of this call, Playa takes no obligation to update forward-looking statements, and anything that can be regarded as a forward-looking statement is subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated.



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As Bruce mentioned, we strongly believe Playa remains a largely underappreciated story with an immense amount of upside in the current base of EBITDA. As we briefly mentioned on our last call, we think the proper way to value Playa is not based on our current results but rather the earnings power of the combined Playa and Sagicor portfolio, the run rate earnings potential for the Hyatt Ziva and Zilara Cap Cana projects and the incremental EBITDA from all of the strategic development projects Bruce outlined earlier. We also think people were looking for a little more clarity on all the moving pieces and how they start to add up over the next 3 to 4 years and how we get to those stabilized figures. So with that in mind, we built a high-level adjusted EBITDA bridge, which outlines Playa's path to \$300 million of adjusted EBITDA by 2021. You can see this bridge located on Slide 5 of our supplemental deck that we posted for today's call.

As you can see, this is a high-level and, more importantly, a range-bound guide that is certainly subject to change. But it outlines a clear path to a much more robust and diversified base of EBITDA. We tried to outline and bridge each full year to full year while giving you the steps along the way and incorporating the newly added Sagicor portfolio, the opening of Ziva and Zilara Cap Cana and the capital investments outlined by Bruce. I realize it's high level and subject to change, but I really think this is where most people are missing this, and we wanted to make sure people understood that there's a clear path to this.

So let's first spend a little more time on our 2018 outlook.

First, we're not changing the guidance range for our current Playa portfolio other than to lower the upper end of the range by about \$1 million to account for likely disruption from the proposed Royal Playa del Carmen rebranding that Bruce discussed. So that range as a reminder for the base Playa portfolio remains \$173 million to \$177 million of adjusted EBITDA. And that includes increases in corporate expense for public company costs and, more importantly, heavy increases to our annual insurance premiums that we've completed and negotiated last month.

Given the current estimated timing, as Bruce mentioned, at the -- near the end of May to close on the Sagicor portfolio, we estimate it will include roughly 7 or 6 months of earnings contribution. So today, for the full year, Sagicor portfolio is currently forecasting to earn around \$26 million to \$27 million of EBITDA again for the full year, which is up slightly from last year even in the face of earlier headwinds. Now Jamaica is a very year-round market, but it is more seasonal than other markets like Mexico and the DR. And typically, Jamaica earns almost 70% of its EBITDA through the first half of the year. So therefore, of that \$26 million to \$27 million full year adjusted EBITDA, we project roughly \$6 million to \$8 million of EBITDA contribution from Sagicor for the partial 2018 year. This also includes assumptions to account for the general disruption that comes from a changeover in operator and sales and marketing staff. So therefore, our new 2018 adjusted EBITDA range has been increased to \$179 million to \$185 million.

And then as you can see again from Slide 5, our adjusted EBITDA bridge, we then layer on growth in 2019, '20 and '21 to our combined Playa and Sagicor portfolio for the next 3 years and then include contribution from Cap Cana and the capital projects outlined by Bruce. Again, this is high level, it's range bound and it's subject to numerous uncertainties and changes, but we want to make sure it's very clear that there is a real path to \$300 million of run rate adjusted EBITDA without assuming any new external acquisitions or any meaningful M&A. We think this is the proper way to think about this portfolio, and we're working hard to make that happen.

And with that, I'll turn it over to Bruce to close.

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

Great. Thanks, everyone, for taking the time to join us on this morning's call. I would just like to take a couple of moments to emphasize my personal commitment to maximizing the long-term value to Playa's investors. The reason for our creation of the EBITDA bridge and going through the revised capital projects in detail was to demonstrate to our investors our focus on highly profitable avenues of growth to Playa's portfolio, which will have very positive effects on our value in the medium and the long term. What we were not able to go through with you at this time are some of the additional strategic initiatives on which we are working, which should continue to position Playa in a strong competitive position and drive incremental EBITDA over the coming years. Hopefully, these initiatives will firm up soon, and as quickly as that occurs, we will be coming back to talk with you about how well Playa will be positioned in order to continue driving growth and profitability.



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We appreciate all of our investors' support for our company, and I promise you that we are focused every day on distinguishing ourselves within our industry segment and exhaustively looking for ways to increase our profitability.

After a little more than a year as a public company, the Playa story has resonated strongly in our industry and has driven interesting new ideas and relationships with which we are following up on. The Sagicor and the Hilton relationships are good examples of the fruit which can be borne from such strategic initiatives. We hope to be able to announce other value-creating initiatives in the near future.

Thank you again for your time this morning, and we will now open up the line for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) There are no questions at this time. Presenters, you may continue.

Bruce D. Wardinski - Playa Hotels & Resorts N.V. - Chairman & CEO

Great. So I appreciate again everybody's time. I think we've got a lot of exciting stuff going on with the company. Even, as Ryan addressed, some of the headwinds, I think, have been much milder and shorter-lived in duration than we had feared, and I think the future is really, really exciting for us. So we're hopeful to get the Sagicor transaction closed here very quickly in the next days, and then just move ahead with the projects that we outlined today. So again, thank you very much for everyone participating on our call today.

Ryan Hymel - Playa Hotels & Resorts N.V. - Executive VP & CFO

Louie, I just do -- I do want a quick recheck as I know there were people lined up in that Q&A. I just want to make sure they're -- that they don't have any questions.

Operator

(Operator Instructions) .

Ryan Hymel - Playa Hotels & Resorts N.V. - Executive VP & CFO

I'm getting emails from the team that Harry and Smedes, they all have questions. Are you able to connect to them?

Operator

Okay. Your first question comes from the line of Smedes Rose.

Bennett Smedes Rose - Citigroup Inc, Research Division - Director and Analyst

You guys need to work on your conference call numbers, I think. Bruce, you provided a lot of information this morning, which was very helpful. I guess I just wanted to ask you, first, if you could just talk about -- I know it's kind of preliminary on the spending, but how -- what's your confidence level in the ability to stay kind of within budget and how these contracts would work around construction and just having a lot of concurrent



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projects can introduce more risk, I guess, around timing and delay. So I guess if you could just speak to construction, particularly in these regions and...

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

Sure. Yes, no, no. No, that's a very valid question, Smedes. Fortunately, we have a lot of experience doing these kinds of projects in these locations. Our team at Cap Cana, for example, is on budget there, and they're just probably 15 to 20 days behind schedule. But even with that, I'm optimistic we'll make up for that timing. But very importantly, we're well into that project, and we're still completely on budget there. The past projects we've done in Mexico, in Jamaica, the Dominican Republic have come in well within our budget in contingencies. We always build in a contingency factor. But the biggest unknown typically can be weather because if you have any kind of weather event, you have to prepare for that, and then you just lose days of work and then you have some inefficiencies starting to back up. But except for that, we are highly confident that we'll be able to pull these off. The numbers that we gave you were well-thought-out and, like I said, included a number for contingency. But especially the rooms expansion, relatively straightforward to do that. Highly predictable on both the cost and the timing. So we feel good about that. And more importantly, just the returns that you can generate. As I said on the call, when you can do a rooms expansion especially and combined, for example, with the Hyatt Zilara, you add rooms and combined with the renovation, the impact can be incredibly positive. Adding rooms to Hilton Rose Hall or adding rooms to Hyatt Ziva Cancun, all of those are great projects because they won't be disruptive. And that's the other benefit of keeping it all on schedule and on budget, is you can isolate the project very, very easily and achieve the work. So -- but I feel pretty good about it.

Bennett Smedes Rose - *Citigroup Inc, Research Division - Director and Analyst*

Can you also just speak to the vacation club that you talked about introducing? I guess essentially, how would you measure success in this as you roll this out? Like how many members would you expect to have? Or kind of maybe just -- maybe if you can give a scope on the opportunity there.

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

Sure. I mean, I guess the way I would probably measure success is based on the percentage of our business that club members will represent, okay. And if you look at, in the case of the 4 Real Resorts that we acquired, so they had a vacation club there, and the club membership makes up a very significant percentage of our business today at those 4 resorts, okay. And so if you look at the future, I believe in the near term, this Playa vacation club will generate in the mid to high single digits. And then going forward, it can be in the mid-teens to low 20s. So I think as we focus on increasing the percentage of direct business, getting a base business from a vacation club of, let's call it, 10% to 20% of our customers is what we're shooting for. And that's the gauge -- how I would gauge success. And I think we can achieve that level in the next 3 to 4 years. So it will start out right away with positive EBITDA from sales that are made, as we commented in our prepared remarks. But then very importantly, it becomes that base business component of that 10% to 20%.

Operator

Your next question comes from the line of Chris Woronka.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

I want to ask you. So it sounds like the Panama Jacks are starting to kind of turn the corner and get closer to where you wanted them to get. But what kind of a time line would you have for potentially making, I guess, another branding decision there?



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Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

So you're correct, the Panama Jacks were starting to really -- they're resonating well with guests. And as we explained last year when we were doing those projects, you have 2 -- always, you have 2 challenges when rebranding: certainly with a brand-new brand and then with just a renovation. With a brand-new brand, it's that, hey, nobody knows this brand and what the expectations are for it. So that was one big challenge. The second one, with the individual project, is, are you all done with the construction? And all the tour operators, wholesalers, OTAs, everybody won't sell you until they're 100% convinced you're done with construction. So -- and because of that, you don't get the immediate impact. And since we finished so late in December, we didn't get the real impact we wanted for the high season. So we're starting to see it, and we'll see it, I think, improving throughout the rest of 2018 and, most importantly, having really solid results going into next year's high season. When it comes to doing the next one, we've got some, Chris, in our pipeline, and we're more than eager and willing to do that. But as we highlighted, what we did is with the relationship with Hilton and with the Sagicor transaction, it gives us some other opportunities in the closer term to do the deals that we outlined. So our focus is going to be on those ideals. And perhaps we can accelerate the Panama Jack conversions and get some than sooner rather than later. But definitely, we try to prioritize our pipeline and say, where can we earn the best returns for our investors? And that was how we came up with that list and the timing for that list.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, great. And then, Bruce, I want to ask you on Cancun. More of a longer-term question. I mean, I know you've always talked about how it's an underbranded market certainly for all-inclusive, and you guys are kind of leading the charge. I mean, would you be willing to do more in, I guess we could say, Yucatán Peninsula more broadly? Or do you think the geographic diversity is more important?

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

So, I mean, my view about the Cancun, I use the Cancun airport market, okay. And that would be Cancun as well as Riviera Maya, the whole Yucatán Peninsula. To me, it's like Las Vegas or Orlando, okay. So in the all-inclusive world, that's the top market. You just get tremendous airlift into that market, tremendous customer interest and demand for that market. If you look even with the travel advisory, the airport figures just keep going up and up and up. So I would always be interested for the right opportunity in expanding our presence there. Having said that, and you know me Chris, I'm a growth guy, and I think with some of the things we outlined today with other partners and the strategic initiatives, we are going to grow in other markets as well. So I think the diversity is going to occur alongside any potential expansion that we would have in Cancun or Riviera Maya, which I absolutely would not shy away from for diversification or for other reasons because I just think it's a great market and very, very highly profitable and we've been so successful there. But with that, I'm confident we're going to be growing other places at the same time, so I think that diversification is going to occur.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, great. Just a quick one for Ryan. Ryan, there's a lot of moving pieces, obviously, in the next couple years. And I won't really hold you in anything firm right now, but how do you kind of see the leverage? What -- where does that kind of inflect? I know you guys want to -- have a target level. And given the ins and outs of spending and the EBITDA coming in, where do you kind of see that pacing over the next 12, 18 months?

Ryan Hymel - *Playa Hotels & Resorts N.V. - Executive VP & CFO*

So we're pretty adamant about the fact that people shouldn't be including the cash outflow on Cap Cana because that's not giving us any credit for any of that huge potential EBITDA punch that that's going to add starting in '19 and beyond. So -- but if people are adjusting that out, they'll see us probably remain in 4s, maybe sneak up closer to 5 just as the continued outflow goes out the door. But then, the minute those things kick in, you'll see us drop down under 4 in pretty short order. And we've said our goal was to get into the mid-3s on a kind of medium-term basis because there's a lot of things that come out during different cycles in our markets, and we want to have a conservative enough balance sheet in order to take advantage of opportunities. That's why we use the example of Sagicor and Jamaica and others as examples, where we are going to tack on \$100 million of term loans so we can pay for the cash portion of that deal. That said, it's actually slightly deleveraging given how much in-place



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cash flow there is and in-place EBITDA. And that's in-place EBITDA that hasn't even been optimal just given the fact that it's run by a group that's based in the United States and doesn't have a lot of experience in this market. So you're going to see it kind of just hover around these same areas for the medium term but then kind of get down under 4 as soon as we start opening up all these projects.

Operator

Your next question comes from the line of Paul Penney.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Bruce and Ryan, appreciate the long-term visibility and the EBITDA bridge. On Hyatt, can you give us more color in terms of what's happening there in terms of what efforts they're making to better promote your properties? And what specifically is the percent of bookings that come from the Hyatt direct channel?

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

Sure. We went through some of the numbers on the Hyatt direct bookings on the call. But I can tell you I think we're going to see some real significant movement here as they relaunch their website and particularly the Hyatt Ziva and Zilara website that have been revamped in order to focus 4 resorts' kind of resort sales, more content, more video, more photos, really able to capture that vacation business. I had a meeting last week with Mark Hoplamazian and Chuck Floyd at Hyatt, and I can tell you I value the relationship with Hyatt tremendously, and I think they're doing great things to increase the visibility of Hyatt Ziva and Zilara. But to be fair, today, we only have 6%. And so we were talking about it last week, and in my mind, we need to get that number up to around 20%. So I think if you get up to around 20% of Hyatt Ziva and Zilara's combined, you're going to have a lot more economic power as well as brand distribution in order to really be successful with the consumer. So our focus, and we're working very closely with Hyatt, is to find where are those next projects. So we've got the 2 more coming in, in Cap Cana. That'll get us up to 8%. We have a couple more in our pipeline, get up to 10%. So we'll be a 10% in short order. And then how do we get to that 20%? That's where we're focused on. And it's not just getting numbers for number sake, it's really getting the properties -- the right location in the right property. And you look at the success of Ziva Cancun. I think Hyatt Ziva Cancun is because of the location and the project. And so you really have to take all of that into account. So I'm optimistic with what they're doing on their website, some joint marketing initiatives that we're doing with them. And then the coordinated growth effort that we have between the 2 groups, that we're going to get the total number up and you're going to see some very meaningful increases in business. But we're so excited with opening Hyatt Ziva and Zilara Cap Cana next year and what that will do for the rotation of the groups. And just having that kind of quality group resort experience in the Caribbean, I think we're going to be incredibly successful there, and I'm really happy with what we're doing with Hyatt.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Great answer. In terms of the Yucatán Peninsula, so some of the near-term trends. Do you expect the occupancies and RevPAR to rebound in the coming quarters? And what can you specifically do to help drive better results?

Ryan Hymel - *Playa Hotels & Resorts N.V. - Executive VP & CFO*

Yes, on the occupancy front, as we were saying, the occupancies are still great. On the rate side, our sales and marketing team is incredibly focused on that. And while we don't lower our rates as proactively as some of the other guys do, you'll really start to see a catch-up as the booking curve gets tighter. So we look at our forecasts usually on usually on a 3- to 6-months' basis. You actually have to focus a little more on the next 2 because that booking curve has shortened. So they're doing a lot of targeted marketing. They're looking at a number of different -- a number of sources of business. But that's why ultimately Paul this path and getting more brands and pushing more direct business is important to us, because on that basis, you don't have to change the end user's price. You could just grab more of the pie away from the wholesalers and the tour operators. And so that is the focus. And I think you're going to start to see it continually build, particularly as we have more branded properties and then as things



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continue to rebound. But that's the nice part. Even with all of this, the Hyatts still continue to outperform, and that's why we know that the thesis works even with a website that's not done yet and even with brands that are still relatively new.

Paul Richard Penney - *Northland Capital Markets, Research Division - MD& Senior Research Analyst*

Great. And last one, Bruce. Maybe if you can just give more color to the makeup of the growth pipeline in terms of is it both properties and management contracts that are out there and are -- that are visible for you?

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

It is. It is. A lot of the stuff we're looking at are existing resorts. They do involve some level potentially of repositioning and rebranding. But those can be in the form of sliver equity, management contract, joint venture. So that's really the focus that we're going after. And the nice thing is, and it really helped with going public last March, it gave great exposure to Playa as a company. I mean, people knew us in the segment. But all of a sudden with being a public company, it really did help us, and I think you'll see some interesting things. But as I said in the past, in our space, these deals do take time to mature. And so I can tell you we are absolutely focused on it and working it. And you'll see announcements, but it's hard for me to predict the timing of those announcements. But they do involve management contracts, sliver equity and joint venture predominantly.

Operator

(Operator Instructions)

Bruce D. Wardinski - *Playa Hotels & Resorts N.V. - Chairman & CEO*

Yes, I'm sorry. I thought -- I'm pretty sure Harry Curtis has a question. I'm -- I apologize for any of the technical issues today. First time we've experienced that. So with that, we can follow up with Harry and let people know. But we appreciate everyone being on the call today and sorry for some of the technical problems with getting the questions through. Thank you very much.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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