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PLYA.OQ - Q4 2017 Playa Hotels & Resorts NV Earnings Call

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PRESENTATION

Operator

Good morning. My name is Sheryl, and I will be your conference operator today. At this time, I would like to welcome everyone to the 2017 Year-end Playa Hotel Conference Call. (Operator Instructions) Mr. Hymel, you may begin your conference.

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

Thanks, Sheryl. Good morning, everyone, and welcome to Playa's 2017 Fourth Quarter Earnings Call.

Before we begin, 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 discussion of some of the factors that could cause actual results to differ, please review the Risk Factors section of our most recent 10-K filing. We've updated our IR website at investors.playaresorts.com with today's presentation and recent 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 for the year. He will provide some perspective on 2018, including our recent acquisition announcement of Sagicor. Bruce will then turn over the call, and I will address our Q4 results and other financial matters for the company. We will then take your questions.

With that, I will turn the call over to Bruce.

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

Great. Thanks, Ryan. Good morning. Thanks to all of you for joining us today. The fourth quarter and 2017 as a whole was an extremely successful year for Playa strategically, operationally and financially. When we first spoke to you about a year ago, shortly after going public, we laid out a roadmap for 2017 and beyond on how Playa would enhance and grow its position as the leader in the all-inclusive space, a high-growth, very profitable and extremely fragmented sector.



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Speaking with you here today, I'm very pleased to report that we have accomplished many of the strategic goals set forth at the beginning of the year, including: first, we've been able to use our new capital to accelerate and complete several high-ROIC projects at our existing resorts, including the renovation of all 331 of the legacy rooms at the Hyatt Ziva-Zilara Rose Hall; the final renovation of the preferred club tower at Hyatt Ziva Puerto Vallarta; and the strategic conversion of our 2 Gran properties into newly formed Panama Jack all-inclusive resorts. We believe the finished product at the Panama Jack's and this concept will create a lasting brand recognition and higher repeat customers for these resorts that currently have little to no direct customer bookings.

In our experience, major rebranding or repositioning efforts, such as these, take about 2 years to fully stabilize, with yearly uplift in customer feedback and ratings allowing for more significant lift in ADRs in subsequent periods.

We expect that the 2018 forecasted EBITDA yield on investments for these 2 properties will be modest for the high season of 2018, as you won't start to really feel the true benefits until the second half of the year. The significant increases from the repositioning will be felt in 2019 and beyond as well.

As of December 2017, we had largely completed all of these projects except for minimal remaining restaurant work, and the guest response so far has been fantastic to these significantly improved products, and the booking pace has continued to build solid momentum.

Second, we've continued to strengthen our balance sheet. Throughout 2017, Playa executed 2 refinancings of our debt, including the most recent in December, where we added on to our term loan and used those funds to pay off the remaining balance of our senior notes. This resulted in an annual interest expense savings of approximately \$10 million, extended debt maturities to 2024 and lowered our annual weighted average cost of debt from 6.3% to 4.6%.

Third, we're progressing very well on our 750-room Hyatt Ziva and Zilara complex in Cap Cana in the Dominican Republic. Building efforts are well underway. We've spent just under \$60 million as of 12/31, including the cost of acquiring the land. Total project cost is estimated to be around \$190 million and is on schedule to be completed in early Q3 2019. Given how well the Ziva and Zilara brands have performed for us, we think our previous guidance of a mid-teens EBITDA yield on investment on this project is very conservative.

Fourth, we continue our efforts to drive more consumer direct business into our portfolio and industry, for that matter, that historically has been heavily dependent on expensive tour operators and wholesale business. Direct and group bookings from all of our resorts totaled 19.4%, which is up slightly over the prior year. While this strategic initiative will take time, we've made considerable strides in 2017 by relaunching playaresorts.com, which now has better navigation, search engine optimization and a booking engine with improved functionality and user experience. We have also worked very closely with Hyatt as they completely revamped the resort website experience to better promote and sell the Zilara and Ziva brands on hyatt.com. This is scheduled to be launched in late Q2 of 2018.

Fifth, launching our third-party management business, which we believe will be a rapidly growing and high-margin business segment for Playa, as there are only a few key competitors. And we believe some of these managers have reached their saturation point in our markets.

In September, we entered into a long-term agreement to manage the 184-room Sanctuary resort in Cap Cana, which is located on the coveted eastern tip of the Dominican Republic in the heart of Cap Cana. The management contract term is 15 years with 2 automatic extensions of 5 years for a total of 25 years. We also obtained the full indefinite rights to the Sanctuary brand, which can be used at other Playa resorts or future acquisitions, conversions or management contracts. And we see this as another opportunity to grow in the luxury all-inclusive sector.

In October, Playa relaunched the brand and began managing all operations, sales and marketing of this world-class resort, already generating significant uplift in ADR and occupancy during the first few months of 2018. Upon takeover, we've significantly improved the booking trends over 2017, with occupancy levels for February, March and April tracking to exceed 90%. This has been a terrific case study for us, as we've been able to help our partner rapidly improve the financial results of their resort in a very short amount of time.

Playa will manage the Sanctuary Cap Cana through April 30, 2018, at which time the owner will close the property down for complete renovation and expansion, reopening at the end of 2018 as a brand new 343-room resort, all at the owner's expense.



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Run rate management fee revenue for the completed resort should stabilize at about \$2 million per year and is nearly complete flow-through to EBITDA for Playa, as there's been little to no incremental expense needed to take on this project as we already have regional oversight on the ground in the Dominican Republic.

Sixth, we continue to capitalize on the profitability of the all-inclusive business. For Playa, 2017 had its fair share of obstacles, and yet we were able to report exceptional full year results, which include: improving ADR across all of our segments to achieve year-over-year RevPAR growth of 7.1%; increasing high-margin, non-package revenue by \$7.6 million or 10.9%; flexing operational cost to improve adjusted EBITDA margin by 90 basis points for industry leading 31.3%.

As we discussed on our third quarter earnings call, we updated full year guidance to reflect macroeconomic events that affect our business. I'm happy to report that we exceeded the top end of our guidance range with full year 2017 adjusted EBITDA of \$170.9 million, a 10.5% increase over the prior year.

Seventh and lastly, we've used our position as a public company, our stock and access to capital to build a strong pipeline of growth target and to aid in our goal to be the consolidator of choice in our industry.

With that in mind, I'm extremely happy to share with you our recent news that we've signed definitive agreement 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 1,232 rooms to our portfolio and various new brands, including Hilton, which I'll address in a minute.

As we disclosed earlier this week, we have signed a definitive agreement with Sagicor Group Jamaica Limited for the acquisition of its portfolio of all-inclusive resorts and developable land sites located on the north coast of Jamaica, which includes 4 existing cash-flowing resorts, each with additional density, including the 489-room Hilton Rose Hall, the 268-room Jewel Runaway Bay, the 250-room Jewel Dunn's River and the 225-room Jewel Paradise Cove. An 88-room tower and spa known as 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 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 common stock and \$100 million in cash or the equivalent of approximately \$300 million in total consideration based on Monday's closing price of \$9.93. The purchase price for the 4 existing resorts of approximately \$227 million or 185,000 per key equates to an implied going in multiple of 8.7x based on 2017 adjusted EBITDA after internalizing management fees and 8.0x based on a pro forma annualized 2018 adjusted EBITDA. Obviously, these are extremely 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. This deal increases Playa's footprint in one of the best all-inclusive markets in the Caribbean, with strong government backing for the travel and tourism industry, 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 our powerful brands will all contribute to significantly improving the Sagicor portfolio's performance. Sagicor's 2017 average resort EBITDA per room is \$20,000, which equates to an average resort EBITDA margin of 23%, whereas Playa's 2017 average resort EBITDA per room is \$40,000, which equates to an average resort EBITDA margin of 39%. Playa has significant experience in improving acquired properties and has a proven track record of achieving growth and ROI results on conversions.

Our most recent success being the strong start at Sanctuary Cap Cana that I discussed earlier, and previously, very strong success at the Real Resorts acquisition in Mexico. We believe that we can implement these same strategies to the Sagicor portfolio and drive improvements similar to our portfolio, thus providing us a strong source of future earnings growth.

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Beyond the existing assets, we've built a development and capital investment plan for rebranding, expansion and new construction for all of these assets and land acquired that is still subject to our board approval, but could be executed and internally funded from cash flows over the next 3 or 4 years.

These potential plans include: renovation and expansion with construction of 80 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. Full renovation and conversion of Jewel Runaway Bay to Panama Jack, including an expansion of 250 new rooms. The full renovation and conversion of Jewel Dunn's River to Panama Jack, including an expansion of 50 new rooms. The Jewel Paradise Cove will continue to operate as a Jewel. We plan to expand the resort with the construction of 30 new rooms and a new spa. Finally, expand upon the 88-room tower and spa, currently Jewel Palmyra, by constructing 300 new rooms on the 4.5-acre developable site, which is adjacent to our Hyatt Ziva and Zilara Rose Hall. This new 388-room resort would become the new Hyatt Ziva Rose Hall, and the current Hyatt Ziva Rose Hall would be repositioned and combined as a Hyatt Zilara into our existing Zilara property. Pro forma on a stabilized basis after all the rebranding, expansion and development projects have been completed.

This acquisition is projected to generate more than \$75 million of adjusted EBITDA on a run rate or \$39,000 adjusted EBITDA per room, which equates to an implied multiple of 6.5 to 6x on the total acquisition and CapEx or an incremental cash-on-cash return of more than 24%. What is also very exciting about this transaction is our new affiliation with Hilton and its powerful reservation system.

As you saw from our 8-K, 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 Hilton, Marriott, Intercontinental and Accor brands. We believe this is a 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. It makes Playa the partner of choice for potential transactions and management contracts.

So in summary, the strategic transaction illustrates Playa's ability to identify and transact upon unique and accretive transactions, improves our footprint in Jamaica's ever-growing all-inclusive market, enables Playa to increase Hyatt Ziva and Hyatt Zilara brands' presence in the Montego Bay market by creating a very efficient resort complex, establishes the Panama Jack brand in Jamaica and grows its footprint in the region and positions Playa to include Hilton and other powerful brands to enter our portfolio.

As a result, we have great momentum, and we believe we are very well positioned to deliver another year of solid results in 2018, and more importantly, even higher growth in 2019 and beyond.

With that, I'll turn it back over to Ryan to discuss our fourth quarter 2017 results.

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

Thanks, Bruce. Before we get into the fourth quarter, I wanted to cover a few of the topics that we continue to get questions on, and in particular, the effects of the travel warning in Mexico, the recent state of emergency in Jamaica and the effects on high season from the 2 recent conversions of Panama Jack.

As we discussed in the last quarter, travel warnings such as these are nothing new and their effects tend to be immediate, and then gradually recede after a relatively short period of time with a faster recovery on the leisure side of the business. After the travel warnings in Mexico last August, if you recall from our last call, we saw an immediate spike in cancellation rate, particularly from the group side at Los Cabos. But by Thanksgiving, that cancellation rate returned to normalized levels. The advisory did, however, shift the booking curve later, particularly heading into this 2018 high season, as some consumers have booked later than they normally would have compared to last year.

As we've discussed, it is always our strategy to counter this. We continue to employ the strategy of not defensively lowering ADRs, which allows us to hold our position while letting our competitors sell out their resorts at suboptimal pricing. This strategy has served as well in the past and maintains the integrity of our rates over the long term.

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As you saw from our fourth quarter results, even with all the disruption in the quarter from hurricanes and renovations, we were able to increase ADRs significantly across all 3 segments.

And lastly, as Bruce mentioned, we're still seeing some headwinds in the results for the Panama Jack conversions as those brands are introduced to the guests. We've largely completed the renovations, including all rooms and public areas in mid-December last year. But while we were open for the high season, we had to sell that high season without the full benefit of the new rooms and the new Panama Jack experience. So basically, we're in a situation where we're selling the high season Panama Jack as a Grande under Grande rates under construction for good part of the booking window. Again, this is all planned. And since guests typically book 3 to 6 months out, we should be able to see good growth in the second half of the year once the excellent guest feedback and response is translated into higher ADRs. But again, the 2018 high season will underperform last year as expected.

It is something we expect to happen in these type of conversions, although the impact was greater than we had originally anticipated.

With these items as the backdrop, I now want to get into our fourth quarter results and then turn to the 2018 outlook.

As Bruce mentioned on our third quarter earnings, we updated our full year 2017 guidance to reflect macroeconomic events that affected our business. And just as he mentioned, I'm pleased to report that we exceeded the top end of our guidance range with adjusted EBITDA of just under \$171 million or 10.5% increase over the prior year. This is despite the fact that we had almost 30,000 room nights out of service in the quarter for our Panama Jack conversions, about 14,000; Jamaica, about 4,000; Dreams Punta Cana from the hurricane disruption was about 6,700; and the Hyatt Ziva Puerto Vallarta, as we completed the renovation of the preferred rooms, about 3,600. And as you saw on our earnings release, we've also presented comparable RevPAR figures for the quarter, which removed the room nights out of service from the available total. But as you saw, even if you don't remove those, our RevPAR and ADR growth rate was incredibly strong.

Our fourth quarter results achieved comparable net package RevPAR growth of 11.8% or total net package RevPAR growth of 6.1%. This is driven by ADR growth, which I mentioned previously, of just under 12% and offset by a decrease in average occupancy of 430 basis points, which is to be expected given the disruption in the quarter. This all leads to a total net revenue increase of 5.8% for the quarter. Adjusted EBITDA was \$31.1 million, an 8.1% increase over the prior year. And even with all disruption, EBITDA margin increased 50 bps over prior year to 25%.

As always, our Hyatt properties continue to outperform and this quarter was no exception. Net package RevPAR grew, at our Hyatt, 21.6%; ADR grew just under 15%; and resort EBITDA grew over 50%.

Turning quickly to our operational segments. Our resorts in the Yucatán Peninsula achieved comparable net package RevPAR growth of 6.9%, net package RevPAR growth of roughly flat. This is driven by ADR growth of 8.3% and offset by 630 point basis decrease in occupancy, again, mainly due to the disruption from our Panama Jack conversions. EBITDA in the Yucatán was just under \$21 million and decreased 17% over the prior year, which is a 730 basis point decrease in EBITDA margin. Again, because of Panama Jack conversions, we had a decrease in occupancy and package revenue as well as an increase in operational expenses to advance the renovation and conversion for these resorts to Panama Jack.

On the Pacific Coast, both assets continued to perform incredibly well, on par with the earlier part of 2017. Net package RevPAR grew 15%, ADR grew 11% and average occupancy grew another 300 basis points to just under 76%. Resort EBITDA of \$7 million for that segment increased 34% over the prior year and that represents another 440 basis point increase in EBITDA margin to just under 35%.

Our resorts in the Caribbean had an increase in comparable net package RevPAR of 15.6% or total net package RevPAR of 10.2%. This is mostly driven by ADR growth of 17.5% and offset by an occupancy decrease. This is mainly due to our -- the very, very strong performance of our Ziva and Zilara Rose Hall. You've heard us talk about it on the last call. We were very bullish about the momentum going into the fourth quarter, the guest response from all of the work we've done in all of our rooms. And ADR grew 17.1% and RevPAR grew 33% compared to last year. Admittedly, it's an easier comp in 2016, but the momentum was really building in 2017. And it more than offset the hurricane disruption at our DR assets.

In the Caribbean resort, EBITDA was just under \$11 million and increased 58% over prior year. Again, mainly driven by the very, very strong performance in momentum from our Rose Hall property.



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Turning to the balance sheet. As of December 31, the company held \$117 million in cash and equivalents. Total interest-bearing debt was \$906 million comprised of our Term Loan B, all maturing in 2024. At the end of the year, there were no outstanding amounts on the company's \$100 million revolving credit facility. And as a reminder, as we do every quarter and we'll continue to do so, we've spent about \$60 million thus far on the development of our 750-room Cap Cana project and that includes purchasing the land. So we think you need to adjust that out of your net debt calculations because we're not yet getting credit for the EBITDA that's coming from that property. So adjusted net debt, excluding the Cap Cana spending, is about \$730 million.

So now turning to our attention to 2018. 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.

As we've discussed, the effects of the travel warnings on 2 of our markets has continued to be a lingering headwind in our business. The effect from Mexico in the most recent advisory, though, has considerably subsided. And over the last 3 to 4 weeks, we've seen significant pickup in our booking pace. Jamaica, on the other hand, was a much more recent phenomenon. Due to the upcoming election in Jamaica, the government issued a mandate to clean up crime and actually issued state of emergency and chose to do so at a very inopportune time right at the start of high season. Our expectation, though, and from all of our intelligence, is that this mandate will be lifted in May, so we believe this is a very short-term issue and actually will have longer-term benefits for the health and longevity of the market in the larger tourism industry in Jamaica. It's one of the many reasons why we're bullish on Jamaica. Their government is very, very proactive compared to others. And again, we think it is a very short-term issue. The main unfortunate aspect of this is that, again, was the timing. And it had considerably impacted the short-term performance of our Ziva and Zilara Rose Hall, which I mentioned a few times, had a very, very strong momentum in the fourth quarter and building towards 2018.

So with all this in mind, for the existing Playa portfolio, the existing Playa portfolio only, we expect to achieve 2% to 4% in RevPAR growth in 2018 and \$173 million to \$178 million in 2018 adjusted EBITDA, given the disruption and headwinds mentioned previously.

How we look at this for the year? We expect to be slightly below 2017 in the first half of the year and slightly above in the third and fourth quarter coming off easier comps. This outlook assumes \$3 million to \$4 million of EBITDA reduction due to the effects in Jamaica from what we'd expected previously before the event and another \$2 million to \$4 million of EBITDA loss due to the higher-than-anticipated disruption in the high season for the 2 Panama Jack conversions. So again, that is some \$3 million to \$4 million of loss from Jamaica and \$2 million to \$4 million of loss from the Panama Jack conversions. In our experience, these travel advisory impacts are shorter term in nature, but we will continue to strive to be very transparent with you about estimating the impacts for your models. We're working toward exceeding these estimates because in our experiment -- in our experience, there usually is a reversion back to the norm. And we're already seeing, as I said, strong booking trends coming out of Mexico. So we'd expect in this -- the same in Jamaica once the mandate is lifted in May and possibly sooner.

It is important, however, to point out that this outlook does not include any contribution from Sagicor. And we expect to close that transaction anywhere from 8 to 12 weeks, so some time in the second quarter. So therefore, we plan on updating our full year guidance to include those resorts and their EBITDA contribution on our first quarter call. So again, this outlook does not include Sagicor.

In the meantime, please keep in mind we're buying a little over \$26 million in trailing 12-month adjusted EBITDA from the existing assets plus the management contract and plus the new 88-room hotel tower. So that run rate EBITDA is closer to \$30 million on a full year basis.

So with all this in mind, we believe 2018 does not at all change the trajectory of this business and how bullish we continue to be about the growth prospects for Playa, especially in the light of the recent strategic accomplishments. We think the proper way to think about this portfolio is on an annualized run rate basis.

So look at it this way, the Playa and Sagicor portfolio have almost \$200 million of combined trailing 12-month adjusted EBITDA. And that is not any pro forma, that is no synergies, anything. That is almost \$200 million of trailing 12-month adjusted EBITDA. And as we look forward to 2019, with Cap Cana coming online, that adds another \$30 million of run rate annualized EBITDA upon stabilization. And we've already -- as we've said, we've already spent almost \$60 million on that project and we're well on our way to opening that in Q3 of 2019.



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So when you put all this together, and also you look forward to optimizing, as Bruce mentioned, and adding synergies in the Sagicor portfolio, there is a very clear path to \$240 million to \$250 million of run rate adjusted EBITDA for Playa in the very, very near term. And we're working hard to make that happen.

So with that, I'll turn it over to Bruce to finish.

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

Great. Well, thanks to everyone for taking the time to join us on this morning's call. I ask your indulgence for just a couple more minutes because I think this is a really important time to focus on why investors should want to buy and own Playa stock. We will always do what makes sense to create long-term value for investors. My personal investment philosophy has consistently been to invest in businesses that have a competitive advantage over others in their industry, can achieve above-market returns on investment or in businesses with long-term above-average growth prospects, are not afraid to do things differently from the status quo and take reasonable risk to achieve outsized gains, and as a result, can achieve sustainable high financial returns over an extended investment horizon. There is no question in my mind that Playa is absolutely unique in the all-inclusive resort segment. We have distinct competitive advantages over our competitors with regards to high return on invested capital projects, the ability to partner with world-class brands, like Hyatt and Hilton, and a clear path forward to drive more profitable direct business. We will have disruption from rebrandings, expansions and upgrades to the Sagicor properties and a couple of our existing resorts in the next couple of years. However, these investments and repositionings will drive significant cash-on-cash returns once completed, creating significant value for our shareholders and dramatically improving our leverage position as we drive EBITDA to higher levels. The best example, I can think of, to explain kind of Playa and our strategy is the -- our Ziva Cancun resort. It's a great case study to demonstrate this.

We had a resort producing \$7 million of EBITDA in 2013. We closed the resort after the high season of 2014, rebranded, expanded and recreated the guest experience with an investment of \$81 million. And this year, the hotel produced EBITDA of \$34 million, a 400% total increase and an incremental cash-on-cash return of 33%. Compare these kind of results to U.S. lodging REITs currently purchasing stabilized assets at 17x EBITDA with forecasted RevPAR gains of 0 to 2% in the next year. Playa has the ability, in the short term, to be a consolidator in a highly attractive all-inclusive resort segment; deploy capital with very attractive anticipated returns; and achieve multiyear above-market returns through continuing to drive more direct-to-consumer business.

To repeat what I said earlier, we are a company focused on long-term value creation. For investors who want to see their stock price increase by multiples over the next 2 to 4 years, Playa is a company in which you should invest. So thank you very much for your patience and your time this morning. And now we'll open up the line for any questions that people may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Brian Dobson.

Brian H. Dobson - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

So quick question on acquisitions. The valuation of the portfolio that you just acquired was very attractive and you laid out some compelling synergies. As you are looking at additional acquisitions in the region, should we consider the valuation on this deal a one-off? Or will future valuations be similar? And then, after I guess since this brand restriction has been removed, I guess, what's the addressable market for potential acquisitions? How many more of these types of portfolios are out there?



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

Sure, Brian. Thanks. That's 2 good questions. So every acquisition is unique to itself. Having said that, I think if you look at kind of the deals that we've done, and there's not a huge universe of deals that have been done, but Real Resorts was a similar-type valuation. This is a similar-type valuation. We believe those opportunities are there. Could there be others that could be at slightly higher multiples due to the perhaps existing condition of the hotel and not needing to do any repositionings? Sure. But even that, I think they would be highly attractive when you look at the accretive opportunities that present. When we did Real Resorts, we converted the Hyatt Zilara Cancun of virtually 0 cost and we drove that EBITDA up significantly. So I think you'll see that this acquisition is relatively typical of what we can do out in the market and that's what we strive to accomplish. When it comes to how big is the total addressable market? That's probably what excites me the most and has from the very beginning as I've looked at this all-inclusive space. So if you look at just our markets, okay, where we are today? There's about 180,000 rooms, okay. And we represent about 4 -- a little over 4% of those rooms in the 180,000 in the current market. For U.S.-branded hotels, okay, that are in those markets, there's only 30 hotels. So I don't have the room count, but I know there's only 30 of them. So you just look at what is the opportunity to enter? It's tremendous. I mean, when we worked with Hyatt with the Ziva, Zilara, we were entering new markets where existing Hyatts did not exist. Similarly, we would see the opportunity to expand as we're doing with Hyatt Ziva and Hyatt Zilara and Cap Cana, and then with Hilton and other markets as well. So there's just a lot of opportunity when you look at that 180,000 rooms and that we're only for 4%. And then if you want to expand it a little larger in the Greater Caribbean, and not all of those island markets are ones we would be interested in, but globally, they're in the Caribbean, that's about 370,000 rooms. And I would guess that the dynamics of the U.S.-branded hotels kind of, number-wise, would be pretty similar. I hope that answers your question.

Brian H. Dobson - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

No. That's great. And then just real quickly, how long do you think it might take you to get that \$240 million to \$250 million run rate?

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

In pretty short order here, because the Cap Cana project is ramping very quickly. We kind of used the Ziva Cancun as a bit of a bellwether there. That reopened at the tail end of 2015. Its first year out of the box. This is the case study Bruce just mentioned at the end of the call. First year out of the box, it did \$16 million of EBITDA; second year, did over \$30 million, just this past year finished over \$30 million; and still continues to ramp. The January results of that property outperformed everybody else. So when you think about Cap Cana coming online at the end of '19, you obviously won't have \$30 million of EBITDA from that property in '19. But in 2020, you should be well on your way to that \$30-plus million of adjusted EBITDA. That property at 750 rooms is going to be our flagship property. It's going to do incredibly well from a group perspective. And while its rates may never completely get to the levels that the Ziva Cancun will, just purely because of the market, because of the group component and because of its location in the high-end district, we could get pretty darn close. So we think kind of that mid-teens yield on our \$240 million total investment at Cap Cana is pretty conservative. So on a run rate basis, 2019, 2020, we're well on our way.

Operator

(Operator Instructions) Your next question comes from Chris Woronka.

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

Wanted to ask on the Sagacor acquisition. Can you maybe build like a bridge for us at least kind of directionally in terms of what the -- any disruption impact is going to be over the next couple of years? And then kind of how the new Ziva will kind of fold into that? And just maybe some directional guidance on the ins and outs.

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

Yes. So we want to reiterate that while we have a -- it's not -- I wouldn't call it a preliminary development in CapEx plan, it's -- we've spent a lot of time on diligence as we were getting into the properties. It is still subject to change. And as Bruce mentioned, not subject -- or still subject to board approval as we kind of get in there and continue to adjust our plan. The best part of this portfolio is that most of this density is adjacent to the properties and even the developable land. So you're not talking a lot of disruption. With the exception of one of the assets where we're going to -- the 2 that we're going to convert to Panama Jack, just like the ones we're doing in Mexico, there, obviously, will be some disruption, but remains to be seen when we're going to start those renovations. Right now, we've got them earmarked for 2018. Jewel Runaway Bay depends, obviously, on when we close and how quickly we can get started and Jewel Dunn's River into '19. But if you look at it in total, if you've added up everything on the investor deck, it's roughly, again, preliminarily about \$200 million spread over 3 years. The lion's share of which will be in 2019. So using round figures, it's about \$30-ish million, \$35 million in '18; \$120 million or so in '19; and \$45 million in 2020. But again, all of these projects, they're built on adjacent pieces of land. You've heard Bruce talk about it before. Some of the easiest ROI projects are renovations, but more, importantly, renovations where you can add additional rooms. So it sounds like little bits when Bruce was talking that you add 50 rooms here and you add 30 rooms here, you add 80 rooms to the Hilton in Rose Hall. Those are very high-ROIC projects that can be done without disrupting guests. Again, obviously, the Panama Jacks will disrupt when we do close them down for 6 to 8 months to do it. But again, the returns are well worth in this case.

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

Okay. That's helpful. And then wanted to kind of ask a bigger strategic question. You guys, this latest deal and some of the other stuff you're finishing up with Panama Jack ramping up, you got a lot on your plate, but are you kind of able to do more both from a personnel and also from a capital perspective? Do you have the ability to go out and do other stuff in the near term?

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

I'll address it first from the personnel standpoint. Absolutely, we have a team that has great track record doing this as a private company and now in the past year as a public company. And we've been highly successful at doing it. Going forward, some of the things we're looking at could be either management contracts or joint ventures. The nice thing about the joint ventures is it would not require 100% of our capital, okay. So in that case, you would put project financing, typically, in our space. You'd get financing at about a 50% level. And then if we did a joint venture, say, it was a 50-50 joint venture, then our component would only be 25% of the total. So where you look at Cap Cana where we're at 100% of the total, if we did some kind of joint ventures, that would be 25% of the total. And then as we highlighted the Sanctuary management contract, that's 0% okay. So we don't put anything in. In that case, that owner owns 100% and he is paying for all the renovations and the expansion at that property. So I think, as we look forward, they will not all be like the Sagicor transaction. I'm ecstatic about the Sagicor transaction, but I think some of the other things we're looking at will be a little different, which will still help us with the ability to create value from the focusing on the underbranded, undermanaged, and underinvested properties, but sharing that capital burden with other owners, other partners.

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

And Chris, to follow up on that the -- just looking at the Sagicor deal by itself, it only requires \$100 million of cash. And we've talked to one of our selling points when we were on the road is that we can use our stock in selected manners and we did so in this deal and making sure everybody is clear on that. The negotiated price with the seller was higher than the \$300 million that we disclosed. Obviously, we just used the 20 million shares as a fixed number, but that was negotiated at \$11.25. So we're issuing shares at \$11.25 when our stock was -- has been trading below that. So that's accretive in our opinion. Obviously, we believe even at \$11.25, our stock is undervalued. But again, we think about using our stock selectively in that manner. And then the \$100 million need for Sagicor and potentially other deals, it's also funded. I mean, as you heard me say, we finished the year with over \$100 million of cash, I've got an undrawn revolver of another \$100 million. And you've heard us say many times, our free cash flow generation is incredibly high. When you just look at steady-state EBITDA and then say we don't even grow, our free cash flow generation off our EBITDA is roughly 50% to 60% when you think that on a run rate basis, we're paying only \$40 million in interest expense. Maintenance CapEx is roughly 4% of revenues. So on 2018, that's \$20 million to \$22 million. And our cash tax rate, which we disclosed for that reason in our supplemental



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disclosure in our cash flow statement is incredibly low. And it's -- and that's only about \$20 million, it's been about \$21 million the last year. So that's a lot of free cash flow to spend on new transactions and including the development in capital preliminary plan in Sagicor.

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

And just kind of what Ryan was talking about Sagicor, just one thing kind of hit me, and I don't think we really emphasize it enough in kind of our prepared remarks, but that is the huge advantage of having a sophisticated and quality group like Sagicor become a major shareholder of Playa. And they are a long-term holder. They're sophisticated investor. And when they did the due diligence on Playa, I think they see the value creation enhancement, not just to the portfolio that they contributed, but to Playa in all of our other projects. As well, they're politically influential within the country of Jamaica. And I think that's a big positive because when you're in markets like ours, many times, you need support of the government and having a Jamaican -- a strong, large, financially strong, influential Jamaican company like Sagicor to be part of Playa, I'm viewing that as a very big positive. So I just wanted to mention that while we're talking about Sagicor.

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

Great. Just one more quick one for me, if I can. On the kind of the revised Hyatt agreement, if you, down the road, do other deals, whether it's Hilton Marriott, someone else, I mean, Bruce, do you think is it more -- you would want them to kind of create a new brand similar to what Hyatt did? Or do you think those could potentially fit into one of their existing brands with one of those companies?

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

So if you look at -- first of all, I'd just like to say, we're extremely happy with our relationship with Hyatt, what we've been able to accomplish and what we've got going into the future. So I'm just -- can't be more pleased and you've seen it in the results of all of our Hyatt Ziva and Zilara projects. So if you look at that, I think a big part of why that's been successful, because at Hyatt, working in conjunction with Playa, determined that they were going to create 2 specifically focused, all-inclusive brands, one for adults only, Hyatt Zilara, and one for all ages, Hyatt Ziva. I think that's just a better strategy. Now of course, what the other brand companies choose to do is, obviously, up to them. I wouldn't try to dictate to them, but if they ask my advice, and they say, hey, in all-inclusive, what would you recommend, Bruce? I would tell them, that I think specific brands are a better way to go. But that's just my personal opinion from being involved in this business for almost 18 years.

Operator

Your next question comes from Paul Penney.

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

On Panama Jack and Sanctuary, what are the specific B2B or B2C plans to build brand awareness? And I know it's early for Panama Jack, but are there any metrics you can share? And I guess, specifically, what kind of room rate uptick do you expect to get?

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

So I mean the whole strategic rationale of partnering with Panama Jack was to go drive direct-to-consumer business from basically an anemically low level, you could almost call it 0, okay. So I think the opportunity is really wide open for what we can increase when it comes to the component of direct business. I think the initial customer feedback, but it's only really been 2 months, but in those 2 months, it's been very positive. As Ryan said, those rooms were sold while -- really while the resorts were under construction and before anybody had experienced what a Panama Jack is. So that's part of the issue with the kind of lower rates and -- in the high season of 2018. But similar to what we've done in our other projects, you're going to see that ramping up in the second half of this year and a whole lot more in 2019 and then into 2020. How big a percentage will the direct



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business piece be? It's hard to say. But again, we started at 0. So our goal is to get up to 40% to 50% direct-to-consumer level. And so that's the goal. And then the advantage of doing that is your ADRs, and as we present net ADRs, your ADRs will be higher because you're bringing more to the Playa income statement, then having to share such a high percentage with the distributor whether that's a tour operator, an OTA, or whatever. But I think there's a lot of optimism within our company that we can get there, but it won't be in 1 year. I mean, that's going to be a multiyear process.

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

Yes, Paul, and if you just look at the rates that we've been able to achieve this year at our other properties like we've seen at the Hyatt, I'm not suggesting that these Panama Jacks are at the Hyatt level, but the way we forecast when we think about it, these 2 properties, there's no reason in '19 and '20 they should not be able to achieve ADR growth of anywhere from 15% to 20% at each one. The Playa del Carmen asset is a little bit different and smaller than the one in Cancun. So I'd lean more towards the Cancun asset being able to be at the high end of that range. But in general, going back to what I said about the year-end or the 2018 guidance and how kind of the disruption or the kind of the lag of pace of those properties has affected our ability to push to RevPAR, if we were firing at all cylinders, you heard me say RevPAR is going to low- to mid-single digits. We think on a run rate basis, that should be mid- to high-single digits and that's what we've been able to achieve in the past. And so it's not that outrageous to just suggest that. So that's the kind of how we think about this disruption and where it can go. Did that make sense?

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

It does, thank you. And a follow-up, Bruce. (inaudible) do they have any previous all-inclusive experience? And if so, are they separately and uniquely marketing through their various channels?

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

So Hilton did have -- this is just from our -- we follow everybody. So Hilton did have an all-inclusive property in Costa Rica, which they no longer have. They have an all-inclusive property in Puerto Vallarta that I know about, and they have this all-inclusive property in Montego Bay. So they may have others that I'm not aware of, but those are the ones that I'm aware of. So it's a very small footprint. But Hilton, like Hyatt, is a really strong brand. And they have a huge number of members in their loyalty program. And we think they can generate very significant levels of direct business. So we look forward to this Hilton Rose Hall opportunity of working with them, similarly, to how we worked with Hyatt. It's an exciting opportunity and we hope it's just the beginning of a bigger and more expansive relationship with them. But I just want to highlight to you one thing on the Panama Jack. The other thing is you look at these 2 Jewel conversions, Jewel is not at all similar to what we had with Gran. Jewel is not a highly recognized brand in our space. And nothing against the current operator, but they're a very large, quality, third-party, U.S. manager. And their expertise is not all-inclusive resorts in the Caribbean. For Playa, that is our expertise. And we believe that we're going to be able, just from putting our systems and our relationships in place, drive higher rates and higher profitability, as Ryan said, driving from \$20,000 a room EBITDA up to our level, our average level of \$40,000 a room, but I think you'll see that across the board at the Jewels with the Panama Jack, the 2 we're converting. So that's another big opportunity for us.

Operator

Your next question comes from Tyler Batory.

Tyler Anton Batory - *Janney Montgomery Scott LLC, Research Division - VP of Travel, Lodging and Leisure*

So I'm wondering if you could give an update on some of the disruption properties in the Caribbean. I'm just wondering if you're seeing any lift from that. And if that's contemplated in your guidance at all?



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

From the guidance side, no, it's not. We've not updated for any of that disruption. You've probably heard and read, there's still a lot of the companies that have assets in Puerto Rico. Puerto Rico is the one that's still lagging quite a bit, some places, some parts of the island only now just getting power back. And so there is still quite a bit of disruption there, but that's not considered in our guidance.

Tyler Anton Batory - *Janney Montgomery Scott LLC, Research Division - VP of Travel, Lodging and Leisure*

Okay, great. And then can you touch on supply a little bit in some of your markets, I mean, Cancun and some of the others. I mean, are there any new properties opening up. I mean, do you have a sense of what supply growth could look like in 2018 or 2019?

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

Yes. There's not -- if you look at our business, I mean, there's been pretty steady increase in supply in the Cancun-Riviera Maya market since the early 2000s. And one of the nice aspects about the all-inclusive business is actually bigger markets tend to do better. And it's kind of like Las Vegas or Orlando where you get to a size where you're highly attractive to both the charter airline business as well as the scheduled airlines as well as groups and others. So it really isn't like that you can oversaturate it. Having said that, if you look at the existing land available, there is very limited beachfront land available in our markets. And we focus on a maximum distance, travel distance for the customer from the airport of 1.5 hours. In our case, we don't even have any resorts that are 1.5 hours away, but we focus on that kind of drawing a circle around okay what's an 1.5-hour commute from the airport and focus on that. In the Cancun-Riviera Maya market, what's happening is there is some development, but it's going farther and farther away. And quite honestly, it's not doing very well from an occupancy standpoint, and more importantly, from a rate standpoint. And so I think you're not going to see a lot of future development going into those more far-flung markets. In Jamaica, there's not -- there's always announcements in our space, but they don't -- most of those don't really turn into projects, okay? So in Jamaica, not a lot that we see on the horizon. And in the Dominican, there's again, a very -- somewhat limited sustainable level of new supply coming. But nothing that makes me anxious in any way.

Tyler Anton Batory - *Janney Montgomery Scott LLC, Research Division - VP of Travel, Lodging and Leisure*

Okay, great. That's very helpful. And then just a follow-up on Panama Jack. I mean, and you've got 2 right now and you've potentially 2 more coming. I mean, how many do you really think you need to get some of the benefits of scale with the brand recognition and whatnot?

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

Again, in our space, it's a little different than if you were a brand like -- in the U.S., kind of my thought always is you've to have 100, okay. You've to have 100 hotels to be a brand and you have to be in all the major markets, okay. In ours, there's not that many major all-inclusive markets, okay. If you really look at it, there's a handful of major all-inclusive markets. So really, with 5 to 10, you could be in a position where you are represented in all of the major all-inclusive markets. So I think if we were at a 5 to 10 level, you would start to see pretty significant consumer recognition of the brand. And more importantly, kind of some of the sales -- level of sales that we need to be successful. I mean, take Ziva and Zilara, we've only got today 6 combined, okay. So that's 2 Zilaras and 4 Zivas. And it's got really pretty strong brand presence, again, in the all-inclusive segment, okay, which is what I'm focused on.

Operator

And your next question comes from the line of Smedes Rose.



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

I wanted to ask you a little bit about -- just wanted a clarification on the Sagicor deal, even though they negotiated the share to the \$11.25, they'll receive the shares at whatever the current market price is at a fixed number of shares, is that correct?

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

The 20 million at that fixed number of shares.

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

So in effect, when -- since the stock is down considerably from when you agreed on this deal, they will be getting less than what they initially thought they were getting? Is that fair?

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

Less, yes. But I believe from their standpoint, and it's my standpoint too, is that they view that Playa is worth a lot more than our current stock price, so

yes.

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

No. I just wanted to make sure. So they negotiated 20 million shares at \$11.25. It's a fixed number. It drops to \$10, and they'll get whatever the value is when you -- if shares are issued on closing?

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

Correct.

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

Okay. And then I wanted to ask you -- so you provide sort of, I guess, essentially the same-store EBITDA outlook consisting of Sagicor in there, which is clearly like the consensus, but -- and then what wasn't necessarily the numbers. But as you think about Sagicor, since we'll have to include it -- I mean, if we're sort of thinking about just the typical seasonality that we've seen in Jamaica from your existing results and kind of layer that into the back half of the year, would that be a reasonable way to kind of put that in? And then maybe take out, I think, you noted that one of the hotels will close in the second half of '18?

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

Yes. So let's...

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

Will you make some adjustments around there?



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

Yes, exactly. So what you can do is, now this is the second year that you've got 2 years' worth of seasonality stats, and we put it in our earnings release for that reason. So people, as they're building their models, are going to have more and more data from which to pull from. As a portfolio, we're around the low 40s percent of our EBITDA in the first quarter, right. And so in 2017, about 43.6 and another 24% in Q2. Jamaica is slightly different. If you look at our Jamaica assets, it is -- in Montego Bay, it's a year-round market, but because Mexico has a stronger middle class, the summer months usually fare a little bit better in Mexico. So Jamaica, I'd assume about 47% is first quarter and then maybe another 14% is the second quarter and the remainder in the second half. So for your modeling, again, I'm not giving you official guidance right now, but you can kind of take that \$26 million to \$30 million of run rate EBITDA and kind of apply it like that. And then if you're going -- if we do indeed execute on that plan to close down one of the Jewels to start conversions to Panama Jack, again, to be determined, you take about \$2 million to \$3 million out from that because it's the low end of the year and we do it like all of our renovations in the low seasons. So you're adding anywhere from \$10 million to \$12 million for the second half of this year minus a couple million assuming we do that project. Does that help?

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

It does. And then I just wanted to ask you, in terms -- you mentioned being able to execute on additional deals going forward. I mean, typically, you've talked about these resorts belonging to individual families that have maybe owned them for a long time. And this is kind of a financial conglomerate that's selling. So when you look at the markets, I mean, are there more assets like this that have sort of these portfolios that are maybe sort of tucked away or neglected within these large corporations? Or is this kind of more of a one-off opportunity?

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

I would say this is -- it represents a smaller percentage of the owners. So there's no question, a much larger percentage of the owners are the family owner operators that we've discussed in the past. And we are in discussions with that type of group. But there are others that are owned. I mean, it's funny whether it's a single property or 2 properties, and in this case, 5 properties that are owned by more financial owners versus owner operators. But we're agnostic about kind of what deals we look at and who owns them. But yes, I'd say the bigger part of the all-inclusive ownership universe are family companies. But there are more like this as well.

Operator

And there are no further questions at this time.

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

All right. Great. Thank you, everybody, for participating. We're excited how 2017 ended. We're even more excited about the announcement of the Sagacor transaction and where we're going to be headed. Like I said, I think we've got multiyear built-in growth opportunities, and we're excited to execute on them and look forward to talking to everybody after the first quarter. Thank you very much.

Operator

This does conclude today's conference call. You may all disconnect.



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