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Officers and Speakers
Ryan Hymel; Executive Vice President and Chief Financial Officer
Bruce Wardinski; Chairman and Chief Executive Officer

Analysts
Chris Woronka; Deutsche Bank
Shaun Kelley; Bank of America Merrill Lynch
Smedes Rose; Citigroup
C. Patrick Scholes; Truist Securities
Unknown Analyst
Chad Beynon; Macquarie Group

Presentation

Operator: Good day, and welcome to the Playa Hotels First Quarter 2021 Earnings Call.

(Operator Instructions)

Please note this event is being recorded.

I would now like to turn the conference over to Ryan Hymel, Executive Vice President. Please go ahead.

Ryan Hymel: Thank you, Ellie. Good morning, everyone, and welcome to Playa Hotels & Resorts' First Quarter 2021 Earnings Conference Call.

Before we begin, I'd like to remind participants that many of our comments 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 our actual results to differ, please review the Risk Factors section of our annual report on Form 10-Q, which we filed last night with the Securities and Exchange Commission. We've updated our Investor Relations website at investors.playaresorts.com with the company's recent releases. In addition, a reconciliation to U.S GAAP of the non-GAAP financial measures we discuss on this call were included in yesterday's press release.

On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide some comments on the first quarter and key operational highlights. I will then address our first quarter results, our liquidity position and our outlook. Bruce will then wrap up the call with some concluding remarks before we turn it over to Q&A. With that, I'll turn the call over to Bruce.

Bruce Wardinski: Great, thanks a lot, Ryan. Good morning, everyone, and thanks for joining us. As always, we appreciate your interest in Playa and hope that all of you are in good health and spirits.

I'll begin today with a review of our first quarter results by geographic segment, followed by insights into the current booking environment. I'll then turn the call over to Ryan to discuss our balance sheet, provide more detail on our results and on our outlook.

We came into 2021 enthusiastic and hopeful as our business saw significant improvement during the holiday period and booking momentum for 2021 was picking up steam while many in the -- while many others in the travel industries were experiencing a more volatile recovery, with the difference likely attributable to Playa's predominantly leisure-focused portfolio.

The change in travel guidelines from the CDC in January caused some level of volatility during the first quarter as it sparked a wave of cancellations and significantly impacted our February results as we became even more reliant on extremely close-in demand. Our operations team and hotel associates, once again, rose to the occasion and rapidly adapted to the change by offering onsite antigen testing at all of our resorts, providing a seamless guest experience given the new COVID testing requirements. The team's dedication and hard work combined with safety measures implemented to protect our guests have helped maintain market leadership at many of our resorts since our reopening process began last year.

We shared with you on our last earnings call that we thought the worst of the restriction-related disruption impact was behind us, based on an acceleration in booking volume and stabilization in our cancellation activity. This rebound in demand led to a robust March for Playa, largely driven by the spring break holidays. The very quick bounce-back was also highly encouraging as it signified travelers' pent-up demand to get back out into the world and enjoy life again.

During the first quarter, our business in the Yucatan continued to build on momentum from Q4, with our segment occupancy reaching a new postpandemic monthly high in March following a pause in February. Importantly, we did not have to sacrifice on ADR to build guest counts, which is particularly encouraging as we continue to progress through the recovery. International passenger arrivals into the market also reached a postpandemic high on an absolute basis in the month of March. As you recall, Mexico did not have any travel restrictions in place with respect to preflight COVID testing or mandatory quarantines for international tourists upon arrival, and notably, has remained consistent with respect to these policies. This has led to less consumer confusion compared to other destinations and has helped sustain business confidence during the reopening phase.

Similarly, the Dominican Republic removed its testing requirements for entry into the country in September and passenger arrivals into the Punta Cana airport meaningfully improved as we entered our high season. Our flagship Hyatt Ziva and Zilara Cap Cana was our first resort in the segment to reopen, and it continued to be one of the most impressive resort properties in the market. The Hilton La Romana reopened in November and has also shown a nice occupancy trajectory through the first quarter, but the segment's overall performance was weighed down by our two externally managed properties, which have lagged our branded hotels in the segment and also yield a significantly lower absolute ADR compared to our branded properties.

Moving on to Jamaica. March was a very encouraging month for this segment as the flagship Hyatt Ziva and Zilara Rose Hall resort had its best month since the pandemic began, and international passenger arrivals had a meaningful step up on an absolute basis versus January and February. The country's entry requirements continue to weigh on visitation compared to other destinations and will be a constraining factor for the recovery in this segment.

Finally, the Pacific coast also finished the quarter on a high note with a strong performance in March and international passenger arrivals hitting a new postpandemic high on an absolute basis in March.

Importantly, our occupancy decline has fared better than the passenger arrivals decline in the Yucatan, Jamaica and the Dominican Republic. Our focus remains on providing a safe, enjoyable guest experience, minimizing our cash burn, maintaining rate leadership and positioning Playa for maximum profit capture as we anticipate that pent-up demand continues to return throughout 2021 and beyond.

I believe the pandemic accelerated many trends affecting consumer behavior that were already in motion prior to the onset of the pandemic, with the most notable for us being the shift to direct booking channels. Our focus on direct booking channels has enabled us to ramp occupancy faster than many third-party-reliant competitors and is leading to share gains. We realize our current percentage mix shift of direct bookings will naturally move lower as other channels rebound and many of the pandemic restrictions are loosened; however, we are confident our company is well on target with our five-year plan to increase consumer-direct business to at least 50% by 2023.

In aggregate, during the first quarter of 2021, 50.7% of room nights booked were direct, up 19.3 percentage points year-over-year, reflecting the relative strength of our direct channels and our business model as a whole versus most of our competition. During the first quarter, playaresorts.com accounted for 24.4% of our total bookings, up 10.4 percentage points year-over-year. Looking ahead to 2021 as a whole, as of April 15, playaresorts.com has generated $76 million of bookings for 2021 versus $30 million for 2020 at the same time last year and versus almost $39 million for the 2019 comparable period. Our direct channels continue to recover at a much faster rate than other channels, particularly the extremely challenged tour operator segment.

On the marketing front, we have significantly increased our local in-country marketing efforts and believe this strategic move is paying off during this difficult time, particularly in markets where travel restrictions remain. We have implemented contactless QR-code access throughout our resorts as both a safety measure and as a driver of nonpackage revenue, and to facilitate the overall ease of the guest experience. Nonpackage revenue continues to be one of the pleasant surprises of the recovery, driven by pent-up demand and an improved offering selection. We continue to believe that we offer a fantastic vacation experience given our large outdoor resort footprint and a focus on guest safety, and our performance following the revised CDC travel guidelines further reinforced the view that we expect to be a market leader as the recovery progresses.

With respect to demand and booking behavior, the change in the CDC's guidelines did not have a meaningful impact on our pace of bookings for the second half of 2021. Demand for the second quarter was impacted, as well as our ADR during February and March, but demand for Q2 began to pick up significantly since the final week of February and has remained very robust. Hopefully, this glimpse into our business was helpful as you think about the macro environment and our fundamental performance drivers.

I also want to reiterate, on a personal level, how meaningful it has been to me for the resorts to be able to ramp up staffing and safely bring back so many of our world-class associates. Their eagerness to return and deliver service from the heart has resulted in feedback that has truly humbled me. So again, I would like to thank each and every Playa employee for your contribution during these very challenging times.

With that, I will turn the call back over to Ryan to discuss the balance sheet and what we are seeing in the operating environment.

Ryan Hymel: Thank you, Bruce. Good morning again, everyone. I will first give you an update on our liquidity and balance sheet and then review the fundamentals of the first quarter, and then finish off with a discussion of forward bookings and market trends.

Starting with the balance sheet and liquidity, much like last quarter, we've included a monthly cash bridge on Page 5 of our earnings release to help guide our discussion. We began the quarter with $147 million of unrestricted cash and our burn rate improved during the first quarter, burning approximately $13 million, $6 million and $8 million during each month of the quarter, with March including roughly $8.6 million of unique items that we've detailed in our release. We took significant action to improve our liquidity during the first quarter, namely in equity capital rates for net proceeds totaling just under $138 million, of which we used $85 million to repay our outstanding balance on our revolving credit facility. We also completed the sale of the Dreams Puerto Aventuras for net cash proceeds of roughly $33 million.

All of the aforementioned efforts bring us to a total unrestricted cash balance of approximately $200 million as of March 31. Also, as a reminder, we still have $26 million of additional restricted cash on the balance sheet from our June 2020 financing. On the other side of the ledger, we have no outstanding borrowings on our revolving credit facility and total outstanding interest-bearing debt of $1.18 billion.

I do want to highlight a few additional points. One: We do not have any debt maturities until our revolver matures in January of 2024, aside from the $17-million portion of our revolving credit facility that matures in April of 2022, and our term loan does not mature until April of 2024. Two: We are able to draw on the credit line were the need to arise. And three: Should the need arise to make draws on our credit line, the covenant relief period has now been extended until March 31, 2022, and is only tested if we draw more than 35% of the balance.

Much like previous quarters, given the limited visibility into our future business, we will not be providing burn rate or EBITDA guidance, but I will say that I'm very pleased with our current liquidity profile given the improvement in our business fundamentals.

We expect our CapEx spend for 2021 in the ballpark of roughly $13 million to $18 million for the year, with an anticipated Q2 CapEx spend of approximately $5 million. Also, we anticipate making a lump sum deposit payment of approximately $5 million for our insurance premiums during the second quarter, which will impact our cash burn but not our EBITDA.

I would like to now turn your attention to our group business. We've been quite successful in our efforts to retain group business that's been impacted by COVID, as meeting planners appreciate that this recovery appears to be different from typical recoveries in the past and the need to lock in space now is quite high after taking one to two years off. Our 2021 group business has been quite fluid, and currently we're well behind where we were pacing at the same time last year but more heavily skewed to the second half compared to the first half concentration Playa experienced in 2020. As of now, we have approximately $12 million of group business on the books for 2021 with, again, the majority of it expected to come in the second half.

I mentioned on our last call we had our single biggest MICE sales day at the end of February, and I'm pleased to share with you that our MICE bookings have continued to see healthy demand, particularly for 2023. Given the nature of this business and the varied pace of vaccine access by country, we expect to see volatility and movement between periods, but for our overall base of group business to continue to build. Our 2022 group business on the books is over $24 million and increasing. This compares to $33 million for 2020 prior to the pandemic and $29 million for 2019. The return of this MICE business should provide a nice space to help manage yield and drive improved profitability year-over-year. We are very optimistic that 2022 should be a great year for Playa.

On the leisure side of group, our wedding sales business continued to improve during the first quarter, with revenues on the books for 2021 ahead of our internal forecast and business on the books for 2022 building nicely as well. With respect to advance deposits, as April 30, we had $35 million sitting with us versus $30 million at the time of our last earnings call, with roughly 40% of that $35 million related to stays in the second quarter of 2021, 14% tied to stays in Q3 and 8% for stays in Q4. As a reminder, the majority of our leisure business does not pay at the time of booking.

Now moving on to the fundamentals. Starting in the Yucatan, as Bruce mentioned, Q1 fundamentals improved sequentially versus Q4 despite the change in the CDC guidelines as occupancies ramped alongside airlift into the market. As we mentioned, the quarter got off to a solid start but took a brief step backward following the change in travel restrictions and then finished with a strong March. We believe most of our competitors have reopened thus far in the Yucatan, and pricing has remained rational, despite the available rooms and ramping occupancies. ADR growth remained solid as the quarter progressed, aided by a very strong spring break and Easter pricing. Our occupancy decline has fared better than the decline in arrivals into Cancun, further reinforcing our belief that our direct channels are providing a clear competitive advantage.

Although still a way away, similar to what others have said about the second half of 2021, our demand for the second half has remained quite robust. We believe it is of the utmost importance to maintain price integrity and allocate inventory accordingly. Revenue on the books in the Yucatan for Q3 2021 is up low double digits versus 2019 and well ahead of 2020, at the same time for respective years. ADR is also pacing ahead for Q3 relative to 2019. Revenue on the books in the Yucatan for Q4 2021 is up nicely versus both 2020 and 2019 at the same time for the respective periods, and ADR is also pacing ahead for Q4 relative to both 2020 and 2019.

The demand build for the fourth quarter relative to the third quarter is likely a reflection of our guests' confidence in their ability to travel later in the year, as we believe the timing of the vaccination availability has made planning travel more volatile in the near term. I would also like to point out that while the data suggests that travelers' fear of missing out has helped us build bookings for the fourth quarter, the absolute dollars on the books are lower for the fourth quarter when compared to the third quarter as of today. Also, these pacing figures are not indicative of our expectation for revenue growth or occupancy levels reaching 2019 levels, as there is still a lot of uncertainty around the shape of the recovery. However, I want to make it clear that we're very encouraged by the current slope of the recovery thus far and the demand we're seeing on the books.

In the Pacific, we decided to open our Ziva Los Cabos as part of our second phase of openings, as this resort is usually more reliant on group business and doesn't have any other resorts nearby to cluster demand. Given the recovery and airlift into the Los Cabos market, which had been leading all of the markets we operate in, Los Cabos came out of the gates very strong. Unfortunately, as the fourth quarter progressed, demand began to deteriorate as travel restrictions began weighing on demand. Hyatt Ziva Puerto Vallarta, which opened on October 1, also followed a similar pattern of demand as Los Cabos. The Pacific segment experienced a larger degradation in demand in January versus the Yucatan, reflecting a less geographically diverse customer mix with a high concentration of guests coming out of California. Similar to the Yucatan, although the near term is likely to remain uneven, revenue on the books for the second half of 2021 is up versus both 2020 and 2019 in the Pacific.

Moving on to the Dominican. We began opening our resorts in the DR in July of 2020 starting with the new Hyatt Ziva and Zilara Cap Cana and our managed Sanctuary Cap Cana resort. As a reminder, in late July, the Dominican government imposed COVID testing requirements to enter the country, immediately impeding the momentum we were seeing in the region. The government, however, removed the COVID testing requirement in mid-September and our DR bookings picked up right away. Airlift into this market remained extremely depressed throughout most of the third and fourth quarter of 2020 but picked up meaningfully in December as we moved into the high season. Similar to what we're seeing in the Yucatan, we are materially outperforming the traffic into the destination as the Hyatt Ziva and Zilara Cap Cana has captured market leadership and has become the destination in this highly exclusive market.

The performance of these resorts during this tumultuous period reinforces our belief that our targeted stabilized EBITDA for this property is very much still intact. We believe our direct sourcing strategy is enabling us to take share and maintain excellent pricing. Looking ahead, revenue on the books for the back half -- for the second half of 2021 at Playa-owned and managed resorts in the DR is well ahead of both 2020 and 2019 levels at the same time last year.

And as you may recall, Jamaica was shaping up to be our strongest market as we approached Q3 2020, but momentum stalled out once additional COVID testing requirements were put into place in Jamaica in early July, severely disadvantaging this destination relative to our other locations. Though locally sourced business has helped occupancies outside of our Hyatts in this market, it has weighed on our ADR and our mix of rooms sold. We started to see some additional airlift in Montego Bay beginning in October, but the increases have been modest relative to the potential capacity of the market.

We again would like to see COVID testing entry requirements relaxed or removed entirely to increase international demand for Jamaica, and so far we've not seen any meaningful change in demand on the positive side as international return restrictions haven't leveled the attractiveness of the destination. Currently, revenue on the books for Jamaica is lagging versus 2019 for the third quarter 2021. Revenue on the books for the fourth quarter is in line versus 2019 and down versus 2020 for the fourth quarter. While the improved pacing for Q4 relative to Q3 is encouraging, we're still cautious on the segment given the aforementioned restrictions.

Now taking a look at who is traveling, nearly 44% of the Playa-managed room night stays in the quarter came from our direct channels versus 24% in Q1 2020, which we believe is a function of the weakness in the tour operator channel, revenue being down roughly 73%, and OTAs down roughly 56%, while our direct channels only saw a 7% drop.

Geographically, our U.S. sourcing increased 1,400 basis points to 67% of managed room nights, while South American-sourced business increased 530 basis points. Given the current state of travel restrictions globally, our Canadian, European and Asian customer mix all fell dramatically versus Q1 2020.

Our 18- to 34-year-old demographic continues to mix ahead of last year, while the 35-to-54 mix has improved but is still behind last year, and the over-55-year-old crowd is still up in absolute numbers but now mixing lower as a percentage of the total.

Our point redemption room nights booked were down modestly year-over-year for both our Hyatt properties and Hilton properties during the first quarter. Hilton Honors redemption nights were down 40 basis points versus Q1 and accounted for a low-double-digit mix of room nights booked for our Hilton hotels. World of Hyatt redemptions decreased 70 basis points and were a mid-single-digit percentage of our room nights mix in our Hyatt portfolio.

We've mentioned several times that one of the biggest challenges we've faced in our industry during the reopening process has been the contraction of the cancellation period to roughly 24 hours across our portfolio and across the lodging industry generally. I won't go into too much detail due to competitive reasons, but we did see increased cancellation activity leading up to the reopening of our resorts across the board, which was in line with our internal projections. And then in October, we began to see bookings outpace cancellations, leading to net positive pickup, which persisted into January. Following the change in CDC guidelines for international entry into the U.S., cancellations once again picked up, yet we still continued to see net positive pickup as demand persisted for the second half of 2021. The cancellation levels normalized through the month of February as travelers were able to digest the logistical changes imposed by the new restrictions and vaccination levels continued to improve in the United States, as you may recall that our booking window lead time heading into the fourth quarter was more favorable than the third quarter thanks to advance bookings for the holiday period in the high season.

The increase in cancellation activity as a result of the change in the CDC guidelines has once again shortened our lead time, as defined by the length of business on the books has been there. But as the cancellation activity has subsided and postvaccination visibility on the ability to travel for our guests has improved, we believe the quality of our business on the books as improved considerably compared to any point in time postpandemic thus far. Case in point: Our Q1 2021 average lead time was still ahead of what we experienced during Q3 of 2020 despite the CDC change, which would likely not have happened during prevaccine time.

In aggregate, our revenue on the books for Playa-owned and managed resorts for the second quarter 2021 is pacing modestly behind where we were in 2019 during the same time on similar ADRs. The third quarter, however, is pacing ahead of 2019 levels, up 25%, with ADR up versus both '19 and '20. The fourth quarter is well ahead of 2019 pace at up positive 40%, also with ADRs up both versus 2019 and 2020.

Taking this all together, we hope the worst of the pandemic is behind us, but we're still focused on tightly managing expenses and preserving cash.

One final housekeeping item: For tax-planning purposes, one of our largest OTA sources has elected to bill Playa and others on a gross basis for resorts in Mexico, which, under U.S. GAAP, requires us to gross up some of our revenue for these commissions from this OTA beginning in the second quarter of 2021. This change is expected to increase revenue slightly but then offset by the same increase in SG&A expense on our consolidated P&L, but no change to EBITDA nor cash flows. For comparability purposes, starting in Q2 we will quantify this incremental change each quarter for you.

With that, I'll turn it back over to Bruce for some closing remarks.

Bruce Wardinski: Great, thanks, Ryan. So in summary, we are very optimistic for the recovery to pick up in earnest as we move through this year and into 2022 as demand has continued to build and our direct booking capabilities are enabling us to meaningfully outperform our competitors. For sure, recovery will not be linear nor uniform, as we expect to experience volatility month to month as many around the world are still not able to access vaccine or travel with ease.

Based on the booking trends Ryan shared with you, we anticipate Jamaica will potentially lag behind our other segments in the near term, but we are confident in the intermediate- to long-term potential of the market once the effects of the pandemic meaningfully subside.

As you may have seen, we have also been quite active on the asset management of our resort portfolio. The actions we have taken over the past year have significantly improved the overall quality of our owned portfolio, conserved cash otherwise required to maintain the competitive positioning of our resorts and increased our mix of branded resorts. The three recent management contract announcements of the Yucatan resort Playa Del Carmen under the Tapestry brand, the Hyatt Ziva Riveria Cancun and the to-be-converted Capri resort are the high-quality additions to our managed portfolio, but these management contracts also have strategic value for Playa as we are becoming a preferred operating partner for owners looking to convert their properties to branded, all-inclusive resorts. Additionally, these new additions provide synergies, particularly on the sales and marketing front. As we continue to demonstrate our third-party-management abilities, I am hopeful more opportunities will present themselves in the post-COVID era.

Thank you all for your time. We'll now open up the line for your questions.

Questions & Answers

Operator: (Operator Instructions)

Our first question today comes from Chris Woronka with Deutsche Bank.

Chris Woronka: I guess, maybe could you talk a little bit about the playa.com channel and maybe where that customer comes from when they book there? Is it someone that would have gone to a brand website or someone else? And maybe how the rates on that business compare to either the branded website rates or generic rates?

Bruce Wardinski: Sure. Sure, Chris. Great question. When you look at our whole focus on direct booking, right, what we're trying to do is throw a wider net, okay? So historically, people, in booking at all-inclusive resorts, went through tour operator channels, then they kind of gravitated a little bit to OTAs as they started to learn about all-inclusive and got more exposure there. But they really had no ability to book through branded sites or through a direct site like ours, like playaresorts.com.

So what we have done, and we've kind of been highlighting this in our earnings calls, is that these are things that we had under way but the pandemic really accelerated them, right? Because we had to. We had to focus on what do we do to get more direct bookings? While you had a lot of the historical channels really shut down or diminished the amount of volume they had going through them. So we're out there selling just like everybody is selling in a digital world, okay?

So who are those customers, to your question? They're -- a lot of them are people who have not, in the past, would have considered all-inclusive. They could be cruise customers; no longer cruises are there. They could be people looking at any leisure trip anywhere in the United States or outside of the United States. It could be people that are Hyatt, World of Hyatt members or Hilton Honors members, or other affinity programs with other brands. So they're all of those people. They're all out there looking. And what we've done is we've just gotten really better at getting our name, our brands, our properties out in front of them, and that's really what the push is.

So when Ryan went through some of the demographics, you can see, one big group or some of the younger people. Why? Those are people who do this a lot more, right? The other thing is people who are used to being on their phones. I will say, I get three of my 20-plus-year-old sons who are giving me advice constantly on what we can do better to access our properties, and I pass them on to our sales guys, okay? Because they're like, going, you need this or you need that or this is how we book, okay? And it's helpful. But we're just trying to throw a broader net, and I think the results you are seeing are super positive, okay? And going forward, I think they'll continue to be positive.

And let's be very, very clear; our goal is to be 100% branded, and it is not by accident, right? I mean, our belief is that people go to the brands, they have confidence in the brands, and they view brands as a positive, and we do, too. And then when you look at all-inclusive, we want to be the dominant all-inclusive player with the brands, and that's our goal. And so right now you see that with our Hyatt Ziva and Zilara as we continue to grow there. We're growing our Hilton portfolio and you'll see new announcements in the future. But we just want to continue accessing every potential customer, and that's our goal. Sorry for the long answer to your, probably, question -- maybe more than you wanted, but that's who we're going after.

Chris Woronka: Yes. No, no, very helpful, Bruce. Really appreciate it. And then I think we heard yesterday or pretty recently that some of the cancellation policies are -- especially on leisure business for the brands, are going to revert back to pre-COVID at some point this summer. Is that your understanding? And then maybe talk a little bit about how that -- how you think that maybe helps your business build for the back half.

Bruce Wardinski: Yes. Well, I'll tell you this: Chris, I absolutely hope so. I mean, so, there is no reason that we shouldn't be back to normal, okay, with those policies. It's just crazy, right? And so I -- when I have discussions with my brand partners, I implore that they continue to get more and more disciplined. And historically, the hotel business has been a laggard when you look at airlines and other travel-related companies, in a lot of these policies. Sure, when COVID hit, everybody had to adjust, but you've seen a lot of those things rolled back, and I hope the cancellation policies get rolled back, particularly in leisure properties going into high-demand months, okay? I'm talking about the summer and then I'm talking beginning in the high season, which for us really begins in November of this year, okay? So there is no reason that we should be having kind of really loose policies. We really need to be tighter, and I think that's our goal, so.

Chris Woronka: Right, right. That's great. And just the last one from me is on -- really encouraging to see you guys getting more management contract opportunities. Maybe talk a little bit about how much more is out there, not specific deals of course, but just what you might be seeing. And does this allow you guys to go well outside of your -- the markets where you own hotels, since the management side of it is -- doesn't have the same kind of operating leverage? I mean, is it just a much more far-reaching net on management contracts?

Bruce Wardinski: Yes, I mean, I think it's a great growth opportunity for us, okay? And as we said in our comments, there are synergies for it. Let's face it; if we have more branded, all-inclusive resorts with any of our brand partners, that's just really good for them and really good for us, okay? And we can spread our costs. But more importantly, we can spend more dollars, right? You can spend more dollars going after the customers, to your first question, right? Who are these people? How do you access them? So it's just a really big positive for us.

If you look at what we announced with the -- actually, all three of them, if you look at what we announced, the owners of those properties are really sophisticated, very large, one institutional, one big family groups. These are ideal partners for us, right? And it could be straight management contracts, it could be joint ventures, it could be a number of things going forward, but we want to grow. And will this throw a net that's wider than our existing markets? Absolutely.

I think our success, particularly our success with conversions when you look at the -- what we've done with the numbers, when we take an unbranded property and we reposition it with a brand and with Playa management and with selling direct, the results, the experience is fantastic. And what's happening is, as COVID decimated a lot of people's resorts in our segment and others, they looked at us and they said, wow; why are theirs doing better than ours? And the fact that we're public, they can see what our properties are doing. And so they came to us. And so I'm hopeful that that momentum will continue.

Operator: Our next question comes from Shaun Kelley with Bank of America.

Shaun Kelley: So Bruce, can you just remind us of -- like, at this point in normal season, right, and I appreciate that we haven't had one of those in at least a couple of years now, just how much would we typically have on the books for the fourth quarter? I mean, so when we start to see and talk about Ryan's booking numbers, just help us get a sense of, like, what kind of base we would have or what kind of base those numbers are off of.

Ryan Hymel: Yes, we would not have as much as we do today. I think that points to the fact that people are wanting to get out of the house, they're looking to their availability to be able to travel in the back half of the year. So typically we would have, for kind of the fourth quarter and the back half of the year, anywhere from maybe 20% to 30% of our overall business on the books at this time. And so that's why you're seeing such larger numbers on the books now because of people's propensity to want to get out and book now, and we've kind of talked about it internally, almost like a land grab, because I think people realize is where occupancy's building, and then more importantly, rates building, and it's particularly in these destinations, that they don't grab that land now and they go to rebook later, the pricing will be higher.

Bruce Wardinski: Yes, I mean, historically, Shaun, what you've seen is really high early booking for the two weeks: Easter week, Christmas week. Right? That's what you see. And it's -- to Ryan's point, now that's expanding, right? Because people are saying, oh, I need to book earlier in December or I need to book in January, whatever it is. They're adjusting for that. And so I think that's the big positive. And again, it just demonstrates that pent-up demand out there.

Shaun Kelley: And Ryan, at least for the Yucatan, I think you mentioned ADR is also pacing ahead. Sorry, you were rattling of a lot of numbers very fast. Like, how much is ADR up either for third quarter, fourth quarter or just overall?

Ryan Hymel: The ADRs are up low single digits in the third and fourth quarter for what's on the books today.

Shaun Kelley: Great. And that's low single digit off of 2019, correct?

Ryan Hymel: Yes.

Shaun Kelley: And just, what's your expectation, then, as we get closer to day of arrival and you're going in with, like, a healthier mix of occupancy or more on the books than you would normally have, your ability to kind of push rate? And I know it's a little bit dependent on the sort of broader competitive environment, but what are you kind of seeing out there from other operators on the rate front specifically?

Bruce Wardinski: Sure. Well, I'll tell you, Shaun, I'm very bullish on the rate potential, okay? So I mean -- and now this is going back weeks, months, right? And I told our sales team, do not discount, okay? Just -- we're not discounting. That -- I'm confident that the demand is going to be there, and we don't need to kind of build a base like you may do historically in more difficult times, right? Coming out of a downturn, typically, you try to build a base at lower rates and then you would yield later. Okay, we're not doing that. To Ryan's point, we're already ahead. We're not building a base at lower rates, okay? We're building a base at good rates. And then I think our ability to continue to drive those is going to drive week by week, month by month as we get closer to it, and I'm highly confident of that.

I've never seen anything like this. I've been in the hotel business a few years, about 35 years, okay, and I've been through a few downturns; I've never seen a downturn like this. Obviously, the cause of this downturn was very different than being driven by financial kind of metrics. And so the people have the money, they have the desire, okay, and all they're waiting for are sort of individual reasons for going out there and traveling. So I don't think it's going to be a demand issue, and so I really think we can continue to drive it.

Then if you look at a couple of things that we have put in place over the last year, okay, with rolling out Duetto and some other revenue management programs, those are all fully implemented at this point in time. So we have the tools that we didn't have in the past, okay, to yield. Also, historically, the way it worked in the all-inclusive business was, you would give static rates to distribution channels, like tour operators, and those rates could be there for 12 or 18 months. You didn't even have the ability to change them, okay? Now, we are 100% dynamic. So if we see the business grow, we can adjust the rates, and we just didn't have that flexibility. So I think we're well positioned to continue to drive the rates up as the demand materializes.

Shaun Kelley: Thanks, everyone. And maybe my final question or thought would just be around Jamaica, right? It seems like we got very good sight lines in the DR and in Mexico, but what -- kind of what are you looking for? What's going to be the tell on when we get things to turn back on, and how are those conversations going with Jamaica? Where do we think they'll be on the curve? And do you think we're going to miss the holiday -- I guess the direct question is, do you think we're at risk of missing this coming holiday season, or do you think that is in play based on the tone of conversations?

Bruce Wardinski: I do not think we're going to miss this holiday season, is the short answer. I was in communication with the government in Jamaica as recently as last night at about 11:30 p.m., okay, and it really -- the way I focus on it is, with them, is look what the Bahamas just did. Okay? So the Bahamas just made an announcement, okay, that they are no longer requiring the COVID testing for entry into the Bahamas, the quarantine, mandatory quarantine, et cetera, for vaccinated travelers, okay? That's huge. And so the push I'm making with the Jamaican government is saying, look -- and they've been really lock-step kind of with what the Bahamas have done with testing requirements. I mean, almost exactly. And so I'm saying, hey, look what the Bahamas just did. This is what you guys need to do. And so I'm pretty hopeful that Jamaica is going to look at that and it will make sense.

A lot of this -- and these are small countries, they were more concerned about the medical systems in the countries, and very much kind of the political perception, but if you're able to say, hey, we're only releasing or easing these restrictions for vaccinated travelers, and the risk to infection in our country is incredibly low, there's no political issue. So I think you're going to see Jamaica, by necessity, matching what the Bahamas are doing at a minimum. Hopefully we get to the point where all restrictions are lifted, and I think that could happen sooner rather than later, too.

So I don't think Jamaica is going to miss out. I think there's going to be a big increase. Once they're released, like Ryan was pointing out with the Dominican, right? As soon as the Dominican changed their policies, our business went up. I think we're going to see that pretty rapidly as soon as Jamaica does the same.

Operator: Our next question comes from Smedes Rose with Citi.

Smedes Rose: I just wanted to follow up a little bit on Shaun's question. So do you -- just to clarify, you said that revenues are up 25%, revenues on the books in the third quarter, and 40% in the fourth quarter relative to 2019?

Ryan Hymel: That's right.

Smedes Rose: Okay. You kind of buried the lead there, Ryan, I think. But -- so my question is, if the rates are only up modest single digits, that would imply then that I guess occupancies are well ahead of where you would normally be in the 20% to 30% range, you said? So you can just share, like, what kind of occupancy is on the books now? If all that business kind of flows through?

Ryan Hymel: Yes. No, you're right. There's -- and it just goes back to what we've been saying, that folks are booking a little bit further out now, or they're looking to try and lock in a vacation later in the year. So we're seeing more on the books, higher occupancies than we've ever seen before. And I was trying to make it clear in the prepared remarks that obviously, if we're ahead 40% in the fourth quarter, I don't believe that by the time we get to the fourth quarter we'll be ahead 40% over 2019, right? And the fact that the absolute revenue that's on the books for fourth quarter, it's still smaller than what's on the books for the third quarter at this point. But what you're seeing is people booking further out with their desire to get out and travel. So you're right, that implies that occupancies are certainly ahead.

Smedes Rose: Okay. And when you look at that -- the components of that booking, is it still mostly coming through -- or coming at the same rate through the direct channels, or is there some signs that the tour and travel groups are also starting to see a pickup in business?

Ryan Hymel: You're seeing slight pickup, but it's still -- the direct channels are what we're seeing come through most strongly. You're absolutely right.

Operator: Our next question comes from Patrick Scholes with Truist Securities.

C. Patrick Scholes: Question: Are you seeing, at your properties, are you seeing any of the labor availability and wage pressures that U.S. hotels are seeing at the moment? Thank you.

Bruce Wardinski: Thank you for your question. So I think if you look at a big difference between us and kind of the situation with lodging companies, owners in the U.S., is we're in a completely different situation than they are, right?

So if you look at the dynamics, what happened in the U.S. with labor, okay? You had two big groups. One are all the people -- they lost their jobs and they moved on. They moved on to other opportunities. Because in many segments, whether it's Amazon or others, there's opportunities, right? So they got new jobs; they've moved on.

The other thing you had is the government had very strong unemployment benefits, and there's a big group of people who, they're like, hey, I'm not that motivated to go back because I'm getting really high unemployment benefits. So until those ease up, and I believe that's in September, you see the pressure. So the hotels are going to have to bribe people to come back and it's going to be at higher rates, and it's going to be a challenge for the margins.

Our situation, completely different, right? There are no other jobs, okay? The jobs in the country in our destinations are resort, travel-dominated jobs, okay? Jamaica, Dominican, even in the Yucatan, Los Cabos, Puerto Vallarta. That's the game in town, right? Tourism, travel's the game in town. So the people, while the government has done an effective job, okay, it hasn't been as attractive or beneficial as it would be. So they are eager to get back.

So what we did is early on, as soon as we started the reopening process, we started to bring back -- our goal was to bring back 100% of our people. Now, 100% doesn't mean full-time 100% of our people; we'd bring people back for one or two days, and then we'd bring back another person for one or two days. So we may only be bringing back 40% of 50% of the people, so they're at reduced hours, but it's the higher number of people. That was intentional, okay? We wanted to make sure our people know -- knew that we wanted them back, okay? So we've been able to retain the people we wanted to retain, and we still remain a very desirable employer in all of our markets, okay? But the people want to work, and so we're not seeing the rate pressure that you're seeing in the U.S., and you're not seeing the supply issue that you're seeing in the U.S. So I think we're in a really good position, and I think it's going to be a positive for us where I think it's going to be a negative for others.

C. Patrick Scholes: Okay, thank you for the color on that. And then just one modeling question: On the 1Q earnings, certainly your SG&A was below our expectation; how should we think about the trajectory of the SG&A for the quarters for the rest of the year? Thank you.

Ryan Hymel: Yes. So we -- starting in kind of Q3 and Q4 of last year, we did start layering some cost back in, mostly on salary and wages. Everybody in the company took salary and wage cuts, and certainly just like everybody else in the industry, we have a moratorium on T&E and travel and things like that. And so we are not currently in a position to start ramping back up new FTEs. I think there's a good portion of the SG&A cuts that will remain permanent. I do think what you'll see -- right now what we're planning for is probably in the back half of the year, assuming that this kind of shape of this trajectory continues, you might see us start spending a little more on T&E and filling out some other FTE positons that we would need as we ramp up our third-party-management business with these new properties coming online, but right now it's not our intention to start ramping things up too significantly from where they are today.

Operator: Our next question comes from Tyler Batory with Janney.

Unknown Analyst: This is [Jonathan] on for Tyler. First one from me: You guys have provided some excellent color so far on the back half bookings, and Bruce, in the prepared remarks, you highlighted the CDC restrictions not really having an impact on the pace of bookings in the back half of the year. And I'm curious, as a further positive of that, if you think there's still some incremental demand, if that gets lifted over the summer or later in the year, or is that kind of a nonfactor going forward?

Bruce Wardinski: Oh, no, it's definitely a factor. So I think -- let's just clarify, because I think -- I really appreciate the focus on this issue, because it's an important issue for us. We expected, when the announcement was made, we expected it to have a much worse and much longer kind of duration of an impact, okay? What our positive surprise was, was that while it was kind of really negative right out of the blocks, it ended pretty quickly -- I shouldn't say it ended. It diminished really quickly, okay? So -- and so all of our points about the second half of the year, and obviously we've given the numbers on the second half of the year, you can see what while it's still there, it's not having that big of an impact.

Why is it not having that big of an impact? I think there's two big factors. One is people are used to a lot of things, right? They're used to social distancing, they're used to wearing masks, they're used to airplane and airport restrictions, all kinds of things. Likewise, they're like, okay, worst case, I have to do testing to get back; I'll do testing to get back. Well, what do they care about? They care about it's really easy to do, okay, and it's not going to impact them, and that there's a very low probability that they're going to have any issues, right? And so what you see is, what our focus was, was putting it at the resorts, okay? Getting the testing at the resort, so we're trying to make it as easy as possible, and the fact is, the results, the positive results have been incredibly low, right? Really, really low. And that's because people are getting tested before they travel, now a lot of people are vaccinated, et cetera, okay? But it's still in everyone's mind.

So you look at Jamaica, right? The fact that Jamaica is below is because people don't want to deal with the hassle of getting tested going into Jamaica, right? They're kind of accepting to -- of the fact that to get back to the U.S., they have to get tested, and they're really happy that we're doing it on property and it's so well done and easy, and they see that in all of the social media posts, et cetera, okay? But let's be clear: If that is lifted, that is going to be hugely positive, because there is a big group of people, okay, who are being like, I don't want to take the risk, right? I don't want to take the risk of -- or maybe the hassle. Whatever it is, they don't want it, and they're not going to travel while that restriction remains in place. So the day that gets lifted, I think we're going to have a big increase in bookings directly as a result of that.

Unknown Analyst: Okay, great. Thanks for all that detail. And then Ryan, you touched on this in the prepared remarks, but wondering if you could provide some additional color on what you're hearing and seeing with respect to the airlift in your markets, how much of a factor that remains, and if there's any markets, or which markets are seeing outsized growth in the lift?

Ryan Hymel: Yes. So as you would imagine, it follows suit with just the performance of our portfolio, so what you've seen in Mexico has certainly outpaced slightly the DR, which is outpacing Jamaica. So load factors improved in March versus January; obviously February didn't with the cancellations because of the CDC requirements. But it improved in March versus January for all of our markets, which is pretty encouraging. What we look at, the same data that you all see about international passengers arrivals, and then we also take a look at forecasted seats into our markets. Now, it's a little bit harder to kind of set your watch by the seats that are -- they're scheduling into the markets because they're certainly still subject to change, but what we're seeing in the fourth quarter is actually pretty good, particularly in Cancun and Punta Cana. Montego Bay, specifically, from the United States is still only slightly up or flat, but everyone else is forecasting a larger amount of seats coming into the destinations specifically from the U.S., not as much internationally as you would imagine, but more from the U.S.

Q3 is still a bit of a wildcard right now. I think we touched on it a little bit earlier when we talked about the recovery. I think a lot of that has to do with a consumer's assumption and just the general, particularly in the U.S. population, that life will be somewhat back to normal, meaning I may be back in the office, my kids may be back in school in person, and so there's -- we've seen more volatility not just with airline seats forecasted but with our bookings generally into Q3 versus what we're seeing positively in Q2 and Q4.

Operator: Our final question today comes from Chad Beynon with Macquarie.

Chad Beynon: Wanted to go back to your general segments, your group/MICE/wedding, et cetera business versus the leisure business. Across your portfolio, or at least the ones with more group offerings, should we expect a meaningful change in terms of the percentage mix of one versus the other in high season or 2022 given some of the trends that we expect to see? And if so, what's the general directional impact of revenues and margins if this does change? Thank you.

Ryan Hymel: Yes. So from -- I think from a -- let's start with the weddings. I don't think you'll see a shift in when people want to get married, because our properties are warm year-round and the people are a little more agnostic, they're outside, and we're seeing that business come back more rapidly than the group business because our weddings are outside, it's smaller groups, it's usually familial groups, so they're less worried about anything that could be on the top of mind, including return vaccinations or anything like that.

On the group side, you're really talking -- in the larger convention groups, you're really just talking about the three properties where we have 50,000-plus square feet of meeting space, that being historically Jamaica and Los Cabos, Ziva and Zilara Jamaica and Ziva Los Cabos, but now Ziva and Zilara Cap Cana. That helps margins significantly when -- at those properties when business comes back, namely because one, the rates are pretty fantastic; the commissions that you pay meetings incentive planners is not too much higher than what you see from our direct channel, so if our direct is anywhere from, call it, 3% to 8%, depending on how the customer came to our property, meeting incentive planners is in the low double digits, right? So it's still much cheaper than OTA or obviously tour operator business. And then on top of that, because that vast majority of our group business is kind of incentive business, meaning like top salesmen, president's club, gold club, stuff like that, it's usually paid for by their company, so people are coming with a friend or a spouse and they're spending a lot more on nonpackage items like spa trips, wine upgrades. And then the group itself is doing a lot of large events on the beach or additional upsells, and that is high profitable margins -- revenue for us, so as the group comes back, I don't see it shifting any different in the time of year than it normally shows up, but at those properties, it should help margins.

Chad Beynon: Okay, great. Thanks. And then once we get through this and we're more in a normal free cash flow period, how are you thinking about some of these conversions, expansions that you talked about in prior years? Obviously nothing to talk about in 2021, but how are you thinking about those opportunities versus other ways of capital deployment like share repurchases that you've done in the past? Thank you.

Bruce Wardinski: Sure. I mean, obviously, like I said, the conversions are hugely profitable to us, okay? Now, if you look at what we did, right, we sold some properties. Which are those properties we sold? The ones that required very large CapEx dollars, okay, and didn't really fit well with our strategy. They weren't highly attractive candidates for branding -- branded conversion, okay?

So we've got the ones left, and so you can kind of just look at our list of portfolios and you say, okay, here's the ones left that aren't branded that haven't been converted; what needs to be done there? Not much -- or I shouldn't say not much. Not as much needs to be done. So we don't have the significant level of CapEx or disruption that you've seen in the past, okay? So as we look at 2022 and beyond, for those nonbranded properties, there are opportunities there to convert, and we'll be willing to do that.

And beyond that, the cash flows, whatever makes the most sense, when we will analyze the cash flow, and let's take your point about, hey, we can get back to our normal world, and let's face it, Playa's normal world is we're a really high free-cash-flow-generating company. And I can't wait to get back to that normal world, right? And we can start focusing on what are the best things to do with that cash, and that's really, where does it drive the most value for our stock and for our shareholders.

Ryan Hymel: And to answer your question directly on buybacks, of course we'd be open to reopening that once we get further along through the pandemic. Obviously we're still in cash conservation mode. Obviously we're getting closer and closer to stopping burning cash, which is great. Obviously we want to get -- progress a little bit further, but that's certainly something we would consider, just particularly given where you think this EBITDA could go, that would imply that our stock is trading pretty cheaply off of kind of run-rate EBITDA. So we'd be certainly open to that, and we would have to discuss it with our board.

Operator: This concludes our question-and-answer session. I'd like to turn the call back over to Bruce Wardinski for any closing remarks.

Bruce Wardinski: Great, thank you. So just to close, I just want to emphasize that I am cautiously optimistic about the rest of 2021 and much more optimistic for 2022 and beyond. As vaccines continue to grow, leisure demand will accelerate and Playa Resorts should be incredibly attractive to people to go to. We expect to continue reporting positive results for the foreseeable future, so I think really, the horizon looks good. Everything looks good.

Again, thanks for taking the time to join us today, and I hope everyone has a great day. Thanks for your interest in Playa.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.