[PLYA] - Playa Management/Playa Hotels Q2 2021 Earnings Call
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Officers
Ryan Hymel; CFO
Bruce Wardinski; Chairman, CEO

Analysts
Chris Woronka; Deutsche Bank
Chad Beynon; Macquarie
Smedes Rose; Citi
Shaun Kelley; Bank of America
Patrick Scholes; Truist Securities
Tyler Batory; Janney

Presentation

Operator: Good day and welcome to the Playa Hotels Second Quarter 2021 Earnings Conference Call. (Operator Instructions)

Please note that this event is being recorded.

I would now like to turn the conference over to Ryan Hymel. Please go ahead.

Ryan Hymel:

Thank you, Matt. Good morning, everyone, and welcome again to Playa Hotels & Resorts Second Quarter 2021 Earnings Conference 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 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 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 second quarter and key operational highlights. I will then address our second quarter results, our liquidity position and outlook. Bruce will then wrap up the call with some concluding remarks before we turn it over to Q&A.

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

Bruce Wardinski: Thanks, 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 and enjoying the summer. I am sure most of you have had a chance to review our Q2 results reported last night, so let's begin the discussion.

Our second quarter results exceeded our expectations, as the momentum that began in March carried through into the second quarter, driven by strong. [close-in] demand, pricing discipline, and increased airlift into our destinations, all of which led to a spectacular month of June for Playa.

All segments reported higher occupancy levels as compared to the first quarter, with many also delivering higher sequential ADRs, a phenomenon we don't typically see in our resort destinations. Importantly, while our guest mix toward premium resorts has boosted reported ADRs, all of our owned and managed resorts also reported same resort ADR growth versus 2019 for the months of May and June.

Given we have never managed through such a large scale reopening with the nuances that the pandemic has presented, our base case assumption was that our extraordinary revenue on-the-book percentage gains compared to prior years would normalize as we approach the second half of 2021. That has not been the case. Our revenue on-the-book percentage gains have largely remained steady, while ADRs across all segments have continued to build for future periods.

In addition, while it is still early, we are not currently seeing any noticeable impact on our bookings or cancellations as a result of the Delta variant. Looking ahead, forecasted airlift into our destinations is expected to increase significantly during the third quarter, but we are not necessarily banking on this given the fits and starts with the easing of travel for Europeans and Canadians, which account for quite a bit of the expected airlift ramp.

Looking at our segments, Mexico has led the way during the recovery, and the results there in the second quarter were once again the standout, with comparable occupancies into the high 50s for the quarter, the highest ADRs on an absolute basis and excellent flow through. Flight capacity in our Pacific segment destinations has significantly outpaced all other destinations, with Los Cabos reporting international passenger arrivals during the second quarter, increasing versus 2019, and Puerto Vallarta also crossing that threshold in the month of June.

As I mentioned, the quarter finished on a strong note, with occupancy levels in Mexico increasing into the 60s, keeping our resorts in compliance with local occupancy limitations. As is usually the case, there have been some challenges, namely, rising COVID-19 cases in recent months in Mexico, likely due to the Delta variant and the sporadic return of Sargassum. With respect to COVID-19 cases, the good news is that fewer than 15 basis points of the nearly 200,000 guests we have tested so far generated positive results.

Moving on to Jamaica, following a strong March, Jamaica surprised us once again during the second quarter as international passenger arrivals sequentially improved by over 30 percentage points compared to 2019. Our occupancy gains during the quarter were capped off with the month of June approaching 60%, far beyond what we thought was possible at the time of our last earnings call. Demand here continues to build as we look out to the fourth quarter, which is when flight capacity is expected to see a sizable ramp. We are very encouraged by the increased demand in Jamaica, which was our best performing segment prior to the pandemic, and we do not anticipate the market being structurally impaired or on weaker competitive footing despite its slower start after reopening last year.

Similar to Jamaica, the Dominican Republic also experienced a nice sequential increase in international passenger arrivals, which drove our approximately 20% improvement in occupancy versus Q1. Once again, our flagship Hyatt Ziva & Zilara Cap Cana led the way, as it has established itself as a rate leader in the market with the resort's EBITDA margins nearing 40% for the second quarter. The resort's progress and ramp give us further confidence in achieving our goal of 12% to 15% stabilized cash-on-cash returns on our investment there.

The segment's overall performance was weighed down by our two externally managed properties, which have lagged behind our globally branded resorts in the segment and also yield a significantly lower absolute ADR compared to our globally branded and Playa-managed resorts.

Our focus on direct channels continues to pay off, and 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 second quarter of 2021, 48.5% of room nights booked were booked direct, down 2.7 percentage points year-over-year, reflecting the relative strength of our direct channels, but also an acceleration in group and third-party source business.

During the second quarter, playaresorts.com accounted for 22% of our total room night bookings, down 6.5 percentage points year-over-year. Looking ahead to 2021 as a whole, as of July 15th, playaresorts.com has generated approximately $102 million of bookings for 2021, compared to $6 million for 2020 at the same time last year and versus $47.5 million for the 2019 comparable period.

As a reminder, we anticipated that as the world slowly returned to normal, our mix of direct business would likely fall below 50%, but still believe it will remain higher than levels seen immediately prior to the pandemic and significantly higher on an absolute dollar basis.

Though modest in dollars, non-package revenue continues to be another pleasant surprise of the recovery, driven by pent-up demand and an improved execution on our offerings. Again, it is difficult to gauge if the current levels of non-package spend are short-lived, but this has been an area of focus for our resort GMs, given the attractive margin profile.

Finally, I cannot reiterate enough how impressed I am by our team. Their ability to adapt and execute continues to surprise me and our guests. So once again, I would like to thank each and every one of our associates for their dedication and passion to delivering service from the heart and making Playa a success.

With that, I will turn the call back over to Ryan to discuss the balance sheet and our outlook.

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

So starting with the balance sheet and liquidity. Like last quarter, we've included a monthly cash bridge in our earnings release to help guide the discussion. We began the quarter with roughly $200 million of unrestricted cash, and, as our business accelerated meaningfully versus last quarter, I'm excited to say that we did not burn cash on a company-wide operational basis during the second quarter.

As you may recall, we previously expected to reach this milestone once occupancy levels were closer to 60%, but robust rate growth allowed us to get there sooner. Also, during the quarter, we completed the sale of the Capri hotel, generating net proceeds of just under $50 million, with half of it immediately going toward paying down our term loan. All of the aforementioned efforts bring us to a total unrestricted cash balance of roughly $238 million as of June 30th. Also, as a reminder, we have roughly $25 million of additional restricted cash on the balance sheet from our June 2020 financing.

On the other side of the ledger, we currently have no outstanding borrowings on our revolving credit facility and total outstanding interest-bearing debt of $1.15 billion. Much like previous quarters, given the extremely limited visibility into our future business, we will not be providing burn rate nor EBITDA guidance, but have a few items to note as you think about cash and liquidity in the second half of the year.

First, we expect to make roughly $8.5 million of insurance premium payments in the first month of July that we previously had anticipated spending during the second quarter. And also in July, we expect to pay roughly $5 million for VAT, income taxes, and remaining transaction costs related to the sale of the Capri hotel. Beginning in August, we'll have roughly $1.5 million of monthly insurance payments through the remainder of the year, and wanted to remind everyone that no such payments were had in February through June of 2021.

We anticipate our GAAP and cash CapEx spend for full year 2021 to be in the range of $19 million to $21 million for the year. We anticipate Q3 CapEx of roughly $7 million, with $3 million of it being spent at the Hilton Rose Hall, which again will be funded from restricted cash. Approximately half of our full year 2021 CapEx will be spent on maintenance, with the remainder being spent on final payments related to existing projects, and a little over $5 million at the Hilton Rose Hall.

Now turning our attention to MICE Group business. Demand in the segment has been nothing short of staggering. As of now, we have approximately $14 million of group business on the books for 2021, with approximately 80% of it expecting to come in the second half of this year. The demand for 2022 and beyond, however, is where we have seen our greatest gains with meeting planners' confidence, desire and ability to travel improving as we look ahead into next year, combined with two years of lost meetings. Therefore, demand has far exceeded our expectations.

Our 2022 MICE Group business on the books is over $30 million and increasing and compares to $24 million at the time of our last earnings call. Therefore, this puts our current MICE revenue on the books within 10 percentage points of our final full year 2019 MICE revenues of $32 million and the $33 million we had on the books in early 2020 for that year prior to the onset of the pandemic.

From a pacing perspective, this compares to just under $27 million on the books for 2020 at the same time in 2019, or said differently, up 12%. Nearly 95% of this MICE business is slated to stay in the first half of 2022, and the return of this MICE business should provide a nice base to help manage yields and drive improved profitability year-over-year, particularly at our resorts in Las Cabos, Rose Hall, and Cap Cana.

With respect to advanced deposits, as of July 9th, we had just under $37 million sitting with us versus $35 million at the time of our last earnings call, with roughly 40% of that related to stays in the third quarter of 2021 and 12% related to stays in the fourth quarter. As a reminder, the majority of our leisure business does not pay in advance at the time of booking.

So now moving on to the fundamentals. Starting in the Yucatan, as Bruce mentioned, Q2 fundamentals improved sequentially versus Q1 despite normally being a seasonally slower period. The quarter continued the momentum seen in March despite rising COVID cases in the country. ADR growth remained solid as the quarter progressed, aided by strong close-in demand. Once again, we believe it is the utmost importance to maintain price integrity and allocate inventory accordingly in a rising demand environment.

Revenue on the books for the Yucatan for Q3 2021 is up low-double digits versus 2019 at the same time. ADR is pacing well ahead for Q3 relative to 2019, up around 30%. Revenue on the books in the Yucatan for Q4, 2021 is up nicely versus 2019 at the same time. ADR is also pacing well ahead for Q4 relative to 2019. Our Q4 book position in the Yucatan has continually maintained a healthy rate of revenue gain versus 2019, while ADR has continued to climb.

In the Pacific, the segment experienced a larger decrease in demand during Q1 as compared to the Yucatan, reflecting a less geographically diverse customer mix with a high concentration of guests coming out of California, but bounced back significantly in the second quarter with incredibly robust airlift recovery in the segment. As Bruce mentioned, international passenger arrivals exceeded 2019 levels in Las Cabos for Q2, and Puerto Vallarta achieved the same milestone in the month of June. Looking ahead, revenue on the books for the second half of 2021 is up nicely versus 2019 in the Pacific with ADR growth in Q3, up over 40% versus 2019 and robust gains as well in Q4.

Turning to the DR. As Bruce mentioned, the Hyatt Ziva & Zilara Cap Cana is gaining momentum in delivering extraordinary results in this segment, while our two third-party managed resorts are weighing on segment results. Looking ahead, we hope to see their results improve in the second half as forecasted airlift is expected to ramp materially. DR segment revenue on the books for the second half of 2021 at the Playa-owned and managed resorts is significantly ahead of 2019 levels at the same time that year, driven obviously by the addition of the Ziva & Zilara Cap Cana and the newly renovated Hilton La Romana. ADR on the books in the segment is also pacing nicely ahead of 2019 levels. The two externally managed assets, however, are behind 2019 in both revenue and ADR on the books for both Q3 and Q4.

Finally, fundamentals in Jamaica ramped nicely during the quarter and easily exceeded our expectations. We're happy to see this segment stabilizing, but expect the recovery here to be choppy given the visibility on flights and COVID-related travel restrictions. Currently, revenue on the books for Jamaica is lagging 2019 for the third quarter, but rates are up mid-single digits. Revenue on the books is modestly ahead of where we were at the same time in 2019 for the fourth quarter of 2021, with ADRs up high single-digits for the period.

Now taking a look at who is traveling, nearly 45% of the Playa-managed room night stays in the quarter came from our direct channels, which we believe is a function of the weakness in tour operator channel being down roughly 38% versus 2019, and OTA is down roughly 37%, while our direct channels are up over 50%.

Geographically, our U.S. sourcing increased approximately 19 percentage points to 77% of managed room nights, while South American sourced business increased 230 basis points. Given the state of travel restrictions, our Canadian, European, and Asian customer mix was essentially zero as compared to mid-teens percent of mix in 2019 for Canada and Asia, and, again, severely depressed for Europe.

We have mentioned several times, one of the biggest challenges we face in our industry during the reopening process has been the contraction of cancellation policies to roughly 24 hours across our portfolio and across the lodging industry generally. I am pleased to share with you that as of July 1st, we have returned to our pre-pandemic cancellation windows. This should help us continue to manage and extend our booking window, providing much need to visibility. On that point, our Q2 2021 average lead time improved versus Q1 and was the longest number of days since we reopened most of our resorts last July. This should continue to improve given the booking curve and change in cancellation policy.

In aggregate, our revenue on the books for Playa owned and managed resorts for the third quarter of 2021 is currently pacing up roughly 30% versus where we were in 2019 during the same time, with ADRs driving the bulk of the revenue increase. The fourth quarter is also pacing ahead of 2019 levels, still up in the high 30 percentage points, with ADR up high teens versus 2019.

As a reminder, these statistics exclude the two externally managed assets in the Dominican Republic, which, as I mentioned earlier, are both pacing behind 2019 for Q3 and Q4. This obviously excludes resorts we manage on behalf of third-party owners.

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

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

Bruce Wardinski: Thanks, Ryan. So in summary, we are very optimistic for the upcoming high season and for 2022. I have never felt better about the aggregate strength and competitive position of our portfolio from a rate, customer sourcing and operational perspective. I do expect there to be bumps in the road, but my level of optimism grows with each passing month. That being said, a topic that is surely top of mind for many of you is our capital allocation priorities. It's interesting to even think that we are having this discussion right now, but conditions have changed surprisingly quickly. That is not to say we aren't looking for opportunities to expand and grow, but it is too early to share a formal plan for capital allocation at this time. At a high level, competing projects under construction in our markets remain relatively muted, and construction financing is extremely limited in the Caribbean and not much better in Mexico.

With our direct booking capabilities improving each day and providing a real competitive advantage, the backdrop for organic growth is very constructive for us at the moment. If the recovery continues on the path we have seen thus far in 2021, we will have more to share with you later this year with respect to capital allocation. I would like to reiterate that we are focused on growing the high return opportunities that can leverage our direct booking platform and all-inclusive operating expertise.

Also, while the Hyatt Ziva & Zilara Cap Cana has been a success thus far, we do not currently foresee any other ground-up development projects as there exists a healthy number of turnkey resort opportunities that meet our success criteria of being under branded and under managed. These type of opportunities would allow Playa to do what we do so well and to generate dramatic increases in direct sales, average daily rates, occupancy levels and most importantly, outsized growth in EBITDA dollars.

It has been so frustrating for me personally as well as for the entire Playa team, who have had to retrench over the past year and a half. However, it was critical to behave extremely prudently and protect the interest of our shareholders and all other Playa stakeholders. We have exceeded our expectations of 12 months ago, and I strongly believe we will continue to over deliver. Now is the time to focus on taking Playa to the next level on a sales and operational basis, switching from defense to offense.

Thanks to all of you who stuck with us through this pandemic rollercoaster. We think you will be happy that you did.

With that, I'll open up the line for any questions.

Questions and Answers

Operator: (Operator Instructions) Chris Woronka with Deutsche Bank.

Chris Woronka: Bruce, maybe you could give us a little color on some of these occupancy caps in Mexico and Jamaica. And are those tethered to case counts? Or what would need to happen to kind of get those reversed?

Bruce Wardinski: So the occupancy caps really, number one, they're not really impacting us significantly in any situation. In Quintana Roo, Riviera Maya we're capped at 70%, in Puerto Vallarta to 80%, Dominican Republic 85%. In Cabos it's a lower number, but it fluctuates based on the situation at any point in time.

So nothing has limited us. We actually even received, after our recent inspection, an exception in the Cancun market for the level so we can have a higher occupancy limit there. So when you really look at it, it's not impacting our business, Chris. And very importantly, given that we know we do have caps, theoretical caps in some cases, we're just focused on driving the ADRs. So in some ways, it's kind of forced discipline, right? If we know we can't go to 100% anyway, why would we sell any cheaper than we need to, and so we don't need to. And so I think that's what you're seeing.

And when you have that kind of ADR growth and you realize that the customer's out there and they're willing to pay the price, it just gives you the level of confidence to continue doing that. And that's leading into Q3, Q4 and into the first half of 2022.

Then, I think very importantly, compared to the rates that are being charged in the U.S., at resorts in the U.S., and I think we're just a tremendous value proposition compared to what the alternatives are. So I think all of this bodes very well for us on a go-forward basis. But really, the limitations aren't impacting us adversely.

Chris Woronka: Okay. That's good news. Thanks, Bruce. A lot of data points you guys gave out on rates, on ADR going forward, and all sound pretty promising. I guess my question is, if we think about those on a like-for-like basis, because you have a big mix shift going on, you still have more, I guess Hyatt loyalists and things like that, less OTA third party, is it possible to drill down and look at maybe the same people who were staying in 2019, what they're paying for back half 2021 versus 2019, or is that too granular?

Ryan Hymel: It's not as easy that. But in general, everybody's paying more.

Bruce Wardinski: Yes, that's the short answer.

Ryan Hymel: That is the short answer for that. In fact, and you think about it, I think the question we've probably been asked the most, most recently has been, do you think rates are, you're essentially resetting a new floor or is this kind of a year, year and a half phenomenon because people are tired of being in their homes, they want to get out and travel and specifically travel to a leisure destination.

We can't change the consumer's mindset. But what we can change and control is all the things we've done behind the scenes, the thing you just mentioned, driving more through our website, partnering with more brands, moving away from high-priced tour operators, and continually pressing the OTAs to lower their commission. So that even if the consumer sentiment kind of flips back after a year or so, and they say, okay, look, I was willing to overpay in this upcoming high season, but never again, we can behind the scenes reset that floor on our net rates because of everything we've done behind the scenes to lower the customer acquisition cost.

Bruce Wardinski: And if you look at our overall portfolio, we've invested a lot of money in recent years. And our expectation was that in 2020, pre-pandemic, you were going to see a very healthy ramp anyway. And I think what this has done is just kind of somewhat accelerated that due to competitive dynamics. But I think it reflects the quality of the resorts. It's both the physical product and then the level of service that we drive. And you can see it on our TripAdvisor ratings and how well the product and service is being received by our customers.

Ryan Hymel: Yes. And across the board, Chris, our like-for-like resorts to a hotel in May and June were all up positive ADRs. So it includes like Zilara Cancun, for instance, that we've had this entire time and haven't spent any money in the last year, we're still up over 20%.

Chris Woronka: Okay. Terrific. Appreciate all those data points. Sounds really good. Last one for me is just on kind of going back to the capital, Bruce. And how would you look at something -- I understand your comment on ground up. But how would you look at something like the Zilara Cancun renovation that I think you wanted to do kind of pre-COVID versus another kind of conversion, rebranding opportunity, and then you have the management contracts? Just trying to get a sense for prioritizing those given what opportunities are out there in the market.

Bruce Wardinski: Sure. I mean, obviously, we've added some management contracts. The nice thing about management contracts, as you're well aware, is that there's no investment, right? So the return is incredibly positive and it really leverages and provides synergistic benefits to us as we're able to sell more rooms in a market. So there's a lot of benefits in management contracts. Next would be, okay, are there under-branded, under-managed opportunities? Absolutely. Absolutely, there are. And being the only public all-inclusive company, a lot of people watch us, right, in our space, in our industry. And owners are looking at the results, and they are saying, wow, my resort isn't doing as well as Playa is doing and why is that? And I think they look at the things we're doing with the brands, with our direct sales initiatives, with just our overall quality operations expertise, and they realize that we're driving more profitable results.

And so, with that, I think if we find an opportunity where something is under branded and under managed and still it kind of -- and I highlighted turnkey. And a lot of the things we're looking at are turnkey. So they're very high quality. So essentially, the disruption or level of investment would be incredibly minimal. That would be really, really attractive to us because you've seen the case study examples of where we have done that, and the results have been incredible. So if that existed, we would be very, very interested in it. And as I highlighted, while Ziva & Zilara Cap Cana is just an incredible asset, and I think will do so, so well. It takes multi years to get a project like that designed, built, and opened and ramped up. We don't need to do that right now. So that's the issue.

When specifically talking about Zilara Cancun, we've done kind of the more minor renovations without having big EBITDA disruption at that resort. Would we like to do a more significant renovation and potential expansion? Sure. But in today's world, I don't think that's the best use of our capital. So I think the best use of our capital would be to find those kind of turnkey opportunities that would generate great returns. And we're just kind of being patient and disciplined in looking at those.

Chris Woronka: Okay. Very good. Super helpful. Thanks guys.

Operator: Shaun Kelley with Bank of America. Pardon me, Shaun. Your line might be muted.

Chad Beynon with Macquarie.

Chad Beynon: Nice results. Thanks for taking the question. Wanted to ask about your EBITDA, I guess, going forward. Pretty impressive in the quarter. As we think about margins or free cash flow, flow through, is there a good way to think about what normalized margins could be if you start to print revenues that we saw pre-pandemic? Or, I guess asked another way, with the ADR increases, does most of that go right to the bottom line? Thanks.

Ryan Hymel: Right. No, that's a great question. I'll try and keep this as high level as possible. So I think, very similarly to what you've heard other companies say that this cycle, or even if you want to call it a cycle, it does not resemble anything that we've seen in respect to recovery and strength in ADR. So with that in mind, you've heard Bruce and I say in our prepared remarks that we expect ADR to remain relatively strong and occupancy to follow. And so stating the obvious, if the strength in the ADRs continues, this would allow us to hit comparable pre-pandemic property EBITDA margins at lower occupancy levels. Given the strength in the ADR, makes it easier to get back to that.

So as far as cost increase that we think about and for your model. So generally, throughout all of our destinations and in our segments, in any given year, we'd expect roughly 3% to 4% kind of resort level expense inflation in any typical year, largely led by wages, F&B, and sometimes energy costs and like. Starting in second half of 2021, we are seeing cost pressure stepping up to mid- to higher single-digit increases from a combination of inflation as a result of global supply chain issues and higher wages. And more importantly, investments and conscious decisions we've made in the guest experience, which we believe drive higher ADRs. Do we believe we can deliver better total expense increases from our cost management efforts? Sure. But right now, we're kind of planning for a 6% to 8% increase in those expenses.

And so, we expect that higher level of inflation likely through the first half of 2022. So that should help kind of give you a sense for the potential margin performance outcomes for Playa in 2022, when you think about to cumulative increases since 2018, 2019, 2020.

But the frame of reference, I try and bring everybody back to for this quarter specifically, as you saw in the results, our ADR growth in Q2 over 2019 was roughly 16% versus 2019, and we were able to hit property EBITDA margins of roughly 26% on only 50% occupancy. So it's a long way of saying, yes, we believe the higher rates lead to better margin improvement and allow us a better chance of offsetting some of those cost inflationary increases.

Chad Beynon: Thanks great. Thanks, Ryan. And then can we talk about the externally managed properties, which you've noted just continue to lag the owned and managed portfolio? How should we think about what this is correlated to? Is it more going to be driven off of tour operator demand? And you mentioned that airlift starts to look much better. Is that enough to get the externally managed properties kind of back up to -- closer to par with your other trends?

Ryan Hymel: So the thing that those two properties don't have going for them is that, one, they are not globally branded, two, they're filled essentially entirely from tour operator, higher cost channels. And you've heard us say throughout this pandemic that the tour operator channels are the weakest thus far. All of our direct channels are back up faster, the OTAs have come back more quickly, and the tour operators remain challenged. So those two properties are going to suffer.

Our hope and expectation, especially when you look at forecasted airline seats into that destination, which while they're not forecasted to be up as much from the international side, but they are forecast to be up quite a bit from the U.S. in the fourth quarter, like well up over 40%, our expectation is that kind of that rising tide should float all boats. If you look at the pacing for those two properties, from a revenue perspective, they do start to turn the corner in December and actually flip to positive. Obviously, that's disappointing when the rest of our portfolio there is up and the rest of our portfolio across the board is well up, essentially in Q3 and Q4. So our hope is that they kind of continue to move up, but we recognize that they are hampered from the get-go because they're not branded or managed by us.

Chad Beynon: Great. Helpful. Thank you very much.

Operator: Smedes Rose with Citi.

Smedes Rose: I was just wondering about the sort of overall competitive landscape? And do you feel like you're taking relative share from some of the other players in your core markets? And do you think that there may be distressed opportunities, I guess, that may come kind of a little bit similar to what we're seeing in the U.S. market? Or is it -- just any sort of color you might be seeing on that, in that respect?

Bruce Wardinski: Yes. Sure. I mean, so look, let's go from a big picture perspective. And obviously, we don't have as many Canadians and Europeans going into our markets. So first of all, it's a big shift to U.S. consumers, right? Second, you add in the vast majority of our properties as we've been discussing are globally brand -- I'm sorry, not brand managed, but have global brands on them, right? And so, we're very, very attractive. Add to that, the recent conversions and investment that we put in our resorts that happened right before the pandemic began. I think all of those kind of are factors that has resulted in us taking more business, no question, okay. And we're taking it.

So if you look at the dominance of the U.S. consumer going into these destinations, we're incredibly attractive. And then you look at the high quality of the properties and the level of service, again, very, very attractive. And so I think we're getting a bigger percentage, and people are willing to come to our resorts over many of our competitors.

And then I think, the other ones are also fighting for kind of what tour operator business or what other businesses is out there, and it's kind of a rate game. And we have chosen very, very deliberately not to play the rate game. Our objective is to drive higher rates and higher levels of service and long-term loyalty to our resorts, and I think that's what we're achieving right now that we'll continue to achieve.

When it comes to kind of distressed opportunities, there are no question there's distressed opportunities in the lodging industry overall everywhere in the world. And from our perspective, I think we were very prudent in we did what we had to do during the pandemic, and we're sitting in an enviable position right now.

Going forward, I think if opportunities present themselves, we would be able to take advantage of them and would want to take advantage of them because, again, I think it can drive outsized profit increases and outside value creation for Playa. If they didn't materialize, I think just organic growth, getting the high level of direct sales and expanding management contracts, et cetera, just that is going to drive very outsized EBITDA growth percentages in the coming months, in a couple of three, four years.

So I think we are in a very good position. It's like we said, things have changed surprisingly quickly. No one could have anticipated at our last earnings call or certainly a year ago that we would be in today's position, but we are. And could there be further disruptions? Absolutely. But I'm a strong believer that government and, more importantly, consumers and individual citizens aren't going to go back to a full lockdown and shutdown of the economy globally. As a world, we're going to have to learn to live with COVID. And that's just the reality of the situation, like we learn to live with a lot of other things. And so I think going forward, we're in as good a position as anybody and I think we'll take advantage of it as the weeks and months kind of evolve here.

Smedes Rose: Okay, thank you.

Operator: Shaun Kelley with Bank of America.

Shaun Kelley: Apologies. I missed a few of the prepared remarks. So if this is a little bit repetitive, then I apologize in advance. But I wanted to go back to the sort of just the general booking commentary, if we could. And what I was trying to get a sense of, and I know both, Bruce and Ryan, you alluded to this to some degree, is just the pattern of occupancy as it's building for the third and fourth quarter.

Can you just give us a sense of like what level historically would you have on the books for, let's call it, the fourth quarter's probably more important given the seasonality, would you have historically had? And then help us think about how those points of occupancy look today, if you could?

Ryan Hymel: Yes. So just as a quick recap of the 30% and high 30s percent revenue on the books for Q3 and Q4, we said today for the Playa managed, for Q3, it's almost entirely ADR driven and for the fourth quarter it's about two-thirds ADR driven. So it kind of helps answer the question on how we view occupancy building as we move towards fourth quarter. I think you've heard us say in the past that we still believe Q3, particularly September, as kids are returning to school, offices reopening, we expect to be a little more uneven and choppy.

To answer your other question, typically, right now, for the fourth quarter, we would have a little over 60% for what we would expect on the books at this point.

Shaun Kelley: Okay. So a little over 60%, Ryan. And you're basically saying that if you two-thirds of the gain that you're seeing is rate, then you're actually above that number today. So do you expect that number to slip a little bit, still kind of get based on your underwriting? Or do you actually think you can kind of hold onto that? And I'm only talking on the occupancy front.

Ryan Hymel: Yes. I think I still believe -- I said – I'm eating my own words, because I said it last quarter that I expected that those revenues on the books to compress them as we got closer, and you heard Bruce say, they hadn't. I still expect them to compress them as we kind of move into the third quarter, particularly this time of year, in a regular year, even pre-COVID, bookings start to slow down in the second half of August and into September for normal return to school and stuff like that. So I expect the third quarter to compress a little bit. And then I think fourth quarter, the revenue on the books, where we sit today, I think will compress a little bit more as well.

Shaun Kelley: Great. And then last question for me would just be on the international front. I mean, if all other things are equal, how much is that holding us back? I think DR is a particularly important inbound market for you. But like if everything else was equal, and we were back to 2019, but you had the international outlook that you have today, how much does that kind of hold us back from a full recovery?

Ryan Hymel: I mean, depending on the market specifically in the DR at those two, the two non-Playa-managed assets that certainly holds us back. The nice part that we converted to Hilton, what was a -- that property prior to being a Hilton was 80%, 85% European previously. So it's helpful that we have converted the portfolio. But we do want to see that market come back. The only thing that we'll do, though, it will potentially in 2022, kind of weigh on ADRs a little bit as Europe and Canada come back and we mix just kind of some of that incremental occupancy. But we would like to see that come back.

And kind of to your question, Shaun, if you look at, again, there's still forecasts for Q3 and Q4. But you've heard us reference that there's -- we're expecting a nice uptick or at least the groups are forecasting a nice uptick in flights and seats into our destination. To give you some context. Of the incremental flight gains into the country, a big chunk of them are expected for Europe. So for instance, of the incremental flight gains into Cancun in Q3 versus Q2, roughly two-thirds of that is international, whereas, in the Dominican and Jamaica it's pretty significantly weighted towards international travelers coming back. So that's the one thing that we have to (indiscernible) and check on.

Shaun Kelley: Great. Thanks guys. I appreciate it.

Operator: Patrick Scholes with Truist Securities.

Patrick Scholes: Bruce and Ryan, I am wondering if you can talk about the labor situation in your markets. Obviously labor domestically here a huge, huge issue for running hotels. I'm wondering what that looks like in your various markets? Thank you.

Bruce Wardinski: Sure. Fortunately, Patrick, it's not nearly as dire a situation as it is in the United States. So we have some unique situations here in the United States related to the unemployment benefits that continue into September and other kind of dynamics with lockdowns and restrictions in different cities, in different markets, and a number of factors, right? There's lots of factors.

In our markets, we haven't faced that. I'd say the biggest factor we face, and it's been particularly in Mexico, was the availability of vaccines for our workers. So fortunately, in the Dominican Republic, the president there was very aggressive, and we've got virtually -- virtually 100% of our employees are vaccinated in the DR. So we're in a great situation. And really from a labor perspective, there's no issues in the DR.

In Mexico, it's been a little slower, rolling out the vaccines. Until recently, they were only in 50 and above. And so they're now down to 30 and above, 30 years old and above. So that has been helpful, because most of our employees are kind of more in the 30- and 40-year-old bracket. So we've started to see good progress there, but that's impacted it. It's more kind of a transitory issue that we've had, because if there's any kind of COVID situation it's kind of temporary. But they're coming back, and that's what we are seeing. But I think as Mexico becomes more effective with the vaccination of our team members, that's going to be very positive.

And then in Jamaica, it's relatively the same situation.

So Ryan went over the cost increase expectations. Do we think there is going to be some costs? Sure. There's competitive dynamics and other factors that are driving that. But fortunately, the ADR increases that we're expecting, that have materialized and we are expecting, are so significantly higher, I think it's not going to have a negative margin implication.

Patrick Scholes: Okay. Thank you. And then trying to revisit a pre-COVID issue, and that was the customer acquisition costs. And certainly pre-COVID, which feels like a lifetime ago, there was that issue with your sourcing through Apple, I believe it was. Where do you stand with cost per customer on sourcing? And how much of that Apple issue have you been able to recover through sourcing through the brands? Thank you.

Bruce Wardinski: I'm not sure exactly what you're referring to with the Apple. But I mean, I can talk generally about cost of sourcing, acquisition cost of getting our customers. As we've stated, our goal is to be at 50% direct by 2023. Obviously, that is our cheapest cost way to get customers. And we've been incredibly successful during the pandemic, even though it's not fair to look at that on an apples-to-apples basis. No Apple joke intended here. But we're doing really, really well there. And I think our strategy and our focus on global brands and on direct sales and the investment we've made there in systems and dollars spent to acquire those customers is really paying off, okay? And that cost is very, very low.

Another big initiative we have done is to go again on other direct channels, whether its group or working with our direct portal with travel agents, a number of initiatives in order to kind of drive the business away from the more expensive channels. And you've seen that. And I think even when everything comes back, okay, so when all of the channels are fully operational, you're going to see our percentages significantly higher than the --

the channels we wanted to be higher are going to be significantly higher than they were pre-pandemic. And so I think we're on a good trend line with that.

I don't know if that answers your question, per se. But I think where we are today versus pre-pandemic is we're in a much better position today and I think we're going to be in a much better position in 3 months, 6 months, 12 months.

Patrick Scholes: Okay. Yes, that was good high level color. Thank you.

Operator: (Operator Instructions) Tyler Batory with Janney.

Tyler Batory: Thanks for taking my questions. Just to tie together some of the prior lines of questions, some of the previous discussions here, I really want to drill down into demands. And you've given some very positive data points here. You've given a lot of statistics on the airlift going up, which is positive. And we're seeing a lot of information that mirrors that in terms of seats coming into the market.

But can you talk or give any perspective on load factors or capacity? Because if the airlift is going up, if there's more flights coming, that's great, but if the planes are only half full, you're left with maybe a little bit of a different situation. And take a step back when we look a little bit more broadly here. I mean, is it really airlift and then obviously some of the capacity limits on occupancy, are those really the two governors to watch in terms of the business, on the occupancy side of things returning back to more normalized levels? Or perhaps do you think consumer preferences or maybe consumer comfort traveling outside the United States that maybe that has to shift a little bit as well from where it is today to get occupancy back to more normalized 2019 levels?

Bruce Wardinski: Yes. Well, I mean, there's a lot of factors that will affect things. But I mean kind of from a metric standpoint, I think you're right, you're looking at flights and load factors, right? And that's the most important thing to look for. When it comes to consumer preferences, I think we have done just an incredible job driving great service, which relates in great TripAdvisor and other social media rankings, which drives more business. And then people's willingness to travel or not travel, I think where that is from my perspective is, there's a lot more people that are willing to travel than were even two months ago, okay. And you can see it with the TSA numbers and how many people are flying.

The biggest negative for us is that there is still the requirement to get the testing to come back into the country. As we said, the test results are incredibly low. I mean, we have such low numbers on positive test results, so that's not really the issue. The issue is just people's perception of an added hassle in order to do that and so they think about it.

When it comes to the load factors, going to your first part of the question, coming into it, I mean, I can't address it from data, but I can address it from anecdotal. With all of our people that are traveling into the market as well as a lot of people I know, friends and others who have been going to our resorts because they tell me, the flights are full. So I think from that standpoint, it's a very good indication that the airlines are happy flying into our markets, which indicates to me that they'll fly more flights into our markets, especially as business travel remains muted. And I think with the increase in the Delta variant, it's going to remain muted probably for the rest of this year. We're not seeing that same trend. So I think that's positive for us.

But I think you watch the flight capacity going into the markets, I think that's a huge indicator. And I think that we'll continue to do well. And when the Canadian flights come back, when the European flights come back, as Ryan said, it could have some kind of impact because they tend to be a lower-rated business. But our focus is going to be going after the higher-rated segment there. And there is a higher-rated segment there. And I think there'll be some kind of overall market compression, and we can benefit from that, too.

So I think we want the flights to increase. They appear to be increasing in Q3 and I would imagine in Q4. And since the airlines are economically driven to make money, if that's where the business wants to fly, I think they're going to continue to fly to those destinations.

Tyler Batory: Okay. And then I want to follow up on one of the other prior questions as well. I mean lots of discussion about rates and ADR here. And based on some of your commentary, I mean am I right in thinking that perhaps occupancy could even normalize at a lower level than prior years just because of what you've done on rates, and perhaps you're okay with that, given some of the progress that you've made strategically on the distribution side of things and the progress that you've made, especially the past quarter or so in terms of where you're shaking out on the ADR side of things?

Ryan Hymel: Yes, that's absolutely a possibility. I mean, like using hyperbole, I don't think we'd be satisfied settling at 60% on a normalized basis from here. But traditionally, let's use the greater Yucatan or Cancun as the market. Traditionally our hotels run anywhere from the high 80s to low 90s year round. So if we settled somewhere a couple hundred basis points lower than that, that would not be the end of the world if you're yielding up on the rate side of things. We are in year-round markets. So you're never going to see us behave like a higher-end market that only does well for a couple of months out of the year. But that's not a bad outcome at all, just given what we are seeing here.

Bruce Wardinski: Yes, it was very frustrating us before because we had made, as you know, a lot of investment into the resorts, and there were a lot of kind of unique market-driven situations that impacted our business, particularly on the rate side. And that doesn't exist right now. And I think we are able to really materialize the rates that we should have been getting and you're seeing it. Because just, again, when I was referring to the competitive dynamic of resorts in the United States or other destinations, and you look at the value proposition from an all-inclusive, and particularly from such a high-end all-inclusive as our resorts are, and I think the consumers are realizing that this is a great deal.

Comment made to me by a couple people that even with the rates they're paying now, that they anticipate that the rates in the future will be higher just because our resorts are so great. I had some friends who went to a property recently, and they said, oh, my gosh, we're all going back. And we're figuring we're going to have to pay more, so we need to probably book now. And I think that's the dynamic that we are seeing.

Tyler Batory: Very helpful. And last question for me on the group business. And I think some of the data points that you provided there, very helpful, very positive. So I think the $30 million number that you gave, Ryan, how much of that is incremental, brand new business versus business that had to be canceled that is rebooked? And then what are you seeing in terms of wedding business specifically versus some of the more corporate incentive-type business coming back and being booked?

Ryan Hymel: Yes. So on the question around how much it is -- it's been so fluid, I honestly don't have a good answer for you. Look. We have recognize that a lot of the business or a portion of the business in 2022, is due to people moving. Which we're pleased that people no longer want to cancel, they would rather just move. So I can't give you like an exact number how much of it has just shifted. But I don't think it's more than 50% of that $30 million, to be clear.

Bruce Wardinski: And let me just say, too. I can tell you from our MICE Group recent contracts, which is new business, we have just set like two or three new records for new business that's coming into early 2022. And so I know those because they come across my desk, and I always send a congratulatory note to the salesperson. So that's new business. So again, like Ryan, I don't know the exact number. But I can tell you, it's a pretty healthy booking situation out there right now for groups.

Ryan Hymel: And on the wedding side, we break that out separately. That's the more social groups. That actually, I think we talked about it a couple calls ago. But that's one where we just, from the consumer standpoint, because that's not -- it's not 250 guests or a couple thousand people like big corporate meetings and incentive groups, right? So those groups, and particularly, if they're a little more familial-oriented, they were much more willing to start coming back sooner. There's a lot of couples or groups that didn't want to keep delaying a wedding, particularly in a venue that is largely outdoor, open-air footprint and they felt a heck of a lot more comfortable. So we saw those social wedding groups coming back much earlier this year when the world started opening up and vaccines were much more readily available.

Bruce Wardinski: And I'm glad you actually are focused, Tyler, on the groups, because I think it's really critical when you look at next year. So look at the fourth quarter and look at next year, and for the profit potential. So it's not just a rate game with the groups, right? The rates pay -- I'm sorry. The groups pay often the highest rates that we're going to get. But there's also a lot of incremental revenue that's associated with that business that we have not had. Let's face it. We haven't had it for a year and a half. And so when you start adding in that group business, it does two things. One is a really high profit level from the people that are attending with the group. And then you have the compression factor, and we're able to yield up on the remaining room inventory that we have to sell. So it's positive and positive. So having the groups come back is really important to our future success. We design, let's face it, Zilara, Zilara Cap Cana to be a group hotel and it is. Los Cabos is a group hotel. Rose Hall in Montego Bay is a group hotel. And I think you'll see those particular resorts really outperform as we get into the rest of this year and into next year.

Ryan Hymel: And like we said in our prepared remarks, 95% of the business that's on the books for 2022 is in the first half of the year.

Tyler Batory: Great. Appreciate all that detail, just extremely helpful. That's all for me. Thank you.

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

Bruce Wardinski: Great. Now all I want to say is thank you very much for participating in today's call. We're very positive about things and we're hoping they continue on the trend line. So thank you very much for joining us today.

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