[PLYA] Playa Management/Playa Hotels and Resorts
Q1 2022 Earnings Conference Call
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Company Participants:
Ryan Hymel, Executive Vice President and Chief Financial Officer
Bruce Wardinski, Chairman, President and Chief Executive Officer

Analysts:
Shaun Kelley, Bank of America
Chris Woronka, Deutsche Bank
Chad Beynon, Macquarie Research
Smedes Rose, Citi
Tyler Batory, Oppenheimer

Presentation

Operator: Good day, and welcome to the Playa Hotels & Resorts First Quarter 2022 Earnings Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

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

Ryan Hymel: Thank you, Chuck, and good morning, everyone, again. And welcome to Playa Hotels & Resorts first quarter 2022 earnings conference call. Before we begin, as always, I'd like to remind participants that many of our comments today will be considered forward-looking statements, and are subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated. Forward-looking statements made today are effective only as of today and the company undertakes no obligation to update forward-looking statements.

For a discussion of some of the factors that could cause 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 SEC. 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 today's call were included in yesterday's press release.

On the call today, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide comments on the first quarter and key operational highlights. I will then address our first quarter results and our outlook. Bruce will 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: Great. Thanks, Ryan. Good afternoon, everyone, and thank you for joining us. Once again, our first quarter results experienced a continuation of the fundamental momentum that built throughout 2021, and exceeded our expectations despite the impact from the Omicron variant during the early part of the quarter. As we shared with you on our last earnings call, our bookings accelerated materially at the beginning of the year, which we attributed to catch-up demand from the impact of Omicron on our bookings during the month of December in the ongoing recovery.

However, this elevated pace of bookings continued through the entire quarter, exceeding typical seasonal patterns, and is a highly encouraging trend, as consumer shift back to spending on services. As of May 1, our Playa owned and managed revenue on the books for the third quarter, is pacing up 37% year-over-year and over 70% versus 2019. And the fourth quarter is pacing up 23% year-over-year, and also nearly 70% higher versus 2019. Most importantly, this robust demand has come at very healthy ADRs. And we will continue to balance both occupancy and yield, while continuing to deliver on the operations and guest satisfaction front.

One of the interesting developments during this recovery has been the repricing of off peak periods, which resulted in highly abnormal ADR trends for Playa during 2021, with ADRs improving sequentially during each quarter of the year. We believe that we had likely seen a sticky rebasing of pricing during our summer period, and that the dips from the traditional high season might be shallower going forward. That view appears to be playing out in 2022 based on our bookings.

We expect our second quarter ADR to increase nearly 40% versus our second quarter 2019 ADR, which is an acceleration versus the growth rate reported during this first quarter. Our Q3 ADR growth on the books year-over-year is up nicely as well, and continued to build during the first quarter, successfully lapping the robust results from Q3 2021. We expect our Q3 ADR to increase at high single-digit rates year-over-year. Similarly, we expect Q4 ADRs to be up high-single-digits year-over-year as well, with momentum to the upside for both periods.

We expect our occupancy rate for the remainder of 2022 to improve slightly versus our occupancy in Q1. These ADR and occupancy gains bode well for our ability to deliver an exceptional customer experience and strong resort EBITDA margins.

Although this earnings call is to discuss results from the high season that just wrapped up, we're also highly encouraged by the book of business building for the next high season in 2023, as the year-over-year revenue and ADR pacing remained robust, driven by our MICE business pacing at 2x the pre-pandemic levels for the year ahead.

It is important to note that all these positive trends are occurring without us experiencing a full customer demand dynamic. There are still groups of customers, particularly families with young children, not traveling yet due to pandemic concerns. There are potential customers who do not wish to travel due to the testing requirements to reenter the USA, and the risk of having the return trip impacted.

And finally, we have not seen a full recovery of our international markets, particularly Asia, certain parts of Europe and our Canadian guests. The positive trends we are experiencing are even more encouraging, given the potential for higher demand levels once all customer segments have fully recovered.

With that in mind, let's turn to the first quarter fundamentals, which once again, improved sequentially with occupancies continuing to ramp up particularly in the Dominican Republic. The strength in the business was consistent and relatively broad based, with occupancy improving sequentially each month and consistently strong ADR performance.

As we discussed on our last earnings call, we did not expect record Q1 resort EBITDA margins, given the impact from Omicron and the absolute level of RevPAR and resort margins in our prior first quarters. But our results significantly exceeded our expectations as our MICE business during the quarter was not significantly disrupted by the Omicron variant, while close-in demand drove higher-than-expected ADRs, and our operations teams continue to execute at a very high level. I still strongly believe we are in the initial phase of the resurgence in travel and the trial and awareness of the all-inclusive experience also have a long runway.

In today's inflationary environment, our relative value proposition has become incredibly compelling despite our ADR gains. This value continues to be reflected in the pace of bookings, which is significantly ahead of last year on both revenue and ADR for the second half of 2022.

Looking at our segments, the Dominican Republic once again experienced the biggest sequential occupancy improvement in the quarter. As you may recall, the DR had the highest mix of European guests in the pre-pandemic period, which was a drag on its performance during the early part of the recovery, particularly in our mid-scale properties. The return of European guests has been the key driver in the segment and we are thrilled to be a destination of choice as they resume traveling.

Once again, our flagship Hyatt Ziva and Zilara Cap Cana led the way as it has established itself as a rate leader in the market, with the resorts EBITDA margins exceeding 45% during the first quarter with occupancy in the low 70s.

As a result of the strong first quarter, our trailing 12-month EBITDA at the Hyatt Cap Cana has already exceeded our goal of 12% to 15% stabilized cash-on-cash returns on our investment in just 2 full years of operation, and has not even reached its full potential. The segment's profit performance was weighed down by our 2 externally-managed properties, which have lagged behind our globally-branded resorts in the segment with respect to rate gains and margins. They also yield a significantly lower absolute ADR compared to our globally-branded and Playa-managed resorts, which is a drag on the segment's ADR gains as the occupancy improves at these properties.

Turning to Mexico, performance has remained steady in this segment and we expect this to continue as recovery progresses. Both year-over-year and sequential occupancy gains in Mexico were driven by higher MICE group mix and increasing guest counts from Europe and Canada.

Turning to Jamaica, despite being hit the hardest by Omicron of any of our segments, Jamaica had the largest sequential improvement in occupancy during the first quarter, largely driven by group business. The most encouraging development in this segment is the recent announcement that the pre-testing requirements to enter Jamaica expired on April 15. This bodes well for our business here based on the recovery we experienced in the Dominican Republic after removing the same requirement, and also in the negative impact on our Jamaican results following the implementation of the incremental restrictions.

While Jamaica has seen a nice pickup in occupancy recently, we have a lot of room for ADR improvement in this segment, as the restrictions that caused Jamaica's ADR gains to lag their potential and our other segments.

Our focus on direct channels continues to pay off. We're confident that Playa is on target with our 5-year plan to increase consumer direct business to at least 50% by 2023. In aggregate, during the first quarter of 2022, 42.4% of Playa-managed room nights booked were booked direct, down 8.2 percentage points year-over-year, reflecting the continued relative strength of our direct channels, including a significant acceleration in group and third-party source business.

During the first quarter of 2022, playaresource.com accounted for 15.7% of our total Playa-managed room night bookings, down 8.7 percentage points year-over-year. This is a critical aspect of our business I believe many overlook. We at Playa drive a significant portion of our direct revenue in-house, which is now a major competitive advantage for our current portfolio and for potential third-party-managed resorts in the future.

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

Now, taking a look at who is traveling, a little less than 40% of the Playa-managed room night stays in the quarter came from our direct channels as our group mix improved sequentially, and OTA mix remained significantly depressed. Geographically, our U.S. sourcing increased approximately 10 percentage points compared to Q1 2019, to 67% of managed room nights, while our South American sourced business increased 200 basis points and European guests mixed 6% points higher.

Given the changing state of travel restrictions, our Canadian and Asian customer mix remain significantly depressed versus pre-pandemic levels.

Our booking window was similar to what we experienced during the fourth quarter of 2021, but the first quarter was the first quarter in the post-pandemic period to exceed the pre-pandemic lead time for the comparable period.

Our length of stay during the first quarter was in line with Q1 2019, and was in line with Q1 2020. And this trend is expected to continue as we rely less on close-in bookings.

Once again, I would like to thank all of our associates that have continued to deliver world-class service in the face of pandemic-related challenges. Their unwavering passion and dedication to service is what truly sets Playa apart.

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

Ryan Hymel: Thank you, Bruce. Good morning, or guess it's good afternoon, everyone, again. 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 with the discussion of forward bookings and market trends.

As you know, we finished the quarter with a total unrestricted cash balance of just under $300 million. And I'm pleased to share that subsequent to the end of the quarter, we have satisfied the conditions for the release of our restricted cash pursuant to the terms of our property loan agreement, which totaled a little over $20 million.

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 $1.14 billion.

We anticipate our cash CapEx spend for full year 2022 to be approximately $30 million to $35 million, with approximately $5 million being carried over from CapEx we did not spend in 2021 as anticipated. The vast majority of our projected 2022 CapEx is maintenance-related.

Turning to our MICE Group business. While our business on the books in this segment saw some movement between quarters as a result of Omicron, we're pleased that we experienced very minimal cancellation activity during the first quarter and have seen a nice pickup in demand for the rest of 2022.

Our 2022 net MICE Group business on the books is approximately $41 million versus $36 at the time of our last earnings call. And it's well ahead of both our final full year 2019 MICE revenue of $32 million and well ahead of the $33 million we had on the books in early 2020 for that year prior to the onset of the pandemic. Nearly 75% of this MICE business is slated to stay in the first half of 2022, which is slightly more balanced than our MICE pacing at the time of our last call, as many of our incremental bookings have come the second half of the year, given limited space and some movement of existing reservations.

Our pacing for 2023 has remained quite strong as well, with nearly $21 million already on the books, which as Bruce mentioned, is roughly 2x the amount of MICE revenue we had on the books in April of 2019 for the year ahead in 2020.

Return of this MICE business should provide a good base to help manage yields and drive improved profitability year-over-year, particularly to our resorts in Los Cabos, Rose Hall, Cap Cana.

Now, moving on to the fundamentals, our first quarter results exceeded our expectations as a result of higher-than-expected ADRs and resort margins. Resort margins benefited from marketing efficiencies given the higher booked revenue position, while F&B costs were higher compared to Q4 due to both inflationary pressures, but much more importantly, additional targeted investments in the guest experience.

On the cost front, as Bruce mentioned, the teams have done an excellent job navigating the current environment. We continue to expect a similar degree of inflation in the first half of 2022 that we experienced in the second half of 2021. Though it is still early, we do not anticipate expense inflation to be worse in the second half of 2022, with the exception of increased insurance costs beginning in the second quarter of 2022 in connection with our regularly scheduled annual property policy renewal.

With respect to the top line, I continue to believe 2022 can be a phenomenal year for Playa, as I look out at how our book of business has been building for future periods. We're particularly encouraged by year-over-year ADR gains and revenue pacing in the second half of the year, as we expect to lap the second half of 2021's record ADR performance. Both the third and fourth quarters are pacing significantly ahead of the comparable periods in 2019. And just as importantly, ahead of 2021 in both revenues and ADR.

Looking at the second quarter, we expect occupancy to improve modestly versus the first quarter, with ADR up nearly 40%, when compared to 2019, as Bruce mentioned earlier, which should continue to lead to excellent resort EBITDA margins.

As we move into the second half of the year, the typical interplay between occupancy, ADR and OpEx for modeling purposes should again become easier. In order to maintain property margins we experienced in the second half of 2021, we will need to grow ADR slightly faster than inflation to account for additional headcount required for higher occupancy levels, until we reach stabilized occupancy. We expect occupancy to be in the mid-70s in the second half of 2022, and high single-digit ADR growth over 2021, with an upward bias on our ADR forecast based on what we're seeing in this current booking environment.

To give some additional detail and context on that, our ADRs for the second half of 2022 have continued to improve materially, since even our last earnings call, as we keep booking at significantly higher market rates, versus what is on the books already. And our forecast does not assume any further improvement. I hope that framework helps you as you fine-turn your models.

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

Bruce Wardinski: Okay. Thanks, Ryan. So in summary, given what we're seeing on the bookings front and the recent change in travel requirements in Jamaica, I have never been more optimistic for the ongoing recovery and our ability to drive value by providing a one-of-a-kind guest experience, increased ADR, and take care of our guests and Playa team members.

We will continue to look for ways to leverage our expertise, leadership and experience in the All Inclusive segment to create shareholder value. Playa is arguably the best positioned, institutionally focused owner and operator of all-inclusive resorts in the world. And we want to move quickly to continue improving upon our strategic initiatives.

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

Questions and Answers

Operator: We will now begin the question and answer session. (Operator Instructions). Shaun Kelley with Bank of America.

Shaun Kelley: So first question will just be hopefully an easy one and clarification. I think you said 2Q ADR to be up 40% over the same quarter in 2019, if I caught that right, Ryan or Bruce. And if that's the case, am I calculating that you're actually, yes, sequentially, you might be down, but you're kind of within striking distance of the ADRs that you posted in Q1? Again, I just want to make sure I'm in the right ballpark of that.

Ryan Hymel: Yes, you got all that correctly. Technically, I said nearly 40%, but you're right, Shaun. And then that's definitely within spitting distance of the ADRs that we just put up, correct.

Shaun Kelley: Super. Okay. Thank you for the clarification. And then the second question would be just a little bit more thematic. And I got pulled out a queue here, so if you said this, I apologize for the repeat. But when thinking about Jamaica, obviously, as the sort of the one market that you probably didn't have a major contribution for in Q1 relative to pre-Covid, any way you could help us think about the building blocks for maybe how much, if that market was stabilized, you might have left on the table there, be that in either revenue or EBITDA terms, preferably EBITDA?

Ryan Hymel: So we looked at a couple of different ways just based on how our other markets trended and built starting a couple of quarters ago for the first quarter to kind of triangulate the impact of that market and where it's at. So just in rough terms, it's roughly a 2.5% drag on our total Playa ADR growth versus 2019, or said differently, our ADR would be roughly $8 higher. It's roughly a 2% point drag on our occupancy; or to answer your question specifically, roughly a $6 million to $9 million drag on EBITDA or lost EBITDA potential.

Shaun Kelley: Great. And Ryan, that was just for the quarter, right?

Ryan Hymel: Just for Q1, correct.

Shaun Kelley: Super. Very last question, a little bit thematic, but obviously, we've seen just incredible numbers across a lot of the Caribbean markets. These types of metrics would theoretically attract a decent amount of interest from developers and supply. Can you just give us kind of current thoughts or outlook on the supply landscape? Maybe you can narrow it to maybe just Cancun and the DR to be thoughtful. But what are you seeing out there and how much generically are these markets? Do you expect these markets to grow in the supply front in 2022 and 2023?

Bruce Wardinski: Sure. In our markets, Shaun, if you look back over time and over a long period of time, there has been pretty healthy growth in supply year-over-year, and it's relatively easily absorbed into the market. The one good thing about kind of the all-inclusive world is that it's a more is merrier kind of situation, where as you have markets that have more and more rooms within the market, it attracts more airplanes seats, it attracts more customers, you can kind of throw out a wider net.

So first of all, I just want to comment on that because it's not like New York City where you have new rooms coming in and then rates are coming down. We've actually experienced just the opposite that demand is driven, and for us, particularly, most of the new rooms that I'm going to talk about are coming in at kind of competitive levels and prices that are below most of our properties. And so up at where our guests are trending right now, we're not seeing as much new supply.

So with that, if you look at Cancun proper, the hotel zone, there's virtually no new supply coming; there's no land there and there's nothing coming. So the resorts that we have in the hotel zone, I think are going to continue to perform exceptionally well and you'll see that.

So then you go down Riviera Maya, all the way from Puerto Morelos to Playa del Carmen to Tulum, and is there new stuff coming? Yes, there's new stuff coming. But as I caveated before, it's not necessarily directly competitive, but any new room is a new room, but you will see some projects. Hilton just announced, I think it was a 750-room new Hilton down in Tulum. The thing about Tulum is that's really far away down the coast. People, I think, are not familiar with how big the coast is. And the way to think of it, it's almost like going from Miami all the way up the Florida coast, or from Key West all the way up. So we're talking it gets up to like 90 miles, 100 miles of resort coastline.

So there are many distinct markets within that airport location. And the thing is the further you get away from the airport, the less attractive it is, particularly again, for our customer, okay? At lower price points, people are willing to be on a big bus and go an hour and a half or more, but we just don't see that. So while there will be new supply in Riviera Maya, I don't think it's going to be overly concerning to our resorts, okay? That's kind of the Yucatan.

Puerto Vallarta, much more restricted and limited -- I know you didn't ask about that. And Los Cabos, what you've seen in Los Cabos is it's been much more at the high, very high price point EP Hotels, not a lot in all-inclusive. So again, I think we're well-positioned.

In the Dominican Republic, it's a similar situation, I would call it, to Riviera Maya or Cancun. Most of the close-in properties are relatively built out, okay? So you look at our situation in Cap Cana with our flagship, it's even (inaudible) there. There's very little land space; there's a little bit in Cap Cana, but very little. So I think we're incredibly well-positioned there.

Other close-in locations near the airport in Punta Cana also historically have already been built out. I think the opportunity for us and others going forward would be more conversions, than new build. And so a lot of the new build that you're seeing in the Dominican are kind of newer destinations and destinations significantly further away from the airport.

So way up north past a market called Uvero Alto, or in the new markets of [Amana] and other newer locations. So the Dominican and the government and the Tourism Ministry are touting all of these and pushing them. But I think it's going to be more challenging to get people to go there, and I think they're going to be at lower price points. So again, while new stuff will come in, I think in the long run, it's not going to be overly competitive to us.

And then for Jamaica -- and I know you just wanted to focus on Dominican -- but just in the short term, there's really nothing going in Jamaica. So I think that's a good situation too.

Shaun Kelley: Thank you.

Operator: Chris Woronka with Deutsche Bank.

Chris Woronka: Congratulations on the quarter. Bruce, maybe we could drill down a little bit on customer mix and how it kind of relates to rate. It almost sounds like if you can keep these like-for-like rates structurally higher, where they are now, do you intentionally maybe stay away from certain buckets of business, whether that's how they're booked or certain geographies? Just is that possible? Should we think about occupancy not getting back to 80% or something?

Bruce Wardinski: Sure. Thanks, Chris, good talking to you, good question. From our standpoint, we have been focused -- and we've said this in previous calls -- on rate since the beginning of the pandemic. And back in the very beginning, our thought process was, hey, just lowering rates isn't going to drive any more business, right? The people who are going to travel are going to travel.

And then as the travel increased over the last couple of years, we've noticed a lot of very interesting trends. And really, it's a lot of new people trying out all-inclusive, so these are people who maybe previously would have gone to Europe or on a cruise or to other Caribbean islands, and those opportunities weren't available to them. Mexico, as people are well aware, never had restrictions at all on entering the country. The Dominican had it early on, but then lifted. Now, of course, Jamaica has lifted theirs.

So what you've seen is into our markets, it's been relatively easy to travel there and so because of that, we've seen a lot of different people. No question, the dominant supply market for us is the United States and that's been really good. Europe had more restrictions; Asia, that business still isn't coming back, and Canada also was shut down. So that was the biggest thing that changed, was just the percentage of Americans, so that increased.

But it's also the type of customer who that is and so I think we got a lot more exposure. And if you recall, right before the pandemic, we had just finished construction and the opening of Hyatt Ziva and Zilara Cap Cana, the renovated Hilton, 2 resorts, all-adults and all-ages in La Romana, and the all-adults Hilton in Playa del Carmen. So those things just were open, and we've had our plans to launch and ramp up the business, and then the pandemic came and they shut down.

So what you started to see in the last 12 to 18 months is really the ramp-up of those resorts and so you're seeing the strong customer acceptance of those resorts. The investment we made there and the quality of the resorts and the high level of service are really paying huge dividends for us. And so that's not really so much a mix change; it's just achieving what we expected to achieve anyway, even if there had not been a pandemic and so I think that's really positive to note.

And overall, and we've emphasized this, but I've got to emphasize because having listened to some of the other earnings calls from other lodging companies in the U.S., and concerns people have over sustainability of leisure rates, we're in a very, very different position. I think our rates are more than sustainable, and I would argue they're still incredibly cheap. And so if you look at the value proposition of ours, we're not seeing any kind of risk of the rates coming down for the rest of this year and going into next year.

And I think as more and more people get kind of dismayed by what they may have to pay to go in Arizona or a second summer in Fort Lauderdale, I think you're going to see that our resorts are going to be just great options for them and we'll continue to drive rates. So our focus is on rates, number one, okay? We're all-inclusive, so the more people we have, the more expensive, right, because we provide all the food and beverage. So it really makes sense for us, if we want to drive more down to the bottom line, to focus on rates and not necessarily occupancy.

We may never get back to some of the really astronomical occupancy levels that we ran in the past, and that's totally fine. I would much rather trade it off for higher rates and better customer experience. And that's what we're seeing, that's why we're driving high margins. And that's why I think we're going to get more and more people coming to our resorts, particularly in the summer season.

Ryan Hymel: And Chris, the only thing I'd to add to that, to your point just on the inflection and occupancy versus ADR, this marginal booking in a demand environment, like the one we have today, is incredibly attractive to the existing base of business versus a world where you're discounting to fill a final room and accepting essentially a low profit margin. In the world we live in today, the final room is incredibly, incredibly attractive.

Chris Woronka: Yes, for sure; very helpful commentary and agree with you on the relative value proposition, so that's great. Just as a follow-up, Bruce, this is kind of a spinoff of Sean's question, but more on the M&A side. With things looking pretty good for the future, do you think we're going to see any transactions out there that maybe give folks comfort in some of these per-room values that we might assign to your assets?

And secondarily, you talked about with rates hopefully being structurally higher, are there going to be more opportunities for you guys to participate, whether it's management contracts, or joint ventures, or anything like that?

Bruce Wardinski: Okay. I'd say on question one -- and I'll elaborate -- I'll say I hope so; and on question two, absolutely, yes, okay? So with the M&A opportunities, it's different in our market, as I know you know, but just kind of talking to the audience listening today. We don't have the breadth of institutional owners of our properties. Many of the resorts, all-inclusive resorts, in our markets are owned by family companies, owner operators; they have very long investment periods. They could be forever kind of investment period, so things don't trade as often. So it's always more challenging to see.

Having said that, the interest has just been building and building from all kinds of different players, institutional owners of real estate, the global brand companies, others looking to expand in the segment if they're already there, or others looking to enter the segment. So do I think there's a good possibility of M&A activity? Yes. Do I think those will trade at attractive prices that will make our values look cheap? Yes, okay? But I think that kind of answers to that question.

And then from our perspective, do I think we can grow and get more management contracts and new opportunities? I think absolutely, yes. So the good news about being the only public all-inclusive company and reporting our numbers, is that everybody gets to see our results. And so the positive is that our results have been really strong and growing. And that has brought people who may not have been interested in talking to us before, who are now looking at us and they want to talk to us about what we're doing with our strategy, with our global branding strategy on the resorts and the way we sell, as we've mentioned, the strength of playaresorts.com, the focus on direct sales, different distribution channels.

Every resort we add, owned or managed, to our portfolio, gives us more ability to spend money on reaching more and more customers, and I view that as a big positive. So I think it's going to be positive for us, and you'll see us make more announcements about growth.

Chris Woronka: Okay, great. Sounds good. I appreciate all the color. Thanks, guys.

Operator: Chad Beynon with Macquarie.

Chad Beynon: Congrats on the results. You guys provided a lot of commentary on the revenue side and I wanted to see how this could translate to EBITDA. I don't know, we generally think about it from a flow-through standpoint. And I think given the details that you've provided, the next couple of quarters, we'll probably see revenues anywhere between $15 million and $30 million off of what you guys just printed. But historically, that would lead to a greater degree of EBITDA decline.

I'm wondering how we should think about flow-through or margins. Any help there to kind of frame the back half of the year, which is certainly different than what you guys would do in 2017, 2018, or 2019?

Ryan Hymel: Yes, things are certainly off to a great start. And I think one of the things that we kind of want to get across -- like one, we've made it very clear that we're not immune to inflationary pressure, right? But we aren't having some of the severe issues that are out of control and for lack of better term, we're not getting completely crushed by costs like so many others in the world are. Inflation has always been a normal part of the operating environment in our regions and is really nothing new. We have labor cost increases, at least for the line staff, at least every year or in some cases every 2 years. And even though it's very elevated at the moment, we have a good experienced dealing with all that at the property level.

And so we think of it as a fairly fantastic opportunity for us to, one, kind of continue to flex the operating muscle that we've already done so, but actually play more often. And what you see -- and I was very specific in some of the prepared comments that while our costs are up, some of that is voluntary and very, very intentional. We're choosing to invest in the guest experience and maintain and grow our edge and maintain those rates that we've made very clear that are paramount to this operating margin and lead to record margins that you saw last year, and that we expect to be repeated again this year.

Just some simple examples of some of the things we've invested in, whether it's hires at the corporate level for food and beverage and procurement, staffing areas, we've made investments in the food and beverage quality and presentation at our properties. And I think more importantly, because we've been asked this before, do you think you're overearning now from a staffing perspective? Are you having some of the issues that you hear so many other operators talk about? And while we have our own unique set of circumstances from time-to-time, and as we've come out of the pandemic, currently our -- essentially, our labor per-guest or our headcount for guests is at or above pre-Pandemic levels. So I think we can definitively say we're not over-earning in this environment.

And everything I just mentioned right now, it was already in our Q1 numbers and is already there. So this continued rate environment that is completely playing in our favor, just given the relative value proposition that Bruce covered, and just given the fact that we can operate incredibly well, should lead to better margins than you've seen even in, like you said, in 2017 or 2018 or 2019.

Chad Beynon: Great, thanks, Ryan. And then just in terms of the outlook on the airplane side of things, do you have a sense of if there's been any push-back from the consumer as flight prices may have increased with the increasing gas prices, or just given that's such a small part of the overall trip, and more importantly, be experienced, the consumer is strong and they're looking past any increase on the flight side.

Ryan Hymel: Yes, in short, you're correct. Obviously it goes without saying, we always monitor and pay intention to anything that affects airline pricing, given it's the only way our customers can get to our properties, right? But ultimately, it kind of depends. Like most of the time, higher oil prices are result of a stronger economy and demand, and thus not really noticeable on our business. Obviously, commodity price shocks, however, certainly can cause some sort of hesitation or at least short-term issues with traveling, but to your point, we've not seen any of that or any effect in our business from the recent move in oil.

Obviously, it's likely a function of a very good and robust job market, higher earnings for a segment of the population. But I think one of the bigger factors at play -- and others in our space have kind of touched on this throughout this earnings season -- there's this ongoing shift back to services from durables; and travel happens to be the service that is universally loved by all. And as Bruce mentioned earlier, there's still a large swath of the population in the U.S. and abroad that still has not hit the road and traveled again. So, so far, so good.

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

Operator: Smedes Rose from Citi.

Smedes Rose: I just wanted to ask you specifically a little bit about the introduction of the Wyndham Alltra brand and how you see the initial take-up with customers there?

Bruce Wardinski: I think, Smedes, the brand has started very, very well. First of all -- and I think we may have said this before -- but our relationship with Wyndham in kind of the efficient operation coordination between our 2 companies, I'd say is exceptional. So that's just the first point.

Second, at that price point, as I alluded to when I was answering the supply question, is that's the big bubble in the all-inclusive world is that price point. So there's a lot of property at that price point. And what I think we have with Wyndham Alltra is the advantage of standing out from the crowd. So a lot of the other brands aren't that recognizable by consumers, particularly the U.S. consumers. They tend to source much more of it through to our operator channels and other high-expensive customer acquisition channels. And we try to do the same thing we're doing with our Hyatts and our Hiltons. And so I think that's a big positive for us.

At this point in time, extremely positive about the relationship with Wyndham Alltra. So we have 2, one in Cancun and one in Playa del Carmen. And it'd be great, in the very near future, that we could significantly expand that relationship and have a lot more of those properties. And when I commented on people reaching out to us, they see our results, they want to talk to us. I can assure you a lot of them are at that price point and I think that's going to drive a lot of growth with that brand in that relationship.

Smedes Rose: That could be more on the management contract side?

Bruce Wardinski: Yes. Could be acquisitions too and re-positionings, renovations, but also our management contracts on both, yes.

Smedes Rose: Okay. And then I'm trying to be like really specific here, but I just -- I did want to ask your -- the Cap Cana, the Hyatt Cap Cana, there is a large lot next to it that I think partially is being -- it looks like maybe some condos are going to be built there. But there is -- the Margaritaville opened fairly recently, and it looks like maybe there's another hotel coming up there or could be slated there.

I was just wondering if you could maybe talk about any impact you're feeling from the Margaritaville, or is it just this wholly different customer base? And your thoughts on potentially having another hotel adjacent to that one.

Ryan Hymel: First, I'll mention, that's a plot of land that, you're right, is immediately adjacent next door. Bruce can comment on whether or not -- I don't believe anything has actually fully been planned, despite what signs are put up there or not. But the Margaritaville, I think has been successful, but it's in a unique position. It's kind of behind our sanctuary asset that we operate and so it kind of has a funky situation layout and a very small beach.

Bruce Wardinski: Yes, I think that's true. So firstly, let's talk about Margaritaville. I think it's a nice project and very attractive construction project that was delivered there. But as Ryan said, about 80% of it sits behind our sanctuary resort, so it's not on the beach. So the part is kind of a big -- it's like a big -- almost like on the map, you can think of it like New York State, right, where you have kind of New York City, and that part sticking down, that's kind of a beach part of Margaritaville. So the access to the beach and the kind of water views, etc., are much more limited. So that's the situation there.

As far as impacting either of our properties in Cap Cana, it is not. I can tell you, it is not impacting either of our properties there. So I think that's kind of neutral to nonexistent. As far as that goes, we're driving plenty of business there at both the Sanctuary and the Hyatt Ziva and Zilara Cap Cana.

And then as Ryan said, that piece of land, I can assure you, there is nothing committed to that piece of land today. And we're obviously incredibly happy with what we've done in Cap Cana, and love to have more Cap Canas in the future. Let me just end it that way.

Smedes Rose: Thank you. Appreciate it.

Operator: Tyler Batory with Oppenheimer.

Tyler Batory: I just want to ask a margin question a little bit more directly here. And assuming high single-digit year-over-year ADR growth in the second half, what does that really imply for margin compared with 2021? It sounds like you're telling us that under that scenario, you expect margin will be flat with 2021 in the back half. I just want to be sure that I'm understanding that correctly.

Ryan Hymel: Yes, that's correct. It should be, give or take, but roughly at or near or slightly above those historical levels that we saw last year, correct.

Tyler Batory: Okay. Okay, great. I just want to be sure on that. And then in terms of the Jamaica announcement, and I appreciate some of the numbers you provided on that, but maybe just to play devil's advocate for a second, do you think this announcement really grows things, or is this potentially a scenario where there's just a little bit of a share shift? And maybe folks that were going to be going to Cancun or Dominican, are now going to be switching and going to Jamaica? And maybe it's that kind of a loss in terms of the overall business. Is that something that (inaudible)?

Bruce Wardinski: Let me just start and then I'll pass it over to Ryan, Tyler. But I'll tell you this, from my standpoint, Jamaica has always done incredibly well. It's a different market; people who go to Jamaica are historically very different than the people who go to Cancun or the Dominican Republic, okay? Typically, it's a much higher-rated business. You get a lot more Northeast U.S. people that go to Jamaica, as well as a very high UK component, given the historical connection with the United Kingdom.

Prior to the pandemic, just to refresh everyone's memory, Jamaica was our best-performing segment. So I don't think you're going to look at this and say, okay, it's just people switching, not going to Cancun or not going to Punta Cana and going to Jamaica. I think we're going to open it to a lot more people.

Second, let's just talk about again who typically has gone to Jamaica coming out of the Northeast markets. So it's a higher-rate market, much higher disposable income. And to be quite honest, it's a group that really has not come back significantly due to pandemic concerns, okay? So I think as things have changed, all the cities in the Northeast have opened up; people are getting more comfortable with the removal-of-mask mandates and other protocols related to Covid. I think the potential for Jamaica is huge, absolutely huge.

Tyler Batory: Okay, excellent. That's very helpful. And last one for me, I'm interested -- I know you track where your guests are coming from quite a bit and you follow that very closely. Do you think you're getting some incremental folks that have never been to an all-inclusive resort before that are coming down and maybe visiting you guys for the first time, and hope that they have a good experience and then come back?

I'm just kind of interested how that compares now in terms of brand new folks, or even just to your specific properties, maybe not just all (inaudible) --

Bruce Wardinski: Absolutely.

Tyler Batory: (Inaudible) --

Bruce Wardinski: Yes, absolutely, Tyler. We're seeing a lot more people who never experienced all-inclusive before over the last 2 years, okay? And part of it became -- we were the only game in town, so you could only go to our markets. And so as people looked at our properties, and I think there was a very high desire to stay at and all-inclusive because at the early part of concerns about Covid, people felt safer being at an all-inclusive. So they knew what we were doing and they didn't have to go outside to restaurants where they didn't know what the safety protocols were, etc. So they felt very comfortable. So we got a lot of people trying all-inclusive.

And It's always been the case. I've been involved in all-inclusive now for 20 years and from the very beginning, my goal and my kind of issue was like how do you drive more people, particularly U.S. consumers, to this segment, which I just think is an amazing segment and experience? And so every time you do, the people like it and they come back. We have a very high return percentage after we get people to come to our resorts and so I think that's a big part of what we do.

And then add to it our focus on branding. So we're the only one of the major all-inclusive who focuses on branding. Why do we do that? As we've said early on, we can never replicate what the brands can do. We can't have over 100 million, 150 million, 160 million members in a frequent-stay program, and the reach that the brands have; and the ability for people to use all of their built-up frequent stay points, and use them as redemption at our resorts. So our affiliation with the brands is another big component of it.

And then finally, looking what the brands have been doing over the last 2 years in all-inclusive. They are eager, they have grown and they're eager to grow even more. You saw Hyatt acquiring Apple Leisure Group; you saw Marriott doing the Elegant portfolio, and then the SunWing transaction. Accor just made a major announcement about their strategic focus on all-inclusive. They've been particularly focused in Europe and the Middle East and the Mediterranean, and now they're going to focus more on our part of the world.

So every time one of these brand companies takes the initiative to kind of drive all-inclusive, it's going out to tens of millions or over 100 million guests. And I think that is just really good for us. People start looking at all inclusive; they start looking at TripAdvisor ratings, we're at the top of the list. We get a lot of those eyeballs looking at us.

Tyler Batory: Very helpful. That's all from 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. Please go ahead, sir.

Bruce Wardinski: Great. Thank you very much. So just quickly, I just want to make a couple of points just to make sure people walk away with kind of the themes, hopefully they got them today. We had a great first quarter and we've got momentum rolling into the second quarter. We think our prices are still really cheap. As we said, it's a great value proposition for our resorts.

Our second half ADRs this year are surpassing really strong second half ADRs in 2021. Lots of cohorts have not yet started traveling, and as we mentioned, the people with young children or people that were hesitant during Covid, or people coming out of Europe or Asia or Canada, we're starting to see that business coming back. And finally, our MICE business is back and it's really building well into 2023. We think you take all of these components and things are looking really good for Playa.

So thank you again for participating this afternoon. Hope everyone has a great weekend.

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