[PLYA] Playa Management/Playa Hotels and Resorts
Q2 2022 Earnings Conference Call
Friday, August 5, 2022, 11:00 AM ET

Company Participants:
Ryan Hymel, Executive Vice President and Chief Financial Officer
Bruce Wardinski, Chairman, President and Chief Executive Officer

Analysts:
Patrick Scholes, Truist Securities
Shaun Kelley, Bank of America
Chris Woronka, Deutsche Bank
Tyler Batory, Oppenheimer
Chad Beynon, Macquarie Research

Presentation

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

I'd now like to turn the call over to Mr. Ryan Hymel. Please go ahead.

Ryan Hymel: Thanks very much, Dick. Good morning, everyone, and welcome to Playa Hotels & Resorts second quarter 2022 earnings conference call. Before we begin, I'd like to remind participants that many of our comments today will be considered forward-looking statements that 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, reconciliations to GAAP of the non-GAAP financial measures we discuss on today's call were included in yesterday's press release.

On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide comments on the second quarter and key operational highlights. I will then address our second 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 morning, everyone, and thank you for joining us. Business momentum continued during the second quarter as Playa generated the highest second quarter adjusted EBITDA in the company's history, as our occupancy rate continued to rebuild and our ADR growth compared to 2019 accelerated to approximately 40%.

As of July 24, our Playa owned and managed revenue on the books for the third quarter is pacing up nearly 35% year-over-year and nearly 75% versus 2019. And the fourth quarter is pacing up nearly 20% year-over-year and nearly 60% higher versus 2019.

Based on our business on the books, we continue to expect our Q3 and Q4 ADR to grow at a high-single-digit rate year-over-year. We have not observed any meaningful changes to cancellation activity or booking demand, but we are prepared to adjust our costs and staffing appropriately if we were to see a pullback in the consumer demand environment.

I want to remind everyone that not that long ago, we, like many others in our industry, were forced to go to zero percent occupancy, and then slowly rebuild back to our baseline over the past 2 years. So any adjustments needed to adapt to a changing demand environment are quite fresh in our memory and we will act accordingly if the conditions call for it.

With our book lead times at the healthiest levels we have ever experienced, we are confident in our ability to effectively manage through any potential slowdown, although we are not seeing anything on the horizon at this time.

As we look ahead to the upcoming high season, we are pleased with our revenue and ADR pacing, which have continued to build since our last call, led by demand in the MICE segment. I still believe the recovery and leisure travel is far from complete, and the consumer 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 our strong guest satisfaction scores and the pace of our bookings, which are significantly ahead of last year on both revenue and ADR for the second half of 2022.

It's important to note that all of these positive trends are occurring without us recapturing a full customer demand dynamic yet. There are still groups of customers, particularly families with young children, that are not traveling yet due to lingering pandemic concerns, as evidenced by the modest uptick in bookings we experienced following the removal of the USS testing entry requirement.

Additionally, to date, we have not seen a full recovery of our international markets, particularly Asia, certain parts of Europe and our Canadian guests.

Finally, I want to highlight that although our headline ADR growth compared to 2019 has been robust, I would like to remind everyone that the headline growth is benefiting approximately 3 percentage points from the noncash OTA billing methodology change highlighted in our earnings release, approximately 13 percentage points from asset dispositions of lower ADR resorts and the addition of our Hyatt Cap Cana resort. These are important considerations when contemplating our ADR growth sustainability and the compelling value we continue to offer our guests.

Strategically, we still believe that ceding some occupancy in favor of ADR mainly at our Hyatt resorts is the best path forward for Playa, as it establishes us as the rate leader from a competitive standpoint in our respective markets and is more manageable from an operation standpoint. With the growing inflationary pressure not only impacting consumers globally, but also the cost of operations for businesses, we are focused on pricing to continue offering a fantastic value to our guests, while dealing with the economic reality of higher operating expenses.

Second quarter fundamentals once again exhibited an acceleration in growth versus the comparable period in 2019, with occupancies continuing to ramp up, particularly in Jamaica. The strength in the business was broad-based, with ADR growth and occupancy gains leading to healthy margin performance, despite the challenging cost environment.

As we previously shared with you, the disruption from the Omicron variant had a particularly acute impact on Jamaica earlier this year, but our bookings for future periods, combined with the removal of Jamaica's Covid testing entry requirements, gave us a sense of optimism for the remainder of the year. Jamaica led our portfolio in occupancy during the second quarter and currently has more occupancy on the books for Q3 than our other segments.

We estimate that airlift capacity growth compared to 2019 into Montego Bay accelerated by nearly 15% -- by 15% sequentially during the second quarter, which drove international passenger arrivals to finally exceed 2019 levels on a quarterly basis for the first time since the beginning of the pandemic. ADR growth in the segment lagged the impressive underlying growth exhibited in our other segments, as there is a lag between demand growth and the lift to ADR, as higher-rated bookings mix in. In addition, future bookings in Jamaica have been stronger than our other segments, following the removal of its testing requirements.

This is all extremely encouraging, as we always believe nothing has structurally changed in Jamaica, which was our best-performing segment prior to the onset of the pandemic. This leaves considerable upside from the ongoing recovery in Jamaica as we head into the second half of 2022 and into 2023.

Turning to Mexico, which has led the way during the recovery for Playa, we had another strong quarter led by better-than-expected close-in demand on the Pacific Coast. The Dominican Republic continued to benefit from the capital investments we made prior to the pandemic, particularly the Hyatt Ziva and Zilara Cap Cana resorts, which had another stellar quarter, and are now generating a cash-on-cash return well above the high end of our target range of 12% to 15% on a trailing-12 month basis, with a resort EBITDA margin that was over 40% in the second quarter.

Our focus on direct channels continues to pay off, and we are 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 second quarter of 2022, 42.4% of Playa-managed room night booked were booked direct, down 6.1 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 second quarter of 2022, playaresorts.com accounted for 12% of our total Playa-managed room night bookings, down 10 percentage points year-over-year. This is a critical aspect of our business that 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 for potential third-party managed resorts in the future.

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

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 and tour operator mix improved year-over-year and OTA mix remained depressed.

Geographically, our U.S. sourcing increased approximately 10 percentage points compared to Q2 2019 to 67% of managed room nights, while our South American source business increased nearly 400 basis points and European guests mixed 1 percentage point higher.

Given the changing state of travel restrictions, our Canadian and Asian customer mix remained significantly depressed versus pre-pandemic levels. Our booking window was significantly longer than Q2 2019, a result of the robust pacing figures we have been sharing with you in recent earnings calls.

Our length of stay during the second quarter was 2% above Q2 2019 and 4% longer than Q2 2021.

Once again, I would like to sincerely 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'll turn the call back over to Ryan to discuss the balance sheet and our outlook.

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

As you know, we finished the quarter with a total cash balance of just under $349 million as of June 30. This balance is net of $25 million of mandatory debt repayments we made stemming from our 2020 asset sales. We currently have no outstanding borrowings on our revolving credit facility and our total outstanding interest-bearing debt is $1.12 billion.

Our net leverage on a trailing basis now stands at roughly 3.5 times.

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

Now turning to our MICE group business, our 2022 net MICE group business on the books is approximately $49 million versus $41 million at the time of our last earnings call, and is again well ahead of our full year final 2019 MICE revenues of $32 million. About a third of the $49 million is expected to stay with us in the second half of the year, with 40% of that in the third quarter and the remainder in the fourth quarter.

Our pacing for 2023 has remained strong, with nearly $31 million already on the books, which is roughly 2x the amount of MICE revenue we had on the books in July of 2019 or 2020, and also 50% higher than what we shared with you on our last earnings call. The return of this MICE business should provide a good base to help manage yields and drive improved profitability year-over-year, particularly at our resorts in Cabos Rose Hall and Cap Cana.

Now moving on to the fundamentals. Our second quarter results exceeded our expectations as a result of better-than-expected ADR and occupancy. With respect to the top line, occupancy came in slightly above our expectations, driven by close-in demand in Jamaica and the Pacific Coast. ADR also came in above our expectations led by better-than-anticipated ADR gains in the Dominican Republic at both of our managed properties.

On the cost front, as Bruce mentioned, the teams have done an excellent job navigating the challenges of the current environment. Our resort margins were well ahead of Q2 2019 levels and just 40 bps shy of Q2 2018 resort margins. Margins benefited from marketing efficiencies, given the higher booked revenue position, while food and beverage and utility expenses were higher compared to Q1, due to both inflationary pressures and targeted investments in food and beverage to enhance the guest experience.

I'd like to remind everyone of some of the factors that make comparing and analyzing our fundamentals versus the 2018 and 2019 periods difficult. First, as a reminder, we closed on the Sagicor transaction in June of 2018. And as you know, while the Jamaican markets are -- historically have had higher ADRs on a like-for-like basis, the operating costs are higher and that's at a lower margin profile.

Secondly, the construction disruption we experienced in 2019 related to our Hilton conversions had the most pronounced impact during the second and third quarters of 2019. And lastly, the Dominican Republic, as you recall, experienced a sharp slowdown related to perceived safety concerns beginning in June of 2019, and led to a material decline in profitability, which carried through the rest of the year.

At the segment level, as Bruce mentioned, Jamaica's sequential occupancy improvement during the second quarter was the notable standout. Following the relatively slower start to the year, performance in Jamaica improved during the second quarter. And we expect further improvement in the second half of 2022 based on the business we have on the books, improved MICE, booking pace and increasing airlift into the market.

The recovery in Jamaica has the potential to be a meaningful contributor to EBITDA growth in 2023, as the relative ADR growth has been muted versus our other segments and historically-comparable resorts. If you adjust ADRs in Jamaica for the mix impact of asset dispositions, like-for-like ADRs have only increased at a low double-digit growth rate versus 2019 during the first half of 2022. That's lagging comparable resorts by roughly 20 percentage points to 40 percentage points.

With the tailwind of the strength in the MICE segment and the removal of the Covid entry requirements, Jamaica will be particularly exciting for us to monitor in the coming months.

Looking at our other segments, the Yucatan Peninsula continued to deliver strong results driven by higher demand through our direct channels, leading to sequential occupancy improvement and reported ADR gains of nearly 60% versus Q2 of 2019, or approximately 39% adjusted for OTA commission adjustments and mix impact from asset dispositions. However, cost headwinds in food and beverage and utilities weighed on our second quarter margins in Yucatan, while they were still higher than 2019 levels.

The Pacific Coast had a fantastic second quarter, driven by strong demand throughout our direct channels and the MICE group segment, which helped to offset similar margin pressure from utilities and food and beverage costs.

Finally, our flagship Ziva and Zilara Cap Cana Resorts continue to lead the way in the [DR] segment with another quarter of strong margin performance. Results in the segment were once again weighed down by our two externally-managed properties, whose ADRs are still below 2019 levels.

As we look at the second half of the year, I continue to be excited about our potential based on how our book of business has been building. We're particularly encouraged by year-over-year ADR gains and revenue pacing in the second half of the year, and we expect to lap the second half of 2021's record performance. Both the third and fourth quarters are pacing significantly ahead of the comparable periods in 2019 and 2021 in both revenues and ADR.

For the second half of 2022, we expect occupancy levels to be similar to the occupancy rates reported in the first half of 2022 and a high-single-digit year-over-year ADR growth, which is an acceleration versus the second quarter in trend, when compared to 2019.

Another reminder on the modeling and comparability front, the change in the OTA billing methodology impacting our ADR was implemented during the second quarter of 2021, and should largely become comparable year-over-year in the third quarter of this year. The second quarter that we just reported was still materially impacted versus Q2 2021, as we had many reservations on the books ahead of the change, which are not subject to the new commission accounting treatment. We do not anticipate expense inflation to be materially worse in the second half of 2022, as compared to the first half of the year, with the exception of increased insurance costs, which began in the second quarter of 2022 in connection with our regularly-scheduled annual policy renewal and some higher F&B and utility costs. As a reminder, our costs experienced a step-up in inflation during the middle of 2021.

So in conclusion, we still expect to hold or grow margins year-over-year in the second half of the year, and lap the second half of 2021's record margin performance. We hope that framework helps guide you, as you fine tune your models and gives further insight in what we're seeing and expecting.

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

Bruce Wardinski: Great. Thanks, Ryan. With the increasing uncertainty in the macro backdrop, we are diligently focused on the areas within our control and are carefully monitoring the landscape. Given our leisure focus, the most important factor for our success will be employment, as a major uptick in job losses or confidence could potentially derail the shift back to travel and services from durables.

However, this morning's job report demonstrates no weakness in the overall labor market and gives no indications of an impending recession. As long as the job market remains strong, Playa's business outlook should be very positive. We believe the price certainty and amazing value provided by Playa continues to resonate with travelers, even in the face of an uncertain economic backdrop.

Finally, on the capital allocation front, we have recovered faster than most of us expected just a short time ago, and now have a healthy cash balance, which naturally begs the question, what is next for Playa? Our leverage has only now approached our long-term target of approximately 4x, and although financial market conditions aren't ideal at the moment, we anticipate refinancing our debt and extending maturities.

As part of the leverage consideration, our 9.25% interest rate property loan recently became callable, which is another potentially attractive use of capital that we believe will save cash, provide a solid return, help with our debt refinancing and reduce our long-term costs of capital.

Separately, we have been actively working for months on pursuing value-added projects that we have yet to announce, but which are a time-sensitive use of cash on hand.

Finally, if credit markets begin to cooperate, and our stock continues to remain severely depressed, we would be interested in buying back our stock at its current valuation.

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

Questions and Answers

Operator: We will begin the question-and-answer session. (Operator Instructions). Patrick Scholes, Truist Securities.

Patrick Scholes: A couple of questions for you here. Certainly, the valuation on where it's trading [technical difficulty] possibly what the value is of the properties [technical difficulty] looks certainly very attractive. And my question here is, would you ever consider doing on a typical property, selling off a joint venture piece really mark-to-market example of what your properties might be worth?

I think of Ryman Hospitality that did something somewhat similar with their entertainment segment, where there just weren't a lot of good comps out there; and they sold off a small piece of that and certainly, it was much higher than the Street was expecting. Would you do something to that effect, so that you get a good example of really what [these] are worth?

Bruce Wardinski: I think from an academic standpoint, the answer is, sure, we would consider it. From a realistic standpoint, I'd say it's less likely. So you think about it, first of all, Ryan went over what our cash balance is. So it's not like you need to sell an asset or even a part of an asset for any cash needs, right, because we have a very healthy cash balance, so that's one.

The second thing, I think the bigger overriding reason is the opportunity that exists for Playa in buying real estate in our markets is that it's an incredibly inefficient kind of market. You don't have, for example, reach like Ryman or others in our markets that are competitively bidding on properties all the time, and so that there is a very efficient market to buy and sell assets.

In our case, that's just kind of doesn't exist. It's why things don't trade very frequently. Maybe it creates some problems for people trying to find a comp. There is no question, if we thought there was an opportunity to do a joint venture with somebody, and sell properties and share, that would really be from a standpoint of growth, that we would be growing more than by doing something like that, then growing less. So that's why we would do that, but I'm not against it.

Do I inherently believe that we're undervalued? Oh, I think we're crazy undervalued. I think if you just look at the free cash flow we're generating -- and as I mentioned, there is no really indication of any weakness on our horizon. I think the market's always waiting for the other shoe to drop, and for our business, as long as people have income to spend to go on vacations, they're going to go on vacations. And as long as their health -- I mean, their employment is healthy, and kinds of job, wages are going up, they're going to continue to do that.

And for us, inflation is not a big negative. Sure, do we have some increase? We highlight it; we have some increase in food and beverage and utility costs. But overall, we're able to price our rates higher than our costs are going up, and as long as that exists, it's going to remain a positive dynamic for us. So we're not really fearful of inflation, and we're not really fearful that our business is going to be declining anytime soon.

Patrick Scholes: Okay. Thank you. My next question -- you recently announced you had landed a new management contract. Would you [technical difficulty] I guess an out win, or were there any concessions you had to make to get that [technical difficulty] when we think about --

Bruce Wardinski: No, no. Yeah, no, actually, that contract is a good example. So I was down in Mexico 2 weeks ago, meeting with the owners of that asset, and they were so excited to get to the point where we were signing that management agreement, and the reason being is that they look at our performance. Being the only public company in the all-inclusive space, I can tell you that people -- our competitors all look at our performance. And they said "Your performance at your properties is dramatically above what we're experiencing; we wanted you to take over and see what we can do there." And so they're excited. I think our prospects for really improving their performance are very, very high, and so we and they are excited about doing that.

So, concessions absolutely not. It was a very strong third-party management agreement. And I can tell you, we're in discussions with others and so hopefully, in the near future, we'll be able to make additional announcements. But I think it's an exciting time for us because our performance has been very strong, even stronger than those in the markets that we operate in.

Patrick Scholes: Okay. Congratulations on that.

Bruce Wardinski: Thank you.

Patrick Scholes: And my last question then -- and I'll admit, I think I probably know the answer to this one already. But when we [technical difficulty] land on some of the resort markets have done exceptionally well over the past year, whether it's Miami Beach or Vail and Aspen, we're starting to see some pressure on the growth. Obviously, you did [technical difficulty] in your numbers in 2Q, but as you look in sort of the [technical difficulty] and early next year, are you seeing anything noticeable on pressure on occupancy?

Bruce Wardinski: No, no, (indiscernible) and that's why we tried to make that point clear here. You're absolutely right, we're not seeing any notable -- any change or slowdown. While we're fully aware of the consumer cross currents, we're not seeing any erosion or ADRs in the portfolio. Just to reiterate again, like while our headline ADR growth is eye-popping, there are non-organic drivers impacting those numbers. But our underlying organic like-for-like is still very impressive and reasonably sustainable.

And I think in some of those examples, like places in South Florida and others, you kind of had a captive market or a captive audience that had nowhere else to go. And people may be willing to go to -- I don't want to disparage any particular markets in South Florida -- but people may have been willing to go there. But I tell you, well, they probably don't want to go back next year and pay the same rates, right, particularly with lower staffing levels, lower service levels; where we've opted to do the complete opposite and make sure that we're pricing appropriately, our pricing is still up, but the underlying ADR growth is not unsustainable, while still investing in the product and investing in staffing.

Patrick Scholes: Okay. [I'm all set.] Thank you for the color on all of those.

Operator: Shaun Kelley, Bank of America.

Shaun Kelley: So I just wanted to dig in a little bit on, first of all, Bruce, your upfront commentary there about just the trends you're seeing for Q3 and Q4. So if I kind of got all this right, directionally, you're up 35% in revenue in Q3, 20% in revenue in Q4 on bookings thus far and that's at high-single-digit rates. Those are all year-over-year figures. So the balance of sort of A minus B is the occupancy improvement you expect, which should get you kind of like low to mid-70s, similar to what you did in the first half. Did I -- how did I do?

Bruce Wardinski: Absolute, you're really good. (Laughter).

Shaun Kelley: Okay. Okay. Just wanted to make sure I caught all that as the decomposition. So really my question then goes into next year a little bit, right, as we do start to cycle. Like the recovery part, obviously, for Playa is largely done; Jamaica has a tailwind to it that's going to last for a bit, that you've outlined. But help us think about organic growth levers in 2023. What can push the story forward? As we are, from a consumer perspective, even if things don't roll, we've taken a lot of price in that lens.

So is it slowly building occupancy back up to the '80s and optimizing the resorts? Are there other organic opportunities around the properties? What can kind of drive mid or high-single-digit growth next year, as we -- once we kind of hit like a, let's call it, some sort of normalized level of demand?

Bruce Wardinski: Sure, sure. Well, let's step back and look at kind of what could keep going up and drive it. First of all, if you recall, we were definitely impacted in January and February by Omicron, right? So we did not have a normal first quarter of 2022. So right away, we're going to have a benefit of, fortunately, let's just assume, right, that we don't have another variant that's going to get us. So we should have a more normalized first quarter; we're going to have a big benefit there.

Second, okay, is just the Jamaica effect. As you're well aware, Jamaica didn't lift their travel restrictions until middle of April. So we have 3.5 months that were under travel restrictions that again, we should be able to significantly lap the results that we did in Jamaica. And Jamaica historically has been a great market for us.

And then the third big one is MICE, okay, and that you've seen our MICE business continue to improve. And then I'd say the final component that may not drive so much in the first quarter, but really probably in the second half of 2023 and then in 2024 and beyond, is going to be some of the capital projects. So we highlighted that we have these time-sensitive projects. We haven't announced what they are; we will announce what they are. But across-the-board, our success with our capital investment has been incredible. We have really good returns whenever we invest money in the projects that we've identified, not surprisingly are the best-returning projects, okay?

So as you look at what we're going to be doing later this year into the beginning of 2023, those projects are going to generate some really nice kind of organic returns going forward. So I think for all of those components, it paints a very positive picture for 2023.

Ryan Hymel: And Shaun, the only other thing I'd add is just kind of reiterate what I said earlier on Jamaica. And just as a reminder, from an ADR that was traditionally our highest ADR market, and if you look at how it's performed thus far in the first half of 2022, it's really only been up kind of high -- excuse me -- low-double-digit ADR growth over 2019, which when you compare it what the other guys have done, like comparable hotels like Ziva Cancun and others, it's lagged by 20 percentage points to 40 percentage points.

We've seen increasing airlift already start to build in that market and then, while it's small [with] ones and twos, but you just think about what's opened in the last couple years, we had the Ziva Riviera Cancun at the end of last year; the Hyatt Zilara Riviera Maya management contract that we started taking reservations for for December; the (indiscernible) that we just mentioned. And they continue to recover, the other third-party contract that we've already had, it's not an immense amount of additional revenue. But that proof point and that thesis is starting to build, and should add some nice revenue next year and beyond as well.

Shaun Kelley: Thank you for that. And then my follow-up is sort of the balance sheet, capital allocation question. So you alluded to the callability of the, I guess, the 9.25 notes. So that sounds like an obvious maybe first target for something but -- and I'm not super-familiar with exactly how much that would -- like just what kind of dollars we're talking about there, or refinancings potential.

But just help us think about maybe capital priorities because it would strike me as you're getting into the 3x and 4x level. You should be -- you're probably at that place where you want to reload maybe the organic growth basket especially if ROI potential around the properties is as high as you've demonstrated in the past?

Ryan Hymel: Yes, and you are absolutely right. So we think of it kind of in those couple of buckets. So first, as Bruce mentioned, the capital market, they are a little disjointed and not ideal at this point. But we certainly anticipate the need to refinance and extend the maturity of our debt. It's not due till 2024, but it's certainly something we're focused on, as you can imagine. I can't say much more than that, but it's something that's certainly top of mind. And we may need some cash to help smooth that process over and -- help smooth that process over and help our overall cost of capital for the long run, right?

And obviously, just like you said, that 9.25, debt which would save over $11 million a year in cash interest expense, is an obvious choice. And it just potentially helps kind of -- help facilitate a more smooth refinancing, whenever that time may be, if the markets remain a little more disjointed. As you're well aware, the high-yield markets have been incredibly bad; the leveraged loan markets are a little bit in better shape, but OID is still tough. So we're making sure we're preparing and getting ready in the background to address anything that we can, if and when the markets fix themselves.

But then to your point, you're absolutely right, and Bruce alluded it to you, but we've been actively working for months in preparing in the background. Our ability to pursue some compelling value-added projects that they're not yet announced or approved, but they're more time-sensitive and be a great use of our liquidity and capital.

Shaun Kelley: Great, guys. Thank you very much.

Operator: Chris Woronka of Deutsche Bank.

Chris Woronka: Bruce, you mentioned the time sensitivity on some of these CapEx opportunities, and I know you didn't want to get into specifics just yet. But is the time sensitivity due to something you think you need to do to maintain or grow market share, or is there another angle to the time sensitivity in terms of an approval or procurement or something like that?

Bruce Wardinski: Yes, it's more of the latter. So just a couple of things, some of the dynamics with a couple of properties, that's what it refers to. I don't want to overplay that. Obviously, we could do things faster or a little bit slower, but it's more -- there is great opportunities. I guess of any message I want to get across is there is great opportunities, and we have a really strong track record of delivering on those kind of projects, and we have more projects than we have cash, okay?

So in the perfect world, we do even more, but we've prioritized them. So we've looked at the best-returning opportunities and that's what we're going to focus on. And so I think the result's coming out and it will be probably like beginning in the second half of next year will be positive, very positive.

Chris Woronka: Okay. And just a follow-up on that, Bruce, if you do move forward with some of those, can you do it in such a way that disruption is minimized because obviously, you guys kind of went through that in, I guess, 2017, 2018? So can we get -- do you feel confident you wouldn't disrupt a very strong revenue environment to do those?

Bruce Wardinski: Yes, so the things we're talking about, Chris, are going to have way less of an impact on disruption than we had back in 2017 and 2018, so that's number one. And number two, we take into account the EBITDA disruption when we're evaluating and prioritizing the project, so that's definitely one of the key considerations.

It's always frustrating to me, look, when I was getting my MBA in Finance, everyone told me the capital markets were incredibly efficient, and they value long-term cash flow; and they would just kind of back out risk-adjusted results, and you do the best projects for shareholder value. Well, I've learned that's not the case, okay? The capital markets look next quarter and they want to see what your EBITDA is next quarter, and they assume if we have an EBITDA disruption next quarter, that's a permanent impairment of EBITDA and you never get it back.

So somewhere between the practical [way] the capital market value and the theoretical is what we're focused on. But we're going to do projects that makes sense for driving shareholder value and that's what we're doing. But we definitely keep our eye on that EBITDA disruption issue.

Chris Woronka: Okay, great. And then last one is on the non-package revenue, really strong number there in Q2 and both on an absolute basis, but even more impressive for occupied room basis. Can you tell us what drove that? Was it something intentional? Can you maintain some of that momentum going forward, or is it more just a function of kind of higher pricing on everything at the resort?

Bruce Wardinski: It's a couple of levers there. So one, there was a few things that we're putting in place prior to the pandemic that just allowed us to roll it out more quickly, like selling private transfers to and from the airport through our website. We started, we'd already kicked around the idea of selling or charging for cabana usage at the properties while in a socially distance world upon reopening in 2020, everybody wanted those. We started building more cabanas and charging more for them, but still offering them at a very competitive price, compared to what you'd get in South Beach, for instance, right? We were able to do more spa business.

And so long story short, we did a nice -- we have a nice base that already grew throughout the pandemic. And now what you're seeing is that you've layered on the return of MICE and wedding business, whose doing a lot of events and dinners on the beach and celebrations and things like that. I was in Cap Cana in July.

As an example, we've hired now three Indian chefs, certified chefs, and we're doing very large Indian weddings there and the one that I was there was a relatively cheap one and I think it was $275,000 over 4 days, right? And I was blown away with just the amount of -- just like the over-the-top celebration at that resort. And again, that was a relatively cheap one. So very focused on (inaudible) package spend.

Chris Woronka: Okay, super-helpful. Thanks, guys.

Operator: Tyler Batory of Oppenheimer.

Tyler Batory: Can you talk a little bit more about performance within the portfolio at the different brands? Obviously, the rate commentary holistically, very positive, but is that being more driven by the Hyatts than the Wyndhams, for example? Are you seeing any weakness in terms of some of the lower-rated business within your portfolio?

Bruce Wardinski: No, nothing yet. Certainly, the Hyatts have always been kind of the core outperformers in our portfolio compared to kind of Hiltons and the Wyndhams, but we're not seeing a slowdown. If you're trying to get at like the lower-end consumer, I still think even at our Wyndham Alltras and the Hiltons that's still kind of a mid-tier consumer and that business is still very, very strong right now.

We have pockets in various markets that are just different from one another. Like you've heard us say many times that Playa del Carmen, that whole market, that includes the Hilton and now a Wyndham Alltra, recovered more slowly than Cancun for all obvious reasons. It had more supply over the years down there; it's further from the airport; it's not Cancun proper. But we're not seeing any pockets of weakness at the lower-end properties vis-a-vis the high-end Hyatts.

Tyler Batory: Okay, great. And my follow-up question, there is lot of headlines, news stories, about the challenges for the airline industry, issues with flights getting canceled, rescheduled, capacity issues. Is that something that you've noticed in your markets? And what does the flight capacity look like in the back half of this year? Is it ramping up? Are things kind of a little bit more stable?

Ryan Hymel: We've not had any of the cancellation issues that you've seen in kind of longer-haul flights in Europe than others. The back half of the year, based on the data that we received, there's been a nice -- a fairly large upward revision in Q3 and Q4 on top of what was already happening. You heard Bruce mention earlier that we finally crossed the threshold in Q2 for positivity and in arrivals into Montego Bay. And that's essentially doubling in Q3 and into Q4, and then bigger upward revisions in Cancun and Montego Bay and Los Cabos as well. So not seeing that show up in any of the numbers.

Tyler Batory: Okay, excellent. That's all from me. I appreciate the detail. Thank you.

Operator: Thank you. (Operator Instructions). Chad Beynon, Macquarie.

Chad Beynon: We get a lot of questions from investors just around kind of a macro-downturn hypothetical. Given your model, can you talk a little bit about some of the things that you could do if we see a slightly more price-sensitive consumer, or just kind of a general, weaker consumer out there to kind of keep margins at a relatively strong point?

Bruce Wardinski: Yes, I'll let -- Ryan can get into the details of that. But Chad, but I'll tell you, just from the overall standpoint, I've been in the all-inclusive business now, it's been 20 years. And I can tell you going through different down-cycles, all-inclusive does incredibly well in downturns, incredibly well. And why is that? It goes back to the value proposition and the fact that you know exactly what you're going to spend going into it, and so it's not like this unknown.

And so I would look at it and I see no signs and quite honestly, I tend to be more kind of a cautious person, not negative, but more cautious looking at kind of the downturns. I just don't see it, first of all. But if it comes, I think we will benefit much better than kind of traditional players will benefit. And I think we do have some levers to pull to manage through that. And then I'll pass that part over to Ryan.

Ryan Hymel: Yes, I think the only thing I'd add, just like more specifically, I think it depends a little bit on the property. But if you think about the Hyatts and just generally across our portfolio from the beginning, Bruce has been pretty adamant about making sure that we're maintaining price and ceding occupancy in favor of ADR to establish that competitive positioning. And at the same time, so if there were to -- that environment were to present itself, we're okay with giving up some occupancy because it makes it easier on the ops team, and it allows us to kind of continue to price [effectively] when a rebound were to take place.

It may -- that strategy may differ slightly at a lower-chain scale property because you can be more flexible with expenses, given the different guests expectations. But in general, the marching orders from the beginning of this recovery then favor rate and not over-fill the properties.

Chad Beynon: Great, thanks. And then separately, you mentioned some of the international inbound markets are recovering, but still certainly not where we saw it pre-pandemic. Can you talk a little bit more about Canada, Europe, Asia? Asia, obviously, has pretty strong restrictions, kind of where that group of inbound percentages collectively maybe versus where we were pre-pandemic. And if you're starting to see improvement in that inbound?

Bruce Wardinski: Yes, Europe, there were parts of Europe that did actually recover fairly well. Actually, Q1 is just a percentage of our overall room nights. Europe was actually higher than it was in 2019 by just like 100 basis points. We did see some choppiness at a few properties in June, but that has not continued into July. So no cause for concern there. Just recognizing everything that's happened in Europe, right, over the last couple of months.

Asia and Canada are still severely lagging, as you can imagine. Canada prior to the pandemic was roughly kind of 5% to 8% of the overall room mix, and Asia was less than 4%. So it's not a massive part of the picture. But Canada is the one that's lagging most behind.

Chad Beynon: Thanks, guys. Appreciate it. Nice quarter.

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

Bruce Wardinski; Okay, great. Well, again, we appreciate everybody's time today. We think the business in the quarter was obviously very, very strong. We're looking forward to continued strength throughout the rest of the year and into 2023. I think as you picked up from my comments, I don't see the world coming to an end. So hopefully, it's not going to happen anytime soon, and we can continue to really execute at a top level.

So again, thanks for participating in our call, and please go ahead to apply playaresorts.com and book a stay at one of our resorts. Thank you.

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