

**[PLYA] Playa Management/Playa Hotels and Resorts  
Q4 2022 Earnings Conference Call  
Friday, February 24, 2023, 11:00 AM ET.**

Company Participants:

Ryan Hymel, Executive Vice President and Chief Financial Officer

Bruce Wardinski, Chairman and Chief Executive Officer

Analysts:

Patrick Scholes, Truist Securities

Dany Asad, Bank of America

Chad Beynon, Macquarie Research

Smedes Rose, Citi

Tyler Batory, Oppenheimer

Chris Woronka, Deutsche Bank

**Presentation**

Operator: Good morning, everyone, and welcome to the Playa Hotels & Resorts Q4 2022 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please also note that the event is being recorded.

At this time, I'd like to turn the floor over to Ryan Hymel. Please go ahead.

Ryan Hymel: Thanks, Jamie. Good morning, everyone, and welcome to Playa Hotels & Resorts fourth 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, 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](http://investors.playaresorts.com) with the company's recent releases.

In addition, reconciliations to GAAP of the non-GAAP financial measures we discuss on the 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 fourth quarter, demand trends and key operational highlights. I will then

address our fourth 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. The fourth quarter capped off Playa's best year in our relatively short history, as we continue to execute on our strategic objective of increasing the value and service we provide our guests while yielding ADR appropriately as demand and awareness of our high-quality resorts continue to build.

Despite persistent fears of a potential slowdown in leisure travel, our business performed well during the fourth quarter, and our net bookings for the Playa owned and managed properties have reached new weekly highs so far in 2023. We have seen no noteworthy changes in cancellation activity, but as we have previously stated, we will adjust our costs and operating protocols accordingly if there were to be a pullback in guest demand.

Playa generated the highest fourth quarter adjusted EBITDA and owned resort EBITDA margin in the company's history, as our compelling value proposition continued to resonate with travelers, as evidenced by our ADR growth compared to 2019, accelerating to approximately 67% on a reported basis, or approximately 46% on a like-for-like basis, adjusted for portfolio mix and non-cash adjustments.

I'd like to note that these ADR gains coincide with our own and third-party NPS scores reaching new highs, a true testament to the attractive value proposition of the all-inclusive experience, particularly in an inflationary world.

As I mentioned before, although our headline ADR growth compared to 2019 has been robust, the headline growth in the fourth quarter benefited by approximately 20 percentage points from noncash adjustments, 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.

It is also worth noting that the absolute underlying ADR dollar change versus 2019 during the second half of 2022 was less than \$100. 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, is more manageable from an operations perspective and improves the overall guest experience.

Fourth quarter fundamentals exhibited a sequential acceleration in growth versus the comparable period in 2019; and on a year-over-year basis, with healthy occupancy and broad-based ADR strength leading to year-over-year margin improvement, despite the difficult expense inflation environment, lapping record fourth quarter margins from the prior year and the impact of hurricane-related closures, resort closures, in the Dominican Republic.

Jamaica had another strong quarter as the recovery accelerated during the fourth quarter with underlying ADR growth versus 2019, roughly in line with the Yucatan segment and occupancy levels higher than Q4 2018, 2019 and 2021.

As a reminder, Jamaica removed Covid-related travel restrictions requirements during the second quarter of 2022. And we anticipated that Jamaica would see demand accelerate, as this was our best-performing segment prior to the pandemic, and we didn't believe there were any structural issues that would prohibit demand from recovery.

The pace of the recovery in Jamaica has been stellar, and we hope to carry the momentum going forward, particularly as the MICE segment there continues to recover. Aided by a higher mix of groups, I am optimistic that the recovery in Jamaica has a healthy runway.

In Mexico, the Yucatan led the way on occupancy and saw underlying ADR growth versus 2019 of nearly 50%, while the Pacific Coast reported another quarter of robust ADR growth, up 24% year-over-year, also aided by the highest fourth quarter group mix we have experienced in that segment.

In the Dominican Republic, following the temporary closure of several resorts late in September due to the impact of Hurricane Fiona, we reopened all of the disruptive resorts largely ahead of schedule during the fourth quarter. The properties reopened better than ever, and more importantly, we experienced little to no slippage in booking demand.

Finally, over the past few months, we assumed management of the two resorts in the DR that were previously managed by a third-party on our behalf, and rebranded them as the Jewel Palm Beach and Jewel Punta Cana, respectively. As is usually the case, there was significant disruption during the transition process, as the resorts were handed over to us with largely blank slates with insignificant revenues on the book.

In addition, we decided to perform some renovation work during the transition period that is not materially expensive from a capital perspective, but will require one of the resorts to be closed for a short period of time in the first quarter. I will discuss our plans for these resorts later on the call.

As of mid-February, our Playa owned and managed revenue on the books, excluding the two new Jewel properties in the DR, for both the first and second quarter is pacing up over 30% year-over-year with ADR gains accounting for roughly 1/3 of the increases. It is important to note that these figures include the impact from the resorts we temporarily closed in the Dominican Republic as a result of necessary repair work related to Hurricane Fiona.

During the post-pandemic period, we began to experience a slight change in our typical seasonal demand patterns, as the summer period saw less of a dip in ADR versus high season, which we believe would be largely structural and sticky going forward because frankly, we were previously too inexpensive relative to the product offering. And a more pronounced seasonality will likely re-emerge as a result of demand pushing up high season pricing, not necessarily as a result of a drop in third quarter pricing, as the value is now being better recognized by the consumer.

With that in mind, our third quarter revenue on the books is pacing up over 20% year-over-year, with ADR up high-single-digits again, driving a significant portion of the increase. We are pleased with our revenue and ADR pacing, which have continued to build since our last earnings call.

We are also pacing well ahead of last year in the MICE Group segment, with further potential to drive more MICE business in that segment in the second half of the year.

Shifting to bookings, 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 transient consumer direct business to at least 50% by 2023.

In aggregate, during the fourth quarter of 2022, 43.2% of Playa-managed room nights booked were booked direct, up 160 basis points year-over-year, growing year-over-year for the second straight quarter. Excluding group business, approximately 47% of our Playa-managed room nights booked were generated via direct channels.

During the fourth quarter of 2022, playaresorts.com accounted for approximately 15% of our total Playa-managed room night bookings continuing to be a significant factor in our customer sourcing and ADR gains.

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 OTA mix improved year-over-year, though our OTA mix remained depressed compared to pre-pandemic levels.

Geographically, the biggest change in our guest mix during the fourth quarter was the resurgence of our Canadian guest mix, which was up approximately 7 percentage points year-over-year, nearing pre-pandemic Q4 mix levels.

Our U.S. guest mix was steady year-over-year, and remained significantly higher than the pre-pandemic period.

Our European-sourced guest mix was down significantly year-over-year, but in line with pre-pandemic levels. If you recall, we had a rather large surge in European source guests during the fourth quarter of 2021, particularly from Ukraine and Russia, which subsided during 2022.

Our Asian source guest mix improved modestly year-over-year, but remained the most depressed as it is only about 20% to 25% recovered.

Our booking window of over 3 months was slightly longer than Q4 2019 as a result of the robust pacing figures we have been sharing with you in our prior earnings calls.

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.

Finally, on the capital allocation front, as you may have seen, our Board of Directors reauthorized a \$100 million share repurchase program in September of 2022, given the recovery in the business, moderating leverage ratios and the attractive valuation of our stock. After the reauthorization, we repurchased approximately 7.8 million shares during 2022 and another approximately 1.5 million shares in 2023, or approximately 5.5% of the diluted shares outstanding as of the end of Q3 2022 for total proceeds of approximately \$56 million.

Given the current valuation of Playa stock, share repurchases have played a bigger role in our capital allocation decisions versus ROI CapEx projects. Taking into consideration the repurchases to date and the company's expected cash generation, our Board of Directors recently approved a new \$200 million authorization to provide ample flexibility with respect to the company's capital allocation. While we still fully intend to pursue capital projects, the hurdle becomes that much higher when the stock is so disconnected compared to fundamentals.

Also, as part of the capital allocation framework, we have decided not to pursue a significant renovation and repositioning of the two Jewel properties we recently took over in the DR; and instead, have engaged a broker with the goal of selling the properties in 2023, and to use the proceeds to further fund high-priority projects and to continue to repurchase shares. In the interim, we are confident that we can return these properties to profitability as we increase our sales efforts.

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

Ryan Hymel: Thank you, Bruce. I'll begin with our capital markets activity during the fourth quarter. And I'm pleased to share that we completed a refinancing of our total debt stack during the fourth quarter, replacing our previous term loan due 2024, our property loan due 2025 and revolving credit facility, replacing those with a new \$1.1 billion term loan maturing in January of 2029 and a new \$225 million revolving credit facility, replacing our prior \$60 million line. The new capital structure provides us with ample flexibility and liquidity to continue investing in high-return all-inclusive projects, repurchasing shares and greatly improves our ability to plan our project runway going forward.

We finished the year with a total cash balance of \$284 million following the completion of the refinancing. We currently have no outstanding borrowings on our revolving credit facility, and our total outstanding interest-bearing debt is \$1.1 billion. Our net leverage on a trailing basis stands at 3.4x.

We anticipate our cash CapEx spend for full year 2023 to be approximately \$55 million to \$65 million for the year, partitioned out between roughly \$35 million to \$40 million for maintenance CapEx and the remainder to more ROI-oriented projects.

On the capital allocation front, as Bruce mentioned, our Board of Directors reauthorized a \$100 million share repurchase program back in September of 2022. And as of January 31, we've repurchased \$56 million or 9.4 million shares under that authorization, and have since increased our authorization in 2023, bringing our repurchase capacity to \$200 million.

With our leverage-rate sales well below 4x, the anticipated free cash flow generation of the business and the attractive valuation of our stock, we believe repurchasing shares is a very compelling use of capital, and intend to use our discretionary capital available to repurchase shares going forward, depending, of course, on market conditions. We'll also continue to invest in our business to deliver value to both our guests and shareholders, but the bar is high for new projects on a risk-adjusted basis, given the valuation of our stock.

Turning to our MICE Group business, our 2023 net MICE Group business on the books is approximately \$50 million versus \$40 million at the time of our last earnings call, and is well

ahead of our final full year 2019 MICE revenue of \$32 million. The vast majority of the MICE business on the books for 2023 is scheduled to stay with us during the first half of the year, as compared to roughly 2/3 of 2022's MICE business being first-half weighted. A significant portion of the MICE business realized during the second half of 2022 was shorter lead-time business compared to typical MICE bookings during the high season. Our sales funnel and pacing for the second half remain healthy.

Now moving on to the fundamentals. Excluding the impact from Hurricane Fiona on our DR segment, our fourth quarter results exceeded our expectations as a result of better-than-expected ADR, occupancy and less inflationary pressure on F&B and utilities.

With respect to top line, occupancy came in above our expectations, driven by close-in demand in the Yucatan and Jamaica. ADR also came in above our expectations due to better-than-anticipated ADR gains in the Dominican Republic at both our managed properties following their reopening post-Hurricane Fiona.

On the cost front, as Bruce mentioned, the teams have done an excellent job navigating the current challenges of the environment. Our resort margins were well ahead of Q4 2018, 2019 and 2021 levels. And as I mentioned on our last earnings call, we began to see stabilization in F&B and utilities costs on a per-unit basis around the middle of 2022. And we're hopeful that the inflationary pressure from these two areas would begin to ease as we moved into 2023 and lapped the surge that occurred around the start of 2022. We began to see signs of this during the fourth quarter, driving a significant portion of the upside to owned-resort EBITDA outside of the DR. Although it's nice to see some cost relief, these expenses can be volatile quarter-to-quarter.

I'd also like to point out that we're forecasting our insurance premiums to increase substantially in 2023 during our April renewal, and this line may pressure second-half margins. This expectation is not only due to our own claims related to Hurricane Fiona, but several incidents that plagued the insurance industry in 2022.

At the segment level, as Bruce mentioned, we experienced broad-based strength in Q4, excluding the impact of Hurricane Fiona. Jamaica made more headway on closing the gap versus other segments, with underlying growth versus Q4 2019, just shy of the Yucatan segment. Adjusting ADRs in Jamaica for the mix impact associated with asset sales, like-for-like ADRs in Jamaica are still lagging comparable peers by roughly 10 to 15 percentage points. As a reminder, Jamaica got off to a slower start in the beginning of 2022 due to the Omicron variant having a disproportionate impact on the segment, given its Covid testing requirements at the time.

On the margin front, Jamaica reported record fourth quarter owned-resort EBITDA margins driven by accelerating ADR growth and better-than-expected F&B and utilities expense. Keep in mind when comparing results in Jamaica versus the other segments, that Jamaica generally has higher operating costs in our other segments and typically experiences higher ADRs as well.

Now looking at other segments, the Yucatan Peninsula continued to deliver strong results with sequential occupancy improvements to a post-pandemic high of 81% and reported ADR gains of nearly 72% versus Q4 2019 or 49% underlying ADR growth when adjusted for OTA commission changes and mix impact from asset dispositions. On a year-over-year basis, the

Yucatan segment ADR increased roughly 11% on an underlying basis adjusted for OTA commission changes.

These noncash commission changes also weighed on year-over-year segment margins by roughly 25 basis points, as we're required to gross up both the revenue and expense under U.S. GAAP, which should have a diminishing impact on reported results as we continue to lap the implementation of the change and the recovery of the OTA channel mix.

F&B costs were again significantly better than expected in the Yucatan, while utilities expense was comparable to last year. However, based on current spot rates for utilities, utilities should see year-over-year improvement in the first half of 2023.

Margins were also negatively impacted by roughly 30 basis points to 50 basis points due to the timing of uneven expenses such as brand-related fees and sales and marketing.

The Pacific Coast had another fantastic quarter with underlying ADR gains of approximately 80% versus 2019, or 24% year-over-year, leading to robust margin performance, as again F&B and utilities expenses were less of a headwind year-over-year. Adjusting for the change in OTA commission accounting, ADR grew just under 26% year-over-year in the fourth quarter.

In the Dominican Republic, we reopened our Hilton and Hyatt properties a bit ahead of schedule just in time for the high season. The performance out-of-the-gate was quite strong, helping our Q4 results. As Bruce mentioned, we are fortunate that we experienced very little demand disruption on the bookings front at those properties for 2023. We experienced approximately \$13 million of disruption related to Hurricane Fiona in the fourth quarter, in line with our expectation of \$13 million to \$15 million impact before business interruption proceeds.

One item to note -- due to the adjustments that affect the VAT rates in the DR, we recorded an adjustment in the fourth quarter of 2022 to true up non-income-based gratuities and taxes for the full year. This positively impacted Q4 reported ADR in the DR by just over \$20 and total company Q4 reported ADR by approximately \$6. Total owned-resort EBITDA margins were favorably impacted by roughly 80 basis points as a result of the adjustment.

Now turning our attention to our 2023 outlook, we expect our full year adjusted EBITDA of approximately \$260 million to \$280 million, representing year-over-year growth of low-double-digits at the midpoint. This is driven by double-digit RevPAR growth for the year. For the first quarter of 2023, we expect owned-resort EBITDA to be between \$98 million and \$103 million, and that is inclusive of a \$10 million year-over-year drag in EBITDA from the transition of the two Jewel properties in the Dominican Republic. To be clear, I'm referring to \$98 million to \$103 million of owned-resort EBITDA before corporate expense of roughly \$13 million to \$14 million, and includes fee income of roughly \$2 billion to \$3 billion.

We expect our reported occupancy levels, inclusive of the two DR Jewels, to be in the low 70s percent, reflecting the rooms out of service in the DR due to the closure of one of our dual properties. Occupancy at our other legacy-owned resorts is anticipated to be nearly 10 percentage points higher during the first quarter.

With respect to Q1 ADR, we expect approximately 20% year-over-year ADR growth on a reported basis. And given our booking window, we're roughly 90% to 95% booked for the first quarter.

Looking ahead to the second quarter, we expect reported occupancy in the low-to-mid-70s, down slightly year-over-year, which again includes the mid-single-digit drag from the two Jewel properties in the DR. We expect Q2 ADR to grow high-single-digits to low-double-digits on a year-over-year basis, and owned resort EBITDA margins to expand year-over-year despite a \$5 million year-over-year EBITDA drag in the DR from the two Jewel properties. Given our booking window, we're roughly 50% booked for the second quarter at this time.

For the second half of 2023, we expect reported occupancy in the mid-70s and year-over-year ADR growth to be up mid-single digits on a reported basis. We anticipate owned-resort EBITDA margins to be flat to up on a year-over-year basis in the second half, and the two Jewels properties in the DR to be a year-over-year tailwind to EBITDA in the fourth quarter and nearly neutral on the third quarter.

As we said before, commodities and insurance are wild cards as we head into the second half, and are key considerations when contemplating our full year guidance. Given the number of moving parts to consider for Playa, I think it would be best to frame our guidance as such. For the legacy core and owned-managed portfolio, which again excludes the two Jewel properties in the DR, we expect low-double-digit ADR growth for the first half of the year and mid-single-digit year-over-year growth in the back half.

Occupancy levels for this core portfolio in the high 70s in the first half and mid-70s in the second half, and owned-resort EBITDA margin expansion, given the aforementioned ADR gains, and easing inflationary pressures.

As for the Jewel Punta Cana and Jewel Palm Beach, we expect them to ramp from mid-teens occupancy in the first quarter to approximately 50% in the second quarter, which would get them near breakeven on an EBITDA basis near the end of the second quarter following EBITDA loss in the first quarter. We expect these two properties to be stabilized on an occupancy and EBITDA dollars contribution basis in the second half of the year. However, as Bruce mentioned earlier, we're actively working to sell these resorts.

So to recap, following are the key inputs to consider as you think about our 2023 outlook. As I and Bruce mentioned, we're currently pacing year-over-year ADR gains of 10% or more for the first half of the year. We'll be lapping Omicron during the first quarter, which impacted our Q1 2022 occupancy levels and ADR. Thus, ADR growth will be likely higher in Q1 than Q2, even after adjusting for typical seasonality.

We expect full year occupancy to be slightly higher than 2022, adjusting for extraneous factors. We anticipate a better inflation rate in our cost basket as compared to what we experienced during 2022, although it will likely remain elevated.

We have good visibility on our labor costs, and see the wage increases slightly higher than what we experienced in 2022, but are experiencing lower cost inflation on food and beverage and utilities during the first quarter of 2023. And while we hope the lower prices persist, these



categories can again be quite volatile. Our resorts are fully staffed, and we have good visibility on wages and related growth.

We hope that framework helps guide you as you fine-tune your models and give you further insight to what we're seeing and expecting.

But now I'll turn it back over to Bruce for some concluding remarks.

Bruce Wardinski: Great, thanks, Ryan. So in summary, I have just a couple of comments. First, our results speak for themselves. Second, I read a market quote this morning that I found really interesting. It said, "Big tech is out, and the old economy is in on Wall Street." There's almost no business older than lodging; we've been around since the beginning of mankind. The reason why this quote resonates with me and on Playa is that while our business prospects looked really good before the pandemic, the pandemic has changed everything.

People don't want to spend all day on their computer screens. They're looking to experience life, and that's for all ages. Their ability to travel and work remotely while doing it has allowed a lot of flexibility. They can spend time with people and they can live their lives to the fullest. In my mind, this is what Playa offers to our guests at a great price value proposition, and I think that's why our business is doing (indiscernible).

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

## **Questions and Answers**

Operator: At this time, we will begin the question-and-answer session. (Operator Instructions). Patrick Scholes from Truist Securities.

Patrick Scholes: Lots of color there on quarterly expectations and margins, etc. But could you give some more specifics on at least granular percentage-wise, on overall for the year, wage growth, wage and benefit growth expectations, as well as overall operating cost growth including utilities and insurance?

Ryan Hymel: On the wage side, it's likely high-single-digits just kind of blended across the board. We've got a number of different buckets of wage costs within our properties, right? You've kind of got the executive team that's kind of on its own kind of salary scale and things like that. And then you've got line staff that are governed more by minimum wage increases from the government; and then you've got union employees, which we negotiate with on an annual basis. But call it blended on the labor front, a kind of high-single-digit percentage.

As I mentioned earlier, I don't expect our F&B to move too materially from what it's been over the last quarter, particularly given some of the investments we've made in that arena, adding some staffing on food and beverage as well as purchasing, which is beginning to start paying some dividends from a cost-recovery perspective and purchasing power as we've grown.

And then on insurance, honestly, it's pretty difficult. Hurricane Ian was the third-worst storm in history and total global insured-property losses in 2022 was well over \$130 billion. So without our claim, we were expecting a difficult year. So kind of built into our kind of guidance range is significant, call it, 50% increase in our premium right now. But it's still -- that's still a wildcard at this point, and we'll have better information on our next call.

Patrick Scholes: Okay. Thank you. And then a follow-up question. You talked about the Asian customer visitation being significantly down, I think you said roughly 75%. Historically, pre-Covid, what did that customer segment represent as a percentage of your business?

Ryan Hymel: Around 4%.

Patrick Scholes: Okay. So 4% down 75%?

Ryan Hymel: Yes, so small, primarily at our highest.

Patrick Scholes: Okay. A little opportunity for that.

Ryan Hymel: Yes.

Patrick Scholes: Okay. Thank you. I'm all set.

Operator: Dany Asad from Bank of America.

Dany Asad: My question is on rate. So like at a high level, how do you guys think about lapping really strong rates especially in your most recovered markets, specifically anything about like Cancun? And then again, strategically, how do you kind of balance ADR growth without possibly hurting net promoter scores down the line, as you kind of push rate more and more and more in your markets?

Ryan Hymel: Yes, the important question is the basis for our thesis coming out of the pandemic. And Bruce said his credit has had us focus on ADR gains while providing exceptional service. And so Bruce touched on it earlier, our NPS scores, both internally and at the brands, are some of the highest-ever. Bruce can chime in on that in a minute. But more importantly, it's something we try and hammer home every single time, whether it's on these calls, externally or more importantly, internally. When you look at, yes, you look at some of these percentage gains over pre-pandemic and they look large.

But one, first and foremost, when you adjust for asset sales, you take out the impact of Cap Cana, and you take out the adjustments from accounting from a gross-up from Expedia commissions, those underlying percentage gains, while still strong, aren't ridiculous. And then more importantly, the absolute dollar that we charge someone more than they were spending in 2019, as Bruce mentioned earlier, at least on the last half of this year, was roughly \$100. And it ranges anywhere from kind of \$50 to \$60 to maybe up to \$200 at some of our higher-end properties. But again, that includes food and beverage, it includes great service, it includes alcohol. And again, you layer that against everything else in everyone else's life, that's more expensive these days, the value proposition just jumps off the page. And so that's been our focus while making sure

that we are still maintaining the great customer satisfaction, while still pushing rates as much as we possibly can.

And at the same time, to your point on occupancy, I think we've found a proper sweet spot with occupancy right now. When you think about kind of depending on the season, obviously, the kind of high-70s into the low 80s versus mid- to upper-80s that we ran pre-pandemic, it just makes everyone's life easier. First of all, it makes the customers' experience better; it makes operating these hotels in a rising inflationary environment easier; it's easier on cost. And so for us -- and if there's little things that we need to do from a CapEx perspective or maintenance, it just makes it far easier to do when the properties aren't 100% full. Don't get me wrong, during Christmas, we're still 90%-plus full, but on a year-round basis and high season, this is how we decided to balance maximum profitability while maintaining that guest experience.

Bruce Wardinski: Yes, and let me just add in, I agree completely with everything Ryan said. And when you think about it, what drives the satisfaction of the guests at an all-inclusive resort or any resort, particularly at an all-inclusive resort, and I'd say there's two main factors. Number one, it's food and beverage, and number two, it's service from our staff. So if you go back, at the beginning of the pandemic, we made a conscious decision to focus on rate and not to kind of dilute the food and beverage experience nor the staff experience. So from early on, we had very high levels of staff and that comes out with what the guests are experiencing.

And as Ryan said, we've consciously focused on sacrificing a little bit of occupancy for a much higher amount of rate. And what that does is that allows us to serve the guest even better. So you don't have the crowding at the restaurant or the crowding at chairs around the pool, where you have to get up at 6:00 in the morning and put a book or your sunglasses or sunscreen on there, and fight with people to get a good location on the beach or the pool. And all of those things, they may sound silly or small, but they really do make the experience.

The one that we've really, really focused on is food and beverage, and especially, at the higher-rated resorts. And if you look at going out wherever people are in the United States, if they go out to a nice restaurant -- and I'm not even talking super-expensive, just a nice restaurant -- the cost is so much higher than it was before the pandemic. So you're dropping a lot of money to go out. Now go to a resort destination, go to Miami, go to Los Angeles, go to Las Vegas, how much you're going to spend to go out at night, people say, yes, okay, fine, the room rate is kind of reasonable, or high, but reasonable. But then by the time you finish your 4 or 5 days or your week with your family, the cost has just grown exorbitantly. So you get our experience.

And what's happened during the pandemic is when people couldn't travel to other places. They couldn't go to Europe or they couldn't go to other destinations, they experienced our resorts for the very first time and those people are coming back and then word of mouth is spreading. And then you see the ratings on TripAdvisor and others, and those are spreading and more people are coming. So I don't see this as a fear of not being able to deliver it, or our guest scores going down. I see it as an opportunity for our guest scores to go up and to kind of deliver this extremely positive experience to a whole new group of customers. And that's what we're focused on.

Dany Asad: Got it. Thank you very much.

Operator: Chad Beynon from Macquarie.

Chad Beynon: Bruce, I wanted to -- and first off, thanks for all the guidance commentary -- really helpful, Ryan. Bruce, your comment on the summer kind of becoming a regular season, instead of an off-season, I wanted to drill into that a little bit. What gives you the confidence that, that's kind of changed for the future? Is it just the pacing that you're seeing or kind of what you saw in 2022? Obviously, you can't change the weather, the air capacity, etc., kind of in those hot or summer months. But it really seems like that's been a nice change for the business model. So just any more color in terms of why you think this is sustainable going forward?

Bruce Wardinski: Sure, Chad, great question. First of all, you hit the nail on the head on the first one, is pacing, right, so we see it. So the first thing is we see it. Second, we had it last year, so I have no reason to think it's not going to continue again. And then kind of you mentioned you can't change the weather or the airlift. Well, the airlift is really good, okay, and the airlines really have been flying into our markets pretty strongly since the pandemic was still going on through this recovery period. And why are they flying into our markets? Because the customers want to go there.

And so I think what you're seeing now is people who maybe would have gone to our resorts in the high season, but quite honestly, are priced out of it a little bit. And so now they're trading off. And I can tell you that because anecdotally, I have people who I know, friends and family who are like, wow, I can't believe how high your rates are in January and February. Is that for real? And I'm like, oh, it's completely for real, and they go, well, what you recommend?

I said, well, you can either trade down to a slightly lower price-point resort, or guess what? You can go in May, you can go in June, great times of the year to go and risk of hurricanes isn't that high. And quite honestly, the weather is better than in many of the beach destinations you'll have in the United States. So I think people are now seeing how good an experience they can get at our resorts, and they want to go there. And so now it's like, okay, when is the best time for me, a couple, a family, whoever to experience the resort?

And then, the other thing that we're benefiting from, and it's not just in the summer, but it's also in the shoulder seasons, is what I alluded to in the whole remote work scenario, where just people have so much more flexibility coming out of the pandemic, and you cannot underestimate how big that is for people to be able to travel. And I really believe the pandemic caused people to rethink their lives in so many ways. But one of them is no one thought that something as simple as going on a vacation could be taken away from them.

And now they say, hey, who knows, maybe we'll have a pandemic next year; maybe we have something else next year. I want to go on vacation, I want to enjoy life -- and that's what they're doing, they're going out and enjoying life. And I think that's going to continue, but we're seeing it primarily in our pacing, in our bookings.

Ryan Hymel: Yes, Chad, we don't think that Q3 will, from an ADR perspective, we're (indiscernible) reach Q1, but the main point is that, that gap has closed and we've essentially reset a floor.

Chad Beynon: Okay, perfect. Thank you. And then separately, just in terms of capital, you were kind of quite clear as you think about your grid of opportunities with new projects, with share repurchases, with renovations, you're kind of leaning towards the repos. On new deals or renovation projects, has the cost just gotten to be more expensive? Are there fewer deals out there, or are you simply just kind of thinking about your guidance, where the stock is trading and that has just increased in terms of the difference in returns?

Bruce Wardinski: Sure. Number one, it was -- certainly, it's been the latter, your last point, okay? So if you go back over the last few months, and really focus on September when we made the first announcement on the share repurchases, we were just trading at a price that was complete, as we say in our script, a disconnect between our operating fundamentals and the value of the company. And so I just looked at that and we discussed it at the Board level and management level, we just felt there's no better place to put our money than in our own stock.

And so, it just became the baseline hurdle for doing anything. We said, okay, let's look at it from that perspective; we know what we've got here, can we beat it? And so there are projects that can beat it. The nice thing in our business is it's a very high-free cash flow generating business. So particularly where we can add rooms, okay, we can expand on rooms, that generates a lot of free cash flow and you've seen that historically.

You know some of our case studies with our ROI projects especially, our expansion projects, where we can really drive very significant returns. So we look at those projects, we're going to keep doing those projects. When it comes to acquisitions or bigger kind of opportunities, I will say that people in our segment are across-the-board doing well. I think we're doing a little better than many, but people are doing well. And so there hasn't been this need to sell or desire to sell because they think their business is going pretty darn well.

And so from our perspective, we'll focus on opportunities that we have, and there have been opportunities. And we picked up those third-party management contracts largely due to the success that we've been having, and others are seeing it as an opportunity. So I think we'll grow there and we'll grow with the ROI projects. And if an acquisition comes around that makes sense for us, particularly one that involves rebranding and one that does not have a high percentage of direct sales, those are really the places where we can pull the lever and dramatically change the profit potential of a resort, and I think we'll get more of those and so we think they'll come.

But in the meantime, if we think there's a disconnect between the value of our underlying business and the stock price, you'll see us continue to buy back our stock.

Chad Beynon: Thank you very much. Congrats on where the business is trending.

Operator: Smedes Rose from Citi.

Smedes Rose: I just wanted to ask a little bit more about your intention to sell the two Jewel assets that you took back management on. And I guess sort of specifically, certainly in the U.S., transaction volume has gotten a lot more challenging, all the stuff we know about. So I'm just kind of curious what you think the process is like, and who kind of are the buyers for those kinds of assets in the world we're in right now?

Bruce Wardinski: Sure. No, great question. So first of all, let's step back and go into the rationale for why we choose to sell versus choose to do something else with them, okay? So it kind of goes on the last question about kind of the opportunity with share repurchases and with high-ROI projects, right? So to renovate these two hotels, okay, would take a good amount of money, and more importantly than the good amount of money, a good amount of time, okay? And then, when you look at the returns that you'll generate from those, while very attractive, okay, is it better than doing share repurchases or high-ROI projects? It's arguable, right?

But the thing is the other opportunities are probably more likely. So kind of from a risk-adjusted basis, I can look at share repurchases or I can look at these high ROI projects and say, I'm highly certain my return is going to be outstanding there, okay? On these others, it's going to be a very good return, but it's going to take a little time. In a normal world, I would go do that, and that's historically what we have done, and we've done incredibly well. But in kind of this world, I said, you know what? Why do we need to do that? And so if we sell the assets, we'll get those proceeds and we can reallocate those proceeds into either share repurchases or high-ROI projects. So I think we'll generate a higher return by selling.

The second point of your question is who are they and comparing it to the U.S. I think it's very different than comparing it to the U.S. market. The first big issue with people buying -- well, there's two big issues, I think, in buying hotels in the U.S. Number one is what are the business prospects of those hotels. And it's very different, right, if you're an urban hotel or a business transient hotel versus a leisure resort. Those have their complicating factors. Urban grew business transient. You're like, okay, when does that business come back? How strong is that business going to be? What's the impact of office occupancy, rates and cities, all of that. So that affects it.

Even on resorts, it's a little different because they've been doing really well over the last couple of years. But then the question is how long is that sustainable, are the rates sustainable? What happens when people have to fully staff and add back all the services that they've cut? We never cut our services, okay, so we don't have that issue. That issue exists in the U.S. So for those reasons, I think selling in the U.S. is a little harder.

The other big one, okay, the real big one, is debt, debt financing and interest rates. And obviously, as interest rates go up, it makes the hurdle go up for any buyer of a hotel. So they're going to want a lower price in order to meet their hurdle. Well, if you look at our segment, as I mentioned, most people in our segment are doing well. The other thing unique about our segment is many of the players with either big family-owned companies, they don't have a lot of debt, and they don't necessarily need any debt to acquire these assets. So they could just buy them and then rebrand them into their brands. They're already in markets where they are currently existing. So the ability to transact is really easy.

The DR, as a market, is doing incredibly well, and they have been hitting month after month, quarter after quarter, record number of guests visiting the country. So I think when you look at the attractiveness of these two resorts to a wide variety of potential buyers, I think they're incredibly attractive. And so I don't envision we're going to have a huge amount of difficulty selling them at a good price for Playa.

Smedes Rose: Is there any kind of range you can provide on what you think gross proceeds would be?

Bruce Wardinski: No, not at this time, not at this time.

Ryan Hymel: Yes, it's going to depend on the buyer, their structure and things like that, and their duration; it really varies by buyer in our markets.

Smedes Rose: Okay. All right. Thank you, guys.

Operator: Tyler Batory from Oppenheimer.

Tyler Batory: A couple of quick follow-ups on the guidance. So the full year EBITDA range that you gave, what's the expectation in terms of the total drag from the Jewel properties for the entire (inaudible)?

Ryan Hymel: Assuming they were with us for the full year, about \$13 million.

Tyler Batory: Okay. And then the comment, margin expansion year-over-year, was that meant to exclude those assets?

Ryan Hymel: No. So for the full year, we should still be able to have margin expansion even with that drag. The first quarter, my expectation is that for a total portfolio, the margins would potentially be flat to slightly down; but if you excluded those Jewels, it would be up. But beginning in Q2 and beyond, again assuming they remain with us for the full year, we should be able to lap last year's margin.

Tyler Batory: Okay. Appreciate that. And then the Q1 rate commentary, up 20% year-over-year, is that pretty broad-based? Are there markets that are pacing substantially higher than that? Are different brands in the portfolio pacing higher or lower than that as well?

Ryan Hymel: Well, as you can imagine, Jamaica would be on the higher end of the range, obviously, because they're still lapping. If you recall, last year in the first quarter, they still had the restriction around entry. So they would kind of be leading the charge there. But much like the results in the fourth quarter, the ADR strength is pretty broad-based. Like I said, there's individual pockets within our segments that do better than others. You've heard us talk in the past that like Cancun proper will outperform Playa Del Carmen market for a number of reasons, and things like that. But generally, it's fairly broad-based across segment and across asset type.

Tyler Batory: Okay. And then last one, a more strategic question. Any update on the vacation club that you teased out or discussed a couple of quarters ago? I'm not sure if that's (inaudible).

Ryan Hymel: Yes, so I can jump in there. Yes, so we will -- beginning in 2023, we'll start to break that out on its own line. It is buried with -- it offsets corporate expense in our earnings release and we actually footnote how much it was. But essentially, only selling at three assets and none of them were Hyatts. In 2022, we accrued a little under \$2 million of revenue. As of today, it's now rolled out at four or five resorts. And the plan is in the schedule it will be rolled out in all of our resorts, including the Hyatt, by end of Q3, essentially early Q4 of this year.

So my expectation is you see a bigger contribution from that fee-driven business in 2024. But our expectation is you should have some nice growth; again, it's not massive dollar contribution, but on a percentage basis year-over-year in 2023. So we'll start -- while you can find it and see the numbers, again, they weren't very large, but they should start to grow this year and more meaningfully in 2024. We're excited. Again, doing a couple of million bucks at essentially two Wyndhams and Hilton Playa del Carmen in 2022, and they weren't even being sold most of the year. If you kind of extrapolate that out, it should generate some real decent fee income for us in the future.

Tyler Batory: Okay. That's all from me. Thank you.

Operator: Chris Woronka from Deutsche Bank.

Chris Woronka: Thanks all the details so far, and congratulations on a really nice quarter and year. So just to maybe beat the capital allocation horse to death a little bit more, I appreciate the guidance you've given on everything from EBITDA to CapEx. And even before we would think about proceeds from the Jewel dispositions, you're going to have a lot of free cash flow on a net basis. Is there any reason why you wouldn't continue buying stock? I know you've done some more in year-to-date, but still a pretty big disconnect. So I know you don't want to accumulate cash. So is there any reason you wouldn't keep buying back stock?

Ryan Hymel: No, and that's exactly why the Board authorized another \$200 million a couple of weeks ago, and we announced it last night and so that is -- particularly at today's valuations, it makes sense. And I won't repeat everything Bruce just said, but the bar is high for other projects and other uses of cash. And it also weighed in the decision on a part of the decision on why we want to sell the Jewels. And so, no, there's no reason why we wouldn't. And then, as far as other projects and things like that, I alluded to spending a little bit above and beyond maintenance CapEx at a few other properties. There should be little to no disruption, and it's included in the guidance.

But it's starting to spend money on areas that still drive the customer experience, little things that Zilara Cancun and it's Ziva Puerto Vallarta and Ziva Cabos that we've been meaning to do. Again, not full-scale renovations, but it's starting to put some of our money to work that just helps us play a little more offense with rate in the guest experience, which as Bruce said very eloquently, is the name of the game when it comes to our business and maintaining rate integrity. So it's still a consistent balance, but at multiples that we're trading at, it still makes sense to buy back stock.

Chris Woronka: Okay, very good. Thanks, Ryan. And then when I look at you guys, I look at you more now actually on a TRevPAR basis because you're getting like 15% of your total revenue from non-package. What's the opportunity there? I know you're, by nature, an all-inclusive company, but there's still plenty of add-ons people can do. And can you maybe just give us a little bit of color like you've grown that over time? How big can that get? And maybe just a little bit of detail on is that the Hyatt or in some cases, Hilton customer? Do they have a significantly higher contribution to the non-package?



Ryan Hymel: Yes, the higher-end properties, and specifically, during higher season, is a disproportionate contributor to just the overall non-tax expense. Many, many years ago, we just proved the thesis that people paying a higher rate don't want to spend as much on ancillary products; it's, in fact, the opposite. So as you can imagine, it's more beginning of the year-weighted.

There are some things that we did throughout the pandemic and have layered on sequentially since then. You've heard me talk about it, adding private transfers from the resort, from the airport that we weren't selling prior, actually charging for cabanas and things like that, that we've added and have been very successful.

There are some things that you have a finite amount of. You have a finite amount of -- what do you call it -- beds and treatment rooms at your spa and things like that. And you've heard me joke in the past, there are certain times of day, people want to go to the spas, and there's other times of day they'll never want to go to the spa. So there are some things that, as far as the number of items that you can sell, you have a finite amount.

The area we're focusing on now is actually pricing optimization in that area. Our sales and marketing team and the digital teams have actually put together kind of apps in what they're calling a digital concierge that guests can use. And it actually will -- actually do more dynamic pricing for cabanas intra-week, rather than just quarter by quarter or month by one. Historically, we would sell for a cabana more expensively in high season, than we would in October, for instance. Now we can actually sell it based on demand and trying to optimize the earnings from those things. Same thing with the spa and others.

So that's the best way to optimize it, and when you have run out of additional things to sell, because as you said, it's a fine line you walk that you don't want to have somebody feel like they're nicked-and dimed when they show up at all-inclusive. That's what our counterparts do in other parts of the world and the U.S. that we don't want to do.

And then lastly, the other area where it can grow as a group has come back, and it is obviously fully back, but given the pacing numbers I gave you, it's going to continue to grow. That is another area of upside for non-package spend, just purely because those groups are spending for events, space, big dinners on the beach, celebrations and things like that.

Chris Woronka: Okay. Thanks, Ryan. And just sorry if I missed it, but on the Jewels on the sales, those are totally unencumbered of your management, is that right, of --

Ryan Hymel: They're being sold unencumbered, but again, it will depend on who we sell it to and what the plan is, whether we can manage it or not. Obviously, in a perfect world, if we can hold on to management, we would do that. But it really just depends on the buyer, the price and the structure.

Chris Woronka: Okay. Got you, very good. Thanks, guys.

Operator: And ladies and gentlemen, with that, we'll conclude today's question-and-answer session.

I'd like to turn the floor back over to Bruce Wardinski for any closing remarks.

Bruce Wardinski: Great. And I think we've covered everything exhaustively on this call. So thanks for everyone for participating today, and I hope everyone has a good weekend. Take care, bye.

Operator: And ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.