[PLYA] Playa Hotels and Resorts
Q2 2023 Earnings Conference Call
Friday, August 4, 2023, 8:00 AM ET.

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

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

Presentation

Operator: Good morning, and welcome to the Playa Hotels & Resorts Second Quarter 2023 Earnings Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

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

Ryan Hymel: Thank you very much, Jason. Good morning, everyone, and welcome again to Playa Hotels & Resorts second quarter 2023 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 quarterly report on Form 10-Q, which we filed with the SEC last night. 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 will discuss on this call were included in yesterday's press release.

On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide comments on the second quarter demand trends 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. Our second quarter results continued to build on the momentum established in 2022, with both ADR and occupancy growing year-over-year in our core legacy portfolio and owned-resort EBITDA margin expansion despite a significant FX headwind.

Playa's owned-resort EBITDA of $83.1 million in the second quarter was the best second quarter performance in the company's history, driven by the continued recovery in our Jamaica segment and an 18.2% year-over-year RevPAR increase in our core legacy portfolio.

The quarter was not without challenges, however. As we continue to experience year-over-year pressure from both of the two Jewel Resorts in the Dominican Republic that recently transitioned to Playa management, and foreign currency exchange headwinds in Mexico. Additionally, our operations teams executed at the resort level, delivering 100 basis points of owned-resort EBITDA margin expansion on a reported basis, despite an approximate 260-basis point FX drag from the appreciation of the Mexican peso this quarter.

The core legacy portfolio resort margins improved 280 basis points year-over-year, inclusive of a negative 270 basis points foreign currency drag. The margin performance was particularly impressive given the moderating pace of year-over-year RevPAR growth.

As a reminder, our expectation was that the first quarter would represent the highest year-over-year ADR growth for 2023, as we lapped the impact of Omnicron last year, and that growth would normalize as we enter the second half of 2023.

Finally, I would also like to note that during the second quarter, we recognized a $4.3 million benefit from business interruption insurance in the Dominican Republic related to Hurricane Fiona, which occurred in the second half of 2022. Although we expect more business interruption insurance proceeds, the exact amount and timing of the proceeds is unpredictable.

As I mentioned, fundamental strength during the quarter was led by our Jamaican segment, as this market is a little behind on the recovery curve compared to our other segments due to the longer-lived Covid-related travel restrictions being in place until April of 2022. The second quarter of 2023 marked the highest Q2 occupancy rate and owned-resort EBITDA margin we have ever achieved in Jamaica, reinforcing our belief that nothing has fundamentally changed for this market compared to the pre-pandemic period when it was our best-performing segment.

Compared to 2019, international passenger arrivals into Montego Bay Airport had been lagging our other major destinations by approximately 15 basis points to 20 basis points during the first quarter. That gap narrowed to approximately 10 to 15 percentage points during the second quarter, with June showing a significant ramp.

Comparing ADRs in this segment vis-a-vis peers, we believe ADRs still have a meaningful runway of improvement ahead.

In Mexico, revenue growth in this market was predominantly ADR-driven, given where the country was on the recovery curve. Both of our Mexican segments were negatively impacted by the year-over-year change in the Mexican peso during the quarter. And we estimate both segments would have seen improved margins year-over-year, excluding the impact of FX.

We have been actively working on efficiency opportunities to manage costs and help mitigate the significant impact of FX on our margins in Mexico, as evidenced by our Yucatan segment growing margins year-over-year on a currency-neutral basis, an ADR growth of 6%. Although the second quarter was largely as expected, we experienced some softness in close-in demand for the Yucatan in June for the summer period. Demand, however, improved in July in the month, for the month. Our expectation is that demand in the Yucatan will remain choppy through the Fall, as the transatlantic travel resurgence subsides.

In the Dominican Republic, our legacy DR Resorts, excluding the Jewel Palm Beach and Jewel Punta Cana resorts, grew both occupancy and ADR year-over-year, yielding over 900 basis points of resort margin expansion year-over-year. Adjusting for the previously-discussed business interruption insurance benefit, resort margins for the legacy DR properties grew by 170 basis points year-over-year.

Results of the two Jewel Resorts in the DR segment were slightly ahead of the expectations we laid out on our last earnings call, representing an approximate $7 million year-over-year EBITDA drag in the second quarter. We continue to expect the year-over-year profit drag from these resorts to improve during the second half of the year, while we continue to pursue the sale of these assets. We have been in negotiations with two separate buyers to sell the assets individually. And the only update I can share with you today is that one of the processes is further along than the other, but we are diligently working on both dispositions.

On the bookings front, demand has remained steady as a whole. In aggregate, during the second quarter of 2023, 47.2% of Playa-owned and managed transient revenues were booked direct, down 190 basis points year-over-year. The decline was driven by fewer World of Hyatt redemption bookings following a significant increase during the first quarter, ahead of a change in the conversion rate for point redemptions. We expect this to smooth out over the course of the year, and believe we will be ahead of our targeted 50% booked revenue mix of transient revenue.

During the second quarter of 2023, playaresorts.com accounted for approximately 10% of our total Playa-owned and managed room night bookings, continuing to be a critical factor in our customer sourcing and ADR gains.

Taking a look at who is traveling, roughly 39% of the Playa-owned and managed room night stays in the quarter came from our direct channels. Our OTA mix has remained the most depressed channel compared to pre-pandemic levels for stays.

Geographically, the biggest change in our guest mix during the second quarter was our Mexican-source guest mix, which was up nearly 500 basis points year-over-year. Our European source guest mix was down slightly year-over-year, but well ahead of pre-pandemic levels. Our Asian source guest mix improved modestly year-over-year, but remains the most depressed as it is only approximately 20% recovered.

Our visibility remains a critical factor of our success, as our booking window is just under 3 months.

Once again, I would like to thank all of our Playa associates who have continued to deliver world-class service in the face of unexpected challenges and rising operating costs. Their unwavering passion and dedication to service from the heart is what truly sets Playa apart.

Finally, on the capital allocation front, we purchased approximately $34 million worth of Playa stock during the second quarter, and an additional $24 million in July, bringing our total repurchases since resuming our program in September of 2022, to approximately $145 million, but well over 11.5% of the shares outstanding.

We continue to believe that our significant free cash flow generation is under-appreciated, given the modest amount of ROI-driven CapEx expected in the near term and our healthy business fundamentals. We believe that our stock offers a tremendous value opportunity, and share repurchases are a phenomenal use of capital from our free cash flow to boost total shareholder returns over time.

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

Ryan Hymel: Thanks, Bruce. Before I begin my review of the quarter, I'd like to remind everyone that beginning with the first quarter of 2023, we elected to reclassify on-property room upgrade revenues from non-package revenue to package revenue to be consistent with industry trends. We've recasted prior periods to conform with our current period presentation, and a reconciliation of the changes made to the prior reporting period for 2021 and 2022 can be found on our investor deck in Slide 5.

Our second quarter results were in line with our expectations as a result of continued ADR growth and easing pressure from energy costs, leading to resort margin expansion of 100 basis points year-over-year, which again includes a 260-basis point headwind from foreign exchange, 180-basis point headwind from the two Jewel Resorts in the Jamaica Republic, and 180-basis point tailwind from the business interruption proceeds.

While the quarter fundamentally was generally in line with our expectations, [four] foreign currency related headwinds in the quarter were approximately $1 million higher than expectations outlined on our last earnings call, and we also had a one-time pension-related catch-up in Mexico.

Finally, we experienced a safety-related travel warning for Jamaica during the quarter, which temporarily impacted bookings and weighed on June results. These types of warnings are not unusual nor unheard of in Jamaica. However, this one picked up more media coverage than we typically see, and led to some disruption in bookings and cancellations, particularly in the Group segment. It was, however, very short-lived as we are not seeing any lingering effects into the Fall.

ADR strength was broad-based, with all segments reporting year-over-year ADR growth, excluding the Jewel Resorts in the DR.

On the cost front, as I mentioned on previous earnings calls, we began to see stabilization in food and beverage and utilities costs on a per-unit basis in the middle of 2022. And we're hopeful that the inflationary pressures from these two areas will begin to ease if we moved into 2023 and lapped the surge that occurred around the start of 2022. We began to see signs of improvements during the fourth quarter and that carried over into the first half of 2023. Although it's nice to see some cost relief, these expenses can be volatile quarter-to-quarter.

Again as Bruce mentioned, we're undertaking efforts to streamline and improve our procurement process across the entire portfolio to take advantage of our size and scale. These efforts are just beginning to bear fruit and the work undertaken thus far in 2023. And we expect the benefits to accelerate as the company moves into 2024 and beyond, as our cost savings per purchase category are averaging mid-single-digits to high-single-digit improvements per category thus far.

At the segment level, Jamaica led the way in year-over-year ADR, occupancy growth, and margin improvement, despite the temporary impact of the travel warning I previously mentioned. The segment experienced significant year-over-year growth in group room night mix, helping to yield ADR and closing the gap versus other segments' ADR improvement versus 2019.

As a reminder, Jamaica got off to a slower start in 2022 due to the Omnicom variant having a disproportionate impact on the segment given its Covid testing requirements at that time. The ongoing recovery, in addition to the significant investment being made to improve the Montego Bay Airport, which is expected to be completed in the near future, bode well for the Jamaican segment for the second half of 2023 and beyond.

Forecasted flight seats into Montego Bay are expected to grow over 10% year-over-year in the second half of 2023, leading all of our major destinations.

On the margin front, Jamaica once again benefited from better-than-expected food and beverage and utilities expense. And please keep in mind when comparing results in Jamaica versus other segments, that Jamaica generally has higher operating costs than other segments and we typically generate higher ADRs as well.

Looking at our other destinations, Yucatan Peninsula continued to deliver strong results, with year-over-year occupancy improving and reported ADR growth of 6.4%. Reported owned-resort EBITDA margins were down 460 basis points year-over-year primarily as a result of the 570-basis point negative impact from foreign exchange.

Food and beverage and utilities expenses were favorable on a year-over-year on a currency-neutral basis, while higher government policy-driven labor costs negatively impacted margins. The timing of sales and marketing spend also had a modest favorable impact on our margins. All told, as Bruce mentioned, we're pleased with the operations team's ability to expand margins on a currency-neutral basis as RevPAR growth normalizes.

The Pacific Coast had another fantastic quarter with year-over-year ADR improvement of over 18%, leading to robust margin performance, as food and beverage expenses were also favorable year-over-year in this segment. Similar to the Yucatan, segment margins were negatively impacted by approximately 490 basis points as a result of the sharp fluctuation in the Mexican peso, and would have been up year-over-year excluding the foreign exchange impact.

In the Dominican Republic, our legacy resorts, the Hyatt Cap Cana and the Hilton La Romana, grew 18%, 18.5% year-over-year in their ADRs, with occupancy of nearly 74%, which is also up year-over-year. MICE business at these resorts increased significantly compared to the second quarter of 2022, helping to yield higher ADRs and driving non-package revenue per sold room growth. The fundamental improvement year-over-year led resort margins at these resorts improving significantly, even after adjusting for business interruption proceeds, as food and beverage and utilities expense pressure continued to ease.

The segment performance was dragged down by the two Jewel Resorts we recently assumed management of, though their performance was slightly ahead of our expectations. We continue to expect the performance of the two Jewel Resorts to improve sequentially year-over-year, while we execute the sale process at the resorts.

Now, turning to our MICE Group business, our 2023 net MICE Group business on the books was $59 million versus $55 million at the time of our last earnings call, and is well ahead of our final full year 2019 MICE revenue of $39 million.

Looking ahead to 2024, we currently have approximately $48 million of MICE revenue on the books, well ahead of where we were at the same time last year, and setting us up favorably for the first half of 2024 and the high season. From a pacing perspective, this base of MICE business, combined with our leisure transient bookings, has our first-half 2024 revenue pacing up over 20% with both ADR and occupancy contributing to that. This gives us a sense of optimism as we move through the summer period and look ahead to the high season.

Finally, turning to the balance sheet. We finished the quarter with a total cash balance of approximately $269 million and total outstanding interest-bearing debt of $1.09 billion. We currently have no outstanding borrowings on our $225 million revolving credit facility, and our net leverage on a trailing basis stands at 3x. We anticipate our cash CapEx spend for full year 2023 to be approximately $65 million to $75 million for the year, with roughly $45 million to $50 million for maintenance and other critical CapEx needs, and the reminder is designated for ROI-oriented projects.

Also effective April 15, we entered into two interest rate swaps to mitigate floating rate risk in our new term loan due 2029. We entered into a 2 and 3-year contract, both of which have a fixed notional amount of $275 million and carry fixed SOFR rates of 4.05% and 3.71% respectively.

On the capital allocation front, as Bruce mentioned, we repurchased an additional 34 million of stock in the second quarter and an additional 24 million in July. Since we began repurchasing shares last September, we repurchased 19.5 million shares or approximately 11.5% of the shares outstanding. We still have approximately $110 million remaining on our existing repurchase authorization.

With our leverage ratio well below 4x, the anticipated free cash flow generation of the business, and the attractive valuation of our stock, we continue to believe repurchasing shares is a very compelling use of capital, and intend to use our discretionary cash to repurchase shares going forward depending on market conditions.

We will also continue to invest in our business to deliver value to our guests and shareholders, but the bar is high for new projects on a risk-adjusted basis, given the valuation of our stock.

Now turning our attention to our 2023 outlook, relative to the expectation set at the beginning of the year, our RevPAR growth outlook has largely been as expected. With ADRs improving versus initial expectations, occupancy is slightly lower, better-than-expected performance in our core and legacy portfolio and fundamentals coming in worse at the two Jewel Resorts in the Dominican.

As we said in our release, we now expect full-year adjusted EBITDA of $260 million to $275 million, again inclusive of an approximately $26 million negative impact from the appreciation of the Mexican peso, $15 million of which is expected to hit in the second half of 2023. This is approximately $5 million to $6 million higher impact than at the time of our last call.

Our fundamental outlook has remained steady for most of the portfolio, with the exception of the aforementioned summertime choppiness in demand in the Yucatan and construction disruption impacting the Pacific segment. At the midpoint, our full year guidance represents approximately 10% year-over-year growth in adjusted EBITDA on a reported basis. But after adjusting for the hurricane-related expenses and business interruption in 2022 and 2023 and foreign currency impacts, the midpoint represents adjusted EBITDA growth of approximately 15% year-over-year.

For the third quarter, we expect reported occupancy to be approximately 70%. We expect Q3 reported ADR to grow high-single-digits on a year-over-year basis, and owned-resort EBITDA margins to decline year-over-year given the year-over-year EBITDA drag in the DR from the two Jewel Resorts and continuing FX headwinds in Mexico. Excluding the impact of foreign exchange, we expect owned-resort EBITDA margins to improve year-over-year.

Putting it all together, we expect Q3 owned-resort EBITDA of approximately $50 million to $54 million; the Playa collection and management fee income of $2 million to $2.5 million; corporate expense of $14.5 million to $15.5 million, thus leading to adjusted EBITDA of $36 million to $40 million. Keep in mind that these Q3 estimates include approximately $8 million year-over-year impact from foreign exchange headwinds, or approximately $2.5 million worse than this time of our last call.

Given our booking window, we're currently 87% booked for the third quarter. For the fourth quarter of 2023, we expect the reported occupancy to be in the low to mid-70s and low-single-digit to mid-single-digit year-over-year ADR growth on a reported basis. And we again expect owned-resort EBITDA margins to be down, but up year-over-year excluding the impacts of foreign exchange in Mexico.

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

With that, I'll turn it back over to Bruce.

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. We continue to believe the price certainty and amazing value provided by Playa's all-inclusive resorts resonates very well with travelers, even in the face of an uncertain economic backdrop.

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

Questions and Answers

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

Shaun Kelley: Bruce, Ryan, maybe just to start, obviously, you talked a little bit about choppiness in the Yucatan. And I think this has been a theme we've seen a little bit of seasonal normalization across a lot of different travel behavior out there. It sounds like your rates remain strong. So can you just talk a little bit more about exactly what sort of customer behavior you're seeing or kind of calling out there? And just sort of like using your longer-term experience, kind of how would you characterize this? Would you characterize it more as normalization, or something a little bit more in the macro?

Ryan Hymel: Yes, from our perspective, we began to see a divergence between Mexico and the Caribbean during the second quarter, which we believe is likely attributable to what we've been calling destination fatigue. And I think few others in this space have done so as well, and we believe that is the case, rather than anything having to do with pricing or other issues around demand.

You've heard us mention many times on the call, we've continued to see great strength in our other segments in the Caribbean and in Jamaica. And this has really just kind of manifested itself in the summer period, but for our comments around our guide and our assumptions, we're going to assume that it continues throughout the remainder of the year. But as Bruce mentioned, we already saw some nice stabilization in July. So we're kind of preparing for choppiness, but it very well could just be a blip in time or a far more normalized moment for that destination.

If you think and you look at the Yucatan, and specifically the Cancun Airport, and just like international arrivals, one, you've heard us say many times it's the deepest and most mature market of all of our destinations. And if you look back, I think, to 2013 through 2019, international arrivals on a kind of annual CAGR basis into that market, into that airport, were roughly 7%, 7.5%. And if you extend that number through 2022, that CAGR goes to only about 6%. So we're actually still below trend.

But I think what's essentially happened is you had a lot of people visit Mexico in 2021 and 2022, it's essentially the place to be. And then this year, as you've seen Europe and other destinations reopen, some of which we own assets in, you saw people with more choice and chose to go other locations. So we view it more as normalization and just like the return of other choices. But we still expect it to be choppy, but we don't have any long-term concerns about the destination.

Bruce Wardinski: Yes, I echo all the comments Ryan made, and I'll tell you from my standpoint, you can see that this may be kind of a June/summer phenomenon, as Ryan mentioned, when people have other options and going into the high season. I think it bodes very well for the high season. Just anecdotally, United announced that they're adding the 777 wide-bodies, which they haven't done ever in some of the markets, or in a very, very long time, daily flights coming from Chicago, Denver, and Houston into the Cancun market. And that's a huge number of flights and just kind of indicative, I think, of the strength that the airlines are seeing. So if United's doing that, I would imagine the other airlines are going to be doing that. It's nothing that I think is indicative of anything kind of longer term; I think it's more of a kind of a summer phenomenon.

Shaun Kelley: Thank you for that. And then just as my follow-up -- thanks for all the color on owned and operated margins. And obviously, there's a few moving pieces here between Jewel and the FX piece. But Ryan, just overall, how do you think about driving operating leverage from here? We are seeing, I think, for owned and operated hotels in the U.S. a bit more of a struggle to kind of leverage operating costs relative to the top line.

So for Playa's model, let's kind of call it FX-neutral, what kind of revenue growth do you need right now to be able to drop through, and see -- either hold margins or see a little bit of margin leverage again in a normalized FX environment, as we're thinking out to 2024?

Ryan Hymel: Yes, on a currency-neutral basis, I think we want to see kind of low-to-mid-single-digit ADR growth. We kind of commented on a few times, the first kind of indications or the first kind of sight lines you have into that were this quarter in the Yucatan with -- it wasn't low-single-digits, but it was mid-single-digits, around 6% ADR growth, and on a currency-neutral basis, wherever [would] expand margins. Bruce and the operation teams have been acutely focused on cost and kind of re-staffing, given some of the softness in occupancy that we're expecting in the back half of the year.

And as I mentioned and Bruce mentioned, we've made investment in time and energy into our procurement team and have started to see some nice gains in small bits now. But that's why we're pretty excited about what we can expand into 2024. So right now, our expectation is on a currency-neutral basis, we can still expand margins on a low-to-mid-single-digit ADR growth.

Shaun Kelley: Thank you very much.

Operator: Patrick Scholes from Truist.

Patrick Scholes: Bruce, you were, in the previous question, just briefly touching on airlift and air pricing. We heard from some other companies, I would say, some mixed information or thoughts about those two trends now and going forward. I'd like to hear your thoughts on sort of where we are with the trends in airlift to your markets and also on pricing. And it sounds like pricing is going down for especially Mexico on the airlines. How do you think that might impact your ability to price at your resorts on the ADR?

Bruce Wardinski: Yes, I think -- and Ryan, you can add in here -- but I think overall, what we're seeing is very positive. As you said, prices are coming down. During the kind of the pandemic and early post-pandemic recovery, leisure travel dominated the airline business. And they were able to increase rates, particularly to high-demand markets and we were in high-demand markets. And as Jamaica has recovered, it's become, as we've highlighted, a high-demand market.

But overall, with airline travel kind of diminishing somewhat, and then just the change in patterns, right, with the business traveller and what they're doing, and more importantly, what they're not doing and how it flows throughout the week. And so I think just like you're seeing United adding 777s, you're having the airlines adjust their schedules in ways that they never had before.

And so with the weaker -- kind of weaker flying mid-week Tuesday, Wednesday, and Thursday, they have a lot more capacity. And we're going to be, in my opinion, a beneficiary of that excess capacity as they try to put more customers into the market. And let's face it, this is where they're making their money. So I think that is just going to be economically-driven, and we're going to benefit from that.

So what you're seeing this summer with people traveling to Europe, it's amazing, absolutely amazing. And so it's not that people aren't spending money and not traveling; they're absolutely spending money and traveling. They're just traveling different places because the world literally has opened, right? It's much different than it was a year ago or 2 years ago. Look at the Airbnb earnings report for the second quarter, record, record profits. And why is that? It's because the rates people are paying. So I think it bodes very well for us, both on the airline side and people's willingness to still pay rates.

And just to highlight, we never kind of charge the exorbitant rates as others did; we were always modestly increasing our rate. Sure, they look great year-over-year, but it was not kind of your price-gouging type of rate. So I think our ability to sustain those rates, and continue to increase them, is very strong and that's what you're going to see, particularly in the high season. So for me, I'm very bullish on the high season, so late fourth quarter and into the first quarter of next year.

Patrick Scholes: Okay. Just a couple of follow-up questions. Just remind us -- I'm sure seniority (inaudible) somewhere. Your average ADR right now for this summer, how much are you above 2019 at this point?

Ryan Hymel: Yes, I think for the summertime, it's between like 40%, 45% on a clean underlying basis when you adjust for some of the accounting things, and adjust for the fact that we have Cap Cana and others. So again, that's to Bruce's point, and I think that at its peak, which was last quarter and in last year, at some point, a couple of resorts reached as high as 50% to 60%. But again, the absolute dollar is $75 to potentially $175 more than 2019. And again, don't mean to assume that, that's not a lot of money, but when you include food and beverage, entertainment and a great guest experience, it's not doubled, like you've seen a lot of resorts and leisure markets in the United States.

Patrick Scholes: Okay. Bruce, one last question. This is a very high-level, and this is a question I get a lot from investors. And I think it's really a point of controversy in the stock. Certainly in domestic, higher-end domestic United States higher-end resorts, obviously a lot of pressure year-over-year, thoughts that last summer was a bubble. We had a hotel report this morning their high-end Napa property saw RevPAR down 11%. Do you think next summer, your resorts can maintain flat year-over-year RevPAR? Again, it's a highly speculative question, but I just want to hear your thoughts about that.

Bruce Wardinski: Yes, the short answer to your question is yes, I think we can. And what you've seen is not really softening. What you described about Napa, people got kind of a tired of paying $4,000 for a room night in Napa Valley. They're not going to do that. We don't charge $4,000, okay? So we have a much more normalized pattern this year in the summer, and I think going into next year, you're going to see it too.

And the benefit that Playa has, and for those who haven't been to our properties and don't know our properties, is we are, for the most part, the premier resorts within any given market that we have. And so we are able to garner kind of that premium customer and still attract good healthy rate increases. We do very well on TripAdvisor and other social media rankings, and that allows us some level of pricing power.

So I think if you look at 2024, what do I think today at a high-level? I think we're going to have a lot of pricing power and strong demand for the high season. And the high season is going to be the first quarter into the early second quarter, as we look at that. And then I think you're going to see normalized patterns throughout the summer and shoulder seasons, and that's not bad. So maybe those normalized patterns are mid-single-digit rate increases, as opposed to the higher ones that we've got in the past, but I think during the high season, we'll have more pricing power. So I don't see anything that has occurred recently for us as any kind of warning signal or red flag.

As Ryan mentioned, July recovered well, so you had a little bit of a phenomena, softening phenomena, in June, and then you had kind of pick back up in July. It'll probably be kind of soft into the shoulder season into the Fall, September and -- I'm sorry, August, September, early October, which is traditionally our slowest time of the year anyway. So just the dollar impact isn't as significant. But I think for going into the high season into next year, there's no warning signs.

And then you look at what are the headwinds that we face, right? The three headwinds that we hammer through in the second quarter report, the Mexican peso, seasonal weakness in the Yucatan, and the drag of the Jewel Resorts in the DR, all three of those things can be mitigated. The Mexican peso is at levels we haven't seen for almost 10 years. I think we've talked well about the Yucatan situation, and if/when we sell the two Jewel Resorts, that eliminates the drag issue. And then it provides more cash for us to continue to buy back stock. So I'm very bullish, very, very bullish.

Patrick Scholes: Okay. That sounds very encouraging. I could ask a lot more questions, but I think I will stop myself here. Thank you.

Operator: Chris Woronka from Deutsche Bank.

Chris Woronka: Maybe we could spend a second on Jamaica. And realizing that it's obviously earlier in the recovery phase, does that tail extend into 2024 beyond? And do you think if we try to connect the dots between where, say, Mexico got relative to prior peak, is that going to be a similar kind of trajectory in Jamaica in terms of percentage over prior peak? Is it going to be better, any thoughts on that?

Ryan Hymel: I think the way you said it is perfect, and that's kind of our expectation. And you guys are probably tired of us saying it, but just as a reminder, that destination was our best-performing market prior to Covid. And so we never had any long-term concerns or impairment concerns about that destination. It was just purely around the ability to get in and out of the country when the rest of the countries were not testing, right? And so we're pretty bullish on that market and learning some of the investments they're making into the Montego Bay Airport, and the fact that, that market is namely fairly close to the airport where most of our resorts are located, has limited to no supply over the last couple of years, even pre-Covid. So it just lends itself to some nice demand and nice runway for that segment.

Bruce Wardinski: And I'll just add to that. What Ryan said is Jamaica draws very significantly from the Northeast Coast of the U.S., and that's a great market to draw from because those customers are willing to pay higher rates than other markets. And the other place that it draws very well from are higher-end groups. So I think the fact that we have such premier properties, and as Ryan mentioned, they are very close to the airport, it's really attractive for guests and guests that are somewhat discerning and willing to pay higher rates.

Chris Woronka: Okay. Understood. On the Jewel sales, I think you mentioned one of them is closer than the other. What needs to happen to get both of those across the finish line? Are there any -- is this an issue of financing, is it something else? Just your level of confidence that they can actually get done this year?

Ryan Hymel: Sure. First of all, to address, it is not an issue of financing, so both purchasers were able to get multiple quotes from debt providers within the country. And so I think that's a good indicator, and then it's due to the strength in the country and the fact that the banks there are willing to lend, so it's not that. Quite honestly, we are further along with the one that's now not further along, because the buyer that we were very confident of for a variety of their reasons -- not related to financing or economics -- pulled out of the process. So that somewhat delayed where we are on that one. But I am optimistic, we're going to be back on pace and get that done. And the other one, as we've alluded to, is further ahead and there are no indications of that not occurring but just --

And we've said this before, Chris, and you know it, in our part of the world, things just move a little slower, so it's just kind of the way it is. You add to that where we are in the season, and as we said, here we are in August, going into September, October, slowest time of the year. It's always amazing to me that when you're trying to sell a resort at this time of year, people kind of slow-walk it because when do they want to buy it? They want to buy it like December 1st when they can immediately have higher cash flow. So it's just kind of the nature of the beast, but I'm positive that we're on track to sell the two resorts.

Chris Woronka: Okay, great. Last question was just kind of on the -- I think back to Ryan's comment on what you have for 2024 so far. I think you said $48 million of MICE revenue, and that your overall revenue pacing for first half is up more than 20%. So the question is, what percentage of first half revenue, what percentage do you think that represents, or what percentage did you have in 2019 for the first half of 2020 at this time?

Ryan Hymel: Yes, it's about -- we're about kind of a third to 40% of our kind of forecasted occupancy already on the books. And again, a lot of that is MICE-driven and that's the beauty of

MICE, particularly having it in three key segments, three key markets, for us because it allows the revenue to deal from there. So we're cautiously optimistic about the high season at this point.

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

Operator: Chad Beynon from Macquarie.

Chad Beynon: Ryan, thanks for all the details around the guide. Wanted to just pry into one of the near-term ones. So Q3, you said, I think, occupancy should be around 70%. If I'm looking at Q2, portfolio occupancies, that's about 600 basis points off of pre-pandemic, so 70% would kind of imply around 600 basis points, kind of between 500 basis points and 600 basis points.

So I guess firstly on that, you said you're at 87% booked. Why can't this get a little bit higher, particularly in some of those higher-arc markets like Yucatan and Pacific Coast? And then secondly -- and we've heard this from some of the operators -- is this just how we should think about how companies are going to be running occupancies a few hundred basis points below?

Ryan Hymel: Yes, so I'll start with your second question first. And we've been pretty strict about the way we've thought about rate versus occupancy since we reopened. And we've spent an immense amount of time kind of building up the profile of the assets, great consumer reports, great TripAdvisor ratings, great high-top rankings, etc. And so we want to do everything we can to protect those rates that we've built and not have a knee-jerk reaction, even in some summertime softness as our dropping rates. And so we are 100% okay with feeding occupancy in favor of ADR.

Obviously, that is a hotel-by-hotel decision tree, depending on the asset quality level and things like that. But in general, across the board, that's been Bruce and mine and the entire revenue and commercial team's focus. And so to answer your question, yes, like many other operators, it makes more sense to run at a lower occupancy.

And to answer your first one, it could be higher. Our expectation is that the summer0time softness that we started to see, particularly in June, is more of a Q3 phenomenon in the Yucatan more than it was even so in Q2. And then again, we do have some construction disruption that we pointed out in the last call; it's not major, but it brings the Pacific Coast occupancy down.

So we've got some rooms out of service at the Port of [Aratu] asset. And then again, just in general, Q3, while it is certainly our lowest season, and the differences in rates between Q3 and Q1 are much wider than occupancies would be, it's still our lowest period and it is a little more seasonal, it's hurricane season. People wait a little bit more to book because they want to see what's coming down the pike and when they want to make decisions. So it could absolutely be better than what we're expecting, but at this point, that's what we're comfortable forecasting.

Chad Beynon: Okay, great, thanks. And then separately, just thinking about future ROI projects, you said CapEx is kind of still in that $75million or $65 million to $75 million for the year, with just a little bit of project CapEx. Now that leverage is at these levels and the business is humming along pretty well, how are you thinking about expanding or renovating any other properties within the portfolio?

Bruce Wardinski: So there's no question, we think the business is doing well and that it makes sense, where there's high ROI projects, to do those projects. But there is just one big caveat and that is, does that return generate more than just repurchasing our stock? And quite honestly, the attractiveness of our stock, in my opinion, Chad, we're trading at a ridiculously low multiple for our business. And I'm not kind of in your shoes; I can't tell you what investors think or don't think, or what they're concerned about or not concerned about. All I know is I'm a hotel guy, I've been doing this for 36 years and I look at where we sit today, and we're in an incredibly attractive position. And so when you've got leverage at 3x, I'm not worried about our balance sheet.

We've bought back significant levels of stock in our cash balance. At the end of the quarter, it was still close to $170 million. It just says to me we should keep doing what we're doing, and we will reap the benefits of doing that because eventually, it will become obvious, our share count's a lot lower and our EBITDA continues to grow at a nice pace, that the company is undervalued and the benefit is going to accrue to the remaining shareholders. And so that's the plan, so it's not that we are abandoning ROI projects at all. Just we have set a high bar and so that's kind of it.

Chad Beynon: Good point, Bruce. We have you trading at a mid-teens yield off of next year. So it makes sense to us as well. Thanks.

Operator: Tyler Batory from Oppenheimer.

Tyler Batory: A couple of follow-ups -- just in terms of the choppy trends in Mexico, is that isolated to the U.S. guests? Are you seeing some choppiness from European travelers as well? But just also talk about the mix in the summer, U.S. versus Europe, where you are right now versus what's more typical?

Ryan Hymel: Yes, we're still over-indexed to the U.S. customer than we were at pre-Covid. But yes, it has been more acutely seen from U.S. customers going up elsewhere more than anything; the same thing with Europeans are down. We actually saw, as Bruce mentioned, higher mix of Mexicans and local residents coming into the Yucatan and then kind of staying [inter]-country. But it's certainly less of a mix from the U.S. and European, as they have more choice and heading elsewhere. So you hit that one on the head.

Tyler Batory: Okay. How is your competition reacting to some of this? Are they dropping rates in the market? And I'm not sure if that's kind of exacerbating the problem a little bit.

Bruce Wardinski: It is, Tyler, so that's a good question. What always happens in the hotel business -- again, I've been through this many, many times -- it's some people get scared more quickly than others, and it depends on where you are in the price-point spectrum. So if you are kind of in the lower part of the price-point spectrum here, the only real lever you have to pull is price, right? And so some of those who are there, they are doing that.

We have been very focused on the service side. So even with our lower-rated properties, where they stand kind of in the rate mix, we are focused way more on service delivery, okay, in getting the satisfaction of the customer. And at the higher end, it's even more that way, so it's magnified, and that's why I said that for the most part, we have the premium resorts in all of the markets we're in, and so we're able to kind of retain that. So Ryan answered that before; our decision tree is very much that we are going to focus on rate over occupancy. And if we have to cede a little bit of occupancy, that's okay because you know what? We're an all-inclusive business. So it's not like it's just an empty room that you can -- or an empty airplane seat that you can sell at any price. There's a lot that comes into it because of the food and beverage and service component and then the impact on the other guests. So we would rather err on the side of maintaining the rates versus driving the highest level of occupancy. And we think it's done really well since we came out of the pandemic, and we intend to continue that way.

But I think you're also seeing that some of the pricing that the competitors are doing is really short-term, kind of drops in pricing, and it doesn't go into the high season. So again, it gives me optimism that this is more of a kind of a summer-shoulder season, a shoulder period phenomenon, than it is a kind of fundamental change in the market or the demand.

Ryan Hymel: And if it's truly destination fatigue, which we really believe it is, then moving a price wouldn't stimulate demand anyway. That just means they want to go try somewhere else, so we're fine with our pricing.

Tyler Batory: Okay. Makes sense. It's very helpful. And then just last question from me. On the non-package side of things, just talk about the trends within that. I'm not sure, maybe the uptake on some of those extra options has changed at all over the past couple of months?

Ryan Hymel: No, non-package continued to be strong on a per-room basis. Just as a reminder, when you're looking at our results, they get a little wonky because of the fact that this is the last quarter in a meaningful way that we're lapping our Extended Stay protection plan. I think you guys all remember that during Covid when you had to test to come back to the United States, we offered that AFP program where our guest adults would pay -- I think it was like $49 per guest to essentially, if they tested positively upon exit, then they would be -- could stay at our hotel for free and that was a big, big seller. So we're -- all [rents] are non-packaged, and now we're lapping the effects of that.

So if you just kind of take our reported year-over-year non-package per sold room growth of just basically down roughly 90 basis points, you add back the impact of that ESP program lapping or ending was roughly 500 basis points. The Jewel mix in there as well makes things also a little wonky as well, just given the profile of that customer and the fact that we're building occupancies. But even if you just include the Jewel, your ESP on kind of on a clean basis, your non-package growth is about 4%.

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

Operator: Smedes Rose from Citi.

Smedes Rose: You've covered a lot of ground. But I just wanted to ask you, are you seeing any significant new supply coming on line in any of your markets, either with new construction or just kind of repositioning of assets that might be more competitive to you?

Ryan Hymel: No, it still remains, where most of the supply that is at least scheduled, or has come in, is in the Greater Riviera and Maya market south of the airport, or points north of the airport. Obviously, you've heard us say many times, there's really nowhere else to build, or not a whole lot of conversions going on in Cancun proper. But a lot of that supply is being absorbed. It was really Riviera Maya where you saw the most but not -- basically, from 2019 into 2023, roughly a 4% CAGR. But you compare that to our other destinations that were like 2% or below, so while it's elevated relative to others, it's still not a massive amount.

Bruce Wardinski: And one trend that's going on -- and you've seen Hilton made a recent announcement of converting the Royal Uno in Cancun proper in the hotel zone there to a Hilton brand -- is you are continuing to see kind of brand conversions, but that's not adding any new rooms. It's adding more branded rooms within the market. And from our standpoint, that's a positive because the more kind of big hotel brand customers that start to look at the all-inclusive product, and look at the markets that we're in, and kind of get that confidence level to go there, we think that's a positive. So you are seeing that trend, but very importantly, it is not adding new rooms.

Smedes Rose: Okay. Thank you.

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

Bruce Wardinski: Okay. We just appreciate everybody joining us early on this Friday morning in the summertime, so thank you very much for participating in our call. We think there's a lot of reasons to be optimistic about the future of Playa, and we're going to continue to execute on our strategy. So with that, I wish everybody a great day and a great weekend. Take care.

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