[PLYA] Playa Hotels and Resorts
Q 2023 Earnings Conference Call
Friday, November 3, 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:
Chad Beynon, Macquarie Research
Patrick Schols, Truist Securities
Chris Woronka, Deutsche Bank
Smedes Rose, Citi
Tyler Batory, Oppenheimer

Presentation

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

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

Ryan Hymel: Thank you very much, Betsy. Good morning, everyone, and welcome to Playa Hotels & Resorts third 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 that are subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated. Forward-looking statements made today are effective only as of today, and the company undertakes no obligation to update forward-looking statements.

For a discussion of some of the factors that could cause our actual results to differ, please review the Risk Factors section of our quarterly report on Form 10-Q, which we filed last night with the SEC. We've updated our Investor Relations website at investors.playaresorts.com, with the company's recent releases.

In addition, reconciliations to GAAP of the non-GAAP financial measures we discuss on this call were included in yesterday's press release.

On today's call, Bruce Wardinski, Playa's Chairman and CEO, will provide comments on the third quarter demand, trends and key operational highlights. I will then review our third 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'll turn the call over to Bruce.

Bruce Wardinski: Great. Thanks, Ryan. Good morning, everyone, thank you for joining us. Our third quarter results were in line with the expectations we shared with you on our last earnings call. Led by strong performance in our Jamaica segment, Playa's owned resort EBITDA of $52.8 million in the third quarter included a significant year-over-year foreign currency exchange headwind of approximately $8 million due to the appreciation of the Mexican peso, benefit from business interruption insurance proceeds of approximately $1 million, and negative EBITDA at the Jewel Resorts in the Dominican Republic.

Also, as a reminder, Hurricane Fiona hit the Dominican Republic in late September of 2022, causing us to close the Hyatt Ziva Capital Cana and Hilton La Romana Resorts for repairs for a portion of the third quarter last year, which we estimated to be a $2.9 million negative impact on EBITDA and an 80 to 90-basis point hit to our Q3 '22 owned resort EBITDA margin.

We estimate that in Q3 2023, the foreign exchange headwinds had a negative 390 basis points impact on a reported owned resort EBITDA margin and 410 basis points for our Legacy portfolio resort margins. Adjusting for all of these factors, underlying EBITDA growth for our Legacy portfolio was approximately 9.5% during the third quarter. And we were still able to improve Legacy resort margins by 150 basis points year-over-year.

As we outlined earlier this year, our expectation was that the first quarter would represent the highest year-over-year ADR and EBITDA growth for 2023, as we lapped the impact from Omicron last year, and growth would normalize as we entered the second half of 2023, as the base comparison period had less noise.

Playa's third quarter Legacy portfolio year-over-year EBITDA growth was driven by ADR growth of 8.9%, and the cost efficiency measures we have implemented, particularly in Mexico.

Fundamental strength during the third quarter was led by our Jamaican segment, which posted our highest occupancy rate and ADR growth, resulting in 510 basis points of resort margin expansion year-over-year. Although Jamaica had a fantastic year in 2023, there's still plenty of room to go in the recovery in that market. One, on an underlying basis, growth versus pre-pandemic is still lagging versus our other segments by 10 to 20 percentage points, and is also evident when you drill down to like-for-like peers at the hotel level.

Two, supply growth over the last few years has been benign at a little under 10%, with year-to-date international arrivals into Montego Bay only slightly exceeding in the additional supply, but this was largely due to the timing of additional airlift. Three, airlift versus 2019 was only slightly positive in Q1 2023, but is estimated to be over 20% in the second half of 2023, which bodes well for increased demand and the ability to close the ADR gap versus peers. With the improvements made to the Montego Bay Airport, and the expected growth in additional flight capacity, we remain extremely optimistic for the Jamaican segment fundamentals.

In Mexico, revenue declined modestly year-over-year as a result of construction disruption in the Pacific and the impact of increased visitation to Europe this summer, which was largely offset by ongoing increases in ADR. We believe we are significantly outperforming the market in Mexico, a testament to our service from the heart and execution by our operations team. As I mentioned, both the Yucatan and the Pacific segments were negatively impacted by year-over-year appreciation in the Mexican peso. And we estimate that the Yucatan would have seen approximately 130 basis points of margin improvement year-over-year, excluding the impact of FX. And the Pacific would have expanded margins by approximately 50 basis points.

With the hiring of a new Regional Operations Director for Mexico, we've been taking a fresh look at our cost structure in Mexico, and believe we have room to further optimize our staffing during the ebbs and flows of occupancy levels. While our early efficiency actions are already bearing fruit, we expect to see a long tail from greater efficiencies, especially as it relates to areas like procurement and staffing models, given the iterative nature of these changes.

In the Dominican Republic, our Legacy resorts, excluding the Jewel Palm Beach and the Jewel Punta Cana, grew both occupancy and ADR year-over-year. Adjusting for the previously-discussed business interruption insurance benefit and the impact in Q3 2022 from Hurricane Fiona, resort EBITDA for our Legacy DR Resorts grew over 6% during the third quarter. However, the result of the two Jewel Resorts in the DR segment continue to weigh on this segment, negatively impacting profits by approximately $6 million year-over-year in the third quarter. We had anticipated a weak summer for these two properties as a result of missing the summer selling season, particularly for its core European guest base. We still expect to improve on the year-over-year profit drag as we move into the fourth quarter. We do not have any information to share with respect to the timing of the disposition of the two resorts, but hope to have more to share on that in the future.

On the booking front, demand for the fourth quarter and beyond improved in July, and continued to accelerate through the third quarter. In aggregate during the third quarter of 2023, 45.7% of Playa owned and managed transient revenues booked were booked direct, down 450 basis points year-over-year. The decline was driven by fewer World of Hyatt redemption bookings following a spike during the first quarter of 2023, ahead of a change in the conversion rate for point redemptions, which pulled forward quite a bit of demand. We expect this to smooth out in the coming months and believe we are on track with our targeted 50% booked revenue mix of transient revenue.

During the third quarter of 2023, Wyattresorts.com accounted for approximately 11% of our total Playa owned and managed transient 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 nights stays in the quarter came from our direct channels. Geographically, the biggest change in our guest mix during the third quarter was once again our Mexican-sourced guest mix, which was up nearly 570 basis points year-over-year. Our European-sourced guest mix was up slightly year-over-year and remained well ahead of pre-pandemic levels. Our Asian-sourced guest mix improved modestly year-over-year, but remains the most depressed as it is still only approximately 25% recovered.

The most noteworthy geographic-sourced market to keep a close eye on though is Canada, which was a large source market for us prior to the pandemic, but has only recovered approximately 60%. However, recently, there has been a significant increase in flight capacity into our markets from Canada for the high season. So I am optimistic that our Canadian guest mix will improve in the coming months. Our visibility remains a critical factor of our success, as our booking window was just under 3 months.

In total, while 2023 was a very successful year for Playa on many fronts, we faced significant headwinds that masked the robust performance in our core portfolio. However, our focus on execution and the stellar fundamentals should shine brighter in the near future, as the profit headwinds are expected to abate. Starting in the first quarter, we will begin to lap the significant profit decline at the two Jewel properties in the Dominican Republic.

At current U.S. dollar to Mexican peso spot FX rate, FX would cease to be a profit headwind beginning in Q2 2024. And we will be lapping the significant increase in our insurance expense in Q2 2024 as well.

Finally, on the capital allocation front, we repurchased approximately $76 million worth of Playa stock during the third quarter, and an additional $15.4 million thus far in the fourth quarter, bringing our total repurchases since resuming our program in September 2022, to approximately $212 million or 17% of the shares outstanding.

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

Once again, I would like to thank all of our associates that 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.

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

Ryan Hymel: Thank you, Bruce. I'll begin with a recap of the segment fundamentals, followed by an overview of our balance sheet and expected uses of cash, and conclude with our outlook for the remainder of the year.

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

Furthermore, as Bruce mentioned, there are some unique items affecting the comparability of our financials in the second half of this year I would like to remind you of before we dive in. Firstly, as Bruce mentioned, Hurricane Fiona hit the Dominican Republic towards the end of Q3 2022, and caused significant disruption at the Hilton La Romana and the Hyatt Cap Cana, which we chose to fully close for a small portion of Q3 '22 and over half of Q4 '22.

We shared on our previous earnings calls that we estimate the EBITDA impact to Q3 2022 to be roughly $2.9 million and an approximately 80 to 90-basis point hit to resort EBITDA margins, and then an approximately $5.4 million EBITDA impact net of business interruption in Q4 of 2022. Given the pronounced seasonality of our ADRs during the fourth quarter, these resorts were disproportionately open during a much higher ADR and margin portion of the fourth quarter, skewing our Q4 2022 ADR and margin comparison.

Second, foreign exchange, as Bruce mentioned, the Mexican peso had its largest year-over-year change during the third quarter of '23, which negatively impacted our EBITDA by just under $8 million, and resort margins by 390 basis points.

During the fourth quarter of 2022, we also had several (inaudible) adjustments that significantly increased reported Q4 2022 ADRs. The largest of these was related to an advanced pricing agreement rates in the Dominican Republic that affects our VAT, which was detailed in our Q4 2022 earnings release on Page 17. These adjustments in total sum up to nearly approximately $10 or 2.5% of ADR.

Business interruption. We received $1 million of BI proceeds during Q3 of 2023, as we outlined in our release, which increased owned resort margins by approximately 50 basis points.

And lastly, as we mentioned, the DR Jewels. These resorts have continued to weigh on the performance of the portfolio, negatively impacting owned resort margins by over 200 basis points during Q3 '23, and are expected to continue to be a drag on Q4 '23 margins as well.

Now, I'll take a look at our fundamentals. Our third quarter results were in line with our expectations. Continued ADR growth, easing pressure from food and beverage expenses and cost efficiency measures led to reported resort margin declines of 330 basis points year-over-year, which as we mentioned, included a 390 basis point headwind from foreign exchange, a 50 basis point benefit from business interruption proceeds, and a 210 basis point headwind from the two Jewel resorts in the Dominican.

Adjusting for foreign exchange and business interruption, our Legacy portfolio grew underlying margins 150 basis points year-over-year.

The ADR growth was broad based, with all segments reporting year-over-year ADR growth, excluding the two Jewels in the DR.

On the cost front, food and beverage costs continued to be favorable as a result of lower input prices and cost efficiency efforts by our operations and procurement teams, while utilities and labor were headwinds in the quarter. As Bruce mentioned, we're undertaking efforts to streamline and improve our procurement processes across the entire portfolio to take advantage of our scale. These efforts are really just beginning to bear fruit from all the heavy lifting undertaken thus far in '23. And we expect the benefits to accelerate as the company moves into '24 and beyond, as our cost savings are averaging mid-single-digit to high-single-digit improvements per category.

At the segment level, Jamaica again led the way in year-over-year ADR and occupancy growth and margin improvement. As a reminder, Jamaica got off to a slower start in '22 due to the

Omicron variant having a disproportionate impact on the segment given its Covid testing requirements at the time. The ongoing recovery, in addition to the recent investment made into the airport, bode well for the Jamaican segment in the second half of 2023 and beyond.

Forecasted flight seats into Montego Bay for the next 6 months are expected to grow mid-teens year-over-year, leading all of our major destinations, with the recent additions of more flights from Canada boosting growth in the fourth quarter.

On the margin front, Jamaica once again benefited from better-than-expected F&B and utilities expense, while insurance and labor costs pressured margins.

Keep in mind when comparing results in Jamaica versus other segments, that Jamaica generally has higher operating costs than our other segments and typically generates higher ADRs as well.

Looking at our other segments, the Yucatan Peninsula continued to deliver strong results, with reported year-over-year ADR growth of 4.1% and FX adjusted margins expanding 130 basis points year-over-year. Occupancy during the third quarter was down 310 basis points year-over-year, as we anticipated and discussed on our last earnings call, we believe this is attributable to the increased visitation to Europe this summer. And it's evident as year-over-year occupancy increased in September, and is expected to be relatively stable in the fourth quarter.

Reported owned resort margins were down 700 basis points year-over-year, primarily again as a result of the 840 basis point negative impact from foreign exchange.

Food and beverage expenses were favorable year-over-year on a currency neutral basis, while higher government, policy-driven labor costs negatively impacted the margins.

All told, we're pleased with the operations team, who again expand margins on a currency neutral basis on more modest ADR and revenue growth.

Pacific had another fantastic quarter with year-over-year ADR improvement of 8.1%, leading to currency adjusted margin gains of 50 basis points, as F&B expenses remained favorable year-over-year.

(Indiscernible) the Yucatan, segment margins were negatively impacted by approximately 800 basis points that resulted with the changes in the Mexican peso.

In the Dominican Republic, our Legacy resorts, the Hyatt Ziva (inaudible) Cap Cana and the Hilton La Romana grew ADR over 12% year-over-year with occupancy of nearly 69%, which was up sharply given the impact of the Hurricane Fiona in late Q3 '22. Adjusting for the impact of Hurricane Fiona in 2022 and business interruption proceeds in Q3 of 2023, underlying EBITA at these two resorts grew just over 6%.

The segment performance was dragged down by the two Jewel Resorts, which experienced a more challenging summer period than we anticipated. We continue to expect the performance of the two Jewels to improve sequentially year-over-year while we execute the sale process for these resorts.

Now, turning to our MICE Group business, our 2023 net MICE Group business on the books is approximately $60 million and is well ahead of our final full year 2019 MICE revenue of $32 million.

Looking ahead to 2024, we currently have approximately $56 million of MICE revenue already on the books, well ahead of where we were at the same time last year. And we believe this sets us up favorably for the first half of '24 and the high season.

From a pacing perspective, this base of business combined with our leisure transient bookings, currently has our first half revenue pacing up over 20% with both ADR and occupancy contributing to that.

Finally, turning to the balance sheet, we finished the quarter with a total cash balance of approximately $185 million in total outstanding interest-bearing debt of $1.09 billion. We currently have no outstanding borrowings on our $225 million revolving credit facility.

Our net leverage on a trailing basis stands at 3.4x.

We anticipate our cash CapEx spend for full year '23 to be approximately $55 million to $60 million, partitioned out between $35 million and $40 million for maintenance CapEx and the remainder designated for ROI-oriented projects.

Also, as a reminder, effective April 15, we entered into two interest rate swaps to mitigate floating rate risk and our new term loan due 2029. As a reminder, we entered into a 2 year 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 purchased an additional $76 million of stock during the third quarter, and additional $15 million thus far in Q4. Since we began repurchasing shares last September, we purchased over 28.8 million shares, a little over 17% of the shares outstanding. We still have $43 million remaining on our existing repurchase authorization. With our leverage ratios well below 4x times, the anticipated free cash flow generation in the business and attractive evaluation of our stock, we believe repurchasing shares is a very compelling use of capital, and intend to use our discretionary capital 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 outlook for the remainder of 2023. Relative to the expectations set at the beginning of the year, our RevPAR growth outlook has largely been as expected, with ADRs improving versus initial expectations, and occupancy slightly lower, and better-than-expected performance in our core Legacy portfolio and fundamentals coming in lower than expected at the DR Jewel Resorts.

We expect full year adjusted EBITDA of $260 million to $265 million, and that is inclusive of approximately $25 million negative impacts from the appreciation of the Mexican peso, approximately $6 million of which is expected to hit in the fourth quarter of 2023.

Our core total Legacy portfolio EBITDA forecast for the second half has remained steady in Jamaica and the DR. But year-over-year occupancy declines in Mexico in the second half due to construction disruption in the Pacific, choppiness in the shoulder period and disruptions in October from the recent storms in the Pacific have incrementally weighed on our Q4 outlook for Mexico. The (inaudible) outlook, however, has improved slightly based on an estimated average exchange rate of approximately [17 ¼] for the fourth quarter, bringing the full year impact to approximately $25 million, with again, $6 million hitting in the fourth quarter.

At the midpoint, our full year guidance represents approximately 8% year-over-year growth on an adjusted EBITDA basis on a reported basis. But after adjusting for hurricane-related expenses, business interruption and foreign currency impacts, the midpoint of our guidance represents adjusted EBITDA growth of approximately 12.5%.

For the fourth quarter, we expect reported occupancy to be in the low 70s; reported ADR growth of low-single-digits on a year-over-year basis, again, given the aforementioned impact of the factors affecting Q4 2022 reported ADR.

We expect owned resort EBITDA margins to decline year-over-year, given the EBITDA drag on the DR from the two Jewel Resorts and again, continuing FX headwinds in Mexico.

Putting it all together, we expect Q4 owned resort EBITDA of $63 million to $67 million; Playa collection and management fee income of $2 million to $2.5 million; corporate expense of approximately $15 million to 16 million, which includes a negative FX impact related to our shared service centers in Mexico, all leading to adjusted EBITDA of approximately $49 million to $54 million.

Given our booking window, we're approximately 90% booked for the fourth quarter.

We're not giving guidance for 2024 today, but I want to flag the following adjustments and unique items to keep in mind as you think about next year. So just as a reminder, in total thus far in 2023, we booked $5.3 million of business interruption proceeds. As of today, foreign exchange is forecasted to be an approximately $25 million drag on EBITDA this year, and at current spot rates, would remain a drag into Q1, but we expect it to be closer to neutral beginning in the second quarter.

The DR resorts were a material drag on our profits this year, with a combined loss of over $15 million, with approximately a third of that coming in the first quarter of 2023, given the fact that one of the resorts is only open for a small portion of the first quarter this year. While this creates favorable profit comparisons year-over-year in the [fourth] quarter, the lack of lower-rated room nights vis-a-vis the rest of our portfolio, it will therefore artificially depress our ADRs, our occupancy improves materially year-over-year.

The Playa collection and management fee contribution should grow in 2024, given the ramp of the managed properties, and most importantly, the rollout of the Playa collection across our Hyatt Resorts during 2023 and into the early part of 2024.

Lastly, as a reminder, we have a robust amount of MICE business on the books for the first half of 2024, which would give us a healthy base to yield ADR from.

We hope this 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 for some closing remarks.

Bruce Wardinski: Great, thanks, Ryan. So although the complexion was significantly different than we anticipated, 2023 is expected to finish as we originally anticipated back in February. We expected that the second half of the year would be much more difficult than the first half due to tougher comparisons, including an unfavorable MICE calendar, more normal seasonality, the major return of Europe as a destination and the non-fundamental ADR comparisons from last year's fourth quarter.

Despite that, our Mexican resorts performed slightly better than expected on a currently -- I'm sorry -- on a currency-neutral basis despite the soft patch this summer. And continued strength in the Caribbean led to robust profit growth, but disappointing performance at the two DR Jewels offsetting the stellar performance in the Caribbean.

We are diligently moving forward on the disposition of the two DR Jewels, and remain committed to returning cash to shareholders with anticipated proceeds.

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 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). Chad Beynon with Macquarie.

Chad Beynon: Great to see all the share repurchases. And Ryan, thanks for all the same-store commentary; it definitely kind of paints the appropriate picture that we're looking for. As we're thinking about the first quarter, have you started to see any price discounting from peers? I guess we could kind of go around your markets, it sounds like Jamaica, with the mid-teens growth in flight seats, demand is probably going to exceed supply. Mexico is probably the one that we'll be looking for.

But just trying to understand price integrity as we kind of get into a period where maybe demand is a little bit lower in Yucatan, and in Pacific in the first quarter.

Ryan Hymel: That's something that we've been focused on throughout the entirety of this year, knowing that you've seen the last 2 quarters, starting with the Yucatan, ADR growth is normalizing and now kind of low-single-digits. Our focus is still on maintaining rate integrity over pushing occupancy, unless there's some sort of major shift in demand, which again, as you saw from Bruce's comments, you saw that we've seen demand really begin to stabilize, particularly once that summer season was over. And you really saw some nice pickup for the fourth quarter and the first quarter, starting kind of tail end of July and August.

I'm not saying stays and bookings for future periods, and so given our booking window, that leads you to believe that's bookings for Q4 and for Q1. Right now, with the exception of the Pacific, we're pacing up for Q1 on an ADR basis, anywhere from kind of low-single-digits in the Yucatan to potentially high-single-digits in Jamaica. The Pacific, given the MICE business that's on the books, a very large book of business that we have coming, I think it's either in January or February, for a Legacy group that's done a lot of business with us, actually has a kind of Legacy rate still on the books, back from Covid times that we elected to honor and move forward, because they've done such an amount of business with us.

So that's really kind of a lumpy book of business, even though they spent a lot on non-package and revenue, that weighs on the rates on the books for that period. But otherwise, the pacing and the amount of business we have on the books today, gives us a sense of optimism. Obviously, booking patterns have returned to normal, and the way we build and pick up occupancy has kind of returned to normal. So it's going to be critical to see how things continue to book and build the remainder of the winter, but we're happy with where we sit today.

Chad Beynon: Perfect. Thanks, Ron. And then in terms of some of the margin improvement or procurement opportunities that you touched on, is there a way to frame out same-store or kind of FX adjusted total saves, whether we're thinking about a dollar amount or margin amount? Could this be over 100 basis points in margins if you're able to execute as planned, understanding that it's just kind of underway?

Ryan Hymel: Yes, and the answer is yes. So why don't we break it into kind of the two main buckets? You heard Bruce and I talk about procurement initiatives, and then kind of kind of resort efficiency, as we've kind of called it, more so having to do with staffing and kind of waste reduction. But on the procurement side, we hired a woman in our Florida office, who has really spent the last year condensing and taking advantage of our scale and our buying power. And thus far -- and again, very early innings -- we're achieving just under 2% cost savings on food thus far, and just on a few unit items within our food base. And just a reminder, food is approximately 15% of our costs.

So if you want to extrapolate, 1.8% savings times 15%, that kind of annualizes to roughly 25 to 30 basis points of annual savings. And we estimate we're only about 20% of the way through the addressable cost base. So we're just getting started there.

We're actually planning on actually adding a couple other members to that team in some of our local destinations, starting next year in our budgets, just because we think those members of the team will just pay for themselves 10x over.

And then the other side -- and Bruce mentioned it -- is with an addition of a new Head of Operations in Mexico, and then just generally, our overall focus on rationalizing staffing models across our portfolio, kind of with the ebbs and flows of occupancy. I think most hotel companies will, every couple of years, will kind of re-look at their staffing models, and kind of throw old ones out the window. And that's exactly what we've begun to do, and say like, hey, how do we think about staffing at these lower occupancies, different times of year.

And then also, how we -- we've been actually starting to measure food waste at our buffets and at some of our ala carte restaurants, and hope that we can extrapolate and take advantage of some scale there in the future. We don't have a set goal in mind on that; it's a fairly iterative process, again, based on occupancy and how ADR is moving. But that's something that has been a real focus for us, starting at probably about Q2, as we knew and called out earlier in the year, that ADR is going to be far more normal in the back half of this year.

Chad Beynon: That's great. Thank you very much, guys. Appreciate it.

Operator: Patrick Schols with Truist Securities.

Patrick Schols: My first question, can you just confirm again that your target leverage, I guess, at the high-end net debt to EBITDA is 4x? I think you've implied that in the call, but is that correct?

Bruce Wardinski: That's correct. If you look at it -- if we're in the 3x to 4x range, I think that's an incredibly prudent place to be. You add to that kind of our existing cash balance, we have over $1.30 per share of cash. We've got the anticipated proceeds from the sale of the two Jewels. So anything we do with regards to share repurchases should be replenished by the proceeds we got, which we have specifically said we're going to use. So I think we're in a very prudent level.

And just compare us, for example, just to the lodging REITs and we are at the low end of all of that group. So I feel very comfortable with where we are, and we've got nothing drawn on our revolver. So just from a liquidity standpoint, from a cash standpoint, from a debt to EBITDA standpoint, I think we're in a really good place.

Patrick Schols: Okay. Thank you. And one more question -- looking hopefully a bit at 2024, would you expect your CapEx to be materially different from that of 2023? And what if you are able to sell the drill properties, I guess, early next year, would that change your CapEx expectations for 2024?

Ryan Hymel: I think just based on the timing of what we have planned, whether or not we sold the Jewels wouldn't change the plans. But I expect that the maintenance CapEx level to remain similar but the kind of growth CapEx or ROI CapEx, that we've called out in the past, should grow over what we spent this year. We called out a few times, some construction disruption in the Pacific. What's happening there is it's an ongoing stage renovation of our Ziva in Puerto Vallarta. If you recall, that's one of our Legacy Hyatts that hasn't seen a room's renovation in about 7 years or so, and so it's a great earner for us. And we want to update the rooms to the levels that are more closely associated with some of our newer Hyatts.

We're also spending a small amount of money this year, but a little more forcefully next year in Ziva Los Cabos on public space and meeting space because that property again, as a meetings and incentive destination is phenomenal, but it's been out-punching its weight for a while now given again, comparisons to our [Ziva Lara] in Jamaica, or the brand spanking-new [Ziva Lara] in Cap Cana. So we want to make sure that we're protecting some of those assets, and allowing us to continue to push group business in there, which for all the reasons you already know, is great margin, great ADR and great NPR business for us, so I expect it to go up some.

Patrick Schols: Okay. Can you just give us, for modeling purposes, I guess, a little bit more granularity on a rough ballpark of percentage, just something ballpark to -- when you say "up some," is that 10% or 50%?

Ryan Hymel: Oh, so if we're spending kind of 20 million-ish to 25 million on growth CapEx this year, it could go up another 50% to 75% from there. So maybe it doubles, but probably not. We've got -- just based on the timing of what we've got planned, we're probably not going to do more than that next year. We have other plans that Bruce can go into if he'd like; I don't believe they'll be ready to begin next year, but there's other things in the pipeline. If we're specifically talking about '24, call it 50% to 75% more on growth CapEx than we spent this year.

Patrick Schols: Okay. That's good color there. Thank you.

Operator: Chris Woronka with Deutsche Bank.

Chris Woronka: Covered a lot of ground there as always. So could we maybe talk a little bit about the -- you called out the Hyatt, changing the Hyatt point redemption levels. And in addition to that, I know that they've bolted on quite a few brands in recent years and really kind of ramped up their resort offerings to their loyalty members. Do you think any of that is, or will, have an impact on you guys? And maybe you could give us a really quick tutorial on economics of [rate] redemptions for you?

Ryan Hymel: Yes, on the redemption side, the change was actually a net positive for us, in fact, in the sense that it required more points. And so therefore, the next step from that would be that we would get better ADR rate redemptions from Hyatt the following year. It pushed a lot of those redemptions into kind of the first and second quarter, just as kind of like a percentage of our overall Hyatt room nights. Just as an example, we've traditionally had mid-to-high-single-digit points stays from all of our Hyatt business that in this quarter, dropped down to kind of low-single-digits, purely just because there was a mad dash in the first and second quarter to redeem points before they made that change. But generally, it's not made up a massive portion, one way or another, of our room nights from Hyatt. It's far higher, kind of double -- low-double-digit numbers from Hilton.

And then Bruce, if you want to talk to any of the brands (inaudible) --

Bruce Wardinski: Yes, I think from just a big picture, Chris, if you look at it, I think it's all positive, right? So sure, Hyatt added more resort offerings with the Apple Leisure Group transaction, but we're at the upper end. So our products, the Hyatts -- even Hyatt Zilara, are higher. They have higher requirements for redemption, the number of points you need to do. So we're kind of targeting a little different high-end customer there. So I don't really think them adding the stuff below us is really going to have a big impact. And then just overall, and I've said this many times in the past, just the more exposure we get to customers, kind of your traditional lodging customers, your Marriott Hyatt Hilton, Intercontinental customers to all-inclusive, is positive for us. So all of it's positive.

So I think we just wanted to highlight that because it was just a little bit of interesting phenomena. You've seen that before with airlines where the airlines do the same thing. They'll have a flurry of redemptions because they're changing. That's all it is. I don't think really -- as Ryan said, it's not a huge number anyway, and I don't think it's a big issue. But I think it's just positive, that there's more and more exposure in a kind of from your traditional lodging customer to all-inclusive.

Chris Woronka: Okay. Thanks for that, Bruce. And then, I guess could we -- I know you said you don't have any information to share about the Jewel asset sales, but maybe talk a little bit about what the gaining -- primary gaining factor is right now in terms of getting things over the finish line, or not getting them over the finish line? And is there a point at which, given the dilution that they're causing to the portfolio, is there any kind of red line, or line in the sand, as to when you really want to get rid of those?

Ryan Hymel: So Chris, our desire obviously is to sell them as soon as possible, okay? And is there a big issue? That's not per se a big issue; it's just kind of the macro market that we're all sitting in, right? Everybody knows the uncertainty out there; everybody knows about interest rates and volatility of interest rates. And if you look across -- and I've recently had discussions with a number of people in just the lodging space, generally, right? And the level of transactions is way down, okay? And that includes new supply, that includes sales, lots of things. So just things are moving slower.

I think, again, you step back and the big picture is going to benefit us over the next 2 to 3 years, all of these kind of fundamentals on supply and demand. With regards to this, there's still a lot of interest and the pricing is attractive for someone who's coming in looking at it on a price for key. It's attractive for us on a trailing multiple. For both sides, I think it's attractive transaction. I don't think there's any significant issue. I think we're going to conclude the two sales and hopefully, we'll be able to say something in the near future.

Chris Woronka: Okay, fair enough. Just one quick last one is on the -- I know you mentioned that the locally-sourced I think business from Mexico is up 570 bps. Can you maybe compare -- what does profitability look on that relative to -- I know you're still missing Canada, you're still missing a little bit of Europe and more of Asia. So is there a way to just kind of bucket those in terms of their kind of contribution to however you look at it, whether it be (indiscernible)?

Ryan Hymel: Yes, the best way to look at it is kind of a -- is a percentage of the pie on room nights or revenue. We still remain very heavily North American-centric. Mexico traditionally has been kind of 8 to 10 percentage points of kind of room nights revenue-ish, U.S. being a very large portion and then Canada. Canada and Asia were the two, up until recently, that were still kind of behind. Canada had it stops and starts, and Asia was still only about 20%, 25% recovered, but Asia pre-pandemic was only about 4% of our overall pie.

Canada, particularly, you heard us reference some of the increases in flights into all of our destinations. Canada is a large part of that across all of our destinations. They've got big pickup in the DR and Mexico and Jamaica for Q4 and for Q1. So I expect by the time we're talking to you next year about Q4 results, Canada will be essentially fully recovered, if not better than pre-pandemic levels, which is exciting. They're a big piece of our overall business.

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

Operator: Smedes Rose with Citi.

Smedes Rose: I wanted to go back to the Jewel assets, which I think you said are a drag of 15 million this year. I think you've been trying to sell them for close to a year now. So as you look out into '24, and I think you said that you think you can sell them. But if you cannot, is there a point where it's better just to close them, instead of diluting your shareholders so significantly? What's the argument for keeping them open when they're losing money?

Bruce Wardinski: Yes, so first of all -- and as we highlighted, Smedes, in our script, one of the big issues with the properties is kind of how we took them over, okay? And so when that happened, from a timing perspective, we had really missed the European sales period, and the Dominican Republic relies very significantly on European customers. And they sell kind of a more traditional way than we do to our other segments, particularly to the U.S. customers, and even the Canadian customers. So it's done well in advance through a lot of the traditional channels. And so we missed that, and particularly, that impacted kind of the summer into the third quarter, right? So really big into the second and third quarter.

So I'll let Ryan talk about how that goes forward. But our focus, number one, is on selling the assets. As I just said to Chris, I feel confident we're going to be able to. We will start lapping the bigger negatives, but we also have a better sales position with regards to Europe and so I think that will benefit us.

Ryan Hymel: Yes, and (inaudible) --

Smedes Rose: I guess the question is in -- sorry, could I just -- the question is for '24, if you're not able to sell them, can you at least get them to break even? Do you think you can get them to zero, or did you expect them to (inaudible) --

Ryan Hymel: Yes, that's where I was going to answer. So yes, so the good news is all of those things that ailed us in '23, you shouldn't have -- so one, just by design, they're going to be open in the high season, right, and we have a better chance of getting them to break even. And we've spent a lot of time, particularly over the summer, actually building up a sales force in the Dominican, and we brought in a Vice President of Sales for the Dominican Republic, who has deep ties to Europe. And just even having come a couple of weeks ago, from our board meeting -- excuse me, not our board meeting -- our budget meetings in the Dominican, is a very, very large focus internally, and in the sales and commercial organization on getting these back up.

It's a kind of pre -- closer to 2022 levels and others. So I think we have a good chance of getting them to break even. And if not, they're still significantly better than where they are today; they're far, far, far less of a drag. But you're absolutely right, Smedes, the goal should not be to get them to break even, it's to get them better than that.

Bruce Wardinski: That's right.

Smedes Rose: I think it seems like the goal should be to close, and if they can't get to breakeven, I guess I don't really get what's the point of keeping them open if they're losing money, and if (inaudible) --

Ryan Hymel: It has other -- there's other considerations on a sale process and other things you have to keep in mind too. You can't look at them isolated in a vacuum.

Smedes Rose: All right. Thank you.

Operator: Tyler Batory with Oppenheimer.

Tyler Batory: So a follow-up question on the ADR growth and specific to Q4. Ryan, you mentioned low-single-digits growth year-over-year. I think last quarter, you were talking about low-single-digit to mid-single-digits. So did that change there in terms of the outlook? And what are you seeing in terms of pricing around the holidays and Q4 in particular? I know it's a little more of a peak period, probably elevated rates. Are you still expecting to see ADR growth during those periods?

Ryan Hymel: Yes, for the festive periods, absolutely, that looks good. The shoulder periods are definitely more choppy. The Jewels have contributed to kind of that lower end of the original kind of guidance range for Q4. We did talk -- to be specific, Tyler, I don't think we ever gave Q4 specifically; we talked back half of the year. And so that's where you're getting the mid to -- low-to-mid-single-digits. And so I don't think it's changed too, too much from where we spoke last time, but on a reported basis, it should be up low-single-digits.

But again, for all those reasons we discussed, there's a lot of things working against us, including the aforementioned adjustments to Q2 '22, or the fact that the two hurricane properties that we reopened in Q4, were opened at the highest ADR points of the fourth quarter. There's a big difference between ADRs in October than it is in December, right? So if you look at that on a clean underlying basis, our reported -- our underlying ADR growth should be kind of low-to-mid-ish-single-digits. But again, you wouldn't see it; that would be on an underlying basis.

Tyler Batory: Okay. Okay, very good. And then do you think -- you look at your portfolio -- and Bruce, I think you talked to Mexico, I think that you're gaining market share, does that comment extend to other regions in the portfolio? It might be tough to measure, but just trying to get a sense of whether you think you're gaining market share, whether you think you're growing faster than peers? I'm trying to get a sense too of just how impactful the Hyatt brands are in terms of your performance versus some of the competition that's out there.

Bruce Wardinski: Yes, I think, Tyler, right now we can definitely say that for Mexico and the DR. And we're targeting investment to go into Jamaica in order to continue to do that in Jamaica. And I would say that's an opportunity for us, but there's no question that if you look at our resorts, we have a -- for the large part, a very trophy portfolio. Our Ziva Cancun is on the best location in the hotel zone in Cancun; our Hyatt Zilara in Cap Cana is the top destination in all of Punta Cana. Los Cabos, we're direct connection to the airport, one of the best stretches of beach in Los Cabos. Puerto Vallarta, it was originally one of the best Mexican hotels at Camino Real. We're on a private beach in Puerto Vallarta.

So you just look at the real estate, and then you combine that with the rebranding, and kind of -- and we highlighted that where the U.S. consumer in particular, but all consumers are really much more familiar with all-inclusive. And once you experience all-inclusive and you like it, then you say, okay, now I want to go to the best ones in the market. We're going to be top of the radar when it comes to that. So I think our goal needs to be, and will be, that we will continue to exceed the market conditions, right? We're going to have a bigger premium. We should continue to have an ADR RevPAR premium over our competition, and quite honestly, I'm not going to accept anything less than that.

Tyler Batory: Okay, great. And then my last question is on group business. And it's really been a pretty significant driver of results for hotels in the U.S. Your book position in terms of the numbers that you gave, sounds pretty, pretty strong. So just any more commentary in terms of what you're seeing for group bookings? How sustainable is that strength? What percentage of your mix is typically group? Might that increase, going forward?

Ryan Hymel: Before we built the Zilara Cap Cana, we were around 10%, so I expect that to kind of move up a little bit more as revenues grow as well. For us, we're already booking well into '25; I'm not expecting too much more being added to '24 in the year, for the year. And so I think it's pretty sustainable. Again, we have the nice benefit of having Cap Cana where we didn't before; it's an incremental property. So now we've satisfied -- we used to say this kind of a year or so ago. We're satisfying a lot of these meeting incentive planners who want to do a 2 or 3-year rotation.

And I think it's next year in Cabo, I referenced it earlier, that is the last group, I believe, that was at original kind of pre-pandemic or pandemic-era rates, right, that are being pushed through. So everything that we're booking now, even if it's a same group, or a group that stayed with us before, it's incremental bookings and someone who wants to come back. It's not just some legacy pent-up demand that we're still trying to work through. So a lot of that was '22 into '23 and like the last couple of legacy ones are '24.

And then on top of that, you heard us mention before, we're spending money this year, and more importantly, next year, on some of the meeting space in Cabo to kind of protect some of those kind of golden assets for us who drive a lot of meeting incentive business and allow us to yield.

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

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

Bruce Wardinski: Great. Well, thank you all for participating today. We're guardedly optimistic about the rest of this year and into the first half of next year. And we'll be very focused on sales and operating fundamentals. And we look forward to having you all join us for our next quarterly call. Thank you.

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