[PLYA] Playa Hotels and Resorts
Q4 2023 Earnings Conference Call
Friday, February 23, 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:
Smedes Rose, Citi
Shaun Kelley, Bank of America
Chad Beynon, Macquarie Research
Chris Woronka, Deutsche Bank
Tyler Batory, Oppenheimer

Presentation

Operator: Good morning, and welcome to the Playa Hotels & Resorts Fourth Quarter 2023 Earnings Release and 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'd now like to turn the conference over to Ryan Hymel with the company. Please go ahead, sir.

Ryan Hymel: Thank you very much, Joe. Good morning, everyone, and welcome again to Playa Hotels & Resorts fourth 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 risk factors that could cause our actual results to differ, please review the Risk Factors section of our annual report on Form 10-K, 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 will discuss on this call were included in yesterday's press release.

On the call today, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide comments on the fourth quarter demand trends and key operational highlights. I will then review the fourth quarter results and our outlook for 2024. Bruce will wrap up the call with some concluding remarks before we turn it over to Q&A.

With that, I will turn it over to Bruce.

Bruce Wardinski: Great, thanks, Ryan. Good morning, everyone, and thank you for joining us. Our fourth quarter results exceeded our expectations, coming in well above the high end of our expected range. The better-than-expected results were broad-based across our segments, driven by strong demand during the high season.

Before we dive in, I'd like to remind everyone that Hurricane Fiona hit the Dominican Republic in late September of 2022, causing us to temporarily close the Hyatt Ziva and Zilara Cap Cana and Hilton La Romana Resorts for repairs for a portion of the third and fourth quarters of 2022.

We estimate this had a $5.4 million negative impact, net of business interruption proceeds, on adjusted EBITDA in Q4 2022, but was an approximate 70 basis points of benefit to our reported Q4 2022 owned-resort EBITDA margin, as there were no corresponding revenues accompanying the business interruption proceeds we received. Comparability of our KPIs for the fourth quarter is further challenged by the fact that the effective resorts reopened were only the highest ADR portion of the quarter.

Playa's owned resort EBITDA of $73.6 million in the fourth quarter of 2023 included a significant year-over-year foreign currency exchange headwind of approximately $5.6 million due to the appreciation of the Mexican peso; a benefit from business interruption proceeds of approximately $900,000; and negative EBITDA at the Jewel Resorts in the Dominican Republic.

For Q4 2023, we estimate that the FX headwinds had a negative 250 basis points impact on both our reported owned-resort EBITDA margin, as well as for our legacy portfolio, which excludes the Jewel Resorts in the Dominican Republic. Adjusting for all of these factors, underlying adjusted EBITDA growth for legacy portfolio was approximately 6% during the fourth quarter.

Finally, we've included a breakout of segment financial KPIs, excluding the DR Jewel Resorts, for the fourth quarter and full year 2023 on Pages 17 and 20 of our earnings release to help you with your modeling and provide a frame of reference for the impact on our financials from these significantly lower ADR resorts.

For our discussion today, commentary on comparable full year 2024 KPIs is synonymous with our legacy portfolio, as the Jewel Palm Beach was closed for a portion of Q1 2023 and the Jewel Punta Cana was sold during Q4 of 2023, and thus, would not be comparable for the full year metrics.

As we outlined earlier in 2023, our expectation was that the first quarter would represent the highest year-over-year ADR and EBITDA growth in 2023, as we lapped the impact from Omicron in early 2022, and growth would normalize as we entered the second half of 2023, as the base comparison period had less noise.

Additionally, based on our pacing and booking data, we were of the belief that the brief slowdown in bookings experienced ahead of the summer travel season was likely the result of pent-up demand for European travel, and not indicative of weak demand for traditional winter travel to beach and warm weather destinations.

This largely came to fruition during the fourth quarter of 2023, as closer demand during the high season, particularly in Mexico, exceeded our expectations and aided our ADR growth, as these peak season bookings came at healthy rates.

Our results in the Yucatan were quite exceptional on a currency-adjusted basis, with occupancy nearing fourth quarter 2018 and 2019 levels. Our fourth quarter 2022 Yucatan ADR reflected multiple favorable true-up adjustments. Excluding these adjustments, underlying fourth quarter ADR in the Yucatan increased approximately 2% year-over-year.

The most remarkable aspects of our fourth quarter in the Yucatan, however, was the continued execution by our operations teams in Mexico, which were able to grow currency-neutral margins approximately 100 basis points year-over-year on modest reported ADR growth.

As you may recall, following the realignment of key management personnel, we have been revisiting various processes, staffing models and procurement practices since the second quarter of 2023. And the results of our efforts really began to show in the second half of the year as ADR growth moderated.

As we've mentioned on previous earnings calls, the process improvement will be iterative, and we will continue increasing efficiency where possible to help offset the impact of rising wages and inflation in various expense categories. We believe we can hold FX-neutral margins steady year-over-year in the Yucatan in 2024 on positive low-single-digit to mid-single-digit ADR growth, despite underlying wage pressure continuing.

In the Pacific, close-in demand helped ADR growth in this segment as well, partially offset by year-over-year occupancy declines as a result of hurricanes Norma and Lidia, and our ongoing renovation work. We estimate that Hurricanes Norma and Lidia negatively impacted segment EBITDA by approximately $1 million to $1.25 million in the quarter.

Similar to the Yucatan, the Pacific was able to grow margins on a currency-neutral basis by approximately 290 basis points year-over-year, despite significant wage pressure. We expect to continue our renovation work in this segment during 2024, which should further help sustain rate growth in the future, as the Hyatt Los Cabos had not had any major renovation work done since the significant renovation that occurred following Hurricane Odile in 2014.

In the DR, fundamental strength during the fourth quarter was led by the Hyatt Cap Cana, which continues to be the preeminent resort in one of the top resort markets in the world, and was our best performing resort in Q4. Results in this segment were hindered by the Jewel Resorts, which posted a modest loss in Q4.

As a reminder, we completed the sale of the Jewel Punta Cana economy in late December, and the Jewel Palm Beach was closed for a significant portion of Q1 2023, which we expect will provide a meaningful year-over-year increase in EBITDA during Q1 2024.

The two resorts combined for an EBITDA loss of approximately $15 million in 2023, with the Jewel Palm Beach's loss in the fourth quarter narrowing to just under $1 million. We're still actively pursuing a sale of the Jewel Palm Beach, but do not have any updates on the status of the sale process at this time.

Finally, Jamaica had another solid quarter with occupancy increasing slightly year-over-year, along with mid-single-digit ADR growth, despite a significant headwind from lower MICE group mix year-over-year. The segment was off to a good start in 2024, but the U.S. State Department's Travel Advisory notice for Jamaica on January 23 has had a negative impact on the segment near-term as cancellations picked up meaningfully.

Although the warning doesn't pertain to our resorts, as much as the major metro areas, and the fact that the level of the Travel Advisory was unchanged from the prior advisory, the press coverage of this advisory notice was significantly greater than prior warnings. Bookings in Jamaica have since stabilized, but the majority of the cancellations were for stays in the coming months and will be difficult to backfill. Given the warning level was not based on any new instance or data, the impact of this, while unfortunate, will likely to be confined to lost bookings in March through June.

Looking at demand as a whole, demand for the fourth quarter of 2023 and beyond improved in July of last year; continued to accelerate through the third quarter and remained healthy in the fourth quarter. In aggregate, during the fourth quarter of 2023, 47.4% of Playa-owned-and-managed transient revenues booked were booked direct, down 460 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 over time, and believe we are in line with our targeted 50% transient direct booked revenue mix.

During the fourth quarter of 2023, playaresorts.com accounted for approximately 13.6% 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 43.3% of the Playa-owned-and-managed room night stays in the quarter came from our direct channels. Geographically, the biggest change in our guest mix during the fourth quarter was our European and Mexican-sourced guest mix, both of which were up nearly 300 basis points year-over-year. Our Asian-sourced guest mix improved modestly year-over-year, but remains the most depressed, as it is still only approximately 25% recovered versus pre-pandemic levels.

Our Canadian guest mix has remained relatively muted at approximately 60% recovered versus pre-pandemic levels. However, there's recently been a significant increase in flight capacity into our markets from Canada for the high season. So I am optimistic 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 over 3 months during the fourth quarter.

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 rates, we expect FX pressure to ease significantly beginning in Q3 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 $33.5 million worth of Playa stock during the fourth quarter, and an additional $14.6 million thus far in the first quarter, bringing our total repurchases since resuming our program in September of 2022, to approximately $245 million, or approximately 20% 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 continued healthy business fundamentals.

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

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

Ryan Hymel: Thank you, Bruce. Good morning, again, everyone. I'll begin again with the recap of the segment fundamentals, followed by an overview of our balance sheet and expected uses of cash, and conclude with our outlook for 2024.

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

As Bruce mentioned, there are some unique items affecting the comparability of our financials in the second half of 2023 that I would like to remind you of before we dive in. First, 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 temporarily close for a small portion of Q3 2022 and over half of Q4 2022.

We shared on our previous earnings call that we estimate the EBITDA impact to Q3 2022 to be roughly $3 million, and approximately 80 to 90 basis points to resort EBITDA margins, and for the fourth quarter of 2022, a $5.4 million EBITDA impact net of business interruptions. Given the pronounced seasonality of our ADRs during the fourth quarter, these resorts were disproportionately open during the much higher ADR portion of the quarter, skewing our Q4 2022 ADR comparisons.

Secondly, the Mexican peso had a very large year-over-year change during the fourth quarter of 2023, which negatively impacted our EBITDA by approximately $5.5 million and resort margins by 250 basis points. For the full year 2023, the strengthening of the Mexican peso had an approximately $24.1 million impact on our owned-resort EBITDA or 260 basis points, and a $24.5 million impact on our total adjusted EBITDA.

Thirdly, during the fourth quarter of 2022, as we've mentioned previously, we had several adjustments that significantly increased the reported Q4 2022 ADRs. The largest of these was related to an advanced pricing agreement rates in the Dominican Republic, which we detailed in our Q4 2022 earnings release on Page 17. As a reminder, these adjustments totaled nearly $10 of ADR or 2.5%.

Fourth, business interruption. We recognized again a gain of roughly $900,000 from BI proceeds during the fourth quarter of 2023, which increased owned-resort EBITDA margins by approximately 40 basis points.

And as a reminder, for the full year 2023, we recognized the gain of $6.1 million from business interruption proceeds and recoverable expenses.

And lastly, as we mentioned, the DR Jewels, these resorts continued to weigh on the performance of the portfolio in 2023, negatively impacting owned-resort EBITDA margins by over 250 basis points for the fourth quarter. And for the full year of 2023, the two resorts recorded an EBITDA loss of approximately $15 million and negatively impacted owned-resort margins by approximately 280 basis points.

And now moving on to the fundamentals, before I begin, all references to expense and margin KPIs are on a currency-neutral basis unless otherwise stated.

Our fourth quarter results were ahead of our expectations, as demand steadily picked up throughout the quarter, higher demand in easing pressure from food and beverage and utilities expenses again on an FX-neutral basis, as well as our cost efficiency measures led to a reported resort margin decline of about 290 basis points, which again included a 250 basis point year-over-year headwind from foreign exchange, and a 40-basis point benefit from business interruption proceeds, and a 70-basis point headwind from the two Jewel resorts in the Dominican.

So adjusting for foreign exchange and business interruption in the prior period and in this period, our legacy portfolio maintained margins on a year-over-year basis. The higher demand for our ADR gains in the quarter was very broad-based, with all segments reporting year-over-year ADR growth, excluding the two Jewel Resorts 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 team. Utilities and labor were also favorable in the quarter, with the latter reflecting efficiency measures as wage inflation continues to remain a headwind.

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

We estimate that we've only penetrated roughly 30% of the potential addressable procurement savings thus far, with half of the savings flowing into our cost during the fourth quarter of 2023.

Now turning to our MICE Group business, our 2024 net MICE Group business on the books is approximately $52 million, up roughly 23% compared to the same time last year. Our MICE business on the books for 2024 is much more balanced versus 2023, which as a reminder, had difficult year-over-year MICE comparisons in the second half versus what we traditionally experience.

Finally, turning to the balance sheet, we finished the quarter with a total cash balance of $272.5 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 approximately 3x, excluding leases.

We anticipate our cash CapEx spend for full year 2024 to be approximately $80 million to $90 million for the year, partitioned out between $35 million to $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 the floating interest rate risk in our term loan due 2029. We entered into a 2 and 3-year contract, both of which had fixed notional amounts of $275 million and carries fixed SOFR rates of 4.05% and 3.71%, respectively.

Secondly, we've implemented foreign exchange hedges on approximately half of our Mexican peso exposure for 2024, which would greatly reduce the volatility of the impact of our reported EBITDA this year. Based on exchange rates at the times we entered into the FX swaps, we estimate the full year 2024 FX impact from the Mexican peso to be approximately $7 million to $11 million, but again with nearly 75% of that impact coming in Q1of 2024 and nearly 100% of that impact in the first half of the year.

On the capital allocation front, as Bruce mentioned, we repurchased an additional $33.5 million of stock during the fourth quarter, and additional $14.6 million thus far in Q1 2024. Since we began repurchasing shares in last September, we purchased over 32.8 million shares, or as Bruce mentioned, nearly 20% of the shares outstanding.

We still have over $185 million or $[180] million remaining on our existing repurchase authorization, and with our leverage ratios at or near 3x, we anticipate the free cash flow generation of the business and the attractive valuation of our stock, we believe repurchasing shares is a very compelling use of capital, and intend to use our discretionary capital to repurchase shares going forward, depending on market conditions.

Now turning our attention to our outlook for 2024, as we mentioned in our release, we expect our full year 2024 adjusted EBITDA to be between $250 million to $275 million, which includes the following key considerations and inputs. First, we assumed ADR growth of mid-single-digits for the total portfolio and low-single-digits for the comparable legacy portfolio. The driving force of the delta between these two is a positive of approximately 360 basis point impact from removing the lower ADR room night in the mix from the recently-sold Jewel Punta Cana, partially offset by the ramping occupancy at Jewel Palm Beach.

Occupancy, we expect to be up mid-single-digits -- mid-single percentage points for the total portfolio, and up modestly for the comparable legacy portfolio. We expect RevPAR growth of low-double-digits for the total portfolio and low-single-digits to mid-single-digits for the comparable portfolio.

We estimate that the disposition of the Jewel Punta Cana and the ramping occupancy at the Jewel Palm Beach contributed approximately 900 basis points to 2024 RevPAR, with the vast majority of that contribution being from the results of disposing of the Jewel Punta Cana, and only a modest contribution to RevPAR from the Jewel Palm Beach, as improving occupancy is partially offset by the negative mix of ADR.

Again, as we mentioned, we assume FX headwinds of $7 million to $11 million based on current exchange rates. We expect construction disruption impact of approximately mid-single-digit to high-single-digit EBITDA in the Pacific and at the Hyatt Zilara Cancun.

Inflation, as we've mentioned several times on this call, we've been diligently working to improve our efficiency. And we believe we've lowered our margin leverage hurdle to approximately 4% ADR rate growth to hold margins flat on a currency and business interruption-adjusted basis.

And then, lastly, we expect a modest negative net impact from annualizing corporate expense increases from 2023, again partially offset by a higher and growing fee income from our managed business and Playa Collection fees.

And with regards to the cadence, we expect the first quarter to show the most robust profit in the year, given the Q1 2023 comparison, which as a reminder, included a $5 million loss at the DR Jewels.

So again, to sum this up, at the midpoint, this $250 million to $275 million range represents approximately 1% decline year-over-year versus the business interruption-adjusted $255.8 million figure that we reported in 2023.

Now moving on to the first quarter. For the first quarter of 2024, we expect reported occupancy to be in the low-to-mid-80%, and reported package ADR to decline low-single-digits year-over-year basis, again due to the Jewel Palm Beach. However, comparable legacy portfolio ADR is expected to grow low-single-digits.

We expect owned-resort EBITDA margins to decline year-over-year, given the continuing FX headwinds in Mexico, which are expected to negatively impact margins by approximately 200 basis points at today's spot rates.

Putting it all together, we expect Q1 owned-resort EBITDA of $108 million to $114 million; Playa collection and management fee income of roughly $2 million to $3.5 million; corporate expense of approximately $14 million to $15 million, which again includes a negative FX impacts related to our office in Mexico; and finally, Q1 adjusted EBITDA of $98 million to $104 million.

Given our booking window, we are currently 96% booked for the first quarter, and hope that framework helps guide you as you fine-tune your models, and get further insights to what we're seeing and expecting.

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

Bruce Wardinski: Great, thanks, Ryan. So the year is off to a good start. We saw the top line growth, despite the setback in Jamaica from the travel warning and lapping difficult comparisons from 2023. We remained focused on the areas within our control, such as our expense efficiency efforts and ongoing portfolio optimization.

On the latter point, we're actively working on the sale of the Jewel Palm Beach. And we will be continuing the renovation work that is slated in the Pacific, as well as beginning the renovation work on our successful Hyatt Resorts in Cancun. We will continue to redeploy the significant free cash flow we generate in share repurchases and our market-leading assets, setting us up to accelerate growth beyond 2024.

So that concludes our presentation, and now we'll open it up for Q&A.

Question and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Smedes Rose with Citi.

Smedes Rose: You have a lot of moving pieces here, and it'll probably take a little time to kind of go through more carefully. But I guess my question is really, if you could just speak to underlying kind of demand and booking patterns that you're seeing thus far in 2024. I know you gave some EBITDA guidance but -- and I guess kind of any impacts from the shift in Easter and if that's affecting bookings at all?

Ryan Hymel: Yes, as Bruce mentioned in the closing remarks, the first quarter is off to a great start. On the Easter front for us, any time Easter is further out, it's just essentially elongates our high season, so it's a week earlier this year. So the benefit of Easter moves into Q because that's a very important week for us a lot of times, and particularly in Mexico. So that benefits in Q1, but it does essentially shorten our high season by approximately a week, and essentially a week or two right after Easter are slower months for us. So longer is better, further out is better, so it has a nominal impact on our overall results just from it being a week shorter.

But things are off to a really good start; things are pacing well in the first half of the year. I think one of the main points that we want to get across when we think about our margin, our kind of pacing and then just the pace of our growth in 2024, it's pretty evenly balanced. Obviously, the first quarter had some comparability issues because the Jewels were a drag in Q1 of last year, and the Jewel Palm Beach wasn't open. But generally, the kind of cadence of our RevPAR growth and our top-line stats for ADR and for RevPAR are pretty even throughout the year. I do think there's been kind of a return to kind of normal seasonality in our business, but other than that, I think things are off to a great start.

The biggest thing that we need to monitor, as Bruce mentioned, was the impact of the cancellations from the travel warning from Jamaica. I know we talked to many folks last night. It has already stabilized, at least from a -- it's turns positive again quickly, but we're not back yet to par. So the next kind of couple of months, particularly in March and April and May, will really give us some insight into how well we recover some of that lost business. But other than that, things have started off well.

Smedes Rose: Thanks. And could you speak to what you are seeing on the supply side, I guess, specifically in Jamaica? So we just heard from other folks that there's quite a bit of construction underway and maybe your kind of thinking about that?

Ryan Hymel: Yes, there is -- of all the markets that have [been] planned, or at least what's been kind of announced it's, probably the highest number of potential room counts. You're talking kind of mid-teens, potential rooms being added -- again, assuming it all gets done. That market in general has not had an immense amount of supply. I'm talking specifically of Montego Bay Airport, has not had a lot of supply over the years. Hello?

Smedes Rose: Yes, hi.

Ryan Hymel: Okay. So you're still there, Smedes, okay. We wanted to make sure we didn't lose anybody.

For example, that market from 2019 to 2023, its CAGR was less than 2%, so there is a little bit more coming in there. But generally, the plan is still low-to-mid-single-digit room nights in all of our destinations. And again, that assumes it all gets done.

Smedes Rose: Thank you.

Operator: Shaun Kelley with Bank of America.

Shaun Kelley: Maybe just to follow up on Smedes' question there, I guess one question we've asked is just can you see the same level of improvement in the peaks that you would see in the shoulders? And I know it's a little far out, but I think the surprise has been some of the strengths you've seen. Even as you kind of approach peak season, it seems like things actually accelerated a little bit.

So just kind of how do you think about peaks and valleys a little bit, because again, I think maybe in the shoulder seasons, we're not really sure if that's an easier comp, or if that is a place where just behavior is normalizing. And kind of wondering how you're seeing it?

Bruce Wardinski: Sure. It's a great question, Shaun. So I would say, if you look back a couple quarters ago, right, everybody's concern was that the leisure bubble has burst, and particularly on our business that the benefits that we got in 2021 and 2022 were diminishing, right? And people were going to Europe, or they're not willing to pay the amounts, or kind of it was transient kind of demand. Well, I think it was treated more transitory is what I meant.

But what I think we've really seen is that the demand is still there, it's really strong. And what we did in December, what we're seeing so far in the first quarter, is incredibly positive for our business. So I think the fear that people had that is kind of going away, or going to greatly drop, has not materialized, and I don't believe it's going to materialize.

So the second part of your question is, okay, what does that mean for the shoulder season? Is it going to be an easier comp, or is it going to be kind of like a return to normalization? I think it's more just a return to normalization. Sure, maybe we will benefit from an easier comp, that's kind of related to that. But I think historically, our business drives a huge amount of our profit in the first 4 months of the year and then in December. And I think you're kind of going back to that kind of pattern.

The good news for us is it is accelerating. So what we saw in the fourth quarter, particularly in December, and what we're seeing in the first quarter, is accelerating. And so I think that bodes well for our business. It's kind of [messy], as Smedes said, we've got a lot of moving pieces here and it's hard to kind of discern it. But I think if you just kind of forget about like so many of the moving pieces, and if you can, just focus on the underlying fundamentals, I think it's a positive story.

Shaun Kelley: Very helpful, thanks Bruce. And then my follow-up would just be a little bit more kind of thought around margins. I think we're all increasingly comfortable with the cost and inflation growth that domestic hotels -- and Bruce, I know you have a lot of experience and a lot of colleagues and contacts in that world. So I think we all know what they're up against, which is probably the lower bound of mid-single-digit. Let's call it 4%-odd inflationary pressure is probably what many companies we talk to are looking for.

The question for Playa is more what's -- let's leave FX out of it, because I know that separate. But like excluding FX, what's different for Playa? Is the wage pressure you face a little higher, just given what's going on in the local dynamics there? Is that offset by procurement? Just help us think about the layers that are a little different given your portfolio and your exposures.

Bruce Wardinski: Yes, you hit that on the head. So excluding the effects of FX, as kind of we look out to 2024, we expect, call it, kind of 4% to 4.5% OpEx growth. The biggest contributing factor to that, at least in 2024, is labor costs mostly in Jamaica. They actually did a large minimum wage increase in the second half of 2023, it was 44%. And so you're lapping -- you're annualizing that figure in 2024.

And they've also changed around some of the smaller -- to a small extent minimum wage or benefits and PTO and things like that in Mexico. But the Jamaica kind of catchup is the largest impact. Of that kind of 4% to 4.5%, that's -- 80 to 100 basis points of that is Jamaica's impact.

So the nice part is once you get through this year, you start to lap some of the impacts of that because when you look back at kind of trends, and you go back the last 10 years of when they raise, usually after a big kind of catchup, a raise like that, you're probably not going to see another big jump immediately the next year. And the same thing we've seen in Mexico and the Dominican, it's usually every couple of years they move the minimum wage or something like that.

So Jamaica is the biggest focus. Insurance, it's still too early to tell, but it should be far better, from everything we've seen from initial meetings with insurers. We will be renewing our insurance in April, but all signs point to a much better renewal. It certainly won't go backwards, but it won't be up 40% to 50%, like it was last year.

And then to your point, some of the things that we've done on procurement and staffing have really helped us lower that margin and leverage point, to your point. If you don't mind, I mentioned before, those reductions on the procurement side, they're mid-single-digits, high-single-digit savings per category. And that drove savings in 2023 for basically the back half of the year of about $1.5 million. And so if you annualize that, it's roughly $2.5 million.

And so essentially though, that relates to -- that results in a roughly 20 to 25 basis points of annualized cost savings, and we are only 30% of the way through. So now if you kind of extend what we're planning to attack in 2024, where we're targeting another 20% to 25% of the cost basis, it all goes well, cumulatively by the end of 2024, we will reduce our cost base by roughly 30 to 35 basis points permanently, with more to attack from there.

So to your point, we can't do a whole lot about labor, other than staffing, which we're not going to yank out a bunch of staff. So our focus is on what we can control, and that's procurement and some of the staffing that we do in the shoulder periods. So I know it's a long answer, but that's kind of what we're facing, at least in our markets versus with the guys in the U.S. are facing.

Shaun Kelley: Very clear. Thanks, Ryan. Thanks, Bruce.

Operator: Chad Beynon with Macquarie.

Chad Beynon: Nice results. Bruce, with respect to, I guess, non-same-store growth, you talked about some of the ROI projects that you're working on in Mexico to kind of elevate the rankings and ratings within those luxury categories. But beyond this, how are you thinking about kind of where the opportunities could be, whether it's in the mid-range, like what you had announced with Wyndham; maybe additional luxury ROI projects in the current portfolio or maybe expanding beyond this? How are you just thinking about kind of the next 5 years, where you want additional focus to be?

Bruce Wardinski: Sure, perfect, perfect, Chad. And you adding the next 5 years is perfect because, literally we have a major focus internally on the next 5 years of CapEx, okay, and what we can do with our existing portfolio. We have great opportunities in the existing portfolio and there have kind of been three different, call it, buckets, okay?

One is what you talked about, okay. Where can we just do ROI projects that improve our ability to get higher rates, okay? And that can be rooms renovations, that can be adding amenities, or it can be a number of things that are in kind of in that bucket.

The second bucket is rooms addition. We have a couple of different locations where we have the ability to add rooms. And there is no higher kind of incremental ROI than adding rooms because you don't have to add a significant amount of infrastructure. You may add some amenities, but it's not like the basics that you have to have everything. So there are two in particular that we're focused on where we can add probably net or combined, probably 250, 300 more rooms. So that's the kind of projects that we are very, very focused on.

And then the final one is something that is kind of less sexy, but it's very beneficial. And that's really kind of things that save us cost in the biggest area there. Ryan has talked a lot about the procurement and will continue. There's not a lot of CapEx associated with that; that's more processes and staffing.

But there is another area and that is in energy. And the opportunities there are pretty significant because historically, in the Caribbean and in these kind of markets, you're really relatively inefficient. It's like you boat in diesel fuel; it's islands at very high costs. And then you're running kind of inefficient diesel fuel generators to generate electricity. And whether we're doing it at the resort, or local groups are doing it at the utilities, it's the same impact and it's very inefficient and it's also relatively adverse to the climate.

So the benefit is we can do some projects. We've done a couple to evaluate it. But I think there's great opportunities to do that from mini-turbines, liquefied natural gas opportunities, solar opportunities, a number of things that can really diminish our cost, lower our cost on the energy side, so they're really high-returning projects.

And we're going to look at whether we spend the money or whether the outside firms spend some money. It's somewhat irrelevant, whatever deal makes the most sense. But that's another area we're going to be focused on. So as we look at the next 5 years, I think you're going to see us come back with more definitive plans.

So hopefully, by either the next earnings call, or the one after that, you will see us laying out things that we're going to be focused on in order to drive growth because it's critical. During the pandemic, a lot of projects got put on the back shelf, and the world was so uncertain.

And now, it's pretty clear that our business is very, very robust. The brands continue to be incredibly interested in trying to penetrate and do more deals. The existing competition is improving their properties, so we need to improve ours. And that's what our focus is going to be.

Chad Beynon: Great, thanks. And then more near term, just kind of on the travel warning situation in Jamaica, I guess looking at previous periods when items like this have happened, what generally happens? Is there price discounting for kind of the low-to-mid-end guys and luxury players like yourself, hold pricing and sacrifice occupancy? And then, to your point, maybe the booking patterns recover, or is there discounted pricing for a longer period than maybe you would hope for from some of the others?

Bruce Wardinski: Yes, I think the only real example of something where you had to discount pricing was way back in 2019. These usually have a short shelf life, and again, we've got a very disciplined revenue management team. And they're not going to just quickly start adjusting rates to just get somebody in the door. We had our bookings turn negative for about a week; they returned positive, although they're not picking up as much as they would normally, right, but it's slowly building.

And so essentially, what was taken was potential occupancy on the books, but our rate on the books for those periods remained essentially flat to where we were at prior to that. So this we expect to be shorter term. It's a lot more information on how that stabilized by the time we get to our next earnings call.

Bruce Wardinski: And there are two kind of mitigating things that our commercial team has done, which I think have been really positive. One is for the people who cancelled in Jamaica. We reached out to them and try to sell them to Mexico and the Dominican Republic. And we've had some success there, and obviously, there's no discounting of rates for that kind of business.

And then the second thing is focused on some local group business, Jamaican group business, which again, you don't have to discount, because it's kind of a different market. But we're not going to over-react to this; it's pretty ridiculous. From the State Department viewpoint, absolutely nothing changed, so they didn't change. It was at level 3 and it's still a level 3. Why they felt the need to put that out, I have no idea. But like Ryan said, the shelf life of these things tends to be relatively short-lived.

Ryan Hymel: Yes, that that market was doing really well prior to that, just where we're pacing and how we were building January. And so we just view this as an agent to the potential upside from that market. And so we'll have more information when we're back in May.

Chad Beynon: Great, thank you both. Appreciate it.

Operator: Chris Woronka with Deutsche Bank.

Chris Woronka: So I go to a slightly different direction. You guys reviewed the mix of business. So I think you said you picked up somewhere European and locally, Mexican source. Can you maybe remind us -- I know there's been a lot of focus on non-package RevPAR and some of the kind of premium and upgrade options. Can you kind of remind us which geographies would be the best contributors to that if you get more recovery?

Ryan Hymel: The highest paying -- it's generally the highest-paying customers, but generally at a high level are the Americans. And so I remember a lot of people, when they first get introduced to all-inclusive, and they assume that somebody who comes in our low season, who's paying a cheaper package rate, is more likely to spend on additional incidental items. It's the opposite. The people who have the money pay the highest rates, pay the highest for non-package.

Chris Woronka: Okay. Sure, fair enough. And then, Bruce, you guys -- when I look at the Playa collection and management fees, I think you are took in about $11 million in the full year of 2023, which I think was about a double over 2022. And so the question is kind of how much focus do you have? I know you are doing a lot of things with the Playa collection. I don't know what the management contract opportunities are.

But also, are there any other forms of, I guess, on ownerships that are out there? Are there any kind of joint venture possibilities to get you a little bit more -- really, just a little bit more, I guess, top line but also EBITDA from external growth?

Bruce Wardinski: Sure. Chris, it is a great question. Like I said, when I was responding to Chad on the on the 5-year plan, we're definitely focused on driving more growth, right? And so a lot of it just going to come from the [owned] portfolio, because to be realistic, that's going to move the needle more than anything else, okay?

On the management contract side, it doesn't move the needle that much and it will be a factor, but it won't be a significant factor. Where the Playa collection is, that's to be determined. I think that can be a nice, nice kind of bump and kind of unexpected surprise. We should be fully rolled out to every one of our resorts within literally within the next few weeks, okay? And so it's going to be nice that now, we will have the sales center open across our entire portfolio. And we'll see how the Playa Collections sales ramp up, okay? So that's, I think, a positive.

With regards to kind of what you said on joint ventures or other things, absolutely, we are looking at those kind of opportunities. It's not always the simplest or quickest things to get done because of more interesting characters in our space, probably been in traditional, more institutional markets. But there are some good opportunities. And I'm hopeful that in the near future, we'll be able to make some announcements.

And again, it's not going to be like those will be massive kind of EBITDA growth opportunities. But I think they'll be like the Playa Collection, nice incremental growth to our core portfolio. But we're really focused on, okay, here's where we are today, the business is incredibly solid, as we've said. Now, how do we just kind of continue to improve? Improve our revenues, improve our EBITDA growth, improve our margins? I think that's where the focus is going to be, so we're optimistic.

And at the same time, we will continue to repurchase our stock. If kind of the stock price stays in the range that it's been in the last 18, 24 months, I think you'll see us continue to do that. And it's a pretty significant value enhancer as well. So those are the areas that we're focused on.

Chris Woronka: Okay. Yes, thanks, very helpful.

Operator: Tyler Batory with Oppenheimer.

Tyler Batory: A big-picture question first. I think for a lot of companies, we're trying to figure out what's normal in this post-Covid world after several years where things were not normal. So this commentary on comp RevPAR growth this year, low-single-digit to mid-single digits, is that normal? Is that what you would expect in terms of growth longer term? Could there be upside to that range?

And then the balance of ADR and occupancy, it sounds like this is mostly rate-driven limited occupancy. What are your latest thoughts on balancing occupancy and ADR going forward?

Ryan Hymel: Our thoughts on that and the yield management strategy hasn't changed essentially at a high level. We're still focusing on seeding some occupancy in favor of rate, protecting the guest experience, protecting our guest satisfaction scores, which ultimately allows you to, at a minimum, maintain rates, if not continue to drive it.

And so yes, low mid-single-digit RevPAR growth feels normal. And of course, like you said, it's mostly driven by ADR. There will be increases in our occupancy this year, but it's mostly because of the ramping from Palm Beach or the removal of Punta Cana from last year. But the legacy portfolio should be modestly because I think we're pretty happy with where thing sit as far as occupancy and our ability to yield.

If something dramatically changed, which is you heard Bruce and me say a few times, that the consumers' propensity to change, or the world changed, or there was a (inaudible) to mean, which we're not seeing and don't expect, then maybe we would reconsider our occupancy versus ADR. But today, we don't see a reason to do so.

Tyler Batory: Okay. And then how about just this longer-term perspective, comp RevPAR low-single-digits to mid-single-digits? Do you think that's -- is that what you consider normal?

Bruce Wardinski: Yes, I think that's normal. And then going back to the question of where we're going to be investing, okay, so like one of the projects we're going to -- we have land at one of our resorts where we can add about 110 rooms. And so it's really going to be a hotel within a hotel, right? And those will be premium rooms, and so those are going to get higher rates. And that's a lot of the focus that we've had.

Again, we put so many projects on the back burner in 2020 and 2021, even 2022. But the world was so uncertain, but now, we're looking to rapidly execute some of these things. And just the ability to create more premium rate category rooms, okay, add other non-package revenue opportunities that we're looking at -- we've had some success recently and we're hoping to do more of that, things that will kind of drive that growth.

So if you take that normal, which I do think it's kind of the low-single-digit kind of mid-single-digit increases are normal, and then you add 100, 200, 300 basis points with some of these projects, not in may be on the whole portfolio, but in individual resorts and all, I think you'll start to see very healthy and attractive growth opportunities, and more importantly than anything else, EBITDA growth, right, it's going to flow through.

Tyler Batory: Okay. And then a multi-part question on the FX topic. It sounds like you have some hedges in place. I'm assuming that's not something that you had in the past. So just help us think about that. Help us think about the sensitivity here, if the peso is 16 or 18, what that might mean for the guide?

And then, another question that I get from a lot of new investors to this story, it might be helpful to address in this public forum. Just why is the appreciation of the peso a drag? Maybe just talk through all the mechanics there would be helpful.

Ryan Hymel: Yes, it's a translation issue because we report -- our functional currency us USD, and roughly 60%, 65% of our Mexican expenses locally are denominated in peso, the biggest one being wages, right? We are obviously paying people in peso; we are spending a lot from vendors and food and beverages such that locally and so it gets converted. So you should divide it by a lower number; when it gets converted to USD, it's higher.

So as far as the hedge that we put in place, so just in January, we hedged about 50% of our Mexican peso exposure. And so essentially we sold volatility. And that's how you get to the ranges, right? So if we hadn't done anything, and our exposure was not hedged, and the peso stay at 17 for the year, it's approximately a $9 million hit year-over-year.

Because we sold some volatility, and assuming that our expense base stays exactly as we have forecasted, there's some upside to that, meaning that the lower end of that range is, call it, $7 million. So there's kind of $2 million to $2.5 million that we were paying to put that FX hedge in place because where the curve sat at the time. The upward bound range of that is if our expenses, our expense base, is higher than we thought for some reason in our forecast. So that would bring me to the other end of that. So we kind of use the midpoint of $9 million, if we had no hedge, at a spot rate of $17 million.

But if it takes the $17 million and our expenses are exactly as we think, that moves to the lower end of that range to closer to $7 million. And again, almost the entirety of that is captured in the first half of the year. The impact of that is higher than the first half of the year.

Tyler Batory: All right. Great, very helpful. Thank you for the detail.

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. Thanks, everyone, for participating. I think we covered a lot of material. Hopefully, it's useful, and we appreciate your interest in Playa. Thank you very much.

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