**[PLYA] Playa Hotels and Resorts**
**Q2 2024 Earnings Conference Call**
**Tuesday, August 6, 2024, 8:30 AM ET.**

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

Analysts:
Chad Beynon, Macquarie Research
Smedes Rose, Citi
Patrick Scholes, Truist Securities
Shaun Kelley, Bank of America
Chris Woronka, Deutsche Bank

## Presentation

Operator: Good day, and welcome to the Playa Hotels & Resorts Q2 2024 Earnings 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. Please go ahead.

Ryan Hymel: Thank you very much, Nick. Good morning, everyone, and welcome again to Playa Hotels & Resorts second quarter 2024 earnings conference call.

Before we begin, I'd like to remind participants that many of our comments today will be considered forward-looking statements, and are subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated. Forward-looking statements made today are effective only as of today and the company undertakes no obligation to update forward-looking statements.

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

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

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

With that, I will turn the call over to Bruce.

Bruce Wardinski: Great, thanks, Ryan. Good morning, everyone, and thank you for joining us. Our second quarter results exceeded our expectations, led by continued momentum in our Yucatan and Dominican Republic segments. The performance is highly encouraging, as these two segments are largely status quo, and that there is no renovation disruption in either segment or impact from any government travel warnings.

Playa's owned resort EBITDA of $75.1 million in the second quarter of 2024 included a year-over-year foreign currency exchange headwind of approximately $1.4 million due to the appreciation of the Mexican peso, and a benefit from business interruption insurance proceeds of approximately $1 million.

Excluding business interruption, the upside compared to the expectations shared on our last earnings call were driven by strong all-around execution by our operations team in modestly better demand, with FX being less of a headwind than expected in June.

For Q2 2024, we estimate that the FX headwinds were a negative 60 basis points impact on both our reported owned EBITDA margin and on our legacy portfolio.

Business interruption proceeds received in Q2 2024 favorably impacted resort margins by approximately 45 basis points, while the significant $4.3 million received in Q2 2023 was a margin detractor on a reported basis.

Netting out BI from both periods, the net margin impact of BI on reported owned resort margin was approximately 140 basis points.

Adjusting for all of these factors, underlying owned resort EBITDA growth was down approximately 4% in the second quarter for the total portfolio, and down approximately 8% of the legacy portfolio, reflecting the impact of the U.S. State Department Travel Advisory on our Jamaican segment.

At the segment level, our results in the Yucatan were once again quite exceptional on a currency-adjusted basis with occupancy in line with the second quarter of 2023 and ADR growth of just over 3% year-over-year, driving currency-neutral margin gains of 210 basis points year-over-year, and nearly 10% underlying EBITDA growth.

The expense efficiencies were broad-based across categories with the most significant change being sequential improvement in insurance as we lapped a sizable 50%-plus increase in our churn premiums from the second quarter of 2023.

As you may recall, following the realignment of key management personnel, we've 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 2023 as ADR growth moderated. As we've mentioned on previous earnings calls, the process improvements will be iterative, and we will continue increasing efficiency where possible to help offset the impacts of rising wages and inflation in various expense categories. We believe we can hold FX

neutral margin steady year-over-year in the Yucatan in 2024 on positive low-single-digit to mid-single-digit PDR growth despite continuing underlying wage pressure.

In the Pacific, our planned renovation work in this segment began in earnest during the second quarter, specifically in late May, resulting in the expected decline in occupancy and flat ADR year-over-year. Our operations team did an excellent job managing through the decline with currency-neutral resort margins only declining 300 basis points on a 12% RevPAR decline.

While our renovation work is progressing as expected, the disruption to the guest experience has been more elevated than previously anticipated in the Pacific, resulting in an increase in cancellations during the most extensive construction period over the summer, an estimated full year 2024 construction disruption impact of approximately $15 million to $19 million compared to the approximately $10 million of EBITDA we previously expected.

Turning to the DR, we completed the sale of the Jewel Punta Cana Resort in late December of 2023, and the Jewel Palm Beach Resort was closed for a significant portion of Q1 2023, which we expect will lead to a meaningful year-over-year increase in EBITDA in 2024. Year-over-year comparisons in the segment were heavily impacted by the receipt of $4.3 million of business interruption proceeds during the second quarter of 2023 and $1 million of business interruption proceeds received in Q2 2024.

Excluding BI from both periods in the DR, our underlying EBITDA growth grew 31% led by our legacy assets, which were up approximately 11% on 6.6% RevPAR growth.

Finally, Jamaica's second quarter was largely as expected, with the approximate 20% RevPAR decline driving a material decline in resort EBITDA. As we outlined on our last earnings call, 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, as cancellations picked up meaningfully thereafter, with the bulk of the impact affecting the second and third quarter of 2024.

Although the Travel Advisory doesn't pertain specifically to our resorts as much as the major metropolitan areas and other regions of the country, and 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.

Booking demand for the second half was fairly steady during the second quarter in Jamaica, until the emergence of Hurricane Beryl in late June. Although the physical property impact of Beryl was not significant, it had a meaningful impact on demand for the summer period in both Jamaica and the Yucatan as both destinations were in the direct path of the storm.

We estimate the EBITDA impact from Hurricane Beryl to be approximately $2.5 million to $3.5 million in the third quarter in Jamaica specifically of approximately $6 million to $8 million across all of our segments on a loss of approximately 6% to 9% of revenue. We believe also that to a lesser extent, new supply delivered to the market during the second quarter into a choppy environment has added some incremental challenges in Jamaica in a market which would have likely absorbed the additional rooms without much of a problem.

Looking at demand as a whole, we saw steady demand through the quarter prior to Hurricane Beryl, with the legacy DR and Yucatan leading the way, with both segments expecting positive low-single-digit to mid-single-digit RevPAR growth in the third quarter prior to Beryl.

Looking out to the fourth quarter, our revenue is pacing positive high-single-digits in the Yucatan, positive mid-single-digits in the DR and negative high-single-digits in Jamaica, with the latter making -- I'm sorry -- with the latter marking a significant improvement compared to the mid-20% decline in the third quarter. More importantly, the coming high season is starting to take shape and the demand looks solid, with ADR up high-single-digits for the legacy portfolio.

In aggregate, during the second quarter of 2024, 47.4% of Playa owned and managed transient revenues booked were booked direct, up 10 basis points year-over-year. The improvement in the year-over-year change was largely driven by lapping the change in World of Hyatt redemption rates, 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.

During the second quarter of 2024, playaresorts.com accounted for approximately 12.9% 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 44.4% of the Playa owned and managed transient room night stays in the quarter came from our direct channels. Geographically, the biggest change in our guest mix during the second quarter was once again our Canadian sourced guest mix, which increased 230 basis points year-over-year. The recovery of our Canadian guest segmentation versus pre-pandemic improved to approximately 80% in the second quarter versus 64% in the first quarter.

We also saw increases in our European and South American guest mix on a year-over-year basis, while our Asian guest mix was largely unchanged, and remains only about 25% recovered. Our visibility remains a critical factor for our success, as our booking window is just over 3 months during the second quarter.

Finally, on the capital allocation front, we repurchased approximately $37 million worth of Playa stock during the second quarter, and an additional $12 million thus far in the third quarter, bringing our total repurchases since resuming our program in September 2022 to approximately $314 million or approximately 25% of the shares outstanding.

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. I'll again 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. Before I begin, just as a reminder, all references to expense and margin KPIs are on a currency-neutral basis, and also exclude business interruption proceeds unless otherwise stated.

Our second quarter results were slightly ahead of our expectations, driven by $1 million of business interruption proceeds, slightly better-than-expected foreign exchange impact, and continued expense efficiency gains across the portfolio.

Reported owned resort EBITDA margins declined 180 basis points year-over-year, driven by an approximately 60 basis point FX impact and a net impact of 140 basis points from business interruption proceeds, which resulted in underlying owned resort EBITDA margins increasing 20 basis points year-over-year in the second quarter.

Adjusting for FX and BI, our legacy portfolio experienced approximately 160 basis points of resort margin decline on a year-over-year basis as a result of the significant RevPAR decline in Jamaica and the construction disruption in the Pacific Coast.

On the cost front, F&B costs continue to be favorable as a result of lower input prices and cost efficiency efforts by our operations team. Labor costs were a headwind, given the ongoing wage inflation across our markets. Insurance was less of a headwind during the second quarter as well, as we lapped significant increases in our premiums from Q2 of 2023 with our current year renewal coming in at favorable rates.

Putting this all together, our underlying expense inflation has remained steady since our last update, with changes in our margin expectations resulting from higher construction disruption and deleveraging in Jamaica from weaker demand, as opposed to underlying changes in costs.

Now, turning to our MICE group business. Our 2024 net MICE group business on the books is approximately $65 million, up roughly 12% compared to the same time last year. Our MICE business is much more balanced on a year-over-year basis compared to what we experienced during 2023, as 2023 lapped incredibly difficult MICE comparisons in the second half of the year.

For 2025, we have approximately $36 million of MICE business on the books, which is approximately 25% decline versus last year. The decline was expected, however, given the renovation work in the Pacific Coast and lapping a large group buyout of our large Los Cabos resort in Q1 of this year.

As a reminder, the buyout in the Pacific in Q1 of 2024, with a legacy contract booked at far below market ADR, which resulted in Q1 2024 Pacific Coast reported segment up 7 percentage points in occupancy year-over-year, but an ADR decline of just under 3%.

Finally, turning to the balance sheet, we again repriced our term loan due 2029, reducing the spread by an additional 50 basis points to SOFR plus [275], saving over $5 million per year and cumulatively over $15 million annually since our original refinancing in December of 2022.

We finished the quarter with a total cash balance of just under $234 million and total outstanding interest-bearing debt of $1.08 billion. We currently have no outstanding borrowings on our $225 million revolving credit facility.

Our net leverage on a trailing basis stands at 3.1x. And we anticipate our cash CapEx spend for full year 2024 to be approximately $110 million to $120 million for the year, partitioned out

between approximately $45 million to $50 million for maintenance and other critical CapEx, and the remainder designated for ROI-oriented projects.

Also as a reminder, effective April 15 of 2023, we entered into two interest rate swaps to mitigate the floating interest rate risk in our term loan due '29. 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.

Separately, we have 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 the exchange rates at the time we entered into the FX forwards, we estimate the full year 2024 impact from the Mexican peso to be roughly $5 million to $8 million, slightly better than our previous outlook of $7 million to $10 million. We expect third quarter foreign exchange impact to be a favorable approximate $1 million and a modest negative impact in the fourth quarter.

On the capital allocation front, as Bruce mentioned, we repurchased an additional $36.7 million of stock during the second quarter, an additional $12 million thus far in Q3 of 2024. Since we began repurchasing shares last September, we purchased over 40 million shares or nearly 25% of our shares outstanding. We still have over $115 million remaining on our existing repurchase authorization.

And with our leverage ratios at or near 3x, plus the anticipated free cash flow generation of the business, and the attractive valuation of our stock, we believe repurchasing shares remains a very compelling use of capital, and intend to use our discretionary capital repurchase shares going forward depending on market conditions.

Now turning our attention to our outlook for 2024. First, I'd like to remind everyone of the unique items affecting the comparability of our financials compared to 2023 before we dive in. So firstly, on foreign exchange, the depreciation of the Mexican peso had an approximately $24.5 million impact on adjusted EBITDA in 2023.

In business interruption in 2023, we recognized approximately $6.1 million of business interruption proceeds with $4.3 million coming in the second quarter and roughly $900,000 in Q3 and Q4 of 2023, respectively.

The DR Jewel Resorts, these resorts recorded an EBITDA loss of approximately $15 million in 2023 and negatively impacted owned resort margins by approximately 280 basis points. Roughly one-third of that loss occurred during the first quarter of 2023 as the Jewel Palm Beach Resort was closed for the majority of the quarter.

So now turning to 2024, we expect full year adjusted EBITDA for 2024 to be at the low end of our previously-guided $250 million to $275 million range, which includes the following key considerations and inputs. Occupancy, we expect to be up low-single-digit percentage points for the total portfolio, and down low-single-digits for the legacy portfolio. This change reflects the

incremental impact of Hurricane Beryl and the continued expected renovation disruption in the Pacific Coast.

We expect ADR growth of low-single-digit to mid-single-digit for the total portfolio and low-single-digit growth for the legacy portfolio. We expect RevPAR growth of mid-single-digit to high-single-digit for the total portfolio and down low-single-digit percentage points for the legacy portfolio.

As we discussed last time, we estimate that the disposition of the Jewel Punta Cana Resort at the end of last year and the ramping occupancy at the Jewel Palm Beach Resort contributes roughly 900 basis points to 2024 RevPAR, with the vast majority of that contribution being the result of disposing of the Jewel Punta Cana Resort, and only a modest contribution to RevPAR from the Jewel Palm Beach resort as the improving occupancy is offset by negative mix of the ADR.

On foreign exchange, as I mentioned, we still expect a full year headwind of approximately $5 million to $8 million based on current exchange rates, net of our FX forwards. We expect construction disruption impact of approximately mid-to-high-teens EBITDA in the Pacific.

And inflation, as we've mentioned on this call, we've been diligently working to improve our efficiency, and believe that we've again lowered our margin leverage hurdle to approximately 4% ADR growth to hold margins flat on a currency and business interruption adjusted basis. We expect modest net negative impact from annualizing corporate expense increases from 2023, mostly offset by higher and growing fee income.

To summarize what has changed since our last update, I think it's best to partition the drivers into ongoing operating changes and extraordinary changes. On the fundamental operating changes, our strong second quarter and the continued momentum in the Yucatan and the DR into the second half were almost perfectly offset by the degradation in the second half outlook for Jamaica, which we knew was a manageable risk. The ongoing fundamental shifts would not have resulted in a change in our expectations for full year 2024.

The two extraordinary items impacting the outlook were the impact of Hurricane Beryl and the greater-than-expected construction disruption in the Pacific. These two items combined for roughly $15 million to $16 million impact, but are more extraordinary in our view.

Now, turning to the third quarter outlook. For the third quarter, we expect reported occupancy to be in the low-to-mid-60s and reported package ADR to increase a low-single-digit to mid-single-digit percentage points on a year-over-year basis.

We expect owned resort EBITDA margins to decline significantly year-over-year, given the million of business interruption proceeds we recorded last year in Q3, which had a positive 50 basis point impact to the comparison period. FX is also expected to positively impact margins by approximately 50 basis points.

So putting it all together, we expect Q3 owned resort EBITDA of $31 million to $35 million; the Playa collection and management fee income of approximately $2 million to $2.5 million; corporate expense of roughly $15 million to $16 million; and finally, adjusted EBITDA of $17 million to $21 million.

Again, as a reminder, we estimate that Hurricane Beryl is expected to have an approximately $6 million to $8 million negative impact on the third quarter's EBITDA, and the incremental disruption related to the renovation work in the Pacific Coast as being an approximately $3 million to $4 million change to the third quarter.

Given our booking window, we're currently 83% booked for the third quarter. And then just looking ahead to the fourth quarter at a high level, we anticipate year-over-year occupancy declines to improve versus the third quarter, but expect low-single-digit to mid-single-digit ADR growth and the year-over-year margin decline to improve versus the third quarter.

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

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

Bruce Wardinski: Great, thank you, Ryan. While I'm disappointed by the setback from Hurricane Beryl and the decrease in occupancy due to our renovation work in the Pacific Coast, we are seeing silver linings as the pickup in demand in the Pacific has improved following clear changes on booking channels, highlighting that the resort is currently undergoing renovations. The general demand for the third quarter has stabilized, and demand across the portfolio for the fourth quarter has been less volatile than we experienced for the third quarter following Hurricane Beryl.

Our renovation plans are proceeding as expected, and the room product at our Los Cabos Resort look spectacular. I'm particularly excited to see the response from our MICE guests as the work continues and we begin selling the 2026 high season.

With respect to our capital projects and renovation work in 2025, planning for the significant overhaul of the Solaris Cancun Resort is moving forward with the intended goal of completing the full renovation in 2025, while we anticipate a modest, less disruptive plan for the Hyatt Ziva and Zilara Rose Hall. The planned CapEx for Rose Hall Resorts will see investments made into critical infrastructure or convention center meeting space and various F&B outlets to significantly enhance the guest experience.

With that, I would like to open the call to your questions.

**Question-and-Answer Session**

Operator: We'll now begin the question-and-answer session. (Operator Instructions). Chad Beynon with Macquarie.

Chad Beynon: Bruce, Ryan, I wanted to ask a little bit more just in terms of the disruption. Could there be additional lingering effects from this? How are you thinking about some of the scores internally when that starts to improve, and kind of clean out maybe some of the negative effects

from disruption? And then just in terms of the ROI on the CapEx, has anything changed in terms of how you're thinking about the returns there?

Bruce Wardinski: Sure. I'll take the first half of that question, Chad, and Ryan can take the second half of it. But with regards to do we expect more disruption? No, the answer is we don't. So the additional disruption is really related to the Los Cabos Resort. And there, we're basically completely renovating about 40% of the rooms, and that was a building that was the original building when we acquired the resort back in 2008, 2009. And so it really was in desperate need of renovation and the new product is going to be exceptional.

And that's why we made the comments in our script about the kind of excitement we're seeing from the MICE customers with regards to what the finished product is going to be there. And then we're doing a number of other things related to F&B outlets, gym, lobby, etc. So the whole resort is being renovated. It's really going to look great. But in that building, okay, and I'll just be blunt about it, you had jackhammering, okay? And when you have jackhammering at a resort there's a lot of noise.

And that jackhammering has basically come to an end. So that was the cause for the additional disruption. It got picked up on social media, some MICE groups canceled, things like that. But I think you're seeing, as we mentioned, an improvement in the pickup right now for the summer and going into the fall, even though it's a slower time of the year. But we're pretty optimistic about kind of how that's going to recover.

With that, I'll pass it on to Ryan about the ROI.

Ryan Hymel: Yes, and just as far as the forecast and outlook, at least the incremental disruption does not assume that there's any meaningful change or pickup or improvement in what we're booking today, or the cancellation rates meaningfully improve once the major part of the disruption in jackhammering finishes, which is late August. So that's the nice part there. We did not decide to get kind of over our skis with that.

As far as the overall ROI on that project, as we talked about on our last call, it generally was meant to be a little more defensive in nature, despite the fact that the rooms really needed the work, and we're doing a lot of work to various parts of the property. We think the best thing that we're able to do there is protect the EBITDA in place, potentially get a little bit higher MICE paying business, and potentially gain some market share. So there's no real change to our outlook on our expectations for any sort of returns at that property.

But as Bruce mentioned, the sample rooms that I've seen look fantastic. And the commercial team was there last week redefining room categories, given the work. And so I think there should be some nice uplift when you get those rooms back in 2025, and then potentially with group business in 2026.

Chad Beynon: Okay, great. Thank you. And then just kind of a broad one on the consumer. Are you seeing any different trends in terms of room categories or price of rooms, any price elasticity within certain categories of rooms that would kind of indicate that there could be a canary in the coal mine in one of your consumer areas?

Ryan Hymel: No, we really haven't seen a real difference in kind of high versus low-end. We kind of continue to point to what we've kind of deemed our status quo segments in the Yucatan and in the DR. Where we see difference is really based on a property-by-property or more importantly, location-by-location. And you've heard us say many times, the Cancun market has performed better and recovered faster than Playa Del Carmen. You can see that with the differences between our two Wyndham Alltras, one that we have in Cancun, one we have in Playa del Carmen.

And so even though our Wyndham product is priced more cheaply than the Hyatt product up the street, the value proposition we're offering still resonates with that consumer. And as we've said a few times, people are still taking vacations versus short-term trips, driving to somewhere in the panhandle of Florida or something like that. So no real change in trends there.

Chad Beynon: Thank you very much.

Operator: Smedes Rose with Citi.

Smedes Rose: I just wanted to ask a little bit more on Cabo. I'm sorry if you said this, but you kind of put out a lot of numbers there. But so when exactly is this expected to be finished, the work you're doing? And I guess the second part is, did you accelerate the work that's causing incremental construction disruption?

Ryan Hymel: Yes, so on our last call, just as a reminder, we decided to accelerate the work and essentially complete that entire building. There's three main buildings at this property, and that's what Bruce was referring to in his previous remarks, right? So on the last call, we decided to accelerate that and get it done. The vast majority of it is done this year. We'll still have some rooms out of service early part of next year into the first quarter.

But to answer your specific question, the heavy jackhammering began in May and should finish sometime here near the end of August. So there will still be rooms out of service in September onward, and obviously trickling into next year. But the heaviest disruption, the loudest noise, the loudest complaints should subside by the end of this month.

Hence Chad's question, are we assuming there's pickup or change in cancellation rates? I'm not assuming that. So maybe there's some upside in the numbers when people stop complaining about the jackhammering on social media, hopefully there. So really what's transpired is we accelerated the work, we gave you incremental disruption on the last call. We assumed it's roughly around $10 million for the year. We're now saying that number is now mid-to high-teens disruption for the year, given the additional jackhammering and noise disruption and cancellations.

Smedes Rose: Okay. And you mentioned that you have $36 million of MICE, I guess, group business on the book for next year. I guess where does that stand relative to where you'd like it to be? It sounds like there was a couple of kind of one-time items or difficult comps. But just sort of in general, how is that pacing relative to your expectations?

Ryan Hymel: Yes, it's pacing down, but that was largely expected. As I said in the prepared remarks, it's pacing down about 25% year-over-year, but you don't have groups. Groups typically

book, as you know, 12 to 18 months out. So you really don't have much group business on the books in Cabo, which we knew and so a lot of that business is at Cap Cana and in the first quarter to the first half of Jamaica next year. So really, you got a big gaping hole in the Pacific. And so as we start finishing sample rooms and start getting more photos and media things put together, the commercial team will start preparing and marketing that hotel for 2026.

Bruce Wardinski: The MICE groups, they're always going to be cautious and they just want to see the finished product. And so like Ryan said, once you have the sample rooms and once you can show them what it is going to look like, that's when you really start to see momentum on the bookings.

Smedes Rose: Okay. And just finally, just a quick one. So would you expect to put in business interruption insurance related to the Hurricane Beryl numbers that you've put up there?

Ryan Hymel: No, unfortunately not. You need property damage for business interruption. The triggering event for business interruption is property damage and we didn't have enough property damage to put in, in a claim. We just had some light cosmetic and landscaping things in Jamaica. It just wouldn't even hit a deductible. There are other lines of coverage you can purchase that are just too prohibitively expensive right now for us, whether it's parametric coverage or loss of attraction and things like that. So we look at it every year, but unfortunately, that's just too expensive for what you get for it.

Smedes Rose: Okay. Thank you.

Operator: Patrick Scholes with Truist.

Patrick Scholes: It does seem it's going to continue to be a rough hurricane season above and beyond the hurricane impact of the one that's already hit. Do you have any degree of conservatism in your guidance that there might be additional hurricanes hitting and impacting you folks?

Ryan Hymel: No, no. At this point, just given what's transpired and then the two kind of extraordinary items, we wanted to bring everybody to the bottom end of the range. So if another, larger storm came through and we had rooms offline, it would certainly impact. Just remember though, that if it wasn't clear, July is such an important part of what we call our second season. So obviously, everybody on the phone probably recognizes that our high season is essentially Christmas through Easter.

And then our second quarter is still an incredibly phenomenal quarter for us. But the vast majority of the profits and the highest ADRs are contained within July and roughly the first 2 to 3 weeks of August. And then, as you can imagine, people go back to school, return to their desks, etc.

So if there was another hurricane, you've seen it in the past, the disruption would be far less, just given the absolute ADRs and occupancies that we normally have on the books for that time of year. And then on top of it, the fact that the demand in Jamaica is lower than what you would expect for a normal year too. The impact would be smaller if you had something similar come through.

Patrick Scholes: Okay. A couple -- and my follow-up question, a couple questions on a little more specifics on your costs. And I apologize, maybe you did provide granularity on these. You mentioned insurance is down this year. Can you give more color on how much that is down and what percentage of cost insurance represents today? And then you mentioned rising wages. What's your expectation for wage growth over the next several quarters?

Ryan Hymel: Yes, sure. Insurance was flat to slightly down. On a dollar amount, it was down like 2%. On a rate per $100, it was roughly flat. So we were actually pretty happy with the renewal, all things considered, considering how punitive it was the year before. Insurance is 5% to 7% of our overall cost base and so that contributes there.

As far as wage growth, that is the biggest head headwind for us. Now, therefore, it's essentially a headwind for us every year. We had union negotiations at the properties that you're usually expecting mid-to-high-single-digit increases. There's sometimes changes in minimum wage or labor laws. So this year, as we look out to the -- let's just kind of look at the steady state portfolio, specifically in Mexico, we kind of expect roughly mid to, call it, 4% to 6% wage growth across the portfolio in our steady state destinations.

Obviously, staffing levels are lower in the Pacific right now because of the renovation disruption, and potentially in Jamaica as well. But all of our costs essentially are the same as we've kind of guided to the last couple of years. The food and beverage continues to be a tailwind, which is excellent.

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

Operator: Shaun Kelley with Bank of America.

Shaun Kelley: Bruce or Ryan, maybe you could just help us think through the bridge for 2025 as we look forward like a little further here, because there's obviously a lot going on here. But if we take Beryl, the construction disruption, possibly a boost from the ROI, if the disruption is entirely behind us as we enter 2025 in the Pacific Coast, and then we think about Jamaica, can you help us think about each bucket, and how we would sort of do the bridge for what 2025 could -- just on those factors, we'll leave out a same-store assumption. But just on sort of those factors, and particularly the Jamaican normalization in the Pacific Coast, that'd be really helpful.

Ryan Hymel: Yes, so I'm not going to get into specific numbers today because we're still working through forecasting guidance and it's a little early. But those kind of buckets are the biggest ones to consider when you build out a model for next year. So let's start with the Pacific. We're largely done with all that work at the end of this year. As I mentioned earlier, some of the rooms will still be out of service in Q1 of next year.

And so net-net, I would expect Q1 in the Pacific occupancy and EBITDA to be down compared to Q1 this year. But you're getting back all of those rooms essentially beginning Q2 through Q4. I did mention earlier very specifically, I don't expect a lot of group business to come on the books in the back half or the Q2 through Q4 of next year at Cabo because they book further out. But I would expect Q2 through Q4, just by virtue of having all of these rooms back online, to be better from an EBITDA perspective. Are they getting back to 2023 numbers? Probably not, but you're getting just a decent amount of EBITDA back just by virtue of those being open. So net-

net for the year, the Pacific should be up when you take out Q1 and you add back what you get back Q2 to Q3.

Don't forget we have business interruption insurance on the books this year. I don't want to forget that. We've thus far, year-to-date, gotten $2 million. We probably expect the next couple of million to kind of finalize in the last quarter, and that'll be, I think, it hopefully for the year. So we probably get no more than $2 million to $2.5 million for the year. So don't forget about that for your building block.

FX is a consideration. As you can imagine, it's been incredibly volatile over -- starting in June, it was weakened considerably after the announcement of the election. And then just given everything that's happened in the markets, the unwinding of that trade, it's gotten extremely weak over just the last 4 or 5 days. So let's just use 19 as kind of a goalpost for right now, right, where it just kind of jumped up to over the weekend.

If it remained at 19 for the rest of this year and then 19 was the kind of forecasted spot rate for all of 2025 without any hedging activity, you're looking at -- you're starting off at the high-single-digits, potentially low-double-digit tailwind of EBITDA if all operating expenses and everything else remain equal. So that's a big consideration. Again, very difficult to forecast. And we'll likely put another hedge in place, which eats into that a little bit. But that's a big bucket of consideration.

And then the last and the biggest one that you pointed to is Jamaica. So right now, just given where things are booking and pacing as you can -- as we talked about multiple times, the continued degradation in the forecast or the lack of improvement in the pickup and booking pace, what's infected Q2 and Q3 is fully connected to Q4, and we're pacing behind in Q1 of next year. So unless something substantially changes, I don't expect any improvement until we start lapping these effects in Q2 of next year.

So if you assumed everything remains the same from here on out and nothing changes through the entirety of 2025, at a minimum, you will have a significant impact in Q1 of 2025. This Travel Advisory and the demand hits began in our Q1 of this year, but we still had a phenomenal January and a phenomenal February in that market before all of that took place.

So one thing I don't want people lost when they think about their models for next year. Q1, unless there's a considerable change in pickup or sentiment, Q1 will be down in Jamaica. So I know it's kind of long, Shaun, and I didn't put real numbers around it yet because we're still working through it. But those are the main buckets to be thinking about.

Shaun Kelley: Super. And then obviously, the last piece would just be Beryl, which I think you've generally called out at, what, $6 million to $8 million?

Ryan Hymel: Correct, that's perfect, correct.

Shaun Kelley: So that's just a clean lap in Q2 and Q3 for next year as well, right?

Ryan Hymel: Yes, mostly Q3 though. It probably affected a tiny bit of Q2, just as when it was coming through that last week of June. But as you saw, we still had a good second quarter, so that's mostly contained in Q3.

Shaun Kelley: Okay, great. And then like my follow-up, just digging in on Jamaica, I think in the prepared remarks, if I caught it right, I think it was Bruce mentioned maybe a touch of new supply in that market as well. Could you just comment on that? Is it in the submarket? Like it didn't sound like it would be something you might have called out if it wasn't for the softening, but yes, just what are you seeing there?

Bruce Wardinski: Yes, no, no question, we wouldn't have called it out because for the main reason, it's at a lower price point. So it's typically more European customers sold through tour operators at a lower price point. And it's further away from the Montego Bay Airport, a good distance away. So our resorts, except for Paradise Cove, the other ones are all located within Rose Hall. And for people who don't know, Rose Hall is like 15 minutes, within 15 minutes, 15 to 20 minutes from the airport. And so it's incredibly convenient and Rose hall is kind of the upscale desired location to be within the Montego Bay market.

So these two are in lesser locations, they're at a lower price point. And so we wouldn't view them as direct competition. But when times are tough and people are trying to discount, especially with new products, can that have a little bit of an impact? Sure, it can have a little bit of an impact. So that's the only reason we called it out.

Shaun Kelley: Thanks very much.

Operator: from Chris Woronka with Deutsche Bank.

Chris Woronka: I think, Bruce, last quarter, you mentioned that you were considering kind of reaching out to your contacts at the State Department, and maybe working with Adam to try to get some positive momentum, or at least some feedback on this Travel Advisory. Can there be any update there, or is that still something that can happen?

Bruce Wardinski: No, no. So I had a good meeting with the Jamaican Ambassador to the United States last month. We went over all the initiatives that the Jamaican government -- mostly through the embassy here in Washington, D.C., are working on with the U.S. State Department. And they made some progress, are continuing to make progress with regards to that as well. Our commercial teams, our operations team, have been working with the JTB, which is Jamaican Tourism Bureau, as well on some initiatives, and they've done that.

I've been in contact with Adam Stewart at Sandals. We have had some other back-channel with some other hotel operators, colleagues, competitors within Jamaica. It's a challenging situation. Some of the things that the advisory relate to are more systemic, but it's not like Jamaica-specific is the frustrating part, right? It's things that exist in countries all over the world, all kinds of countries. And so that's just the frustration.

We're hopeful to get progress; we're hopeful that people see that whatever is included in the advisory really doesn't have any impact on the North Coast of Jamaica, which is where the tourism zone is, right, Montego Bay, Ocho Rios, Negril, that's where we're located. And that's

really not seriously impacted by that, so I'm hopeful. I think the government is much more focused and I probably kind of stated on the last call, so I'm positive about that too. We have an open dialogue with them, and we're hoping that things will improve. But it's really impossible to forecast that.

Chris Woronka: Okay. Fair enough. Thanks, Bruce. And then as a follow-up, thinking about Zilara Cancun next year, I know you probably don't have final decisions or budgets, but big-picture, now you've had another quarter to consider what you could do there. Is there any thought as to whether you want that to be more of a lifecycle renovation, or whether you truly maybe can do some things and take ADR up significantly above where you are now?

Bruce Wardinski: Yes, Chris, that's a great question. Thanks for asking it. This is something I personally am really, really excited about, okay? First of all, we said this before, this resort is located on one of the absolute best beaches, best position within Cancun hotel zone, okay? 100% of the rooms are ocean front, so not ocean view, not ocean, if you've bend around the corner. No, you're just looking straight at the ocean, okay?

The original room concept was incredibly inefficient. You probably had about 25% to 30% of the room space, just your square footage that was lost due to angles and other things that an architect designed. We're taking all of those out. So we're going to take this thing down to the concrete, okay? So we're definitely not just doing a lifecycle renovation. This is going to be a complete reinvention of this resort and I think the potential is incredible.

We talked about the ADR gap between this and the Ziva Cancun, between this and the Zilara Cap Cana. We have significant upside for that. Our plan is that we will shut the resort down. It will be closed for 8 to 9 months. We are looking at and we're optimistic, but we'll come out with more definitive news on this probably by our next call, the possibility of actually increasing the room count due to kind of the layout of our combined resort between that and the Wyndham Altura next door. And again, that may allow us to add another higher category room type to the resort, which of course, would be another value-enhancing opportunity. But this will definitely be value-enhancing.

So Ryan described Los Cabos and that's like, hey, we're trying to protect the golden goose MICE business that we have in Los Cabos as well as the transient business. And so that was -- been kind of the goal behind that renovation, the same with Puerto Vallarta. This one is very, very different. We have an opportunity to really create something exceptional here, and that's what we're shooting for.

Chris Woronka: Okay, very good. Appreciate all that. Thanks,  Bruce.

Bruce Wardinski: With that, I think we've covered everything we want to get through today. Appreciate the questions and we look forward to catching up on our next earnings call. Thank you very much.

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