[PLYA] Playa Hotels & Resorts
Q3 2024 Earnings Conference Call
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Company Participants:
Ryan Hymel, Executive Vice President and Chief Financial Officer
Bruce Wardinski, Chairman and Chief Executive Officer

Analysts:
Patrick Scholes, Truist Securities
Smedes Rose, Citi
Tyler Batory, Oppenheimer
Chad Beynon, Macquarie Research

Presentation

Operator: Good day, and welcome to the Playa Hotels & Resorts Third Quarter 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, very much, Dave. Good morning, everyone, and welcome again to Playa Hotels & Resorts third 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 last night with the SEC. We've updated our Investor Relations website at investors.playaresorts.com with the company's recent releases.

In addition, reconciliations to GAAP of the non-GAAP financial measures we discuss on this call were included in yesterday's 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 third quarter results and our outlook for the fourth quarter. Bruce will wrap up the call with some concluding remarks before we turn it over to Q&A.

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

Bruce Wardinski: Great, thanks, Ryan. Good morning, everyone, and thank you for joining us. Our third quarter results exceeded our expectations, led by steady underlying performance in our Yucatan and Dominican Republic segments, and improving demand in the Pacific Coast and Jamaica.

Following the disruption in bookings due to Hurricane Beryl, underlying demand reverted back to trend across our segments, or has slightly improved in the case of Jamaica. Playa's owned resort EBITDA of $36.6 million in the third quarter of 2024 included a benefit from business interruption insurance proceeds of approximately $700,000 in Q3 2024 compared to the $1 million in business interruption proceeds we received in Q3 2023.

Excluding business interruption, the upside compared to the expectations shared on our last earnings call was driven by, one, better-than-expected close-in demand in the Pacific Coast in Jamaica, and better-than-expected ADR growth in the Yucatan and Dominican Republic; two, $1 million of higher fee income driven by the continued ramp of the Playa Collection; three, $1 million of lower corporate expense, which was partially timing related with some of the expected expense falling into the fourth quarter;

Four, a favorable year-over-year foreign currency exchange tailwind of approximately $2.9 million, which was higher than we anticipated. Given the sharp drop in the U.S. dollar-Mexican peso conversion rate in the weeks ahead of our second quarter earnings report, we thought it would be prudent to approach guidance with a potential reversal of the favorable move in mind. However, the dollar-peso exchange rate continued to move in a favorable manner throughout the quarter.

For Q3 2024, we estimate that foreign exchange was a 170-basis points tailwind for both our reported owned resort EBITDA margin and on our legacy portfolio margins. Business interruption proceeds received in Q3 2024 favorably impacted resort margins by approximately 40 basis points, but was an approximate 10-basis point net headwind on a year-over-year basis as the amount of business interruption proceeds received was slightly lower year-over-year.

Adjusting for all of these factors, underlying owned resort EBITDA growth was down approximately 36% in the third quarter for the total portfolio, and down approximately 39% for the legacy portfolio, reflecting, one, the significant impact of Hurricane Beryl; two, the construction disruption in the Pacific Coast; and three, the U.S. State Department Travel Advisory on our Jamaican segment.

We expect our underlying EBITDA growth to improve substantially in the fourth quarter compared to the negative 36% in the third quarter, as the fourth quarter will have, one, less of an estimated impact from Hurricane Beryl; two, less disruption in Los Cabos; three, improving demand in the Pacific Coast and Jamaica; and four, expected overall strength in fundamentals for the holiday period.

At the segment level, our teams in the Yucatan did an excellent job on the cost front, despite the challenges presented by Hurricane Beryl.

Occupancy declined 270 basis points year-over-year in the third quarter, driving currency-neutral margins to decline by approximately 450 basis points year-over-year and underlying EBITDA growth of negative 17%.

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 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. But the contribution from our expense initiatives will taper on a year-over-year basis moving forward as we lap the implementation of our measures.

In the Pacific, our planned renovation work in this segment continued during the third quarter with the peak of the guest-impacting construction work taking place during Q3. Demand began to firm up as we moved through the peak of the construction disruption, and while this has been encouraging, the increased demand is coming at lower ADRs, given the ongoing construction. We anticipate completing the bulk of the renovations ahead of the holidays, with the remaining rooms to be completed in early 2025.

Turning to the Dominican Republic, 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 and sold in the third quarter of this year. The remaining core resorts in this segment continue to perform well on an underlying basis, and we expect year-over-year occupancy and ADR to increase in the fourth quarter following the dip in Q3 as a result of Hurricane Beryl.

As previously mentioned, year-over-year comparisons in the segment were also impacted by the receipt of $1 million of business interruption proceeds during the third quarter of 2023 and $700,000 of business interruption proceeds received in Q3 2024.

Finally, Jamaica's third quarter was largely as expected, with the approximate 30% RevPAR decline driving a material decline in resort EBITDA. As we outlined on our last earnings call, the segment was starting to regain its footing, especially for the fourth quarter, but the recovery was significantly disrupted by 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 and early fall period in both the Caribbean and the Yucatan, as both destinations were in the direct path of the storm. However, the recovery resumed as we moved through the quarter and ADRs in the market adjusted lower.

As we look ahead to the fourth quarter and first half of 2025, our occupancy is pacing close to flat year-over-year, albeit at lower ADRs. This is encouraging, as it is the first step toward rebuilding the market and the relative value should aid the destination over time.

Looking at demand as a whole, following the significant disruption in booking patterns caused by Hurricane Beryl, we largely saw demand normalize as we moved through the quarter, with the status quo segments of the Dominican Republic and Yucatan Peninsula returning to

underlying trends and the Pacific and Jamaica actually seeing underlying improvement, particularly for the holiday period.

Looking out to the fourth quarter, our revenue is pacing up low-single-digits in the Yucatan, up mid-teens in the Dominican Republic, and down low-double-digits in Jamaica, with the latter marking a significant improvement compared to the approximate 30% decline in the third quarter.

More importantly, the upcoming high season is continuing to build nicely, and the demand looks solid, with ADR up low-single-digits for the total portfolio and up high-single-digits, excluding Jamaica.

In aggregate, during the third quarter of 2024, 46.2% of Playa owned and managed transient revenues booked were booked direct, up 50 basis points year-over-year. Playaresorts.com accounted for approximately 13% 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 40.8% of the Playa owned and managed transient room night stays in the quarter came from our direct channels. Geographically, our South American, European and Canadian guest mix all improved meaningfully year-over-year as our American source guest mix continues to normalize. Recovery of our Canadian guest segmentation versus pre-pandemic remains near approximately 80%, and our American guest mix is roughly back to pre-pandemic levels.

Our European and South American guest mix remained the most elevated versus pre-pandemic at approximately 175% to 200%, while our Asian guest mix was largely unchanged and remains only about 25% recovered.

Our visibility remains a critical factor of our success as our booking window was just over 3 months during the third quarter.

Finally, on the capital allocation front, we repurchased approximately $50 million worth of Playa stock during the third quarter, and roughly an additional $25 million thus far in the fourth quarter, bringing our total repurchases since resuming our program in September 2022 to approximately $375 million or approximately 29% of the shares outstanding.

Once again, I would like to sincerely 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 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, all references as a reminder to expense and margin KPIs are on a currency-neutral basis, and also exclude business interruption proceeds unless otherwise stated.

Our third quarter results were slightly ahead of our expectations on a fundamental basis, as demand improved through the quarter. Outside of core owned resort operations, as Bruce mentioned, given the volatility in the dollar-peso exchange rate around the time of our last earnings call, we thought it was prudent to use an exchange rate that was below spot rates at the time of the call, leading to an upside from FX in the quarter as the dollar-peso exchange rate remained favorable.

Other factors driving the beat were $700,000 business interruption proceeds, higher fee revenue from the Playa collection and the timing of corporate expenses all contributed to better-than-expected adjusted EBITDA.

Reported owned resort EBITDA margins declined over 500 basis points year-over-year, including a net negative impact, 10 basis points from lower business interruption proceeds in the quarter versus last year and a positive FX tailwind of 170 basis points. Adjusting for FX and BI, our underlying margins declined 660 basis points, reflecting the impact of Hurricane Beryl, the peak disruption of the renovation work in the Pacific and the challenging environment in Jamaica.

On the cost front, similar to what we're experiencing in bookings in recent months, trends normalized post-Hurricane Beryl. And our underlying expense inflation assumptions across the major cost buckets have remained steady since our last update, with labor remaining a headwind and food and beverage costs favorably impacting margins.

Turning to our MICE Group business, our 2024 net MICE group business on the books is approximately $68 million, up roughly 13% compared to the same time last year. For 2025, we have currently $45 million of MICE business on the books, which is a decline versus prior year. The decline was expected, however, given the renovation work in the Pacific Coast and lapping a large group buyout of our Los Cabos resort in Q1 of 2024.

As a reminder, that buyout in the Pacific in Q1 of this year was a legacy contract booked at far below market rate, which resulted in the Q1 Pacific Coast reported occupancy up 7.3 percentage points year-over-year, but an ADR decline of just under 3%.

Finally, turning to the balance sheet, during the second quarter, we again repriced our term loan, which is due 2029, reducing the spread by an additional 50 basis points to SOFR plus 2.75, saving over $5 million per year, and cumulatively over $15 million annually since our original refinancing in December of 2022.

Finished the quarter with a total cash balance of $211.1 million and total outstanding interest-bearing debt of $1.08 billion. We currently have no outstanding borrowings on our $225 million revolver. And our net leverage on a trailing basis stands at 3.3x, excluding lease capitalization.

We continue to anticipate our cash CapEx spend for full year 2024 to be approximately $100 million to $120 million for the year, partitioned out between roughly $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, we entered into two interest rate swaps to mitigate the floating rate interest in our term loan due 2029.

We entered into a 2-and 3-year contract, both of which have a fixed notional amount of $275 million and carry fixed SOFR rates of 4.05% and 3.71%, respectively.

Separately, we have implemented FX hedges on approximately half of our Mexican peso exposure for 2024, which has greatly reduced the volatility of the impact on our reported EBITDA this year. [From] the exchange rates at the time we entered into the FX forwards, we estimate the full year 2024 EBITDA impact from the Mexican peso to be roughly zero to $3 million headwind, which is slightly better than our previous outlook of a $5 million to $8 million headwind. We expect the fourth quarter FX impact to be a favorable approximately $1 million.

On the capital allocation front, as Bruce mentioned, we repurchased an additional $50 million of stock during the quarter and an additional approximately $25 million thus far in Q4 of this year. Since we began repurchasing shares in September of 2022, we've repurchased over 48 million shares or over 29% of our float. We still have over $50 million remaining on our existing repurchase authorization.

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

Now turning our attention to our outlook for 2024. First, again, I'd like to remind everyone of the unique items affecting the comparability of our financials compared to 2023 before we dive in. So as a reminder, first, foreign exchange. The Mexican peso and the appreciation of the peso had a $24.5 million impact on adjusted EBITDA in 2023.

Business interruption, in 2023, we recognized $6.1 million of BI proceeds with $4.3 million coming in the second quarter of 2023 and approximately $900K in Q3 and Q4 of last year, respectively.

As a reminder, the DR Jewel properties, both of which have been sold, resorts recorded an EBITDA loss of approximately $15 million and negatively impacted owned resort margins by 280 basis points. Roughly one-third of the loss occurred during the first quarter of 2024, as the Jewel Palm Beach Resort was closed for the majority of the quarter.

Now turning to our outlook, we currently expect full year 2024 adjusted EBITDA to be $250 million to $255 million, which includes the following key considerations and inputs. Firstly, our expectation for occupancy is unchanged. We still expect to be up low-single-digit percentage points for the total portfolio, and down low-single-digits for the legacy portfolio. We expect a slight improvement in the total portfolio ADR growth as we now expect mid-single-digit ADR growth, reflecting the disposition of the Jewel Palm Beach Resort, and we expect to be up low-single-digit ADR growth for the legacy portfolio.

There's currently no change to the RevPAR growth of mid-single-digit to high-single-digit for the total portfolio, and we still expect to be down low-single-digits for the legacy portfolio.

As I mentioned, we still expect an FX headwind of approximately zero to $3 million for the full year based on current exchange rates, net of our forwards. We still expect construction disruption impact in the mid-to-high-teens in the Pacific Coast for the renovations.

As I mentioned, there's no change in underlying expense inflation assumptions. As we've mentioned in previous calls, we've been diligently working to improve our efficiency. And we still believe we've lowered our margin leverage hurdle to approximately 4% ADR growth to hold margins flat on a currency and business interruption adjusted basis.

We expect a modest net negative impact from annualizing corporate expense increases from 2023, which again, is partially offset by higher and growing fee income, particularly from the Playa Collection.

Turning specifically to our Q4 outlook for the fourth quarter. We expect reported occupancy to be in the low-to-mid-70s and reported package ADR to increase mid-single-digits on a year-over-year basis. We expect owned resort EBITDA margins to decline significantly year-over-year, given the obvious continued renovation disruption in the Pacific and the aforementioned $900,000 of business interruption proceeds recorded in Q4 of last year, which again was a positive 40-basis point impact to the comparison period.

FX, again, is expected to positively impact margins by approximately 50 basis points.

Putting it all together, we expect Playa Collection and management fee income of $2 million to $3 million, corporate expense for the quarter of $15 million to $16 million, and adjusted EBITDA of $48 million to $53 million.

Again, we anticipate that Hurricane Beryl will have a negative impact on the fourth quarter, but the bulk of the storm's disruption was felt in the third quarter. Given our booking window, we're currently 95% booked for the fourth quarter as of the end of October.

We hope that this 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 the call back over to Bruce for some closing remarks.

Bruce Wardinski: Great, thanks, Ryan. Following the disruption caused by Hurricane Beryl, fundamentals are largely back on track as we near the upcoming high season. I'm encouraged by the improvement in Jamaica and the momentum as we approach the holidays, but we remain mindful that we still face headwinds early in 2025 until we lap the decline in Jamaica, and as we build up higher-rated bookings in the Pacific following the anticipated completion of the renovation work in early 2025.

The sizable opportunity ahead in 2026, following the renovation of Zilara Cancun and the anticipated ramp in MICE business in Los Cabos, should create meaningful shareholder value for years to come. We intend to continue executing at a high level and managing costs while returning free cash flow to shareholders through share repurchases.

With that, I'd like to open up the call for your questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Patrick Scholes with Truist Securities.

Patrick Scholes: Ryan and Bruce, wondering if you could give us, if possible, a little bit of your initial expectations for 2026. Certainly, 2025, you're going to have an earnings hit from renovation disruption. But how might we think about what potentially a range of adjusted EBITDA could be for 2026 coming out of the 2025 renovations, if you can provide?

Ryan Hymel: Yes, sure, we're certainly a long way from giving guidance for 2026, but I think it might be helpful to bridge you to 2025 and make sure everybody understands those building blocks. So then you'll have a good idea for then what could potentially come back in 2026. I think that's the best way to think about it before we start commenting on any sort of fundamental assumptions 2 years out. I think that's probably the best way to do it, if that's okay with you.

But let's start with 2025. So you heard us talk many times about the significant renovation disruption in the Pacific, and we've said we've had high-teens disruption, EBITDA disruption. So let's call that $20 million. That work is largely completed by the end of this year, but there will still be rooms out of service next year in Q1. So we expect, just by virtue of having rooms back online in Q2 through Q4, we will recoup some of that $20 million disruption next year, but not all of it. So as a baseline assumption, we've assumed roughly half of that $20 million, so you get positive $10 million, right?

Could we outperform? Certainly. We don't expect that we'll have group substantially next year because groups are booking for 2026. And the sentiment from meeting planners is that the room work that we've done there is great, but we don't expect big group business in 2025. So that's why we expect roughly to get half of that back. So let's talk about -- so that's a positive $10 million for next year.

Jamaica is still a wildcard. As a reminder, we won't lap the impacts to the Travel Advisory Warning until Q2 of next year because our first quarter was still pretty good this year. So net-net, our best estimate for the impact of annualizing that Travel Advisory Warning is a negative $10 million to next year. So up $10 million, down $10 million.

We've talked about our plans for renovating the Zilara in Cancun. I know we've covered all the reasons why, but it's a spectacular asset, and I think it's going to drive some nice incremental returns in 2026 and beyond. But that property does roughly high-teens EBITDA this year, so we'll keep it open through the end of March next year, shut it down, reopen at the end of the year. And so net-net, it's roughly a $20 million year-over-year swing because it will obviously lose money and have carrying costs throughout the time it's closed, so that's a down-$20 million impact.

You have to remove business interruption that we recorded this year. But then lastly, the nice tailwind is, as I'm sure you've followed, the foreign exchange, the Mexican peso has weakened substantially. It started doing so in June and July, but really weakened in August. And we actually leaned into it and layered on 12 more Mexican peso forwards for 2025 throughout the year at a weighted average of roughly 19.5%. So all that means is you're walking into next year with roughly $12 million to $17 million of EBITDA in your pocket, mostly first-half weighted.

So add all that up, see, Pat, you're roughly flat to probably down 5-ish next year for 2025 before you make any assumptions on operating fundamentals, or any assumptions yet on what will happen with Jamaica when you start to lap the Travel Advisory. Now you skip ahead to 2026, far from guidance, you could at least expect that you get back the additional $10 million in the Pacific, right? You would at least get back -- and hopefully more -- the $20 million lost from the Zilara Cancun, and then you can start to make assumptions on how the shape of the recovery plays out with Jamaica. Right now, Bruce touched on it, and we talked about it in the prepared remarks, we've seen occupancy begin to stabilize because of some of our yield management tactics.

We've essentially been stimulating demand in the old-fashioned way by lowering ADRs. And so the pacing for occupancy looks good, but it's at the expense of ADR. So this is a first step in recovering that market. So hopefully, in 2026, you're able to start yield managing ADR up as you've returned occupancy to previous levels. So net-net, that puts you in the plus-$30 million plus-plus. So you're somewhere in the potentially $275 million and above. Again, that's extremely early, and that's a long way off.

But then you can layer in incremental growth from the renovations, any fundamental growth you expect in the markets and how Jamaica recovers. So I know that was a long answer, but I thought it was important to give you those building blocks.

Patrick Scholes: That was great, more than I expected. It sounds like you're well prepared for the call to answer any questions. Thank you. Appreciate it.

Operator: Smedes Rose with Citi.

Smedes Rose: I just wanted to maybe talk a little just nearer term. You mentioned some of the bookings activity you're seeing in the fourth quarter. But maybe just a little more color around, I guess, what's called the festive season that we're hearing other companies talk about? And then if you could maybe just talk a little bit more about the recent announcement that Hyatt made with an all-inclusive group in the same regions you're competing in. Do you think it matters for you one way or the other with them taking over management of those assets?

Ryan Hymel: I'll let Bruce handle the second one. We're still not too dissimilar what others have said, our festive season looks pretty good, particularly at our Yucatan and the DR segment. Both are pacing up for Q4 and for Q1. Obviously, Jamaica ADR and revenue is still pacing down, as we haven't reached the reference point by which the Travel Advisory started to take effect. In the Pacific, it's still largely behind because of the rooms offline, but our steady-state markets are pacing very well for both Thanksgiving and the festive season, which we're very excited about.

Bruce Wardinski: Smedes, on the Hyatt announcement, I think it's a great deal for Hyatt. I think I've said all along that in our space -- and this goes back to our founding in 2006 -- that there's a tremendous opportunity in the all-inclusive segment for consolidation. There's a lot of family owner-operator companies just like Grupo Pinero, which operates under the (indiscernible) brand. And I think what Hyatt is doing is just really smart strategically.

They already are the dominant major global brand in all-inclusive with the original deal with us, and then with their acquisition of Apple Leisure Group and now with this transaction. So I think it's really, really strategically smart for them, and I think you'll continue to see that in other brands doing this same kind of deals.

Now with regards to does it impact us? Quite honestly, no. Number one, it's already existing stuff that's out there. So it's not like you're adding new rooms into these markets. Number two, for the most part, these properties are different, very different, than ours. They're very large properties with lots and lots of rooms at them. They traditionally sell through tour operator channels, and they're at a lower price point than our properties tend to be. And they go after, quite honestly, a different kind of customer. So I think it's a great add-on for Hyatt, and I don't think it's any negative for us whatsoever.

Smedes Rose: Okay. Thank you.

Operator: Tyler Batory with Oppenheimer.

Tyler Batory: So I want to talk through a little bit more the commentary on Jamaica. And the first question I have, it sounds like you've been able to build some occupancy with lower ADR. Are other resorts in the market doing the same thing? Can you talk about the competitive environment in Jamaica? I don't want to suggest that there's potentially a race to the bottom sort of dynamic here, but how do you think about rebuilding some of the ADR and price as the demand starts to come back?

Ryan Hymel: I don't think there's a race to the bottom. It's an absolutely fair question. As we moved throughout this year and started seeing that a lot of the promotional activities that were more short term in nature were having, just as you would expect, a short-term impact, and then also Bruce had a lot of discussions with other owner operators. I'm sure you can guess who they are in that destination. A lot of people were feeling the same pressures.

We also started looking around seeing that there were one or two new resorts, not massive, but new resorts that came into markets nearby some of ours at lower introductory rates and that lower price was moving demand. And so we said, look, let's just take a step back and figure out at what price point can we move our occupancy from using round numbers, 60-something percent to back into the 70s. And we found that with a 10% to 15% ADR decline.

And so the nice part is you're building occupancy back up. You start to see it pacing flat from an occupancy perspective, kind of into the high season, which is nice, and then allows the revenue management teams to start to yield manage from there. To be clear, Q1 will still be a headwind just because we had a great Q1 and ADRs will still be down because of the Travel Advisory. But the hope is -- and I think a great fantastic goal would be by the time you're exiting 2025, perhaps you've started to build EBITDA back up again, albeit at lower margins. Obviously, we have

lower ADRs, higher occupancies, it's going to eat into margin. But then you exit 2025 with a good base of occupancy, potentially better, and then hopefully, have the ability to yield up from there. It's nothing scientific other than just getting heads in the beds again.

And as Bruce mentioned in his prepared remarks as well, there is something to be said about the relative value this will start to show versus our other destinations. People still want to go and like, okay, Jamaica, for what it's worth, is how many dollars cheaper to go for a great experience at any one of the resorts there versus heading to the DR or Mexico, let's check it out. So we've seen this play out over time, and hopefully, we're on the right path here. So this is step one.

Tyler Batory: Okay, great. Follow-up question on airlift into your markets. I don't know if you can talk a little bit more about what you're seeing, especially early next year; not sure if there's been some movements in terms of seats going from different markets, just given some of the dynamics and some of the demand trends in Jamaica too.

Ryan Hymel: Yes, as you saw -- and you can follow the same data -- the airlift into our markets in prior to and then through Q1 was quite robust. It started to decline across generally all our markets in Q2, basically low-single-digits year-over-year, but still very healthy versus 2019. And basically, essentially, what we saw was airlines start to normalize capacity. Based on the scheduled seats into the destinations in Q4 and Q1 next year, that decline is stabilizing, and it still remains at those healthy levels versus 2019.

So I think what you'll see is again, based on what is scheduled, Q3 kind of was the bottom, and then Q4 is starting to work its way back up, which is nice to see. I do think load factors should be able to kind of help mitigate the magnitude of this decline. People have asked us too, "Tyler, okay, you've seen airlift go down into Cancun. Why aren't you seeing massive hits to your resorts?" Part of it is just the basic where our assets are located in the prime locations in the hotel zone, very, very close to the airport or at most, 45 minutes away when you think about our assets in Playa del Carmen. So maybe we've been stealing share from some of those folks that are further away, further into [Loom] or places far to the north like Playa (indiscernible) Harris and others.

But also at the same time, it comes to going back to the original decision by Bruce and the team to focus on ADR, and not having our hotels sit at 90% full coming out of Covid. And so if there are declines in airlift into the markets, and our relative value that we present to the customer still resonates, we're fine with it because we can still get 70% to 80% occupancies without blinking an eye.

Tyler Batory: Okay. And then the last question is just housekeeping on FX. And I appreciate the numbers and the details in the guidance. When we look at the EBITDA impact that you provided for Q4 and for 2025, what sort of spot rate is assumed for that impact? How much of your 2025 exposure is hedged at this point? And is there an easy way to think about the potential sensitivity to EBITDA depending on what might happen with the currency?

Ryan Hymel: So let's start with Q4. The midpoint of our guidance assumes 19, which is slightly stronger than spot rates. The peso went on a wild ride on Tuesday during the election, but basically finished flat, and it's a little stronger today, but still above 19. So if the FX weakens or

stays where it is, or kind of gets closer to 20, that kind of helps lead to outperformance in our guidance range.

When you think about next year, we hedged -- roughly it's not a perfect number because as you can imagine, the quantum of Mexican peso expenses moves as we forecast out. But we hedged roughly 70% to 75% of our Mexican peso-denominated expense base. And the rates that we put in at the time we did it in August, obviously, it was a curve, but it essentially is a weighted average of a little over 19.5% for the full year.

So based on that 19.5% and based on where the rates were this year and where we expect them to remain for the rest of this year, that's how you get to roughly $12 million to $17 million, so call it, $15 million of FX tailwind as you walk into next year. So roughly, the sensitivity is 1-point change in MXN is roughly $2.75-ish million of EBITDA per quarter on a hedged basis -- on an unhedged basis.

Tyler Batory: Okay. All right. That's helpful. I appreciate that detail. Thank you.

Operator: Chad Beynon with Macquarie.

Chad Beynon: Ryan, you talked about CapEx this year, $100 million to $120 million. Can you help us -- can you frame out roughly what it would look like in 2025 based on the Zilara project? And then how does that kind of fit into the share repurchases, which have been running really strong lately? Bruce, I think you said you have $50 million left, but just help us there on the capital allocation side, please.

Ryan Hymel: The Board has been very supportive of re-upping our authorizations whenever needed. And they're still, just like Bruce and I are big fans of continuing to purchase back our stock. Our expectation for next year is that the overall CapEx spend is not too dissimilar from this year because you'll be finishing some of the work -- finishing out the work in the Pacific, but then beginning the project in Cancun, which on a per-key basis, we're still working through the numbers, but it's obviously higher just because it's a full renovation and bringing a property to a pretty nice and wonderful high level. So we expect roughly the same quantum.

Again, the nice part is that our free cash flow generation remains incredibly strong. We're still converting anywhere from 40% to 50%, sometimes 55% of our EBITDA into free cash flow after normal fixed expenses. So we have the luxury today of continuing to do both. Obviously, if something changed in the macro, we'd have to rethink it, but our consistent stance has been we want to be consistent buyers of our stock, and continue to thoughtfully reduce our float as we continue to invest in our existing property base.

And the nice part too, is you've seen us sell some of the noncore assets, so that's great. And so really, once you think about finishing the work in the Pacific and once we get through the Zilara renovation next year, the portfolio is largely in pretty good shape, short of regular maintenance CapEx that you do annually.

Bruce Wardinski: And I just want to emphasize what Ryan said. It's a very key plank of our strategy, and we intend to continue to do it. We have a good amount of cash right now on our balance sheet. As Ryan said, we sold noncore assets; we have a couple more noncore assets to

sell. We take that capital, we redeploy it into the CapEx, and we really target the free cash flow for the stock buybacks. But we've been buying at a very consistent and significant level, and we intend to continue doing that.

Chad Beynon: Okay, great. Thank you. And then can we just talk roughly about some of the expense components to help us frame out margins? Maybe looking at that farther-out target, I know you went over how the peso impacts margins and what that benefit should be. But just as we think about some of the other items, has anything really changed in, let's call it, the past 6 months? And based on where we're seeing energy and utility prices and maybe just kind of cost of food, etc., is there an opportunity to improve margins on a same-store basis once some of the disruption is complete?

Ryan Hymel: Yes, I believe so. We still continue to make headwinds, particularly on F&B and procurement. The team has been a tremendous, tremendous asset to us here, taking advantage of our size and scale and our buying power. So, you've heard me talk about it before, but F&B is roughly 20-ish, a little less percent, of our cost basket, and the efforts thus far have resulted in 20 to 30 basis points in annualized cost savings permanently. And I think we're only 30% to 40% of the way through our addressable base. So there's more to be done there, and we expect to continue to focus on that area

You heard us talk about we're lapping the impacts of some of these now, and you'll see us lap those impacts in Q4 of this year. But starting in the middle of last year, we started to reprioritize some of our staffing models and rethink them coming out of Covid. We redid our Operations team in Mexico, brought in a new Head of Operations, who's been a key component to rethinking our staffing because labor remains still a headwind.

We still every year, contest with [annual] minimum wage increases or union negotiations, or any government-mandated changes because of a change in president or prime minister or policy or whatever. So it's still going to be just as important, but we still expect F&B to be helpful and labor to be a headwind. And labor is like roughly 30-ish percent of our cost basket, so something we have to contest with.

FX is roughly, to your question, 65% to 70% of our overall OpEx, and so it does play a big impact in what we do. And so that's why our focus has been and the way we speak to everyone in the investment community about our margins on a constant currency basis, and why we wanted to enter into these hedges to at least remove the volatility on either end and make it a little more predictable because these last couple of years have been more volatile than my entire career at this company, which has been since it was incepted in 2006. So it's been a little bit more difficult to wade through.

But I think if we keep focusing on F&B and procurement and hopefully, do our best with labor, we should be able to kind of at least maintain that roughly mid-single-digit ADR hurdle rate to maintain margins on a constant currency basis.

Chad Beynon: Excellent. Thanks, Ryan, appreciate it.

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, everybody. It was a good quarter for us. We're looking forward to continuing the strategy that we outlined today, and driving value for Playa shareholders. Thank you very much for being part of our call today.

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