Playa Hotels & Resorts (Q1 2020 Call)
May 12, 2020

Corporate Speakers:

- Ryan Hymel; Playa Hotels & Resorts N.V.; CFO
- Bruce Wardinski; Playa Hotels & Resorts N.V.; Chairman & CEO

Participants:

- Chris Woronka; Deutsche Bank AG; Analyst
- Chad Beynon; Macquarie Group Limited; Analyst
- Tyler Batory; Janney Montgomery Scott LLC; Analyst
- Smedes Rose; Citigroup Inc.; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to the Playa Hotels & Resorts First Quarter Earnings Call.

(Operator Instructions)

Please be advised that today's conference is being recorded.

(Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Ryan Hymel. Thank you. Please go ahead, sir.

Ryan Hymel^ Thank you very much, Luke. Good morning, everyone,. Welcome to Playa Hotels & Resorts First Quarter 2020 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 annual report on Form 10-K, which was filed at the end of February with the Securities and Exchange Commission.

We've updated our Investor Relations website at investors.playaresorts.com with our recent releases.

In addition, a reconciliation 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 some comments on the first quarter and key operational highlights. I will then address our first quarter results, our liquidity situation and our outlook. Bruce will then wrap up the call with some concluding remarks before we turn it over to Q&A.

With that, I'll turn the call over to Bruce.

Bruce Wardinski^ Great. Thanks, Ryan. Good morning, everyone, and thanks for joining us. We appreciate your interest in Playa during this extraordinary time for the world and certainly, our industry. I'll begin today by reviewing some of our operating accomplishments prior to March of this year, and then give some high-level thoughts on the operating environment. I'll then turn the call over to Ryan to discuss our balance sheet and outlook.

Now turning to the first quarter results. When we reported our Q4 2019 results in late February, COVID-19 had just started to make a more pronounced impact on the travel industry around the world, with the first documented case in Mexico being reported on the morning of our earnings call. What a difference a quarter makes.

First, the results prior to March. On our Q3 2019 earnings call, last November, we mentioned that we were starting to see signs of stabilization in the Yucatán, particularly in Cancun. This was followed by a solid sequential improvement in the fourth quarter, led by strong close in bookings. This trend carried over into the beginning of 2020 as January and February combined comparable RevPAR in the segment grew 3.1%, with both Cancun and Playa del Carmen posting positive results. The Pacific was down slightly, but in line with our expectations, given a softer group book position, and Jamaica rebounded nicely to start the year with 3.7% RevPAR growth, following a difficult fourth quarter due to less group business.

Turning to the Dominican Republic. The recovery continued to make progress through February, with a comparable RevPAR decline of 24.1%, ahead of our expectations for a similar decline of approximately 30% that we saw during the fourth quarter. The strength was driven by better close-in bookings at both of the Dreams properties. Cap Cana and the Hilton La Romana also had encouraging starts to the year.

Shifting over to our sales efforts. We remain focused on growing our direct bookings and lowering our customer acquisition costs and are confident we are on target with our 5-year plan to increase consumer-direct business to at least 50% by 2023.

In aggregate, during the first quarter of 2020, 23.5% of our Playa managed room nights stayed were direct, up 280 basis points year-over-year. And 31.4% of room nights booked were direct, up 470 basis points year-over-year. Additionally, our loyal direct consumers also tend to have a higher ADR as they represented 34.4% of our revenue booked during the quarter for future periods.

Generally, as we think about direct booking growth, partnering with globally recognized U.S. brands is key to driving the highest value guest at the lowest possible cost to our resorts by reducing customer acquisition costs, increasing our total addressable market, mitigating the impact of supply growth and minimizing the negative effects of competition.

At our Hilton and Hyatt branded properties, we are seeing strong increases in direct bookings as well as more group business. Specifically related to group, Hyatt Viva and Zilara Cap Cana are very strategic resorts for Playa. All-inclusive resorts of this caliber, with meeting space to handle large incentive groups in a destination like Punta Cana, more often than not do incredibly well, and they should serve to boost bookings at our other group properties, the Hyatt Ziva Los Cabos, the Hyatt Ziva and Hyatt Zilara Rose Hall and to a certain extent, the Hyatt Ziva Cancun, because we expect to now be able to fulfill meeting planners' 3-year rotation cycle all in house, without them having to go outside our portfolio to provide the variety of destinations their clients desire. Ryan will cover the details of our group business in 2020.

Now I would like to touch on some of our ongoing technological strategic initiatives. We continue to invest in the business, launching and expanding on several initiatives, including our book direct initiative I've already mentioned, aimed at improving the customer experience, lowering our customer acquisition costs and driving growth.

In early March 2019, we began the soft rollout of a new end-to-end upsell and rebook technology at selected resorts. By using sophisticated algorithms, it identifies in real-time new revenue opportunities, including selling ancillary items and additional room packages to targeted guests. This technology will enable us to accept more of the room upgrade bids as we move further back through the booking window and enter a seasonally slower period of the year. We finished enabling the entire portfolio with this technology during the fourth quarter of 2019.

During the first quarter of 2019, we launched our proprietary travel agent portal, on which travel agents can now make commissioned reservations directly without having to go through a tour travel operator. This effectively removes the layer of costs that previously existed, saving Playa approximately 7% to 9% in commissions per booking, while, at the same time, maintaining the economics for the travel agent on a basic booking and improving the economics in the case of upsells or prebooked ancillary revenues.

To date, bookings via our website have been in line with our modest expectations as we believe the real growth potential is in 2020 now that agents can book a commissionable end-to-end vacation inclusive of air, ground transportation excursions, suites, exclusive dinners and luxury spa appointments. We are now live with the ability to book flights and ancillary services for a complete vacation package.

To give a better gauge of the underlying fundamentals of our direct-to-consumer website, as of March 19, playaresorts.com was pacing ahead of our expectations with $40.4 million of gross revenue on the books for 2020 versus $28.3 million in 2019.

Let's turn now to the rollout of our new yield management system. We went live with our first property in Q1 2019 and expanded into 2 more properties during Q2. We made further progress during Q3, and are now live in nearly all of our hotels. We'll operate the new system in parallel with our current forecasting process for at least a year to fine-tune it, leveraging historical data and judgment of our marketing teams, an important step given the seasonality of our business. We expect the real benefit of the system to show up in our financial results starting in late 2020.

As many of you have seen, following the spread of COVID-19, and the ensuing impact on global travel, we decided to withdraw our financial guidance for 2020 and temporarily suspend operations at our resorts in late March. While this is unprecedented during my hospitality career, it was a necessary action based on various restrictions imposed by the Jamaican, Dominican and Mexican governments and to protect the safety of our associates and guests.

Now I would like to share with you our thoughts and plans as we look ahead in these unprecedented times. We are currently accepting reservations for July across our entire portfolio, but the decision on when to reopen and which properties to reopen will ultimately be determined by the local governments and the economic viability of doing so. As of now, we think it is reasonable to assume that the travel restrictions will be eased by July, but we cannot be certain that will actually occur.

On the financial front, the clustering and fairly close proximity of our resorts and certain destinations will provide flexibility to open markets in phases based on the forward booking volumes, helping fine-tune new operating safety protocols and reopening in the most efficient manner possible. Ryan will walk you through some of the financial details of our reopening plans momentarily, but I want to highlight that given the nature of our resorts, near beaches and with generally high occupancies, we have historically cleaned our resorts much more frequently throughout the day than a typical hotel.

We believe our resorts are positioned quite well for a world observing social distancing as we have expansive beaches and pools, large open spaces and expansive footprints that are accommodating for reconfiguration. We are working with our brand partners on industry-leading safety protocols that should further separate us from the competition in this new world.

We are focused on improving our operations so that we are the destination of choice for travelers in our markets. On the marketing front, we view this as a unique opportunity to take market share from both our direct and indirect competition, and we plan to aggressively pursue our competitive advantages. Ultimately, our guests will need to be able to physically get to our resorts, so we're closely monitoring airlift into our markets. Given that the leisure traveler is expected to begin traveling again before the business traveler, we are hopeful that airlift into our markets will be sufficient and reasonably priced.

With that, I will turn the call back over to Ryan to discuss first quarter results and our 2020 outlook.

Ryan Hymel^ Thank you, Bruce. Good morning, everyone. Jumping right into the details of the first quarter. Adjusted EBITDA was $50.3 million, which represents a 33% decrease versus the same period in prior year.

Given the timing of the temporary suspension of operations at our resorts, we had to recognize approximately $2.7 million of furlough costs, separate from severance costs in the first quarter, which under U.S. GAAP requires you to expense upfront.

Comparable net package RevPAR decreased just under 19% during the quarter on a 1,290 basis point decline in occupancy and a 400 basis point decrease in rate. Comparable net nonpackage revenue was down 11.6% in the first quarter, and total net nonpackage revenue was down 7.4%.

In the Yucatán, comparable net package RevPAR declined 14.4%, on a 1.2% ADR decline and 1,160 basis points lower occupancy. Comparable owned property level resort EBITDA in the region, which reflects both Cancun and Playa del Carmen, decreased $6 million or 23%. As Bruce mentioned, however, we had an excellent start to the year. Through February, comparable Yucatán EBITDA margins expand 140 basis points as we grew RevPAR by 3.1% and began to lever the investments in the company's shared service operations center.

On the Pacific Coast, net package RevPAR decreased 18.5%, driven by a 1% decrease in ADR and a 1,340 basis point decrease in occupancy. Owned resort EBITDA decreased $3.5 million or 28%, and group nights in the segment were down 2% in Q1 2020, while nonpackage revenue declined about 15%. Through February, however, the Pacific Coast EBITDA margins expanded about 80 basis points.

Now turning to Jamaica. Comparable net package RevPAR decreased 15%, driven by a 40 basis point decrease in ADR and a 1,230 basis point decrease in occupancy. Jamaica bounced back nicely for us in the first quarter, despite a slightly adverse group book position heading into the quarter. Through February, comparable Jamaican EBITDA margins expanded 490 basis points on almost 4% increase in REVPAR.

Now turning to the Dominican Republic. First quarter comparable net package RevPAR decreased 37%, driven by almost 16-point decrease in occupancy and almost 24% decrease in ADR. Through February, however, as Bruce mentioned, we recorded comparable RevPAR declines of 24.1% in the segment, well ahead of the expectations we outlined on our last earnings call.

Comparable EBITDA margins compressed 17 percentage points, which is an improvement versus the almost 19-point decline reported last year, following the sudden decline in that market in mid-2019, as we had more lead time to rightsize staffing and operating expenses. The newly remodeled Hilton La Romana and the newly opened Zilara Cap Cana generated a combined EBITDA of over $4 million in the first 2 months, an improvement versus the $1.7 million loss in Q4, as both properties began to ramp profits following the completion of construction work in Q4.

Through February, comparable Dominican Republic EBITDA margins contracted 1,130 basis points, an improvement versus the margin decline in Q4 of over 12 percentage points. On our last earnings call, we highlighted the better-than-expected performance of the Dreams Palm Beach pushing RevPAR above our expectations. Through February, RevPAR at both the Dreams Palm Beach and Dreams Punta Cana drove the comparable RevPAR upside versus our expectations.

I'd like to now turn your attention to the group business. We're very fortunate that coming into the year we had a little over 50% of our MICE business slated to stay in the first quarter, and we were able to recognized that revenue with very little disruption prior to the crisis. Another roughly 30% was scheduled to stay in Q2 and of that business, about half have already rebooked with 60% of them rebooking for later in 2020, 25% rebooking for 2021 and the rest in 2022. Of the remaining 50% of the Q2 MICE business that is not already rebooked, about 15% is still undecided and the remainder has canceled.

As we look out to the second half of the year, we had slightly more group business on the books stay in Q4 than in Q3, and we'll wait to see how that progresses as we move throughout the year. With respect to advanced deposits, we currently have just over $30 million as of the quarter end, with about 20% of that tied to stays in the second half of the year. Looking out to 2021, we have just over $20 million of MICE business on the books versus $17.6 million for 2020 at the same time last year. This includes just over $2 million of business that shifted from 2020 into 2021.

Now turning to the balance sheet, liquidity and cash flows. On May 1, we announced the sale of 2 resorts for a cash consideration of $60 million. We anticipate closing this transaction during the second quarter, subject to customary closing conditions. This action was taken to further solidify our liquidity position, adding approximately 4 months of additional liquidity in a no-revenue environment as the depth and the length of the travel decline is highly uncertain. In addition, we believe to unlock the true potential of these 2 assets, we would have had to spend significant CapEx and incur EBITDA disruption from closing the resorts for major renovations.

As of April 30, 2020, we had just under $60 million of cash on hand, which does not include the cash consideration from the asset sales, $85 million outstanding borrowings on our revolver, and total outstanding debt of $1.060 billion. We do not have any debt maturities until our revolver matures in April of 2022, and our term loan does not mature until April 2024. We're actively working with our lenders under our revolving credit facility to amend the agreement to modify its financial covenant and are also actively pursuing alternatives to raise additional capital and provide the company's liquidity and hope to have something to share with you on that front in the near future.

Turning to CapEx. During the first quarter, we spent just over $3 million on development CapEx due to the timing of payments for the work already performed at the Hilton La Romana, Hilton Playa del Carmen and our new Ziva and Zilara Cap Cana, and we spent just over $3 million of maintenance CapEx, given the strong start to the year and work done to fortify the properties before the pandemic and the temporary suspension of operations at our resorts. We're not expecting any significant development CapEx spend in 2020, and anticipate spending minimal amounts of maintenance CapEx as we move through this crisis.

Our forecasted use of cash does not include additional share repurchases as we have decided to suspend buyback activity for now. Based on the information we have today, and our current debt, we estimate the following cash uses while the properties are closed. Cash interest expense of roughly $5 million per month, property level cash burn of roughly $7 million per month while they're closed, monthly corporate cash burn of $2 million to $3 million a month, insurance premium of $7.5 million in Q2 that includes a down payment that is yet to be paid and $1.5 million per month thereafter, minimal CapEx. And so, in total, we estimate monthly cash burn in the high-teens millions under no revenue scenario.

Now turning our attention to our 2020 outlook. As previously stated, we withdrew our financial guidance for 2020 in March, following the extreme disruption to travel trends as a result of the COVID-19 crisis. We, currently, anticipate reopening selective resorts during the third quarter.

As Bruce mentioned, we are thoroughly analyzing a variety of determining information in real-time and will only open when we believe it is prudent. Based on our analysis, at a reasonable ADR, we believe we can achieve property level breakeven at occupancies in the range of 35% to 45%, inclusive of new COVID-19 safety operating protocol.

Furthermore, we do expect some upfront start-up costs relating to marketing, staffing, et cetera, as we begin to reopen our resorts. Our intent is to maintain pricing as much as possible as we believe and echo the sentiment of many others in our industry that the consumer will pay a premium for trust and safety. As we look ahead, as of the end of April, our revenue on the books for all segments is ahead of last year for November through September, with December only slightly behind last year. Our fourth quarter is currently pacing ahead of last year by roughly 5%.

Daily sales through our playaresorts.com began to turn a corner in April, showing nice improvement as the month progressed. As we mentioned before while this is encouraging, guests will need to be able to travel to the resorts, and there is always the risk of delayed cancellations given current 24-hour cancellation policies available in the market.

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

Bruce Wardinski^ Thanks, Ryan. Our first quarter performance, prior to the COVID-19 outbreak, was very encouraging across the entire portfolio, which gives us optimism that we will be a destination that people will want to return to once they deem it appropriate. My goal is to play offense on the sales and marketing front to highlight all of the attractive merits of our resorts and the brands we operate and to emerge as the clear leader in our destinations. Consumers will be willing to pay a premium for excellent service and offerings, and we intend to provide just that.

While there will be a myriad of challenges in the coming months and years, there will also be tremendous opportunities. We intend to take on the challenges and aggressively pursue the opportunities.

Thank you for your time and interest in Playa, and we will now take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Your first question comes from the line of Chris Woronka from Deutsche Bank.

Chris Woronka^ And thanks for all the detail in the prepared remarks. My first question was just kind of on how you -- when you think about reopening, is there a way to maybe reconfigure a bit to make more -- even more of a premium experience, maybe more cabanas, things like that where people can -- families can feel more distant and presumably pay a really higher rate for that? Is there anything you can do temporarily until things get back closer to normal?

Bruce Wardinski^ So first of all, Chris, thanks for being there, and thanks for the question. I hope you're doing well in this new world we're in. I think there's going to be tremendous opportunities for people to pay up -- as we said in our prepared remarks, to pay up for service. What we're putting in service, okay, in quality is safety. I mean it's really going to be -- the new world will be that people need to feel safe. Everybody's going to want to feel safe.

And so when you look at the footprint of our resorts, number one, open-air lobbies, wide expansive hallways, multiple beaches -- I'm sorry, multiple pools, wide beaches, lots of restaurants. We were never in the big pack-them-in buffet model that many of our competitors were using and still have. And it's going to be difficult for them to change from that. They're just going to have to have fewer people at the resorts. So our goal is, okay, partner with our brands, have the highest level of confidence for our guests that they're going to be, number one, safe; and number two, have a great time.

So to your point, can we upsell? Oh, absolutely. I think you're going to see families wanting cabanas. I think you're going to see more private dinners on the beach. Could be more in-room dining. We will not allow people at the buffets, they won't be self-served. We'll have a different model for that. There will still be buffets, but you'll point to things, and it will be served to you at your table by a server. We have the ability to space things out. Like I said, we have lots of restaurants. So I think people are going to pay up for quality, and quality includes safety and the confidence that they can go to one of our resorts have an outstanding time and go home and be safe, have fun and be safe, and that's what we're going for.

And partnering with our brands is going to be a big differentiator for us. Most of the people, as you're well aware, in our space, in the all-inclusive segment, don't have that brand awareness with the customer. And I think customers are going to be more discerning going forward, and we think that's going to be an advantage that really plays well into our strengths.

Chris Woronka^ Yes. So really good color, good points. And then kind of on the cost model side, obviously, there might be some incremental cleaning expenses, although you guys have done a lot more than most in the past. You want to keep service levels high. But do you think there may be reduced kind of personal touch cleaning kind of during the stay? So you might -- the business model might shift, but could it get more expensive, less expensive? Kind of looking out a little bit because people may just not want people coming into their room while they're there.

Bruce Wardinski^ Yes, I think absolutely, that's going to be the case. And that will be -- number one, is we will cut back on certain things we do while the guests are there during their stay. And then number two, people have the optionality to decrease it even more. And I think a lot of people are going to take advantage of that. It's not going to be just the, hey, don't wash my sheets or towels. It's going to be, don't come in my room for a week. And I think you're going to see some of that. And so we will provide that again make the guest feel at the highest level of confidence and comfort that we're taking care of them.

Amenity packages, a lot of things that we would do, just to make the guests feel welcome and special. Those are going to change too. People are going to be less interested in amenity packages and more interested in just the high level of confidence on safety and security. So we will focus on that.

I think from a cost standpoint, we are at a much better positioned than a traditional hotel. To your point, we already do a lot anyway. We're in labor -- lower labor cost markets. And things like cleaning an elevator, we're constantly cleaning an elevator to get sand and water out of the elevator. We'll just add to that wiping down the keys, things like that. But you're going to see, it's going to be very obvious the extent of the cleaning and safety. And the guests are going to see that, and I think they're going to be happy and be willing to pay more in order to get that.

Chris Woronka^ Great. And just a housekeeping question. Can you remind us how -- we're hearing that more and more travelers might elect to use their points this year because they don't have to worry about earning status and might be preserving cash and their personal -- for their personal use a little bit. But can you remind us how the point -- how using points work for you financially?

Bruce Wardinski^ Yes. It's a good solution. It's a good solution for the customer, and it's a good solution for Playa as well as the brand companies. So the brand companies have, as you're well aware, big liabilities of the point balances that they hold. From our standpoint, we've negotiated very fair terms where we feel very positive about people redeeming their points. And there is no better place to redeem your points than at an all-inclusive resort because you're not just getting the room, you're also getting the food and beverage.

So while they have to redeem more points, I think, on the cost-benefit -- from a cost-benefit perspective, it's much more attractive. So yes, we would be very happy if you had a large number of people, Hyatt and Hilton frequent stay members redeeming their points and saying, hey, this is a good time to do that, and we look forward to it.

Ryan Hymel^ And Chris, the only other thing I'd add is that while I'm now trying to compare this downturn to previous ones, having points and partnering with brands is not a tool that -- it's a tool that we did not have in our tool belt back in '08 and '09. And so we've talked about in the past as being a nice mitigant to future downturn. So we think that's going to bode well for us when the market start to reopen.

Operator^ Your next question comes from the line of Chad Beynon from Macquarie.

Chad. Beynon^ Ryan, you mentioned the breakeven occupancy at your portfolio is between 35% and 45%. But can you help us think about any margin recovery sensitivity? I know historically, you've run occupancies around 80%.So just trying to figure out how the flow-through might work as the revenues ramp? Are there any certain breakpoint occupancies that you really get additional leverage? Just trying to figure out how this could look as things return in the next 18 months?

Ryan Hymel^ Yes. So let's start at the bottom. So from an indifference point, while we think we can break even, inclusive of those additional costs in 35% to 45%, we're roughly on average, indifferent as to open or closed properties at about 15%. And so we take that into consideration when Bruce talked about clustering hotels, which hotels to open or combine or not. So we're going to think about that as step one.

And then, I don't know if Bruce mentioned, but I think the initial plan, just given this new social-distancing world is for at least the first couple of months or so, don't know for how long, but probably cap occupancies around 75% or so, just understanding that, that helps get customers back, allows them to pay a little bit more because they feel safer and secure given that there's not people on top of them.

And so for us, if you think about where we've had issues from margin in the last year or so, it's been in markets where the rates have been under pressure. You saw, in 2019, the

Yucatán Peninsula had a lot of supply coming in over the last couple of years and rates were down, but occupancies were still there. And so just stating the obvious, if you have the same amount of guests or more guests at a lower rate, that's going to put pressure on your margins because the variable costs come up.

So if you think about the steps to recovery and the steps that coming out of this, if we're for a short while, or at least at the interim and potentially forever, depending on how the world looks. If we're capping occupancies around 75%, 80%, but then still maintaining proper rates? I think that's actually going to help us quite nicely as we come out of this because you won't need the staff stating the obvious for a 90%, 95% full property. You can actually adjust staffing appropriately. So I think assuming the margins, assuming the recovery is gradual and continues to build momentum, I think you'll see nice margin improvement sequentially.

Chad. Beynon^ Okay. Great. That actually segues to my second question, just on rate integrity. You talked about strong pricing in November and December in the group business that's on the books. Some of your lodging peers have sold future dollars for discounts, others are giving away spa and upgrade packages for free. I guess, a 2-part or 1, do you plan on doing any type of those inducement packages? And then secondly, from a rate integrity standpoint, and it's probably early to tell. But what are you seeing from your 4-, 5-star competitors in your markets? Are they holding rates as well? Or are they starting to discount in the future?

Ryan Hymel^ Right. Right. So as far as group business, I mean the vast majority of our group business, we already recognized in the first half, it's actually fairly minimal for the second half of the year, which was nice.

Right now, what we've seen, while there has been a few cancellations, mostly its groups that just want to adjust and shift their timing. So we've managed to keep the deposit and just shift things over. Are there each individual unique cases where we've had to negotiate some additional incentive? Yes. But on the whole, just given that our destinations and our meeting facilities are world-renowned and just really, really highly coveted by meeting incentive planners, we've not had to do too much discounting there.

Compared to other peers, while we do, do considerable amount of group business at a few of our hotels, as an overall portion of our overall revenue, it's only kind of 10% to 12%. So group -- while it's helpful to yield, it doesn't make or break us one way or another.

As far as overall rate integrity, as Bruce mentioned, it's our goal. And right now, if you look at the pacing for Q4, our rate is actually higher than it was last year. I don't expect that would remain, just given that a lot of that business is coming through our direct channels, through our brands or through our own website. And now more than ever, we're excited about our decision to partner with brands and go to direct to the consumer. That said, we do expect that as the world starts to reopen, there will be some reductions in rate, particularly from some of the larger carriers that have 2,000 and 3,000 room properties as they're trying to stimulate more demand.

Normally, that would be not something we'd want but just given this new world, at least at the interim, if it stimulates demand, helps bring airlift back, I don't think, at the onset, it's the end of the world if there's some discounting in the market if it stimulates that demand. And at the end of the day, we'll always be able to outprice where the market is.

Bruce Wardinski^ And our goal is not to follow them from a downward spiral rolling rates. They have a different business model, they're going to have to do what they need to do. I really believe that the partnership with our brands and the quality level and what we can deliver is going to attract the customer. And people -- it's going to be less of a rate issue. I mean if you look back to '08, '09, it was much more of a rate issue.

I think with this situation, it's going to be a safety issue and a quality issue. And so our focus is going to be on delivering that experience to people because what you need to do is get them comfortable to go on an airplane, get them comfortable to go to your resort, and it's not going to be like, oh, we're just going to offer you less to come visit us. It could be a very different proposition, and that's what we're focused on.

Operator^ Your next question comes from the line of Tyler Batory from Janney Capital Markets.

Tyler Batory^ I wanted to start on the liquidity side of things. And I apologize if I missed this earlier on. Can you give us some high-level thoughts on some of the options you're looking at right now in terms of raising additional capital, whether that be more asset sales or other avenues that might be out there?

Ryan Hymel^ Yes. So we executed the announced asset sale, subject to closing, because, at this point in time, it was our best and lowest cost of capital for our shareholders and debt holders. And so it made sense to be able to do so in a very timely manner. And more importantly, it provides us with optionality and allows us to be more choosy for additional capital raises.

I've been asked, okay, with this additional $60 million, and based on your forecast, do you need additional capital? Maybe not. But given the fact that we don't want to keep coming back to the market. And because the markets are so uncertain right now, and no one can predict what's going to happen in the fall, if there's another onset of the virus. We want to make sure that we have enough liquidity to get through an extremely draconian scenario. So we are actively looking for additional capital and working on that, and we hope to be back very, very soon with some additional color on that. We have additional capacity in our debt baskets, and we're looking at a number of different sources.

To answer your question on additional asset sales, we have some. We announced on our last call that we had entered into an LOI on another asset that was not the 2 Jewel assets. And so that is an option. But right now, it's incredibly difficult to transact in this market.

And we feel pretty fortunate we're able to transact on the 2 Jewels. Those other assets are currently on hold, and I can't comment on whether or not we're going to be able to execute anytime soon on those. So right now, it's looking at other capital to make sure we have enough to get through any sort of draconian scenarios.

Tyler Batory^ Okay. Perfect. I appreciate that. And then my second question is on CapEx spending. You mentioned minimal levels. Just how much might you spend -- what are you going to spend money on? And kind of how long can you keep spending CapEx at such a low level?

Ryan Hymel^ Yes. So the good news for us is like 2/3 of our portfolio is either brand-new or heavily renovated in the last 3 to 4 years. Obviously, we have brand-new properties at tail end of this year. But even the Hyatts all opened at the end of '15, first full year they were open was 2016. So we feel good about the hundreds of millions of dollars we've spent over the last 4 to 5 years. And it allows us to be more flexible when it comes to the spending now.

I mean the 2 assets that we're going to be selling here in the next quarter, they had probably more deferred CapEx than any of the other assets in our portfolio. So just looking at what's left, we're able to operate at minimal CapEx levels. We're, obviously, not going to let the ball drop on anything live safety-related or stuff like that. Bruce likes to joke, it's impossible to retile a pool when there's guests at the hotel. So there's a few cases where we're doing things like that. But it's minimal recognizing that cash is king right now, and that's our focus.

Operator^ Your last question comes from the line of Smedes Rose from Citi.

Smedes Rose^ I just wanted to go back to your breakeven occupancy at 35% to 40%. So are you assuming kind of flat rates there to what you had been achieving? Or what sort of the underlying rate assumption for that breakeven?

Ryan Hymel^ No. We're -- it's what we're seeing in the market for kind of Q3 when the rates are down. There is, as Bruce and I mentioned, there's some competitive discounting in the market. We're not kind of following down the rabbit hole, if you will. But it's based on the market -- the ADRs that we have on the books and where we're forecasting. So it is not down as much as you would expect, just given our book position with the brands and our ability to yield. But it is down slightly from where we were pre-COVID, obviously.

Smedes Rose^ Okay. And then I just wanted to ask you, too, on the Jewel assets that you have under contract, are there any conditions for asset sales closing or any financing needs on the side of the buyer?

Ryan Hymel^ Great question. No financing needs, just customary closing conditions. They are going through it now. We negotiated a purchase and sale agreement in 10 days, first. And we hope that the closing is equally as fast, but we are looking to close it in the second quarter. And so we'll be more to come on that. But no, there are no outstanding issues other than customary closing.

Smedes Rose^ Okay. And then I think you had mentioned before, there's a small deposit that's already been put down on that. Is that refundable to the buyer?

Ryan Hymel^ No. It's nonrefundable. It was just $3 million. It was just 5%. So that's an escrow. It's nonrefundable unless there's something that we act in bad faith or something like that, which we wouldn't do, obviously. It's a good deal for both parties, and we're excited and proud to work with them.

Lu, I think that's all the questions.

Operator^ Yes. Please continue.

Bruce Wardinski^ Okay. Well, I just want to say thank you again to everybody. This is we've said that were unprecedented multiple times. I don't think you can say it enough. There is no game plan for dealing with a situation like this.But I think the team, from the corporate level down to the properties, is 100% focused on doing the right thing to protect our associates, to protect our guests, to get our business back up and running, and we think we're going to be able to do that in the very near future, in a very highly successful rate. So we look forward to being able to say more with things we're working on in the near future. And again, we appreciate your interest. Thank you very much.

Operator^ Ladies and gentlemen, this concludes the conference. You may now disconnect.