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PRESENTATION

Operator

Ladies and gentlemen, hello and thank you for standing by. Welcome to Playa management's third quarter earnings conference 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 host, Mr. Ryan Hymel. Thank you. Please go ahead, sir.

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

Thank you very much, Jenna. Good morning, everyone. Welcome to Playa Hotels & Resorts Third Quarter 2019 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 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 we filed at the end of February with the Securities and Exchange Commission.

We've updated our Investor Relations website, at investors.playaresorts.com, with today's presentation and recent releases.

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

On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide some comments on the third quarter and key operational highlights. I will then address our third quarter results and 2019 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 it over to Bruce.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Great. Thanks, Ryan. Good morning, everyone, and thanks for joining us. We appreciate your interest in Playa.

I'll begin today by reviewing several of our third quarter strategic accomplishments and then give some high-level thoughts on the operating environment as well as give an update on our near-term initiatives and outlook. I'll then turn the call over to Ryan to discuss our third quarter results and our 2019 outlook in more detail.

Before we dive into the results, I'm pleased to share that last week we opened the highly anticipated Hyatt Cap Cana, and we are rapidly approaching the unveiling of our 3 newly remodeled and rebranded Hilton all-inclusive resorts, totaling over 1,200 rooms. A very big thank you to all of our team members and associates for their hard work and dedication to making these fantastic properties a reality. We highly encourage everyone to go see these iconic properties, as they will be key drivers of Playa's success for years to come.

Now turning to our third quarter results. At a high level, our third quarter fundamentals were encouraging across the majority of our portfolio. Similar to last quarter, we saw robust top and bottom line trends out of Jamaica and the Pacific Coast, as both segments benefited from strong group business performance in the quarter.

In the Yucatan, RevPAR was largely in line with our expectations, with fundamentals that we hope are beginning to stabilize, primarily as a result of improved perception around safety, security measures in Playa del Carmen. In addition, the Sargasso situation greatly improved, as the seasonal shift in currents has largely alleviated the problem.

We also continue to grow direct bookings and are confident that we are on target with our 5-year plan to increase consumer-direct business to at least 50% by 2023. In aggregate, during the third quarter of 2019 23% of our Playa-managed room nights stayed were direct, up 620 basis points year-over-year, and 29.4% of room nights booked were direct, up 470 basis points year-over-year. Moreover, our loyal direct customers also tend to have a higher ADR, as they represented 33.5% 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, the Hyatt Ziva 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 will serve to boost bookings at our other group properties, the Hyatt Ziva Los Cabos, the Hyatt Ziva and Zilara Rose Hall and, to a certain extent, the Hyatt Ziva Cancun, because we will 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.

We are pleased to report Hyatt Ziva Los Cabos showed strong growth in the third quarter. As we previously discussed, Q1 '19 marked the low point for group business at this property. Based on the current group calendar, we do not expect Q4 results to be similar to what we reported in Q2 and Q3. But looking out to 2020, MICE business on the books plus advanced negotiation group business in the pipeline at the end of the third quarter should translate to modestly positive RevPAR growth in 2020. For the portfolio as a whole, our MICE business booked for all future periods is up mid-teens year-to-date versus the same time last year.

As we look to 2020, we continue to expect a sizable ramp in our free cash flow generation as our newly renovated Hilton properties come online along with contribution from the brand new Hyatt Ziva and Zilara Cap Cana, partially offset by increasing uncertainty with respect to the shape of the Dominican Republic recovery, which I will address in more depth momentarily.

But before I discuss the situation in the DR, I'd 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 more growth.

In early March, 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 also 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 anticipate rolling it out to the remainder of our owned portfolio during Q4.

During the third quarter we expanded the advanced sales offerings to include airport transfers across the entire portfolio. Ultimately, we expect these nonpackage revenues to be at least as large as the rooms upsell piece. We therefore anticipate it will be a driver of EBITDA and guest satisfaction in Q4 and as we enter peak season in 2020.

During the first quarter we launched the next evolution of the Playa Resorts website, which contains a portal on which travel agents can now make commissioned reservations directly on playaresorts.com without having to go through a tour and travel operator. This effectively removes a layer of costs that previously existed, saving Playa roughly 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.

We are live with the ability to book hotel rooms and are in the process of negotiating a solution for bundling air and, of course, all the ancillary services we mentioned earlier.

To date, travel agent bookings via our website have been in line with our modest expectations, as in our view the real growth potential is in 2020, once agents can book a commissionable end-to-end vacation inclusive of air, ground transportation, excursions, suites, exclusive dinners and luxury spa appointments. As of [October] (corrected by the company after the call) 1, playaresorts.com is pacing ahead of our expectations, with $52.3 million of gross revenue on the books for 2019, versus only $9.7 million in 2018. For 2020, playaresorts.com has $13.3 million of gross revenue on the books booked in 2019, versus $3.9 million during the same period last year.

Let's turn now to the rollout of our new yield management system. We went live with our first property in Q1 and expanded into 2 more properties during Q2. We made further progress during Q3 and are aiming to get the system rolled out to the majority of our owned hotels by the end of Q1 2020.

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 [for] 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.

To round out our technology initiatives, we will be launching a new CRM tool in Q4 to facilitate better communication and more effective selling of ancillary products to our guests. We'll provide more details on that next quarter.

Now I'd like to turn to the situation in the Dominican Republic and the market recovery there that is progressing slower than we had anticipated, which is the primary driver of the change in our outlook for the near term.

In the third quarter we experienced a 30.8% drop in comparable RevPAR and a $1.2 million loss in EBITDA in the DR, both of which were in line with the expectation shared with you on our last earnings call. Given the fluidity and importance of this market for us, we want to be as transparent as possible to help you with your models. Ryan will talk more about the impact we expect to see, going forward.

The last time we spoke we mentioned that our branding strategy was being validated by the market in the form of a roughly double-digit RevPAR divergence between the Hilton La Romana and our 2 Dreams properties in the DR. Although Hilton La Romana has continued to book at a healthy pace in light of current market conditions, the pace of bookings for our nonbranded hotels, which are managed by a third party, slowed in September much more than at our branded hotels, resulting in the spread between our branded and nonbranded hotels increasing by an incremental 20 percentage points, as the broader market has not recovered as we envisioned.

Although we are hopeful that this spread will tighten, especially as the DR market recovers, our expectation is it will continue in the near to medium term. Ryan will give more details, but the situation in the DR will continue to impact near-term results.

On the share repurchase front, during the third quarter we repurchased approximately 846,000 shares outstanding at an average price of $7.54 per share, for $6.4 million. Between October 1 and October 31, we repurchased an additional 139,600 shares at an average price of $7.74. Since program inception we have repurchased a total of approximately 1.5 million shares at an average price of $7.62, or almost $12 million.

In conclusion, while the industry continues to experience certain headwinds, particularly in the DR, we are encouraged by what we are seeing and continuing to push forward on our strategic priorities of opening high-return projects and returning capital to shareholders.

We are confident that our increased sales efforts around newly opened properties, our cost reduction initiatives and our refocused sourcing of demand are helping us realign and reposition for long-term growth. We will continue to control what we can control and do our best to manage external factors outside of our control.

With that, I'll turn the call back over to Ryan to discuss third quarter results and our 2019 outlook.

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

Thank you, Bruce. Good morning, everyone.

Adjusted EBITDA in the quarter was $15.8 million, representing a 39% decrease versus the same period prior year. As Bruce mentioned, strong group performance in Jamaica and Cabos were the bright spots in the quarter, with the Yucatan and the DR in line with the expectations we outlined on the last call.

Comparable net package RevPAR decreased 2.7% during the quarter, on a 160-basis-point decline in occupancy and a 70-basis-point decrease in rate.

Excluding the Dominican resorts, comparable resort-level EBITDA margins expanded by 140 basis points, reflecting the flow-through of the top line performance in Jamaica and the Pacific Coast.

Comparable net nonpackage revenue, excluding the DR, was up 8.5% in Q3, and total net nonpackage revenue was up 2.1%.

Now turning to the Yucatan, comparable net package RevPAR declined 5.5% in the quarter on a 6.3% ADR decline and roughly 80 basis points of higher occupancy as the market continues to bounce along the bottom following the introduction of new supply in prior years.

Comparable owned-property-level resort EBITDA in the region, which reflects both Cancun and Playa del Carmen, decreased $1.4 million, or 9.4%. Hyatt Ziva Cancun was again the standout in the segment this quarter, driven by excellent margin management.

We continue to expect comparable RevPAR in the segment to be down mid-single digits for the year on a comparable basis.

On the Pacific Coast, net package RevPAR increased 9% versus the same period last year, driven by almost 4% increase in package ADR and a 3.6-point increase in occupancy. Owned-resort EBITDA increased $1.6 million, or 57%, versus the prior year, driven by the strong RevPAR performance flowing through to the bottom line.

The combination of strong RevPAR growth and disciplined cost controls by a recently realigned regional management team in Mexico led to 810 basis points of margin expansion on the Pacific Coast on an as-reported basis.

Now turning to Jamaica, where our performance continues to be absolutely stellar. Our flagship Ziva and Zilara Rose Hall continued to post strong gains and impressive returns following the completion of the remodels in 2017 and are a very good example of the long tail and EBITDA growth we hope to see at our new Cap Cana properties.

Comparable net package RevPAR in Jamaica increased just under 8%, and property-level EBITDA increased an impressive 30%. As a reminder, the Sagicor portfolio was folded into the Playa portfolio in June 2018 and became comparable in our results in the third quarter of this year. The one exception is the 88-room Century Tower, which was not open in 2018 and, therefore, will not be comparable until 2020.

The results at our Sagicor portfolio continue to meet or exceed our expectations, with property-level EBITDA of at least $28 million a year. In the third quarter, the Sagicor portfolio posted a RevPAR gain of over 3%, and we're incredibly proud of the work the teams are doing in Jamaica and we're thankful for the ongoing partnership with Sagicor.

Now turning to the Dominican Republic. We will again try to give you as much information as we can to help you with your models and give you better visibility into our outlook.

For the quarter, comparable net package RevPAR decreased 30.8%, driven by a 19.7-point decrease in occupancy and an 8% decrease in ADR. Comparable EBITDA margins compressed 18.6 percentage points on the RevPAR declines, as we are not able to cut costs commensurate with the revenue drop, given the abruptness of the revenue decline.

In addition, the recovery of the DR market has not been as uniform as we expected. The recovery began to slow down at the end of September, and it's currently unclear if this is specific to the Dominican or part of the broader travel slowdown which many of our competitors have touched on during their recent conference calls.

We remain very confident in our position at the Hilton La Romana and the Hyatt Cap Cana, but are very cognizant of the risks posed by a slowing market as well as the potential for package rate discounting by peers in the market. To be clear, we're not seeing this today; we are merely highlighting incremental caution to provide transparency into our current views.

We expect Q4 comparable net package RevPAR in the DR to be down mid-30%s. That reflects a material change in expectation from our nonmanaged, nonbranded hotels, Dreams Punta Cana and Dreams Palm Beach. These large properties total over 1,100 rooms and in 2018 recorded $25 million of combined resort EBITDA, and they produced $16 million of resort EBITDA in the first half of 2019. The EBITDA drag from these 2 hotels should not be as severe in the first half of 2020 compared to the second half of 2019, even if we were to assume the same RevPAR declines, given the high season ADR and RevPARs are 50% higher than traditionally in low season. That said, we'd still like to exercise caution, given the uncertainty at these nonbranded resorts and the broader market slowdown.

I want to stress that we're extremely disappointed to be revising our outlook once again but feel this is the prudent course of action given the circumstances. The gravity and difficulty of the situation is why we gave as much color on our exact trends as we did last call, so you were armed with the same set of data that we were.

At the time, we had seen a swing of 30% in RevPAR for the third quarter and what we thought was going to be the depth of the crisis, given that in Q4 we'd only seen a 20% swing and the trends were showing improvement. We had enough cushion to withstand further deterioration but did not foresee the material drop-off in Q4 at the nonbranded portfolio, given the strength we were seeing in real time at the Hilton and at the Hyatt.

Our current estimate of down mid-30% RevPAR in the fourth quarter reflects a 45-point swing from what we were expecting in early June prior to the crisis.

Our baseline assumption, moving forward, is that we'll see no improvement in the current trend of business in the nonbranded properties until we begin to lap significantly easier comparisons.

So now let's take a look at our booked position at the Hilton La Romana and the Hyatt Cap Cana. Keep in mind that neither property existed in the same capacity in Q1 of 2019.

Hilton La Romana is currently 43% booked for January 2020 at an ADR blended of around $230. This compares to 60% booked at Panama Jack Cancun, 52% at the Hilton Playa del Carmen and 55% at Hilton Rose Hall. Moreover, we're particularly encouraged by the trends at the Hilton La Romana adult hotel, which finished its renovations 4 months ahead of the all-ages side of the property and is pacing ahead in occupancy by almost 20 percentage points. The La Romana adult hotel is currently 54% booked for January, in line with much of our portfolio, which is incredibly encouraging.

We continue to believe the best strategy for premier assets like Hilton La Romana and Hyatt Cap Cana is to maintain rate integrity to support a multiyear ramp in EBITDA, similar to what we saw at Ziva Cancun and what we're seeing today at the Hyatts in Rose Hall.

Now turning to mix and sourcing. We continue to be validated in our belief that partnership with Hilton, like we've seen with Hyatt, will be transformative with respect to customer sourcing. During the third quarter, 22% of the room nights stayed at Hilton La Romana were booked direct, versus less than 5% during the third quarter of last year. And similarly, Q2 and Q1 of 2019 were also 27% and 13% booked direct in stays, respectively.

We also made the wise decision to pivot to more European sourcing for the DR following the events in June. As a result, our European-sourced business has improved from 32% in the first quarter to 45% in August and September of this year. We believe this sourcing pivot will prove to be an integral decision factor in our first half 2020 performance, because even though this is lower-rated business it will give us a base to yield up close-in bookings as demand normalizes.

Now turning to the Hyatt Cap Cana, which is currently 31% booked for January at a blended rate of over $350. We expect a significant ramp at Cap Cana now that the property is open and have highly targeted sales and marketing plans lined up in the near term to facilitate this ramp.

Similarly, we have seen a material ramp in sales at the Hilton La Romana adults hotel following the completion of that renovation.

With respect to group bookings at Hyatt Cap Cana, the property is tracking just under 2x the pace of business versus other group-oriented hotels at the same point prior to their opening. For reference, the group pacing is modestly below where we were last quarter.

Despite our best efforts, the significant change in our RevPAR expectation for the segment was too large to overcome. We therefore expect EBITDA to be slightly negative again in the Dominican segment in the fourth quarter.

So in summary, first, based on the data we have from our own portfolio and what we're seeing in the market, the DR recovery began to slow toward the end of September.

Second, our branded properties have significantly outperformed our nonbranded properties as the RevPAR spread between the Hiltons and the Dreams has widened to over 30% since the beginning of the events in June.

Third, we're optimistic that as we head into 2020 based on the booking ramp we're seeing at Hilton La Romana and Hyatt Cap Cana, specifically, the performance of the adult side of the Hilton complex, following the completion of the renovation, which has added 14% more occupancy than the family side since the renovation completed.

Fourth, we shifted our focus towards European market for sourcing in La Romana, which helped offset some of the choppiness in the DR market.

Fifth, the 2 Dreams properties in the DR had a solid first half of 2019, which presents some risks to our first half 2020 results. But the profit impact should not be the same magnitude as in the second half of 2019, given the high season ADR premium.

And sixth, the corresponding EBITDA impact was again exacerbated by the fact that Hilton La Romana is still in the midst of its renovation.

With all of this in mind, we believe it's prudent to exercise caution as we head into the high season, given the overall market weakness and the potential for competitive discounting by peers as they attempt to fill rooms and do not have the benefit of powerful loyalty programs like Hyatt and Hilton, which benefits Playa greatly.

Given our more cautious RevPAR outlook for the DR market, we think the appropriate range for Year 1 margins at Hyatt Cap Cana is something in the high-teens to low-20% EBITDA margins. And at Hilton La Romana, we feel comfortable we can achieve low- to mid-20% EBITDA margins, even in a more conservative RevPAR scenario.

We hope this helps you with framework of what we've seen and why we're hopeful as we look forward to 2020 and beyond.

Before we move to the balance sheet I want to quickly address the impact we saw from the bankruptcy at Thomas Cook, a longstanding travel partner. We wrote off approximately $800,000 because of this bankruptcy. The stresses on their business were well telegraphed. So appropriate measures have been taken proactively on our end. But we're still impacted by the bankruptcy, mainly from the collecting on receivables. The business on the books during the fourth quarter was less than $300,000 and, in 2020, roughly $500,000.

Turning to the balance sheet and cash flows. As of September 30, we had just over $28 million in cash on hand and $0 outstanding borrowings on our revolver.

To date, we have spent just under $250 million inclusive of land on our ground-up Hyatt Ziva and Zilara development in Cap Cana. Over the balance of 2019, we anticipate spending approximately $27 million or $28 million in total CapEx, which includes approximately $10 million to complete the 2 Hilton conversions and $12 million in final payments to finish Ziva and Zilara Cap Cana as well as roughly $5 million for maintenance CapEx.

Our forecasted use of cash does not include additional share repurchases, as they depend on market conditions and other factors and may be commenced or suspended from time to time. We'll of course update you on that front on a quarterly basis.

We expect our net leverage will briefly hit its peak in the high 5s or low 6s during the fourth quarter and, more importantly, in the low 4s if you adjust for the construction and progress at Cap Cana. We expect to delever quickly in 2020 as these assets come back online, and we think adjusting our leverage levels for these significant investments in our properties is very appropriate. As a reminder, in March of 2018 we locked LIBOR at 2.85% on $800 million of our debt, or 81%, through March of 2023.

Now quickly turning our attention to 2019 outlook. As we discussed, all of our previous line item and segment commentary largely remains the same, and the aforementioned DR commentary is clearly incremental, which gets us to our new EBITDA guidance of $150 million to $153 million. This new range reflects the impact of the slower Dominican Republic recovery and the $800,000 write-off from the Thomas Cook bankruptcy.

Our forecasts are again predicated on low-single-digit airport arrivals, on average, across our portfolio, low-single-digit supply growth in the Yucatan, limited supply growth in Jamaica and the DR and a spike in high-end supply in Cabos last year and similar weather conditions to last year.

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

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Great. Thanks, Ryan.

Our third quarter performance continued to build off solid fundamentals in Q2, led by the group performance in Cabo, ongoing exceptional strength in Jamaica and a laser focus on cost controls throughout our portfolio, offset unfortunately by the situation in the DR, which we believe is recovering, albeit at a slower pace than we had originally anticipated.

In addition to the fundamentals, behind the scenes we've gone live with several new technology initiatives aimed at increasing the value engagement and level of satisfaction we offer our guests and travel industry partners alike, while at the same time enhancing returns to our shareholders.

We capitalized on the dislocation in the market price of our shares relative to our view of their long-term intrinsic value to reinvest in our company by repurchasing our shares while being very prudent with our balance sheet.

Before we move on to Q&A, I would like to summarize the short-term situation that Playa is facing and the steps that we are taking to mitigate any negative impact and maximize shareholder value.

Even though we are currently seeing pressure in the Dominican Republic, there is no fundamental problem with the destination or our hotels there. Rather, it is just the opposite. In my long experience in the hotel business this situation will play itself out sooner, rather than later, and we will be able to benefit from the strategic investments we have recently made. While I am confident in the health of the market, we will not sit idly by in the interim.

I want to reiterate that, one, despite current market conditions we are optimistic about our fresh new properties in the DR and their ability to outperform, given their high direct sourcing and premium RevPAR, and most importantly, the inflection in our free cash flow in 2020. We continue to expect our free cash flow will be very sizable in 2020, with the roll-off of nearly all of the 2019 CapEx. We plan to continue returning capital to shareholders while trends in the DR normalize.

Two, as many of you have surely seen, there has been significant attention and interest recently in the all-inclusive space with Marriott's recent announcement of their development deals and the purchase of the all-inclusive company, Elegant Hotels. As well, there is a purported sale of a large portfolio of all-inclusive assets.

We are not surprised at the level of interest in the all-inclusive segment, given the growth potential that exists in this segment of the lodging industry, the returns that can be generated and the white space. We view this as a positive development for possible partnerships in the future.

This is a very exciting time in our industry and firmly believe we are in the early innings of a steep growth curve and, given our expertise and high-quality portfolio, we are going to be a key player in shaping the industry.

Three, we have decided to move forward with potentially unlocking value via asset sales and have engaged brokers to facilitate some of the processes. But given the sensitivity of the situation, we will not give any color on size, specific assets or timing.

We will be actively working on these areas while continuing all of our operational initiatives to improve top line sales, bottom line profits and deliver high guest satisfaction at all of our resort properties. I can assure all of our investors that my #1 focus is to maximize shareholder value.

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

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

Jenna, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Chris Woronka, with Deutsche Bank.

Chris Jon Woronka ***Deutsche Bank AG, Research Division - Research Analyst***

Thanks for all the data points. Really helpful to help us try to navigate all this. So I guess, Bruce, maybe a good place to start would be just what you guys know about the status of some of those investigations in the DR and what the FBI has come out with and what they've been able to share with the public and your view on whether there's an appropriate level of information out there.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Sure. Thanks, Chris. Unfortunately, there's not really an appropriate level of official information out there. So I'll be careful in saying what we can say, because unfortunately it's not public information.

The media has come out and reported, and these are diverse media sources such as The New York Times and Fox News and others, that the FBI had concluded their investigations and that alcohol tainting, methanol poisoning, was not a source of the deaths. So that's been publicly reported.

So when you look at that, then why hasn't there been an official report? And what the State Department came back with, and particularly the embassy, the U.S. embassy in the Dominican Republic, was that the FBI report and investigation was incomplete, wasn't complete. And so that's left this question about, well, what is going on and why hasn't it been reported.

So what we have heard from good sources is that of the 9 cases that were being investigated, 7 have been concluded, another one was concluded -- 7 were concluded prior, another one has been concluded this week, and that there's one more left to go. And then the report is, all we can say is what you've seen in the media, which is that it was not linked, that it's reported it was not linked to anything other than natural causes that are going to be reported.

What we hope is that this final case gets resolved as quickly as possible, the FBI can announce complete official results, the State Department will make an announcement and then hopeful that the Dominican Republic government through their sources and the PR firm they've hired will really get this information out so that it's obvious to guests, to our consumers.

As you know, in the kind of 4 weeks where there was this media frenzy the stories were out there repeatedly every single day, and they got a lot of coverage. Definitely, whatever the resolution of the FBI reports are going to be, it will not get that level of media coverage, but we're hopeful that we can at least get it out to industry sources and travel sources so that we can put this behind us.

In some ways I look at this situation akin to what happened, for example, in Paris when they had the terrorist attack or other single events. The unfortunate thing for us is that there wasn't an event, that I think it's going to come out that this was all really unfounded, the stories were unfounded, not based on any kind of facts. And we hope that that information comes out soon so that we can kind of move on from here.

But that's all I could say. I wish I could say more. But based on what is out there officially that's all we can say.

Chris Jon Woronka ***Deutsche Bank AG, Research Division - Research Analyst***

Okay. Fair enough. And then just kind of follow up on that, Bruce. In the Dominican it sounds like the Hilton, the La Romana and the Cap Cana are definitely getting some decent momentum heading into 2020, but obviously your nonmanaged stuff is trailing. Is there a Plan B, Plan C, Plan D there in terms of things you could do, whether it's temporary closures or other things? What are all the options that are possibly on the table if this thing carries out further than you think?

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Well I think, so first of all, I think I just want to reemphasize the points that Ryan made about and that you just made, Chris, that we are doing incredibly well/better at our branded resorts. And I think that just validates our strategy, which is that we're going to work with major brand partners like Hyatt and Hilton and go direct to the consumer in our sales efforts so we can get more direct business, we get better ADRs, we have lower costs to get that business. And it's proven itself out. So that's the really positive news which gets lost, I think, somewhat in all this DR situation.

Unfortunately, on the 2 other hotels they don't have the same power that we have with our brand partners and with our resorts. So they are lagging behind.

You talk about Plan B. Going into the high season they will generate positive results. As Ryan said, we have a different rate dynamic in the high season. So you won't see the same EBITDA impact, negative EBITDA impact, that you saw in Q3 or you would potentially see in Q4 that you'll see in Q1 and Q2 of next year. So I would not even envision shutting them down, because we are going to get positive free cash flow generated from those resorts even if the current trends continue. So I think that's going to be incredibly positive.

Beyond that, we could always evaluate it. I don't, I personally just don't see this continuing beyond that. But I think in the first half of 2020 we're going to be impacted at those two, in particular, and we'll do the best we can to manage costs with our management company there, our third-party manager there.

At our other resorts, what you always see when a property is under construction, like Hyatt Ziva, Zilara Cap Cana or the all-ages Hilton La Romana, is the bookings really hold back until the customer is confident that the property is open and it's kind of at the quality level that they're anticipating. Our Ziva Zilara, our Cap Cana Hyatt project looks fantastic, and we're open and we're finishing out some final little things and will be completely open in a couple of weeks with everything.

And so I think you're going to see very positive momentum, going forward, as guests are staying there, they get reviews out on social media and then the bookings pick up. And that's what Ryan was highlighting earlier that we've seen with the Hilton La Romana adults, where that is pacing way ahead of the all-ages because it's been open longer. And the guest experience is fantastic. So I think we're going to see that.

So even with kind of the storm clouds over the DR, I think working with Hyatt and Hilton, and they're just great partners and they're pulling out all the stops, I think we're going to do better at those branded properties.

Chris Jon Woronka ***Deutsche Bank AG, Research Division - Research Analyst***

Okay. Great. Just one more for me, which is on kind of switching over to the Yucatan. Do you think, and you might want to split your answer between Cancun and Play del Carmen, but do you think there is broadly more stability there now as you look at bookings? And there's obviously fortunately not been a lot of negative news flow, and there has been more supply, but it seems like maybe some of the trends are normalizing. Is that generally a correct assessment? Or what do you see, looking out?

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Yes, I think it's generally correct. And like you said, we'll split our answer into the two. So in Cancun, in the Cancun market, specifically, it's definitely better. So they're more stabilized, and I think we're getting traction at our resorts there.

In Playa del Carmen, you have 2 factors. One is that market is still a little softer than up north in Cancun and the fact that our Hilton Playa del Carmen is still in the midst of the renovation. So again going to my point about until the renovations are 100% complete, you don't really get the full positive impact of the new bookings. That's what we're facing. So I think we face a little more softness in the Playa del Carmen market, particularly at the Hilton, but I think once we get that renovation done in December that should start to swing the other way, too.

Operator

Your next question comes from the line of Smedes Rose, with Citi.

Smedes Rose ***Citigroup Inc, Research Division - Director & Senior Analyst***

I wanted to just ask a little bit more about the Hyatt Cap Cana. In your sort of prior quarters you had talked about maybe ways of thinking about the first-year return on that property, which was more as a return on the investment and kind of thinking about the first year as being kind of halfway there in maybe a 2-year ramp-up. I think that's a fair paraphrase. So given what you've just said today, that you expect the margin there to be in the high-teens, low-20s and the initial rate that you quoted for January, can you help us kind of tie that back to maybe we should think about those first-year returns on the property, since it's such a big part of your 2020 growth story?

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

Absolutely. What we had said previously is that it's traditionally a 3-year ramp. Year 2, I think is what you meant. Year 2 is the biggest jump traditionally when it's a new product opening. And the one we've used kind of as our guide has been the Ziva Cancun. So that property in its third year did $35 million of EBITDA. In its first full year open it did $16 million. So it did a little less than 50%.

So going to your point, yes, mid- to upper-teens return on a stabilized basis, which we still feel very, very confident in our third year, would imply in the first year if you followed that kind of same guide somewhere in kind of the mid-teens of EBITDA, of actual absolute EBITDA dollars.

And so the message we have tried to get across in this is, yes, we're comfortable with where our assets are booking, but there is this broader market potential for risk and potential for the market or the neighborhood and its potential for competitive discounting to pull down our resorts.

So could you expect that maybe instead of the mid-teens of EBITDA you're the lower teens? Potentially. But we're still pretty comfortable with the fact that that hotel is going to produce meaningful EBITDA for us. And our projections all along have never been for regular, average occupancies or rates; we've been projecting a traditional 3-year ramp.

So I think the risk is less at that hotel for underperformance from what we thought before, purely because we did not expect it to do 85% occupancy in the full year. If there's a bigger risk of slower growth in Year 1, it would be at the La Romana asset.

Smedes Rose ***Citigroup Inc, Research Division - Director & Senior Analyst***

Okay. Well that was my next question. You've talked about displacement in 2019 of I think around $25 million of EBITDA from those 2 assets under renovation. Do you, would you -- and it seemed like in prior commentary again that you had expected almost the bulk of that to come back in Year 1 of the reintroduction of those properties. Do you, would you expect maybe kind of a slower ramp there, given maybe some weakness in Mexico, over all, for a number of reasons that you guys have touched on? And then of course slower expectations in the DR?

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

Definitely in the DR, certainly just because of the broader market slowdown and everything I just said for the potential for competitive discounting.

I think in Mexico I think there's still a good chance you get it back. But given what Bruce was talking about, that what we have seen is some strengthening in Cancun and the Playa del Carmen Riviera Maya market has continued to struggle. So there is potential for that not to get all of it back in the first year, but that one still has a possibility of actually achieving it. But the one in the DR, the Hilton La Romana, is the one where I think there's a greater risk.

Operator

Your next question comes from the line of Patrick Scholes, with SunTrust.

Charles Patrick Scholes ***SunTrust Robinson Humphrey, Inc., Research Division - MD of Lodging, Gaming and Leisure Equity Research and Analyst***

Guys, I'd like to just inquire about your thoughts on Marriott's investment in Barbados and how you think about the pricing and valuation for what they purchased versus your portfolio in the Caribbean.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Sure. I'll say this. Number one, I don't have all the details about the transaction. Ryan can maybe give a little more color about the CapEx situation, deferred CapEx, et cetera. But I think just from a very high level perspective it bodes incredibly well for our portfolio of what the value of all-inclusive resorts are, number one.

Number two, if you look at the location of our properties, the size of our properties, the newer age of our properties, quality level of our properties, again I think it bodes incredibly well for Playa versus what they've done there with Elegant.

But just from a macro standpoint I think the fact that Marriott came out and said that they have a high level of guest demand for all-inclusive resorts and it's an important segment for them to be in and they've made now multiple announcements about different transactions, not just the Barbados one but future deals in Mexico and the Dominican Republic that will be coming online in 2022 to 2025, I just think it shows that this is a segment that's incredibly attractive to the lodging customer, the lodging brands, and that bodes well for us.

But Ryan can maybe give more detail on the economics.

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

We know that portfolio well, and we looked at those assets. Based on our estimates -- so I think Marriott came out and said they were buying it for around 10x, but with the deferred CapEx that number is over 11.5x and closer to 12x by our estimate. So I think that fits exactly what Bruce just said.

Operator

Your next question comes from the line of Tyler Batory, with Janney Capital Markets.

Tyler Anton Batory ***Janney Montgomery Scott LLC, Research Division - Director of Travel, Lodging and Leisure***

So I just have a couple of follow-up questions on the DR. And the first one I had is you mentioned trying to get some more European business. So can you expand a little bit more on that? How exactly are you able to drive visitation from those customers? And is it possible that you could offset most of the lost demand from the U.S. with travelers from overseas?

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Well let me say, first of all, the Dominican historically was a very strong European customer destination. Okay? So before really it was even on the map with American consumers it was popular for decades with Europeans, and there remains a very strong following from Europeans.

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

In the summertime, traditionally it's 60% European in the summertime.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Yes. And so there's a lot of people with a long history, European customers, going to the Dominican. So that's first. So you're not starting, like, trying to create demand; the demand exists. Okay? That's the point I wanted to make there.

The second point is, how do you sell it? You sell it out of the same distribution channels that we do, both direct, okay, with Hilton and Hyatt who have greatly increased their presence in the European markets and they're able to sell as well as playaresorts.com and with the networks that we have established in Europe to sell our resorts, because we do sell and have been selling, particularly in the DR, in the past and then through other channels, through tour operators and others that we have a relationship with. So that's how we're going to do it.

Your final part of the question is, can we replace 100% of the lost business from the U.S. consumer? The answer is it depends or potentially you could. The issue is going to be it's a rate differential. Okay? So the rate that an American consumer is going to pay is significantly higher than that rate that the European customer is going to pay.

So could we replace it? Oh, yes, we could replace 100%, or more. It's just going to be the trade-off between occupancy and rate. So we will look at it to maximize the yield on that shift in business and do the best we can, and part of that is the customer acquisition cost of that business.

So we are incredibly focused, as Ryan gave you some points. In the recent weeks we have increased our European business and we will continue to, just it will have a RevPAR impact because it is going to come in at a lower rate than the lost U.S. business. That's the point I wanted to make.

Tyler Anton Batory ***Janney Montgomery Scott LLC, Research Division - Director of Travel, Lodging and Leisure***

Okay. Okay. Perfect. That's helpful. And then just to follow up, can you talk a little bit more about what the competition is doing in the DR, how are they reacting to the market softness, and help us judge the potential that the competition gets more promotion? Is that part of your expectation right now? How do you think about that potential risk?

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

I'm sorry, the potential risk of...?

Tyler Anton Batory ***Janney Montgomery Scott LLC, Research Division - Director of Travel, Lodging and Leisure***

Of discounting.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Discounting. Gotcha. Okay. Yes. There's definitely going to be discounting. Okay? We're seeing discounting by the market, by our competitors, and I think you will continue to see the discounting.

The problem that they face is they essentially have 1 channel through which they sell their properties. And so if all of the customers going through that channel see one competitor drop their rates significantly, then it creates a competitive dynamic that they all do. So we face that, to a degree. Okay?

Now the reason I think you're seeing this widening gap that we're so much higher and they're so much lower is because we have multi-channels. Okay? We have multi-channels and we have just kind of the quality, the affiliation with the brands and how we do things.

So I think the market will remain kind of soft to the degrees we just talked about for Q4 and into Q1. I do believe, like always, these things don't go on forever, as I put in my prepared remarks, and you will see that it will start to improve. The best catalyst for really getting improvement would be if we get a conclusive report from the FBI, the U.S. government makes a statement and the Dominican government goes out aggressively to promote that information and to get more U.S. consumers coming back, to relieve people's concerns. So that's the #1 goal that we're hoping to achieve. And from what we hear, that could be in the near future, and we hope that that's the case.

So I think there's ways for us to continue to have a much better performance than the market, over all. And then hopefully the market, over all, will improve quicker than what we've been saying today if the reports come out and they can get some traction back from the U.S. consumer.

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

And Tyler, I can give you a couple of extra data points that weren't in the prepared remarks. So you heard us say that our Hilton La Romana is 43% booked, and that represents -- now I get it, that the Hilton La Romana is not an apples-to-apples comparison with the Dreams properties that are open and stabilized, but I just wanted you to have this. So the Hilton La Romana is 43% booked for January, and that's roughly 5 percentage points behind prior year's occupancy. And the kind of gross revenue on the books is roughly 10% behind prior year.

The 2 Dreams have 35% and 51% occupancy on the books, but that is 27% and 12% down to prior year, and their revenue on the books right now is over 30% to prior year. It won't stay that way. Like, I won't see budgets from them that are that far down. But they're going to move occupancy, and with that the rates are going to continue to deteriorate, and that will affect our properties.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

And I'll tell you one kind of phenomenon that I've seen, being in this space for quite a few years, is when these kind of downturns happen many of our competitors in the all-inclusive space, given kind of their business model and how they do it, they will fill up their hotels very quickly. Okay? So they'll just take the hit on the rates. Typically, they overreact. They'll take the hit, and they fill up the hotels. And then they don't have more rooms to really sell. So maybe they yield those rooms up or they just don't have more rooms to sell.

And so then from our position, especially given that Cap Cana just came online, we have the inventory in order to sell. And so if things can turn, and I'm talking turning just on the margin, not like a dramatic turn, I think we can be the biggest beneficiary of that.

So number one, we're more attractive to the U.S. consumer because of our brand affiliations and the fact that we have brand new, beautifully either constructed or renovated properties. And then, two, we'll have the rooms available at the new properties in order to fill and yield up.

So these are all of the things that we're literally analyzing on a daily basis and hoping that as the situation improves we'll be able to do better because of.

Operator

(Operator Instructions)

Ryan Hymel ***Playa Hotels & Resorts N.V. - Executive VP & CFO***

Jenna, I think that's it for Q&A.

Operator

All right. At this time there are no further questions on queue. You may continue.

Bruce D. Wardinski ***Playa Hotels & Resorts N.V. - President, Chairman & CEO***

Great. So thank you, everyone, for taking the time to listen to our call today. I think we have a lot of positives, going forward. We have the situation in the Dominican that we'll continue to work through. But like I said, I don't think this situation will last forever, and I think we are the best-positioned company to come out of this positively.

So we appreciate your time and interest in Playa. Thank you very much.

Operator

Thank you. And that concludes Playa management's third quarter earnings conference call. You may now disconnect.