Playa Hotels & Resorts 2016 YE Earnings Call
March 15, 2017

Corporate Speakers:

- Bruce Wardinski; Playa Hotels & Resorts; President, CEO
- Ryan Hymel; Playa Hotels & Resorts; Senior Vice President, Treasurer

Participants:

- Chris Woronka; Deutsche Bank; Analyst
- Harry Curtis; Nomura Group; Analyst
- Paul Heiney; Northland Capital; Analyst

PRESENTATION

Operator: Good morning. My name is Christy, and I will be your conference operator today. At this time I would like to welcome everyone to the 2016 yearend Playa Hotel earnings call.

(Operator Instructions)

Thank you. I would like to now turn the call to Ryan Hymel. Please go ahead.

Ryan Hymel: Thank you, Christy. Good morning, everyone, and welcome to Playa's 2016 fourth quarter and yearend earnings call. Before we begin, I would 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.

Factors that may impact the results of the Company can be found in the companies form S4 registration statement, and other reports filed with the SEC. We've also updated our IR website at investors@playaresorts.com with today's presentation and recent releases.

The Company undertakes not obligation to update forward looking statements. Also, as we discuss certain non-GAAP measures on this call, it may be helpful to review the reconciliation to GAAP located in our press release.

On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will give a brief update about our recent merger with Pace Holdings Corp., and discuss key operation highlights for the quarter and for the year, as well as address other financial matters for the Company.

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

Bruce Wardinski: Great. Thanks, Ryan. Well, good morning, everyone, and welcome. I am very excited to hold our first earnings call as a public company. As you all are aware, we completed our accommodation with Pace Holdings Corp. last Friday, March 10, with over 99% of the voted shares voting in favor of the business combination, and very importantly, we raised about $454 million of primary proceeds.

The transaction resulted in an initial enterprise value of approximately $1.75 billion for the combined company, and is currently trading in excess of that amount. This was a very successful transaction for Playa and all of our shareholders, both original and new. I started Playa with a vision of better service levels and better consumer brands could be powerful means of differentiation in the high growth, all-inclusive, sector. And I am very pleased that we now have the access to capital to optimize those real advantages.

As we talked about in our road show presentation, Playa is the leader in the all-inclusive space -- a high growth, extremely fragmented sector. Our leisure customer base is increasingly focused on experiences; so being a high-end player with leading well known brands puts us in an attractive position. This transaction should serve to increase our lead, as we now have advantage access to capital and are well positioned to be the consolidator of choice in our segment.

Today, we own 13 resorts across Mexico and the Caribbean, and we are the operator of eight of those. We, absolutely, expect to own and operate more resorts going forward. In fact, my ambition is to more than double our resort count within the next five years.

Playa is the exclusive all-inclusive partner for Hyatt, where there are six existing Hyatt Ziva and Hyatt Zilara properties. We see an opportunity to add more of these. Including our new development in Cap Cana in the Dominican Republic that we will discuss a little bit later. Hyatt remains a very critical partner and shareholder for Playa.

Similarly, we are making strong progress for the upcoming roll out of the two-debut, of Panama Jack Resorts in Mexico later this year. We expect this new concept to stand out from the competition and resonate well with consumers and the trade, given their familiarity with this iconic brand. Also, while it is premature to get into the specifics, I am pleased that following the announcement of our transaction, we have been approached by several owners about joining forces with Playa, and we have never been in stronger position to add to our portfolio.

Let's go back to the transaction that we recently finalized. The highlights include; first, we've greatly improved our balance sheet. All of the cumulative preferred stock of the Company has been redeemed. The opening share count at closing of 103.5 million shares gave us an approximate market cap of $1 billion. Our pro forma yearend cash on hand was over $100 million, and our cash on hand today is approximately $140 million. Playa is well positioned to refinance our debt and finance high ROIC projects going forward, which we'll talk about.

Second, our available cash allows us to accelerate our growth with these high ROIC projects. Nearly all the necessary conditions have been met to close on the purchase of a 40-acre parcel of land, in Cap Cana in Punta Cana in the Dominican. With a deposit currently held in escrow.

Playa plans to develop and estimated 750-room complex with two Hyatt hotels with over 1,300 feet of beautiful white sand beach front. This will be a world class resort on one of the best beaches I have ever seen, and it is strategically important to us to have a Hyatt Ziva and a Hyatt Zilara in Punta Cana.

We have other high ROIC projects planned at several of our properties, including the two Panama Jack conversions in Cancun and Playa del Carmen. These conversions will create exclusive four star branded resorts to help refresh our existing assets and lift ADR by improving direct business. We are still finalizing the growth CapEx figures for 2017, but as we've discussed previously, the attractive financial impact of those investments will be felt in 2018 and beyond.

Being a public company will also allow us to pursue a pipeline of potential M&A deals and properties in Mexico the Caribbean and Central America, as well as allowing us to accelerate and pursue third party management contracts. This is a very exciting time for Playa as we grow and move forward as the only publicly traded all-inclusive company, and I believe we have a strong shareholder base to support our future expansion.

Recently developed assets, Hyatt Ziva Cancun, Hyatt Ziva Los Cabos, Hyatt Ziva and Zilara Rose Hall are still ramping up and performing well. We continue to take advantage of favorable leisure industry trends. The open skies agreement between the U.S. and Mexico will lead to more consumer demand, more direct flights, and lower ticket prices.

Relatively low supply pipeline in our main market, the Yucatan and the Dominican Republic, will also benefit us. As well, steady year-over-year growth of international arrivals in our key markets; Mexico 6% up, the Dominican up 5%, Jamaica up 3%. All very strong statistics, in both, well for these tailwinds on the leisure travel side.

With that, I want to turn to our pre-merger 2016 results. During the past year, we focused on the following strategic initiatives; one, continued to drive more direct business. We are optimistic that our partnership with TPG will open up more direct channels and tools to us that will help continue improving our distribution strategy. Two, improving ADR across all of our segments, resulting in year-over-year in RevPAR growth in 2019 of 9.3%. Three, increasing high-margin, non-package revenue, which went up by $15.1 million, or 27.2%. And four, flexing our operational costs to increase resort EBITDA with margins 480 basis points over the prior year.

Because of all of these initiatives, I am pleased to report that our resorts performed very well in 2016 and achieved net package RevPAR growth of 9.3%. This was driven by net package ADR growth by of 8.3% in an increasing average occupancy of 70 basis points. Now that two of recently redeveloped assets have been opened for more than one year, our comparable portfolio of 11 resorts currently includes everything except for the two Hyatt Zivas in Cancun and Los Cabos. This comparable portfolio also performed well and achieved net package revenue growth of 5.3%. That was driven by net package ADR growth of 4.4%, and an increase in average occupancy of 70 basis points.

Our adjusted EBITDA for the total portfolio reached $154.7 last year. That was a 52.1% increase over 2015. Adjusted EBITDA for our comparable portfolio increased 25.8% to $119.4 million. This resulted in a 480 basis points increasing the adjusted EBITDA margin to 29.4%.

Excluding our Jamaica property, adjusted EBITDA for our comparable portfolio still increased 13.3%. Our comparable Hyatt properties performed very well this year achieving net package RevPAR growth of 17.9%, net package ADR growth of 10.7%, and resort EBITDA growth of 114.2% percent.

Now, I'd like to briefly review our operation segments. First in the Yucatan Peninsula, our resorts in the Yucatan Peninsula achieved net package RevPAR growth of 1.8% this is driven by net package ADR growth of 2.3%. Resort EBITDA was $108.9 million, which was an increase of 32.1% over the prior year; this represents a 340 basis point in EBITDA margin to 43.8%.

These results were influenced by the reopening of Hyatt Ziva, Cancun. Excluding Ziva Cancun, adjusted EBITDA still increased 13.4% over the comparable period in 2015. On the Pacific coast, our resorts achieved net package RevPAR growth of 59.7%; this was driven by net package ADR growth of 21.7% and an increase of average occupancy of 16.8 percentage points to 70.5%. Resort EBITDA of $25.9 million increased 213% over the prior year. This represents a 330 basis point increase in EBITDA margin to 34.3%. These results were positively influenced by the reopening Hyatt Ziva, Los Cabos.

Now, in the Caribbean. Our resorts in the Caribbean achieved net package RevPAR growth of 8.2% driven by net package ADR growth of 9.4%. Resort EBITDA was $50.5 million which was an increase of 41.6% over the prior year. This represents a 610 basis points increasing EBITDA margin to 27.3%.

Regarding our results for the fourth quarter, we achieved net package RevPAR growth of 5.5% almost to $175. This was primarily driven by an increase in occupancy of 490 basis points. Our comparable portfolio of 11 resorts achieved net package RevPAR decrease of 80 basis points to $168.95, driven by a decrease in package ADR of 2.4% offset by an increase of average occupancy of 130 basis points.

Adjusted EBITDA for total portfolio was $28.7 million, representing an increase of 67.9% over the prior year. Adjusted EBITDA for our comparable portfolio increased 29.8% to $20.4 million. This resulted in a 500 basis point increase in an adjusted EBITDA margin to 22.1%.

In terms of our operation segments, we achieve the following for the quarter. Our results in the Yucatan Peninsula achieved net package RevPAR growth of 5.1% to almost $204, driven by in increase in average occupancy 620 basis points and offset by a decrease of net package ADR of 2.2%. This net decrease in net package ADR was primarily attributable to the Hyatt Ziva Cancun, whose 2015 ADR was artificially high due to having been only open for a portion of the quarter, and thus, only truly earned revenue during the high demand week of Christmas in that year. Resort EBITDA of $24.9 million increased 31.1% over the prior year, representing a 500 basis point increase in EBITDA margin to 41.9%.

Excluding Ziva Cancun, adjusted EBITDA still increased 7.9% over the comparable period in 2015. Our resorts on the Pacific coast of Mexico achieved net package RevPAR growth of 31.2%, driven by an increase in average occupancy of 18.2 percentage points. A resort EBITDA of $5.2 million increased 247% over the prior year. This represents a 19 percentage point increase in EBITDA margin to 30.4%.

Our resorts in the Caribbean recognized a net package RevPAR decrease of 4.4%, driven by a decrease in net package ADR growth of 1.9%, and a decrease in average occupancy of 210 basis points to 78.5%. This decrease was primarily due to incremental softness at our properties in the Dominican Republic, which was driven significantly by softer European demand and some impact of Brexit. Resort EBITDA of $6.7 million increased 34.4% over the prior year. This represents a 420 basis point increase in EBITDA margin up to 16.6%.

As of December 31, 2016, we held $33.5 million in cash and cash equivalents and cash on hand pro forma for this transaction is approximately $100 million. As I mentioned earlier, as of today, we have cash on hand of about $140 million, and that includes kind of offsets of the increase in the preferred share price since yearend, and first quarter cash flow generation as well as the cash held in ESCROW for the purchase of the Cap Cana land.

At yearend, total interest-bearing debt was approximately $838 million. That’s comprised of $363 million of our term loan and $475 million of our senior notes. As of December 31, there was zero outstanding on our $50 million revolving credit facility. Therefore, net debt’s approximately $700 million as of today. Given our greatly improved balance sheet, we are in the process of exploring refinancing alternatives and are in a great position to execute and lower our weighted average cost of debt.

I’d now like to turn to our outlook for this year, for 2017. As Ryan mentioned at the beginning of this call, Playa takes no obligation to update forward-looking statements, and anything that can be regarded as a forward-looking statement is subject to numerous risks and uncertainties that may cause the Company’s actual results to differ materially from what has been communicated.

With that being said, our current outlook is consistent with what we disclosed in our investor presentation dated January 19 of $180 million in adjusted EBITDA for 2017, with several million of that coming from some level of positive impact from our direct sales initiatives as well as strong performance from the four recently redeveloped properties and solid gains from our remaining nine resorts.

In summary, we have a great market opportunity, a war chest to make smart investments, and a differentiated set of brands, services, and resorts that should allow us to maintain strong growth rates and expand our margins. We finished 2016 with strong momentum to position us for a strong year in 2017, our first year as a public company.

I've been very pleased to see the investor interest in Playa and we will endeavor to continue our investor outreach and education to allow for a greater understanding of our unique position in the leisure sector and how we intend to capitalize on the attractive opportunities in front of us.

I will now open up the call to answer any questions that you may have.

QUESTION AND ANSWER

Operator: (Operator Instructions). Chris Woronka with Deutsche Bank.

Chris Woronka: Bruce, maybe you could talk a little bit about how we should think about the scaling of the upside you expect to get from more direct sales. I know it's kind of a multiyear initiative, but any kind of guidance on how that might roll out through 2017 into 2018?

Bruce Wardinski: As we mentioned when we were out on the road show and in our presentation, direct sales initiatives presents the greatest opportunity for us to drive more profit for Playa. We were at about a 9% level overall for the Company, and we have a goal of 40% to 50%. Now, getting to 40% to 50% won't be overnight and it won't be simple, but we're seeing great success.

At our Hyatt properties, now we're driving about 20% direct, which is still well below our goal, but its huge success. I think the Panama Jack conversions are going to be a big contributor to that initiative. Right now we're doing basically 0% at [Gran Prix Bay] and Gran Porto from direct business. Our expectations are in a short period of time that we should be getting that into the 5%, 10%, 15% range. I think we can accomplish that.

We're focused on the website, we're focused on working with Hyatt, converting the two Grans, and then we have some other plans for Panama Jack, as well as other disintermediation opportunities. Again, having Karl Peterson of TPG joining our board and his experience with Hotwire and with Sabre, as well as Tom Klein, who is the former CEO of Sabre, I think really gives us some people with great skill set and experience from the cruise line and from the travel business to help us push those initiatives.

So we're not recreating anything new. What we're doing is just following a game plan that's been executed well by the airlines and by the cruise companies. We're just trying to take that same game plan all the way – maybe a little delayed, to the all-inclusive sector. I hope that answers your question.

Chris Woronka: Just as a follow-up -- as you kind of look back 2016 over 2015 and maybe even what's on the books for 2017, are you seeing any changes in kind of the – I guess I'd call it the composition or origin of the guests? Are we seeing any – I guess currency or economic effects, positive, negative, cycling through?

Bruce Wardinski: Yes, no, we absolutely are. I'd say on the positive side, we're seeing an increased demand from U.S. customers. In the long run, it's what we've always wanted and it's hugely positive. Currently, probably only 2% to 3% of Americans have experienced an all-inclusive vacation. If we can get that number up to 4% to 6%, it will be an absolute grand slam for Playa and for the all-inclusive business in Mexico and the Caribbean.

That's our plan. It's definitely growing, there's big momentum from the U.S. side. I think the positive since the election and consumer sentiment in the stock market, in a variety of economic measures, with employment, job growth, et cetera, I think all that bodes really, really well. My premise has always been that leisure is the place you want to be in the lodging sector. We don't have a lot of the negatives that the business hotels and that the U.S. market has, so I think that's really positive.

On the negative side, we – as I mentioned earlier with our Dominican results, we are seeing some weakness, some softening, and it's mostly rate-driven versus demand-driven on the European and the U.K. customer. What our goal is, very simply, is to hopefully replace as much of that business with the higher-rated, better non-package revenue spending American customer.

That is definitely what we're doing. We're not going to abandon Europe or the U.K., because we want to be diversified in our customer base. As well, we're seeing good improvement in our Asia customer base. Our Hyatt lower Cancun finished the year almost one fourth of our business coming from Asian customers. We're expanding the relationship we have with some of the Asian distribution sources at Los Cabos and Porta Vallarta and now also pushing Jamaica. Again, our goal is to diversify, it's to go after higher-rated business and try to just drive profit down to the bottom line.

Operator: Harry Curtis with Nomura.

Harry Curtis: You touched on really the two questions that I was going to ask but maybe a little bit more color on the ADR weakness or decline in the fourth quarter. Was that primarily in the Dominican, or was there any mix shift that we should be aware of?

Bruce Wardinski: Where you saw the weakness was definitely in the Dominican and specifically in the Yucatan and Playa del Carmen. So if you look at our two resorts down in Playa del Carmen, the Royal and Gran Porto, that's where you saw it. Cancun did pretty well in the fourth quarter and then our Riviera Maya, kind of the ones closer to Cancun did okay, and the two down in Playa del Carmen did worse.

What occurred driving the Playa del Carmen phenomena was some new rooms opening down in that submarket, and there were some introductory rates and we had to compete with people for those introductory rates. The Royal's a big cash generator, revenue and cash generator for us, and so that's where you're seeing some disproportionate impact coming through there.

Luckily, the start of 2017, the Royals bounced back, and so we're not seeing as much of that. I think demand's really good for the first four months of the year this year, so we're not having to fight as much of those headwinds with those introductory rates. But there was definitely some impact of that. The other one was, as I mentioned earlier, in the Dominican and that is primarily driven by European and U.K. business. I have to say that now since U.K.'s not going to be part of the E.U. But that makes up a much bigger percentage of the overall Dominican business, so not as much for us but we still do have much higher percentage of European and British business there. So that's kind of where you're seeing a little bit of that weakness.

Harry Curtis: Yes, that was my next question is, what is the mix of that European business in the Dominican now?

Bruce Wardinski: Yes, it's about 20% or 30% European for the three Dominicans, the largest being La Romana, which particularly in the Summertime could be upwards of 60% European.

Harry Curtis: And then following up on the increased room supply, when did that open? When should that anniversary, and are there any other scheduled openings that you're going to have to contend with?

Bruce Waldinski: This is a huge market, particularly Riviera Maya, so there were openings in the second half of last year so most of them were after high season of last year. So again, that's why you saw some of that fourth quarter weakness as people are trying to get open prior to high season, which is very typical in our business.

That was a bigger – I don't have the exact number of rooms, we can follow up on that, but that was kind of a bigger impact than you'll see in this next year. There are not as many products – projects on the books that would be opening in 2017, it's more minimal. As we've said, both new supply in the Dominican and in Cancun, Yucatan – the Yucatan market is not overly significant. Particularly up in Cancun, there's zero really opening so the projects are in Riviera Maya. I think we're well positioned to deal with that.

The other thing is – and that's part of the benefits we have with this new capital on our balance sheet, is that we – since we acquired the four real resort assets including those two in Playa del Carmen, there's been virtually zero investment in them. So we're going to be converting Gran Porto to a Panama Jack. I think the combination of some investment and the rebranding and the sales initiative, that's going to be really positive for Gran Porto, so I think you're going to see some reversal of that weakness for Gran Porto, I'm very excited about that. Likewise, we're looking at improvements in our product offerings at the Royal and Playa del Carmen, as well as potential brand conversion opportunities.

I'm not concerned at all, Harry, about Playa del Carmen. I think you saw some weakness related to aggressive sales offerings that were in the fourth quarter. We're seeing that greatly diminished in the first months here of 2017, and I think going forward as we execute on our plans, we're going to be well-positioned down in that market. Like I said, Cancun is really strong for us.

Harry Curtis: In your outlook, you had mentioned on several occasions renovations and this isn't your first rodeo. I'm assuming that in your outlook you're accounting enough for whatever disruption might occur as a result of the renovations.

Bruce Wardinski: Absolutely. As you've said, unfortunately I've got a lot of gray hair and been doing this a long time. That's part of it. The good news about our business is that we make a disproportionate amount of our profits in the first four months of the year, so we do have a couple of windows in the last eight months of the year where we can work on projects.

We have been working on this for a number of months anticipating being in the position to execute on these things, and so we will lay it out and make a very reasonable timeline. I can tell you that the general managers are very aware that they're not going to be able to use that as an excuse so it's clear what we're doing and we've taken that into account.

Operator: [Paul Heiney] with Northland Capital.

Paul Heiney: Just a follow-up on the direct distribution plan. How do you guard against eroding occupancies as you save money on commissions?

Bruce Wardinski: Our plan is we're not going to alienate the wholesaler OTA, the travel agent world. That is not our plan and we're not going to do that. Luckily, we have some critical partners in that segment and then we have a broad number of partners in that segment. Our plan is to pick our battles in how we do that and also to kind of do it on a marginal basis so it's not like we'll go in there and say "hey, we're going to – you either do this or we're wiping you out."

It's just kind of a gradual process. That's why – and as we said when we met with investors on the road show, is that this will occur over time. Would I love it to jump to 50% by the end of 2017? Absolutely. Is that going to occur? No. It's not going to occur. But if you look at it as a 3, 4, 5 year process where we're committed to doing this and that we're going to have steady improvement, I can tell you the incentives to our sales team and to our – anyone who's involved with distribution is motivated or set up to motivate them to accomplish that.

So we will move it forward but we're not going to start any kind of war. You're not going to see us come out and say "we're not going to do business with A, B, or C" or "we're not going to do business with wholesalers." That would be really stupid and we're not going to make that mistake.

Paul Heiney: One last one, can you force rank where your CapEx dollars are going over the next 12 to 18 months in terms of redevelopment opportunities and your new development at Punta Cana? Is there an ROIC hurdle rate for all projects that you need to get?

Bruce Wardinski: When you talk about where the money is going to be spent, Cap Cana obviously is the only new project that we're talking about. We're hoping to close on the land, as I mentioned, in the very short term here and we've got designs well underway, they've been underway for some time. The goal would be to begin construction, site work and construction in the third quarter of 2017.

You'll see that money start going out in the second half of 2017 and then through kind of the bigger numbers through 2018. A couple other areas looking at priorities are the two Panama Jack conversions so Gran Caribbean, Gran Porto. Those will also be in the second half of 2017 and then it's finishing out the work and the improvements in Jamaica.

Those are the primary projects. The other ones are Porto Vallarta is dramatically smaller and quicker, that's not going to have much of an impact. Los Cabos, even Cancun, you're not seeing anything. Solaris Cancun, we're doing some stuff but again, that's an enviable position to be in, in that we run such a good business there that we don't really want to mess that up.

Going back to Harry's question, we're not going to overdo the work at Solaris Cancun because we don't want to have any kind of negative impact. That will be stretched out over a little longer period not to have adverse impacts from that hotel.

Ryan Hymel: To be clear, Paul, while we're still budgeting and putting the numbers on paper, this is nothing like the development CapEx of hundreds of millions of dollars that we spent over the last couple years for these kind of higher ROIC growth projects, excluding Cap Cana. We're not talking anywhere near that kind of substantial spending.

Bruce Wardinski: Yes. And then going to your question about what hurdles, I mean I don't want to get into what our internal hurdles are but if you look at the history of our projects, your typical projects are in the high teens to low 20s. Some of the smaller projects where we swim-up suites or preferred room expansion or things like that can be 30% plus.

If we're looking at projects that aren't in the high teens, there's something that's not going to pass muster with us so that's kind of what we look at.

Operator: There are no further questions at this time.

Bruce Wardinski: Great. I just want to reemphasize a couple points. Number one, how excited I am and everybody at Playa is to be a public company and to take advantage of what we think are just outsized growth and profit opportunities by being the only publicly traded all-inclusive company. This is no question, is a hot sector and one with great potential.

It's a highly fragmented business, it's one that has incredibly high distribution costs, it's not managed the way the rest of the global lodging market is managed so I see a real opportunity to be the player, the consolidator, the Company in this segment so that's really, really exciting. Second, the partnership with TPG, the relationship with Hyatt, the greatly improved balance sheet, the access to public capital in the future as we have M&A opportunity or acquisitions, that just puts us in a position to execute on our strategy.

We met with a lot of investors over the last weeks and months. It was really exciting to do that. We're going to continue to go out and maintain contact with the market but we're really excited. I think there's great things ahead for Playa and we hope to deliver outsized return to our investors and pay you back for your confidence in us. Thank you very much.

Operator: Ladies and gentlemen, this does conclude today's 2016 yearend Playa Hotel earnings call. You may disconnect at this time.