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Q3 2018 Playa Hotels & Resorts NV Earnings Call

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PRESENTATION

Operator

Good morning. My name is JP and I'll be your conference operator today. At this time, I would like to welcome everyone to the third quarter earnings for Playa Hotels & Resorts. (Operator Instructions) I'd now like to turn today's call over to Mr. Ryan Hymel. Sir, you may begin.

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

Thanks, JP. Good morning, everyone, and welcome to Playa Hotels & Resorts third quarter 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 actual results to differ, please review the Risk Factors section of our most recent SEC filings.

We've updated our IR website at investors.playaresorts.com with today's presentation and recent releases. Also as we discuss certain non-GAAP measures, it may be helpful to review the reconciliations to U.S. GAAP located in our press release. On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer will provide some comments on the quarter and key operational highlights including our recent strategic alliance with Hilton and the first full quarter of performance from the Sagicor portfolio. I will then address our third quarter results and other financial matters. And Bruce will conclude the call by providing some perspective on Playa's strategy and capital allocation priorities. We will then take your questions.

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

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

Great. Thanks, Ryan. Good morning, everybody, and thanks for joining us on today's call. As Ryan mentioned, I'll begin by reviewing a number of our accomplishments in the third quarter and provide an update on the flagship Hyatt Ziva and Zilara developments in Cap Cana. I'll then turn it over to Ryan to discuss our third quarter results and our fourth quarter outlook and then briefly touch on our capital allocation priorities before turning to the Q&A. The third quarter of 2018 was a pivotal quarter for Playa as we accomplished several meaningful strategic objectives; increasing our brand partners, reducing customer acquisition costs and once again demonstrating that we are a capable consolidator in the all-inclusive segment.

We greatly increased our total addressable market via a new strategic alliance and branding partnership with one of the most recognized brand leaders in the world, Hilton, and the subsequent rebranding of 2 of Playa's resorts to Hilton all-inclusive resorts totaling 1,269 rooms. We discontinued our costly sales and marketing agreement with Mark Travel following their acquisition by Apple Leisure Group and are successfully backfilling the business with more direct and lower cost channels, which should lead to higher revenues over time. We captured 20 times the number of room nights booked on playaresorts.com for $9.8 million in total volume, which was up from $850,000 in the third quarter of 2017, and we completed our first full quarter of operations at our recently acquired Sagicor portfolio diversifying us from both a geographic and source market standpoint and the projects continue to meet or exceed our underwriting criteria.

Before we dig into the details of the third quarter results and our full year outlook, let's take a few minutes to explore each of these key achievements in more detail. First, the key strategic highlight of the third quarter was the announcement of our alliance with Hilton and the conversion of 2 of our resorts to Hilton all-inclusive resorts over the next 12 months. We are incredibly excited to be introducing Hilton's loyal customer base to an entirely new experience. Hilton's selection of Playa as a strategic partner in the development and management of all-inclusive Hiltons throughout the Caribbean, Mexico and Latin America reflects their confidence and conviction in Playa's best-in-class stewardship of all-inclusive resorts.

With the overwhelming success we've achieved at our Hyatt Ziva and Hyatt Zilara Resorts, Playa has clearly demonstrated that we are uniquely positioned to shepherd Hilton's growth in the all-inclusive space and we remain steadfast in our commitment to be the Number 1 owner and operator of choice in the segment. Together with Hilton and Hyatt, we can reach more guests on more occasions and in more geographies than ever before. And we are thrilled to see what is possible as part of the strategic alliance as we continue to grow alongside another world-class brand partner. Another benefit of this agreement relates to growth. As a result of our alliance with Hilton and their large and proactive development team, our outlook for potential management contracts, sliver equity partnerships and acquisitions is now even stronger.

Our relationship with Hilton represents the next chapter in the Playa growth story of branding, managing and consolidating all-inclusive resorts in this highly fragmented and profitable segment of the resort industry. Second, in the third quarter following the acquisition of Mark Travel by Apple Leisure Group, we ended our sales and marketing relationship with the company. Mark Travel had accounted for a little over $40 million in gross revenues or 6% to 7% of our managed package revenue. Although this transition came sooner than it may have absent the acquisition, it is perfectly in line with our strategy to transition away from our highest cost distribution channels channels with higher levels of customer engagement and lower costs. This is core to our longer-term growth, and I am excited to announce our strategy is working.

As of this week, looking out over the next 2 quarters at our comparable managed portfolio, we have the same number of room nights and revenues on the books as we did at this time last year and this is inclusive of the sizable loss in both room nights and revenues at The Royal Playa del Carmen owing to the Hilton conversion. In addition, although the percentage of direct bookings for guests that stayed with us in the third quarter was flat overall at roughly 19%, the percent of bookings collected in the third quarter for all future periods increased 20% from 18.2% of bookings last year to 21.2% of bookings in the third quarter of 2018. Third, at the end of the second quarter, Playa implemented a new industry-leading technology to arm our website with a highly responsive superfast search and mobile optimized booking experience.

This booking engine allows for direct connection to meta sites such as TripAdvisor, KAYAK and Google Hotel as well as multi-language and currency options for our diversified customer base. The system allows us to sell customized targeted offers and rate plans that can be adjusted in real-time to optimize revenue management strategies and it allows Playa to sell high ancillary add-ons to increase the overall value of a reservation and help us drive customer conversion. What's most exciting about this from my perspective is the very low cost of guest acquisition, which is in the 3% to 8% range. These costs are meaningfully lower than the high teens to mid 20% paid to OTAs and wholesalers industry-wide on average.

As I mentioned a moment ago, the number of room nights booked through our Playa Resorts website for all future periods, which is our lowest cost direct channel, increased twentyfold during the third quarter increasing from less than 1% of overall bookings captured during the third quarter of 2017 to 3.7% of overall bookings in this year's third quarter. We are pleased with the progress made to date, but we are even more optimistic on the potential to capture additional bookings and optimize price in the future for a couple of reasons. First, the rebranding of the Dreams La Romana and The Royal Playa del Carmen as Hilton all-inclusive resorts will booster direct booking percentage from the high-single to low double-digit range previously to 20% plus where the Hilton Rose Hall is currently and ultimately to what we expect should be significantly higher.

Second, in the first quarter of 2019 we will begin the process of implementing a new yield management system aimed at not only increasing ADR by channel, but optimizing channel mix to maximize total revenues per guest. We are excited about the potential for this new technology to support further upside. But given the heavy seasonality of our business and the fact that it is likely to take the bulk of 2019 for the data to be uploaded, parallel processes to be run, and the conclusion's back tested, we don't expect to see the initial benefits until the Winter 2020 season. Nonetheless, by controlling more of our bookings and having more accurate real-time customer interaction and data, we are on a path to optimizing total guest spend while at the same time minimizing customer acquisition cost.

Fourth, the third quarter was our first full quarter of operations at the 5 Sagicor properties. The regional management team and our associates have not missed a beat and the integration is ahead of plan in the back office and on target with respect to our results. We are pleased to announce the promotion of 2 seasoned members of our Playa team, Carlos Fresco and Vishal Vaswani, to the positions of General Manager of the Jewel Runaway Bay and the Jewel Grande Resorts within the Sagicor portfolio. As you think about your models, just a quick reminder that our 2018 results will only incorporate 7 months of performance at the Sagicor properties, which does not include the high season months and they are slightly lower RevPAR and margin than our legacy Playa portfolio. We continue to forecast run rate annualized EBITDA of $28 million to $30 million for the properties consolidated operations.

The addition of the Sagicor portfolio will reduce our exposure to Mexico from 73% of EBITDA in 2017 to roughly 61% in 2018 pro forma for a full year of Sagicor. This important transaction has helped offset some of the negative headwinds we've experienced in Mexico this year and we are excited to begin cross-selling these new properties to our long-standing loyal customers and vice versa. Turning now to our flagship Hyatt Ziva and Hyatt Zilara development in Cap Cana. The project remains on time and on budget and Ryan will provide us with more details on them in a moment. Additionally, building upon the comments made earlier about diversifying our geographic exposure. When fully ramped up, Cap Cana will help lower our EBITDA exposure in Mexico to approximately 52% with a nice balanced mix of business between the Dominican Republic, Jamaica and Mexico.

For now, I'd like to focus on the power of the brand and the basis for our optimism for what we fully expect to be a showcase property when it opens in the fourth quarter of next year. This is a very strategic resort for Playa and the Ziva and Zilara with meeting space to handle large incentive groups in a destination like Punta Cana should do incredibly well. We are already seeing positive group bookings in the system for 2020. In fact through today, booking pace currently sits at about 1/3 of the bookings at Cabos and Jamaica, which is very encouraging given it's still so early in the sales process and there is no physical asset to tour. Meeting planners have signed or in the midst of negotiating contracts valued in the hundreds of thousands of dollars without seeing a guest room, a ballroom, the convention center or even a restaurant. In short, they trust Playa's meetings and incentives product and they know that it will exceed their guests' expectations.

Our Hyatt branded portfolio continues to generate our highest ADRs as well as having the lowest customer acquisition costs outside of our Playa Resorts website. The remodels and renovations of the Hyatts in aggregate have generated incremental returns of 31.3% excluding Rose Hall. The 2017 repositioning of the Hyatt Ziva and Zilara Rose Hall where year-to-date EBITDA has increased 55.8% is our most recent proof point in this successful strategy. We are excited for the new Hyatt Cap Cana to open given its contributions to Playa's top and bottom line, our ability to cross-sell it to groups and individuals alike and the fact that we can leverage our substantial regional infrastructure to further drive returns. Turning to our third quarter results. I'm pleased to report comparable RevPAR growth of 1.7% despite a 3% decline in RevPAR in the Yucatan segment.

In that segment, we contended with seaweed, higher insurance and utility costs, a shortened booking window, crime-related headlines and continued supply growth. Despite all of this, our successful strategy of branding all-inclusive drove third quarter ADR and RevPAR outperformance versus peers of over 10 percentage points in the Yucatan according to our sales and marketing intelligence data. Thanks to the continued strong performance in Jamaica and the Dominican Republic, along with our recent accretive acquisition of Sagicor, we grew our consolidated owned EBITDA by 11%. Looking ahead with the 2019 openings of the Hyatt Ziva and Zilara Cap Cana along with the 2 Hilton rebrandings and remodels, we are confident that in just 12 short months Playa will look dramatically different than it does today.

With that, I will turn the call over to Ryan to discuss third quarter results and our fourth quarter outlook.

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

Thank you, Bruce. As you all know, we had several headwinds beyond our control to contend with this quarter; but hard work by our sales, marketing and operations teams helped deliver comparable owned resort EBITDA of just under $31 million, which is just $1.2 million below 2017 and that's inclusive of an $800,000 increase in our insurance premiums as well as $1.6 million increase in utility costs. Without those 2 factors, our comparable owned resort EBITDA would have increased $1.2 million or just under 4%, which we consider quite an achievement in light of the competitive discounting and negative headlines over the last 12 months. We experienced an unexpected spike in utility costs late in the summer and as of now, those costs show no signs of abating. We're currently working through our 2019 budget season, but assuming today's costs remain unchanged, we estimate the higher utility prices could represent incremental headwinds in 2019 EBITDA.

So, now I'll take a look at the regions one by one starting with the most challenged region, the Yucatan Peninsula. Net package RevPAR decreased 3% year-over-year given a decrease in net package ADR of about 1% and a decrease in occupancy of 180 bps. Owned resort EBITDA in the region, which reflects both Playa del Carmen and Cancun, declined $2.3 million over -- year-over-year and that includes $1.1 million in higher utility and insurance costs combined. The strategic shift away from Mark Travel, as Bruce mentioned, is likely to lead to a slightly protracted recovery as we head into high season. However, the good news is that our rebranding strategy to Panama Jacks and the growth in our playaresorts.com business are already leading to substantial market outperformance and we expect our partnership with globally recognized brand leaders such as Hilton, and the continued outperformance at our Hyatts in the region, will lead to additional market share gains.

On the Pacific Coast of Mexico, we've experienced the residual effects of group cancellations in Los Cabos last year, which as you all know can take 12 to 18 months to flow through given the longer group booking window. The good news is we're able to backfill the occupancy in the region, which was up 450 bps, but albeit at lower rates. As you may recall, in our second quarter we discussed our optimism surrounding the prospects for future group business in Los Cabos based on our high level of site visits and indications of interest. We're pleased to report that group booking trends are normalizing in Cabo as of today. While 2019 is likely to be down in low-single digits in groups again, we expect that should mark the bottom and the business will improve significantly beginning in 2020. Excluding insurance and utility costs during the quarter, our owned EBITDA in the Pacific Coast region would have decreased only $283,000 and that was supported by strong growth at Hyatt Ziva Puerto Vallarta, which was up over $375,000.

Now turning to Jamaica. Net package RevPAR at our Hyatt Ziva and Zilara increased 10.5% and resort EBITDA increased 16%. Yet more proof points that property level reinvestments represent a low risk, high reward use of our cash flow. We fully expect that the Hyatt Ziva and Zilara Rose Hall once stabilized will generate over $23 million of adjusted EBITDA as previously targeted. The third quarter, as Bruce mentioned, was our first full quarter of ownership and operations at the 5 Sagicor assets we acquired at the beginning of June. Results, as Bruce said, are off to a strong start and EBITDA during the seasonally slower period in the third quarter totaled $4.6 million and we fully anticipate Sagicor acquisition will meet or exceed our underwriting criteria. Now turning to the Dominican Republic, which was a standout during the quarter. Net package RevPAR increased 6.2% year-over-year driven by a 260 basis point increase in occupancy and a 2.7% increase in ADR.

Owned resort EBITDA increased 30% year-over-year and would have been higher if not for increases in insurance. These strong operating results in the Dominican Republic make us even more optimistic about the performance potential of our upcoming Cap Cana Hyatt Ziva and Zilara development. And lastly, as always, we wanted to highlight another strong quarter for our Hyatt properties, which recorded a 5.9% RevPAR increase and served as a continued proof point that our branding and direct to consumer strategy works. Turning to the balance sheet. As of September 30, 2018 we had $138 million in cash on the balance sheet and nothing outstanding on our revolver. Our current CapEx projects remain on time and on budget and we expect to spend roughly $65 million in CapEx over the balance of this year, and an additional $140 million to $150 million in 2019 on the 3 board approved projects that we have underway, that's Cap Cana and the 2 Hiltons.

We expect our net leverage to briefly peak over 5x before the fourth quarter 2019 project openings or 4.25x if you adjust for construction and progress at Cap Cana and we expect to quickly delever from there in 2020 as these assets begin to come back online. As a reminder, back in March, prior to the Fed's first rate hike, we locked LIBOR at 2.85% on $800 million of our debt or 80% through March 30 of 2023. This insulates us to a large degree from recent and potential future rate increases. As you saw in our release, we are reducing the midpoint of our full year 2018 EBITDA guidance by $1.5 million and establishing a revised range of $175 million to $177 million in light of the unanticipated spike in utilities. Our revised 2018 EBITDA guidance corresponds to $33 million to $35 million in the fourth quarter. We'll provide formal commentary on our outlook for 2019 along with our most up-to-date CapEx plans when we discuss our fourth quarter 2018 earnings release in early 2019.

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

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

Against the backdrop of the headwinds we faced, we consider our third quarter results a success. However, we are not close to being satisfied with the results. We are constantly working to improve, establishing and implementing best practices, listening to and incorporating feedback from our guests and associates and collaborating with our brand partners to elevate the all-inclusive experience for a broader range of customers. Playa's 11,000 plus associates, our management team and our board are focused on creating value for Playa's guests and shareholders and we are confident our strategy is the right one to deliver on this responsibility. As part of these efforts, we took a number of critical steps in 2018 to best position Playa for long-term success.

The new strategic alliance with Hilton increases our growth trajectory and the acquisition of a portfolio of assets from Sagicor increases our scale and lowers our risk profile by reducing our exposure to the Yucatan Peninsula from over 56% of EBITDA in 2017 to 47% of 2018 EBITDA pro forma for a full year of Sagicor results. We believe the future looks even brighter today than it did just 1 year ago and are convinced that just 12 short months from now, when we will be on the eve of the grand openings of the Hyatt Cap Cana, the Hilton Playa Del Carmen, and the Hilton La Romana and a meaningful inflection point in free cash flow generation; our position will be even stronger. We remain confident in our strategic plan and our long-term outlook and are encouraged by the high level of commitment and confidence in our long-term prospects expressed by our brand partners, Hyatt and Hilton, as well as our major shareholders.

We are acutely aware that our share price does not at all appropriately reflect our intrinsic value, and we will continue to take steps as we have in 2018 that will best position the company for success. Playa has continued to produce strong cash flows thanks to our focus on operational excellence and our strategy to be the all-inclusive owner and manager of choice for the premier U.S. brands. As a result of that strategy, we have made significant progress in our efforts to drive meaningful customer acquisition cost savings and we expect more to come. These strong cash flows continue to support significant reinvestment in high return growth projects. With regard to acquisitions, our stock is trading well below intrinsic value, which doesn't support using equity as a currency and we will be disciplined in using cash for acquisitions because of our desire to maintain appropriate leverage levels.

Looking at our capital allocation strategy, our 2 priorities are to continue investing in projects that generate meaningful returns like our 2 Hilton rebrandings in the Hyatt Ziva and Zilara Cap Cana, which are currently underway and maintaining our leverage at levels appropriate for this point in the cycle. With that in mind, following the announcement of the Hilton partnership, we and our board entered into our budgeting process and have been evaluating the timing of the 4 additional redevelopment projects not yet approved. At this point, we have made the decision to delay the construction of the roughly $83 million ground-up Palmyra resort where we had originally anticipated to begin construction in 2019 and which we expected to contribute a modest 2.5% to our consolidated 2021 forecasted EBITDA. We currently expect to begin construction of this project in 2020 when free cash flow increases after the completion of Hyatt Ziva and Zilara Cap Cana and the two Hilton conversions.

The project is of course still subject to board approval, but we wanted to keep you apprised of our most up-to-date thinking. The impact of this change in 2019 will be to forgo the additional CapEx of approximately $35 million to $40 million in 2019, which will reduce net leverage and significantly improve our financial flexibility in 2019, which we believe is both appropriate for this point in the cycle and preserves our ability to act opportunistically if a compelling situation presents itself. Because of our stock's current trading range, a natural question is whether we will initiate a share repurchase program. While we are in agreement that our stock price is well below intrinsic value, we do not believe such a program is the best use of cash at this time given our float and the pipeline of high ROI projects we are currently evaluating.

First, from a practical perspective, a small free float of approximately 45% of shares outstanding and the low liquidity of our stock with average daily trading volume of well less than 200,000 shares, both make a repurchase program impractical and not in the best interest of our shareholders. Second, Playa is a growth company with numerous opportunities to deploy cash in projects that will generate meaningful ROI well in excess of our cost of capital while maintaining appropriate leverage levels. As such, we are focused on capturing the opportunity created by our strategy as we pursue management agreements, new strategic alliances and projects that will drive our growth. Just to be clear, I want to emphasize that we are 100% focused on taking actions to increase the value of our company and drive value creation for all of our shareholders. I'm confident that our strategy is working and the results will be even more evident 12 months from now. If other avenues to build on our success present themselves, I can assure you that we will always evaluate what makes the most sense to generate profitable growth and increase shareholder value.

With that, operator, we are ready to begin taking questions.

QUESTIONS AND ANSWERS

Operator

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

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

Bruce, I guess maybe could we start off by kind of going back to the comment you made a minute ago about other avenues to potentially to build upon your success becoming available and I think you said you might be open to evaluating them. Could you maybe elaborate on that a little bit further? And you guys already obviously have a lot of projects and initiatives underway so what -- I mean are there any examples you could give us of what might be those other avenues that you'd consider?

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

It's not that I have any specific example to talk about today, but I think it's worth reminding some shareholders and informing other shareholders of my history in the lodging industry. I've been in the lodging industry for 31 -- over 31 years and I'd say I'm probably a CEO who's been more involved in transformative and value creating transactions than anyone else that I can think of. It goes back to the starting at Marriott where I was a key participant when we split the company and did really the first kind of opco, propco transaction between Marriott International and Host Marriott. Going to Host Marriott, worked on the conversion of Host Marriott from a C-Corp to a real estate investment trust. Then at Crestline Capital and Highland Hospitality where we sold both of those companies generating very significant returns to our shareholders. So all 4 of the transactions, I'm just using those as kind of examples of different kinds of things you can do to unlock value. And so I believe our strategy is 100% the correct one. I think when you look at our business, back in 2013 we coined the phrase the evolution of all-inclusive. If I sit here in 2018, I look at it as the revolution of all-inclusive. The partnerships that we have with Hyatt and now with Hilton and others that we could potentially do in the future just create a completely different ballgame and landscape for us to achieve success. And so, I really believe we're doing the right thing. But having said that, we always will look at how do you drive significant shareholder value and if there's things to do, we will always consider doing them. So it's not that there's anything today that I have to talk about, but I just want to kind of remind people of my background and to emphasize my commitment and our board's commitment to always evaluating what is the most intelligent thing to do at any point in time.

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

I wonder if we could maybe talk for a minute about the utility increase and really just kind of what kind of visibilities you might have going forward and are there any kind of specific or exogenous reasons behind the increase you got hit with and what are some of the things you're going to do to try to mitigate the impact going forward?

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

Yes. The energy, specifically electricity, increased starting essentially in late summer around August and it's increased as you heard from the prepared remarks about $1.6 million or over 20% year-over-year. If you look back at the first quarter and the second quarter, first quarter our utility expense was roughly flat and in the second quarter we're talking an increase of like $65,000. So, this is certainly unexpected for us and we're seeing it kind of continue through in our fourth quarter outlook and potentially into 2019. One of the things we're doing to try and abate that issue is we have historically, as many of our counterparties in the market have done, is buy directly from the source and that's what's referred to as the CFE, it's the Comision Federal de Electricidad. They've been the cheapest and direct source for electricity. There are groups now that are willing to take counterparty risk and we're working with a number of other hotel companies including AMR to actually go to these counterparties and essentially try and fix our expense and have -- I can't promise that the expense will go backwards, but at least we're working towards having better visibility and more predictability into 2019. So, there's more on this to come. But that's one of the things that we've been dealing with in this quarter that was unexpected for us and all of the other hotel groups in the region.

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

And just last question from me is as we think about the 2 properties that are going into the Hilton system, I know it's very early, but is there any kind of preliminary work you've done to kind of see maybe the booking space or the level of inquiries you're getting on those properties maybe compared to your initial expectations before you announced the agreement with Hilton or can you maybe look at those and compare them to how the Hyatt -- how your kind of book of business was building for Hyatt when you announced those conversions a couple years back?

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

Yes. It's a little different because the main Hyatt conversions, with the exception of the Zilara, were actually shutdown, expansions and conversion. So, it's not the most comparable. That said, the Hyatts that you've seen the proof of the case that they've done incredibly well right out of the gate and we expect potentially even better from Hilton. It's still too early in the booking particularly that you're heading into what's going to be a busy renovation season for both of those hotels in 2019 and starting even in the fourth quarter. That said, when you see the impact and you see some of the things that Hilton's doing from their marketing machine and their branding machine and sending out -- blasting out emails on the day that the Royal converted over to the Hilton all-inclusive just a couple days ago to their 80-plus million loyalty members is actually pretty encouraging for us and something that we're pretty excited about. So, again they've been a phenomenal partner and we have only the best expectations for the results post renovation and I think they're going to continue to perform in line or if not better than Hyatts have done for us.

Operator

(Operator Instructions) Your next question comes from the line of Paul Penney of Northland Capital.

Paul Richard Penney ***Northland Capital Markets, Research Division - MD& Senior Research Analyst***

Can you give more color on the Mexico rate compressions? Is that being driven by the mom and pops or the private players and what have you done and what will you do to combat it and drive positive ADR growth?

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

So I think it's being driven kind of across the segment and it's really focused on, as we've said, in the Yucatan Peninsula. And there's a number of factors or some increase in supply and I think there was just some overreaction by some of our competitors to lowering the rates very, very quickly. The challenge in the hotel business, and I've been doing this a long time, is people worry and overreact and then they drop and that forces everybody to drop. But I think the key thing to really focus on is that the vast majority of our competitors all get their customers from the same sources. So, it's from the tour operator business model primarily and none of those are affiliated with our U.S. brand partners nor allied with their loyalty programs. So kind of going to the second part of your question, which is what are we doing about it. We are doing what we had said we're going to do and that's executing on our strategy to outsource branding and to partner with Hyatt where we've been tremendously successful, and we talk about the returns we've generated on our projects and conversions there. And I think we're going to see it with the Hilton, it's not like day one; but I think as Ryan said, you're going to see that be as successful if not more successful. So we're continuing to just double down, focus with our branding partners and go after a different customer and trying to really broaden the customer market that we're approaching. Hilton has tens of millions of members in their loyalty program with points to be able to burn at resorts and all-inclusive is the perfect place to do that. And so I think you're going to see more Hilton business, more Hyatt business and that's going to be our focus. So what we don't want to do is just get down in the mud and compete directly with everybody who's sourcing their business from other channels that aren't comparable to what we're doing. And so, that's kind of how we are addressing it and I'm optimistic. I think you'll see that what happens is early on in the process right now, there will be rate compression and then if you're disciplined and you can kind of market your product going into the season as you build into the season, we can do better and that's what we're focused on doing.

Paul Richard Penney ***Northland Capital Markets, Research Division - MD& Senior Research Analyst***

And switching gears, can you talk about some of the ROIs you're getting from your Panama Jack conversions and specifically would love some granularity in terms of what kind of run rate lift you're getting post renovation?

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

Yes. So on the Panama Jacks, we're encouraged by the results we're seeing. They are obviously clearly not where we want them to be, but I will remind you that it's still very early. First, the overall market is soft and second, they are new brands with limited scale and share of voice. And as we've always said, it takes typically 2 to 3 years to establish the brand. It took 2 years for our even best flagship Hyatt to stabilize and that was with the benefit of and backing of the fantastic Hyatt name and the company's 800 properties worldwide. So, our goal in partnering with the brand was to have a compelling all-inclusive offering at an approachable price point. So although Panama Jack don't have a deep database of entry-level all-inclusive customers, that we can leverage the brand as synonymous with beach, sun and surf and we're confident that it's on the right path. I think it's too early to really kind of judge these properties right now Just given all of those things, but I do think we still expect particularly looking forward into 2019 but more importantly in 2020 and beyond that we should have some meaningfully -- meaningful lift in ADR, particularly if we continue on the same trend that we're seeing now that a good amount of our bookings on our website are actually coming for the Panama Jacks, which is very encouraging.

Paul Richard Penney ***Northland Capital Markets, Research Division - MD& Senior Research Analyst***

Lastly, Ryan, just a housekeeping item. What percent of your reservations were via the direct channel for the quarter?

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

That was the 20 -- in the quarter 21% plus and that's up from 18% last year. So, that's bookings made in the quarter for future stays.

Operator

(Operator Instructions) We have a follow-up question from Chris Woronka of Deutsche Bank.

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

Just one quick follow-up, I know that I think Hyatt has made some changes to the redemption program, I think it's more on the cash plus point side if I'm not mistaken. Can you guys maybe elaborate on whether that impacts any of the Zivas and Zilaras?

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

Yes. I mean, Chris. I'm not familiar with that situation. We do have -- all-inclusive is different and so what we negotiated with Hyatt and what we negotiated with Hilton is a program of redemptions that incorporates the all-inclusive feature. So if you think about typical points redeemed for a hotel room, that's just based on availability and there's very low marginal cost associated with the hotel room. So, that's a whole different kind of our formula for redemptions. With all-inclusives, you've got all of your food and beverage components, activities, et cetera. So we have a different -- we have a different formula and model and its one that I think is very beneficial to both Hyatt and their loyalty members and Hilton and their loyalty members as well as to Playa on an economic basis. But -- so I'd say probably we're not affected by what you were describing.

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

Okay. And have you already negotiated the kind of redemption rates that will be coming at the 2 Hiltons? Is that all locked and loaded at this point?

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

Correct.

Operator

(Operator Instructions)

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

Okay. If we don't have any other questions. I'd just like to again thank everybody for participating on the call today and we look forward to going into the fourth quarter and into the high season with a lot of momentum. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Presenters, please stay on the line for the post-conference.