[PLYA] Playa Hotels and Resorts
Q1 2023 Earnings Conference Call
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Company Participants
Ryan Hymel, Executive Vice President and Chief Financial Officer
Bruce Wardinski, Chairman, President and Chief Executive Officer

Analysts
Patrick Schols, Truist Securities
Tyler Batory, Oppenheimer
Dany Asad, Bank of America
Chad Beynon, Macquarie Research
Smedes Rose, Citi
Chris Woronka, Deutsche Bank

Presentation

Operator: Good morning, and welcome to the Playa Hotels & Resorts First Quarter 2023 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I'd now like to turn the conference over to Ryan Hymel with the company. Please go ahead.

Ryan Hymel: Thank you very much, Ms. [Mahdi]. Good morning, everyone, and welcome to Playa Hotels & Resorts first quarter 2023 earnings call.

Before we begin, I'd like to remind participants that many of our comments today will be considered forward-looking statements that are subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated. Forward-looking statements made today are effective only as of today and the company undertakes no obligation to update forward-looking statements.

For a discussion of some of the factors that could cause our actual results to differ, please review the Risk Factors section of our quarterly report on Form 10-Q, which we filed last night with the SEC. We've updated our Investor Relations website at investors.playaresorts.com, with today's recent releases.

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

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

Bruce Wardinski: Great. Thanks, Ryan. Good morning, everyone, and thank you for joining us. I would like to wish everyone a happy Cinco de Mayo and say personally, I'd much rather be at one of our resorts in Mexico than in our office in Fairfax, but I hope people are enjoying it wherever they are.

Our first quarter results exceeded our expectations as the momentum in our business continued through the remainder of the high season, with broad-based strength shown across all of our markets.

One housekeeping item before we begin the fundamental review of the quarter. We will be sunsetting comparisons to 2019, and resuming traditional year-over-year commentary exclusively for today's discussion.

Playa's owned resort EBITDA of $109.4 million in the first quarter was the highest in the company's history despite the significant negative impact from the two dual resorts in the Dominican Republic that transitioned to Playa management and foreign currency headwinds. The better-than-expected EBITDA was driven by year-over-year ADR growth in our legacy portfolio of nearly 17%, bringing the reported ADR growth for the quarter to approximately 27.4%.

As a reminder, our expectation was that the first quarter would represent the highest year-over-year ADR growth for 2023, as we lapped the impact from Omicron last year. Additionally, our operations teams executed extremely well at the resort level, delivering 50 basis points of resort margin expansion on a reported basis, despite an approximate 180 basis points FX drag from the appreciation of the Mexican peso.

The core legacy portfolio resort margins, excluding the Jewels, improved 160 basis points year-over-year, inclusive of 180-basis point foreign currency drag.

As I mentioned, fundamental strength during the quarter was broad-based, with our core legacy portfolio surpassing 80% occupancy for the first time post-pandemic, and all geographies reporting double-digit year-over-year ADR gains.

Jamaica had another strong quarter, reporting the highest year-over-year ADR and resort margin expansion among our segments, aided by a significant increase in MICE revenue during the first quarter, as the recovery and normalization of that market continued.

In Mexico, the Yucatan once again led the way on occupancy rate for Playa, while growing ADR double-digits year-over-year. And the Pacific Coast reported its best occupancy rate during the post-pandemic period as well. As I mentioned, both segments were negatively impacted by the sharp move in the Mexican peso during the quarter. And both would have seen improved margins year-over-year, excluding the impact of FX.

In the Dominican Republic, our legacy DR resorts, excluding the Jewel Palm Beach and Jewel Punta Cana resorts, which we are attempting to sell, also achieved their highest occupancy rate in

the post-pandemic period while driving approximately 22% year-over-year ADR growth, yielding nearly 300 basis points of resort margin expansion year-over-year.

The two Jewel resorts and the DR segment results were in line with the expectations we laid out on our last earnings call, representing an approximate $10 million year-over-year EBITDA drag. However, we expect the profit drag from these resorts to improve during the second quarter. We do not have any information to share with respect to the timing of the disposition of the two resorts, but hope to have more to share on that in the future.

On the booking front, demand has remained strong despite the broader macroeconomic concerns. And we have achieved our goal of increasing Playa's transient consumer direct revenue mix of bookings, excluding the DR Jewels, to at least 50% by 2023.

In aggregate, during the first quarter of 2023, 51.4% of Playa-owned and managed transit revenues booked were booked direct, up 160 basis points year-over-year, growing year-over-year for the third straight quarter.

During the first quarter of 2023, playaresorts.com accounted for approximately 10% of our total Playa-owned and managed room night bookings, continuing to be a critical factor in our customer sourcing and ADR gains.

Taking a look at who is traveling, roughly 36% of the Playa-owned and managed room night stays in the quarter came from our direct channels, down 100 basis points year-over-year, as our group mix improved significantly year-over-year by 460 basis points.

Our OTA mix has remained the most depressed channel compared to pre-pandemic levels. Geographically, the biggest change in our guest mix during the first quarter was the continued recovery of our Canadian guest mix, which was up approximately 400 basis points year-over-year, as well as our Mexican source guest mix, which was up 300 basis points.

Our European source guest mix was down significantly again year-over-year, but in line with pre-pandemic levels. Our Asian source guest mix improved modestly year-over-year, but remains the most depressed as it is only approximately 75% to 80% recovered.

Our visibility remains a critical factor of our success as our booking window remained at just over 3 months.

Once again, I would like to thank all of our associates that have continued to deliver world-class service in the face of pandemic-related challenges and rising operating costs. Their unwavering passion and dedication to service from the heart is what truly sets Playa apart.

Finally, on the capital allocation front, we purchased approximately $41 million worth of Playa stock during the first quarter, and an additional $20 million thus far in the second quarter, bringing our total repurchases since resuming our program in September 2022 to just over $107 million.

We continue to believe that our stock provides a tremendous value relative to the fundamentals, and share repurchases are a phenomenal use of capital for our free cash flow.

With that, I will turn the call back over to Ryan to discuss the balance sheet and our outlook.

Ryan Hymel: Thank you, Bruce. Good morning again. I'll begin with a recap of the segment fundamentals, followed by an overview of our balance sheet and expected uses of cash, and conclude with our updated outlook.

Before I begin, I'd like to highlight that beginning with the first quarter of 2023, we've elected to reclassify on-property room upgrade revenue from non-package revenue to package revenue to be consistent with industry trends. We've recasted prior period as well to conform with the current period presentation. And a reconciliation of the changes made to the prior reporting for 2021 and 2022 can be found in our investor deck on Slide 5.

So turning to fundamentals first, our first quarter results exceeded our expectations as a result of higher ADR growth and easing pressure from energy costs, leading to resort margin expansion of approximately 50 basis points year-over-year, despite a nearly 180-basis point headwind from foreign exchange and a 240-basis point headwind from the two Jewel properties in the Dominican Republic.

The ADR strength was broad-based with all segments reporting double-digit year-over-year ADR growth, excluding again, the Jewel assets in the DR, as this was the first Q1 we've had in the post-pandemic period with no significant Covid-related challenges.

On the cost front, as I mentioned in our last earnings call, we began to see stabilization in food and beverage and utilities costs on a per-unit basis in the middle of 2022. And we're hopeful that the inflationary pressure from these two areas will begin to ease as we moved into 2023 and lapped the surge that occurred around the start of 2022. We began to see signs of improvement during the fourth quarter, and that carried over into the first quarter. Although it's nice to see some cost relief, these expenses can be volatile quarter-to-quarter as usual.

At the segment level, Jamaica led the way in year-over-year ADR and occupancy growth and margin improvement. The segment experienced its highest group room night mix helping yield ADR and closing the gap versus other segments ADR improvement compared to the pre-pandemic period.

As a reminder, Jamaica got off to a slower start in 2022 due to the Omicron variant having a disproportionate impact on the segment, given its Covid testing requirements at the time.

On the margin front, Jamaica once again benefited from better-than-expected food and beverage and utilities expenses. Keep in mind that when comparing results in Jamaica versus other segments, that Jamaica generally has higher operating costs than our other segments and typically experiences higher ADRs as well.

Looking at our other segments, Yucatan Peninsula continued to deliver strong results with sequential occupancy improvements to a post-pandemic high of almost 84% and reported year-over-year ADR growth of roughly 15%.

Reported owned-resort EBITDA margins were down slightly, 20 basis points year-over-year, mainly as a result of the 370-basis point negative impact from foreign exchange.

Food and beverage and utilities expenses were favorable year-over-year on a currency-neutral basis, while other labor costs, specifically union negotiations, negatively impacted margins. Margins were also favorably impacted by the timing of sales and marketing spend.

The Pacific Coast had another fantastic quarter year-over-year with ADR improvement up 19%, leading to robust margin performance as utility expenses were less of a headwind year-over-year. The Pacific Coast also experienced significantly higher year-over-year MICE Group mix, helping drive an increase in non-package revenue per sold room.

Segment margins were negatively impacted approximately 350 basis points, again as a result of the sharp fluctuation in the Mexican peso.

In the Dominican Republic, our legacy resorts, the Hyatt Cap Cana and Hilton La Romana, grew ADR 20% year-over-year with occupancy of nearly 82%. Underlying non-package revenue per sold room growth at these resorts was also stellar due to a higher mix of MICE Groups.

As a reminder, we reported our Hilton and Hyatt properties a bit ahead of schedule following the disruption in the fourth quarter related to Hurricane Fiona just in time for the high season. The fundamental improvement year-over-year led to resort margins at these resorts approaching 50% as food and beverage and utilities expense pressure eased on a year-over-year basis compared to the fourth quarter.

The segment performance was dragged down by the two Jewel properties we recently assumed management of, though the performance was in line with our expectations. We continue to expect the performance of these two Jewels to improve sequentially next quarter while we execute the sale process of the resorts.

Turning to our MICE Group business, our 2023 net MICE Group business on the books is approximately $55 million versus $50 million at the time of our last earnings call, and is well ahead of our final full year 2019 MICE revenue of $32 million. Looking ahead to 2024, we currently have $29 million of MICE revenue on the books, well ahead of where we were at the same time last year.

Finally, turning to the balance sheet, we finished the quarter with a total cash balance of approximately $282 million and total outstanding interest-bearing debt of just under $1.1 billion. We currently have no outstanding borrowings on our $225 million credit facility, and our net leverage on a trailing basis stands at 3.1x.

We anticipate our cash CapEx spend for full year 2023 to be approximately $70 million to $90 million for the year, partitioned out between $35 million to $40 million for maintenance CapEx and the remainder to more ROI-oriented projects.

Also, effective April 15, we entered into two interest rate swaps to mitigate floating rate risk in our new 2022 term loan. We entered into a 2-and 3-year contract and each have a fixed notional amount of $275 million for a total of $550 million. And each contract carries fixed SOFR rates of 4.05% and 3.71% respectively.

And again, on the capital allocation front, as Bruce mentioned, we purchased $41 million of stock in the first quarter. And with our leverage ratios well below 4x, the anticipated free cash flow generation of the business and the attractive valuation of our stock, we believe repurchasing shares is a very compelling use of capital, and intend to continue to use discretionary capital repurchase shares going forward, depending, of course, on market conditions.

We will also continue to invest in our business to deliver value to our guests and shareholders, but the bar is high for new projects on a risk-adjusted basis, given the valuation of our stock.

Now turning our attention to our 2023 outlook. Our RevPAR growth outlook has improved, driven by higher ADR gains for every quarter of the year, while occupancy has largely remained steady. We now expect full year adjusted EBITDA of $265 million to $285 million, which is an increase from our last call. And that is inclusive of a $20-plus million negative impact from the appreciation of the Mexican peso, $15 million of which is expected to hit in Q2 through Q4 assuming today's spot rate.

Our core legacy portfolio EBITDA forecast has continued to improve, driven by ADR gains I just mentioned. We are also forecasting a slower ramp of the two Jewel properties in the Dominican Republic in the second half of the year, as they were unable to make up ground after missing the key summer selling season.

For the second quarter, we expect reported occupancy in the low 70%s, which includes a mid-single-digit drag from the two Jewel properties in the DR. We expect Q2 reported ADR to grow low-double-digits on a year-over-year basis. This is compared to the previously-expected high-single-digit to low-double-digits, and owned-resort EBITDA margins to expand year-over-year despite an approximately $5 million year-over-year EBITDA drag in the DR from the two Jewel properties and continuing FX headwinds.

So putting it all together, we expect Q2 owned-resort EBITDA of $79 million to $83 million; management and Playa collection fee income of $2.5 million to $3 million; corporate expense of $14 million to $15 million, all leading to consolidated adjusted EBITDA guidance of $66 million to $71 million.

Given our booking window, we are currently 90% booked for the second quarter.

For the second half of 2023, we expect reported occupancy to be in the mid-70s, and year-over-year ADR growth to be up again mid-single digits on a reported basis. We expect legacy owned-resort EBITDA margins to be flat to modestly up on a year-over-year basis in the second half of the year, with the two Jewel properties in the DR to be a drag on EBITDA during the second half of the year.

So to recap, the following are key inputs to consider as you think about our full year 2023 outlook. We expect full year occupancy to be slightly higher than in 2022, adjusting for extraneous factors, and low-double-digit to mid-teens ADR growth for the full year. We expect resort margins to improve year-over-year, despite the significant drag from the DR Jewels and again, a $20-plus million impact from foreign exchange headwinds.

We anticipate a better inflation rate of our cost basket as compared to what we've experienced during 2022, although it will likely continue to be elevated.

We have good visibility on our labor costs and see the wage increase is slightly higher than what we experienced in 2022. But we're experiencing lower cost inflation in food and beverage and utilities during the first quarter of 2023. And while we hope the lower prices persist, these categories can again be quite volatile.

We again anticipate roughly $14 million to $15 million per quarter in corporate expense, and $2.5 million roughly per quarter in management and Playa collection fee income.

We hope this framework helps guide you as you fine-tune your models, and gives you further insight to what we're seeing and expecting.

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

Bruce Wardinski: Great. Thank you very much, Ryan. With the increasing uncertainty in the macro backdrop, we are diligently focused on the areas within our control, and are carefully monitoring the landscape. We continue to believe the price certainty and amazing value provided by Playa's all-inclusive resorts resonates with travelers even in the face of an uncertain economic backdrop.

With that, we'll open up the line for any questions.

Questions and Answers

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

Patrick Schols: A couple of questions here. First one is, just to be clear, with the $20 million negative FX impact in your guidance, to be clear, your prior EBITDA guidance did not assume any impact, is that correct? So that $20 million is all in [Q]?

Ryan Hymel: That is correct.

Patrick Schols: Okay. Thank you. Next question, and I jokingly say we are moving on past Covid because we're going to talk about seaweed. Here I keep reading in headlines about this horrible seaweed in the middle of the Atlantic heading westward. Any thoughts about potential impact, or do you have any conservatism baked into your numbers around that?

Bruce Wardinski: No, that is a seasonal occurrence, it happens every single summer. There are some scientists who say it's going to be a little worse this year, but the nice thing about it is, it goes everywhere. So it goes to Florida, it goes to all of the Caribbean Islands, it goes everywhere, and people keep traveling. So we have a variety of mechanisms we have in place at

all of our resorts to deal with it, and I think we manage it relatively well. But it is what it is, and it's been something we've had for literally the entire time Playa has been in existence so --

Patrick Schols: Thank you. And then just one last high-level question, a long-term question here. Actually, I'll have two -- one more question on that as well. In three markets right now, what are your long-term intentions for possibly diversifying, continuing to diversify, geographically beyond three markets?

Bruce Wardinski: Sure. That's a great question, Patrick. Our goal -- certainly pre-pandemic, we were looking at pretty wide-ranging geographic expansion in different parts of the world. And obviously, the pandemic kind of cut those plans short. But from our standpoint, all-inclusive is a product, is a concept that, as we said in our remarks, resonates incredibly well with consumers. You've seen more and more interest from hotel companies, brands, investors, everybody, in all-inclusive because it's driven by the consumers' desire to go to all-inclusive. The price certainty, the value proposition of it is very strong.

So there is a very long history of all-inclusive in Europe, in the Mediterranean, in North Africa, certainly in the countries that we are in, some other Caribbean countries and some down in Latin America. All of those kind of markets, ones that are big enough to support kind of the lift that we think is required to be successful, we're interested in expanding. But I think you'll see in the next 1 to 5 years, Playa expanding into new markets.

So we think there's great opportunities there, and with the success that we have had, it's been 10 years now. So we've been managing all-inclusive resorts for 10 years, and we have built up a very strong reputation as to our quality level. And so I think it is the time to expand and I think you'll see that in the very near future.

Patrick Schols: Okay. Thank you. I'm actually all set. Thanks.

Operator: Tyler Batory with Oppenheimer.

Tyler Batory: So first question just on the Q2 outlook in terms of bumping up what you're expecting for ADR. Just talk a little bit more about that, what's changed in terms of what you're seeing for the second quarter?

Ryan Hymel: I think it's anything that's materially changed, other than the fact that our baseline fundamentals of our legacy portfolio have continued to move up. And we haven't seen any sort of signs from the consumers' propensity to pay our rates. Our NPS scores continue to be top and best-in-class throughout their markets and brands. And so it's just a continuation of the strategy Bruce laid in place at the beginning of Covid. So it's really, really nice to see.

Tyler Batory: Okay. And then is the outlook for the back half of the year on the ADR side of things, still up mid-single digits? Anything worth calling out there, just continued strength in terms of leisure travel, etc.?

Ryan Hymel: No, nothing to point out. Our messaging has always been we're focused on what we can control in our portfolio. We're acutely aware of potential macro discussions in the news and others, but not seeing anything in our numbers at this point. So we're always discussing what

could happen and what we would do should something happen. But right now, the outlook for the back half of the year, particularly for that legacy portfolio, continues to be strong.

Tyler Batory: Okay. And then in terms of the margin outlook, you've have some moving pieces there, some positives, and then some incremental negatives with the FX and whatnot. In terms of the overall portfolio, are you still expecting resort margin to be up year-over-year despite what's going on with the Jewel properties and despite the FX issue?

Ryan Hymel: Yes, yes, yes, on a full year basis. Just kind of giving you some of the additional building blocks even for this quarter, and just kind of help you think about and frame the rest of the year. Like as kind of Bruce and I mentioned, our legacy underlying EBITDA margins were up 340 basis points, and that's 160 basis points of reported, which I know you can't see because it's varied, but offset by another 180 basis points for FX. And as we mentioned or -- and what you [can] see the total underlying adjusted EBITDA margins are 230 basis points in the quarter, which is the 50 basis points reported, adding back 180 basis point headwind from FX. And so kind of even with that aforementioned FX drag and the Jewels, we were able to expand our reserve margins.

And so if you look ahead to the rest of the year, based on the business on the books and our forecast, we don't see a reason today why the legacy portfolio, excluding the Jewels, shouldn't be able to at least maintain, if not grow resort margins.

Tyler Batory: Okay, great. All right. I will leave it there and pass it on. Thank you.

Operator: Dany Asad with Bank of America.

Ryan Hymel: Are you muted, Dany?

Dany Asad: Can you hear me okay?

Ryan Hymel: Yes, now we got you.

Dany Asad: Sorry about that. We've heard from some of the other earnings calls in the last couple of weeks about rising property costs. And insurance is always a big-ticket item that kept coming up, but we don't -- obviously, you have different geographies and markets that you operate in. So just curious to know kind of what the insurance like landscape looks like for Playa's properties?

Ryan Hymel: In one word, difficult. We kind of highlighted in our last call, but we actually have completed our insurance renewal. We're an April 12th renewal. And as we anticipated, our insurance outlay and costs increased considerably on a rate for $100 of insured value, but essentially roughly in line with what we outlined and what we were expecting. We won't go into significant detail on this call, that'd bore everyone, but we did make some tweaks to the structure of our policy to help mitigate some of that explicit cash outlay in exchange for essentially some partial participation of Playa and some of the risk at higher limits.

But to be clear, in the case of an average storm, our expected cash outlay deductibles will be the same. And said differently, if we suffered the same large claim that we had in the DR last year,

our out-of-pocket expense for deductibles and assumed proceeds from the insurance companies would be exactly the same.

Dany Asad: Got it. Okay, very helpful. And then my other question is just on like management contracts, I know you do pursue them. Are there any -- in your guidance or outlook for the year, is there anything baked in at all into like kind of entering new contracts for the year?

Ryan Hymel: Yes, so in the guidance, it's just explicit what we have today, and the ramp of those that we've recently opened at the end of last year and early this year, so not including any new ones. But it's not a major contributor in 2022, but we expect that to kind of move up into the high-single-digit management fees this year, and then potentially, into the double-digits next year as we continue to kind of grow that pipeline and that funnel. That's an exciting part of the business. It's not a big needle-mover today, but something that we are acutely focused on now.

Dany Asad: Got it. That's it for me. Thank you very much.

Operator: Chad Beynon with Macquarie.

Chad Beynon: Nice quarter. Ryan, in your prepared remarks, you talked about CapEx, which I believe came up versus previously-guided, mainly on the non-maintenance piece of that. So can you talk about maybe where those projects are? What returns we should expect on that non-maintenance ROI?

And then related to that, how are you thinking about buybacks versus other renovation projects within the portfolio?

Ryan Hymel: Yes, so there's a couple of opportunities in and around our portfolio that you have heard us talk about many times, explicitly talking about what we are planning on doing this year. They are more minor in nature, to be completely frank. If you think about our portfolio, the vast majority is branded now and in pretty good shape. We don't have a lot of deferred maintenance or anything like that. But we do have some kind of original Hyatts that were converted back in 2013, or in the case of the Ziva Los Cabos, had its last renovation after -- in 2015, right? So they are coming up on normal kind of cycles for rooms refresh to soft goods, things like that. And specifically Los Cabos, that Ziva is a big contributor to our MICE Group business and it needs some work on the meeting space and public spaces.

So what we are doing right now this year, or about to start, there will be some rooms renovations to Ziva in Puerto Vallarta. Again, that's a small relative EBITDA contributor. It punches outside its weight. So there is some light disruption there, but it's fully baked into our numbers. And then we are just doing public space renovations at the Ziva in Los Cabos, so no room disruption there. Probably expect to do some room renovations at Cabos next year, but that remains to be seen; and then again, doing some public space renovations in some restaurants, additional incremental restaurant renovations at our Zilara and Cancun.

So admittedly, they are a little more defensive in nature and just kind of keeping up with some of our other brand-spanking new, even Zilara product. So I don't have explicit guidance on ROI spend there, but it's going to help us maintain, if not grow, the ADRs we are seeing today, particularly in Cabos where there is a lot of competition for group business.

Chad Beynon: And then (inaudible).

Ryan Hymel: And then buybacks versus other projects, like I have said, the bar is still high. There are some opportunities. You have heard Bruce talk about it many times. Specifically the Ziva Cancun has some small adjacent land immediately to the kind of north of it, where we could do an additional rooms tower. And so we are working through some of the planning and design phases and permitting phases to be able to do that, because that's something while the bar and return hurdle will be high versus buybacks, that would be a great use of capital because it's one of our most outstanding, best-performing, best-margin properties. It quite frankly needs more rooms when it already has well over 500 rooms, and it would just be a nice real great incremental return. But other than that, we do have other opportunities in the portfolio, but buybacks still look great when we are trading at 8x-ish consensus.

Chad Beynon: Indeed. Thank you. And then with respect to MICE for 2022 versus kind of what you are expecting for 2023, can you give us an update on that? And then also in terms of non-package add-ons, can you just remind us do you usually see stronger kind of incidence of purchase from MICE guests? And how does that play into the guide for 2023?

Ryan Hymel: Yes, so our MICE business for 2023, we have got $55 million on the books; that's up $5 million from the last time we spoke. That's almost like 1.75x what we did in 2019 and 2024 is trending up nicely. We have got almost $30 million on the books and that's up roughly 30% versus the same time last year.

Yes, MICE groups are big contributors to non-package, and that's why you saw some sequential step-ups in kind of the back half of last year, as more groups came back. You just think about the nature of it, one, you have got the group or the company who is having and holding the events, right, and so they are spending event dollars and presentation dollars or a big celebration on the beach, etc. And then the guests who are coming, as part of those groups, usually are not paying themselves. A lot of times, they are either coming by themselves or they are bringing a guest or a spouse. And so they have got more out-of-pocket capacity because then they have got extra time to go to the spa or wine upgrades, things like that, because they didn't pay for the vacation in the first place. So it's a solid base of non-package.

And quite honestly, why -- as you can imagine -- our Ziva, Zilara and Cap Cana has been one of the best non-packaged performers sequentially over the last year because of the influx of MICE business, and to the credit of the general manager and the staff there, some of the neat initiatives they have done on property to continue to push on package.

Chad Beynon: Okay. Thank you very much. Nice quarter.

Operator: Smedes Rose with Citi.

Smedes Rose: I was just wondering if you could just talk kind of bigger-picture about what you are seeing on the competitive side in terms of any new supply coming into the market that you could speak to?

Bruce Wardinski: Sure, sure, Smedes. It's not anything significant. So kind of due to the pandemic, many projects got kind of put on the backburner. There are new projects happening,

but it's not a significant level, and it's not impacting any kind of market dynamics whatsoever. So overall, it's just kind of steady, modest new projects.

Ryan Hymel: And then usually where you're seeing it, as we have said in the past, where you do see some supplies again further and further away from the airport because the prime mature markets are essentially built. Like even if the overall Yucatan Peninsula is projecting mid-single-digit room supply growth, it's less than 2 percentage points in Cancun proper; there's just nowhere else to go. So that's the benefit of having been in these markets as long as we have.

Smedes Rose: Okay, thanks. And then I just wanted to ask can you be -- a little bit more about the relationship with Wyndham at this point? You've had the ultra-conversions underway for, I guess a few quarters now. Could you just speak to how that relationship is going? Are you happy with the list of those properties since they were rebranded?

Ryan Hymel: Sure. In short, the relationship is going incredibly well. We couldn't be happier with our relationship with Wyndham, and I think it's probably mutual from their standpoint too. The Wyndham Alltra was the brand that they created, targeting all-inclusive to the Wyndham customer. At that price point in the all-inclusive market, that's probably the largest segment of the all-inclusive market.

So when we were looking at brands that we could partner with, it was very important to us to partner with the highest-quality possible brand because that kind of price point segment is so large and so important to us. And so the projects we have done so far had performed well. The contribution from Wyndham is solid and growing, and we think it will grow even more in the future as there are more and more Wyndham Alltras. We are working -- our development team is working very closely with their development team, and hopefully, you will see additional Wyndham Alltra announcements in the near future.

But overall, I think it's a great opportunity for both us and Wyndham just because of the number of opportunities. And most of those are conversion opportunities. So these are not ground-ups that take a significant amount of time to get up and going. These are ones that require a modest to a little more significant PIP that can be getting done very quickly and start to deliver higher results very quickly. And what's happening is owners in our space are seeing the success that we have had, and I think it's going to drive more conversions to the Wyndham Alltra brand.

Smedes Rose: Okay, thanks. And then can I just pop in one more? Just could you maybe update on where you are on selling the two Jewel properties, and maybe kind of just a little bit more about the process and timing?

Ryan Hymel: Sure. We are well in the process, but as we have said over the years, anyone who has listened to us, in our part of the world, things move a little slower, okay. And it's just the nature of the beast. But we feel highly confident that we will conclude transactions, but we can't at this time, give any kind of more clarity or definitive timing on that. But the process has been underway and is moving well.

Smedes Rose: Okay. Thank you.

Operator: Chris Woronka with Deutsche Bank.

Chris Woronka: Just had a question going back to the Jewel sales, I think you guys gave some [technical difficulty] potential disruption impact. I guess the question would be [technical difficulty] that when properties are known to be marketed for sale, sometimes it's tough to get not only customers, but employees, right? It's just kind of a tough process for the uncertainty. So I guess, what kind of level of conviction do you have in those disruption numbers?

Ryan Hymel: Yes, so I think we feel pretty good. So we think about it like this; like there is a few contributing factors to kind of how we are seeing the Jewels play out for the rest of the year. So, one, you heard us talk about on the last call, the timing and just the overall process of the takeover from those properties, essentially at the very beginning of high season, essentially empty, and the fact that we needed to do some very small renovation work while the properties were empty in the first couple of months of the year, but certainly not ideal. And that, as you can imagine, leads us to missing obviously, the high season, as well as our summer selling window, particularly the Europeans. We have said it on the call, our booking window has remained at a little over 3 months.

So, one, that makes it hard to sell for kind of the near-term if people are traditionally booking 3-ish plus months out. And then Europeans, which these two properties index higher to, they're roughly in the kind of Q2 and Q3 index about 25% European business, and they traditionally booked even a little bit further out.

So and then one other thing that we did want to point out, while scheduled seats into all of our destinations are pretty robust and good in Q2 and Q3, we have seen a reduction in airlift into Punta Cana from Europe. Not exactly sure why, but that also impacts these two properties for the summer, just given again their higher indexed European customers. And then as you mentioned, there is always going to be some disruption. There are going to be some partners and tour operators and others that know they are up for sale, and are always going to assume the worst that potentially whomever you sell it to, may shut it down. There always going to be some apprehension there. But obviously, we are pretty focused on making sure that these essentially can do as best they possibly can while they are under our ownership.

As recently as this morning, I got some updates from the sales and marketing team on some of the strategies and overnight things they put in place, and starting to see some pickup for the summer time. So we still have a long way to go, but I can trust that Bruce is pretty focused on making sure that we make the most out of them while they are still in our care.

Chris Woronka: Sure, great. Thanks Ryan. And then second question. As we think about your customer mix kind of normalizing, and maybe it's more of a 2024 thing at this point, but can we talk a little bit about channel, channel mix? And does this mean you eventually take a little bit more OTA business back, or how do you think that all blends into what you are expecting for ADR this year?

Ryan Hymel: Yes, I don't think it would change too too much. The OTAs, as we've said the last couple of calls, have been the slowest to recover. We have obviously grown dramatically the direct business over the years, if you heard us talk about, and then the return of MICE, which is, as we have said from the beginning, we are happy to see some direct business or especially business from any other channel into MICE business because of the rate profile and all the non-

package add-ons that they are willing to spend on. And it just fills holes in your business, and allows the yield management team to yield manage even higher. So I don't see it changing too too much, at least with the core owned legacy portfolio that we see today.

Chris Woronka: Okay, very helpful. Thanks, guys. Good quarter.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Bruce Wardinski for any closing remarks.

Bruce Wardinski: Great. Now thank you, everyone, for participating in our call today. As we have said, the first quarter, from a financial perspective, was our best quarter ever. Our Playa team members continue to drive guest satisfaction at incredibly high levels, and we expect the rest of the year to be good. So thank you very much for joining us today and we look forward to talking to you next quarter. Thank you.

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