Playa Hotels & Resorts (Q3 2020 Earnings)
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Corporate Speakers:

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

Participants:

- Chris Woronka; Deutsche Bank AG; Analyst
- Tyler Batory; Janney Montgomery Scott LLC; Analyst
- Smedes Rose; Citigroup Inc.; Analyst
- Aaron Lee; Macquarie Group Limited; Analyst
- Gregory Miller; Truist Securities, Inc.; Analyst

PRESENTATION

Operator^ Ladies and gentlemen, thank you for standing by and welcome to Q3 2020 earnings conference call.

(Operator Instructions)

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

I would now like to hand the call over to your speaker today, Mr. Ryan Hymel. You may begin your conference.

Ryan Hymel^ Thank you very much, Ana. Good morning, everyone, and welcome to Playa Hotels and Resorts Third Quarter 2020 Earnings Conference Call.

Before we begin, I'd like to remind participants that many of our comments today will be considered forward-looking statements and are subject to numerous risks and uncertainties that may cause the company's actual results to differ materially from what has been communicated.

Forward-looking statements made today are effective only as of today and the company undertakes no obligation to update forward-looking statements. For a discussion of some of the factors that could cause our actual results to differ, please review the Risk Factors section of our Annual Report on Form 10-K, which we filed at the end of February with the Securities and Exchange Commission. We've updated our Investor Relations website at investors.playaresorts.com with the company's recent releases.

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

On today's call, Bruce Wardinski, Playa's Chairman and Chief Executive Officer, will provide some comments on the third quarter and key operational highlights. I will then address our third quarter results, our liquidity situation and our outlook. Bruce will then wrap up the call with some concluding remarks before we turn it over to Q&A.

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

Bruce Wardinski^ Great. Thanks, Ryan. Good morning, everyone, and thanks for joining us. We appreciate your interest in Playa and hope that all of you are in good health and spirits as the country and the world begins the recovery process from the pandemic.

I'll begin today by reviewing early results at our properties, sharing preliminary learnings on the operational front and insights into the booking environment. I'll then turn the call over to Ryan to discuss our balance sheet, dive into our results and provide color on our outlook.

I'm very pleased to be able to say today that we have successfully reopened the majority of our resorts with a few remaining resorts opening during the fourth quarter. I know that this has been said many times this year, but this has been an unprecedented year for our industry, and I am proud of the entire Playa team for their hard work and dedication throughout the entire process.

With the majority of our resorts open, our focus is now on providing the getaway that so many people need right now, while maintaining the safest experience possible. As we have shared with you before, we have the luxury of having expansive footprints, numerous dining outlets and predominantly outdoor and open designs at the majority of our resorts, which provides the much-needed flexibility to redesign with social distancing and safety precautions in mind. I believe the changes and new Safe Stay operating protocols implemented have resonated well with our guests. I am pleased with the reception from our guests thus far. Their feedback, reviews and support have played a pivotal role in the recovery of our resorts.

We are also encouraged by the demand we are seeing and similar to commentary made by various other travel companies, believe that travel and testing restrictions continue to be the main gating factors in the recovery, not necessarily the underlying demand.

As we mentioned on our last earnings call, our business in Mexico came out of the gate strong, driven by robust close in demand. That trend continued throughout the third quarter and is holding steady into the high season. As you recall, Mexico does not have any travel restrictions in place with respect to pre-flight COVID testing or mandatory quarantines for international tourists upon arrival and importantly, has remained consistent with respect to these policies. It appears as though the lack of restrictions and the monetary considerations and invasive testing procedures that comes with them is leading to increased consumer demand and more business confidence, resulting in better airlift capacity and a faster recovery than other markets.

International air traffic into Cancun has shown sequential monthly improvement since reopening. Importantly, our occupancy declined as they're far better than the airlift decline each month since reopening, in the Yucatan and the Dominican Republic.

I believe the pandemic accelerated many trends throughout consumer behavior that were already in motion, with the most notable for us being the shift to direct booking channels. Our focus on the direct booking channels enabled us to ramp occupancy faster than many third-party reliant competitors and is leading to share gains.

We realize our current mix shift of direct bookings will naturally move lower as other channels rebound and many of the pandemic restrictions are loosened. However, we are confident our company is on target with our 5-year plan to increase consumer direct business to at least 50% by 2023.

In aggregate, during the third quarter of 2020, 50.7% of room nights booked were direct, up 23.2 percentage points year-over-year, reflecting the relative strength of our direct channels and our business model as a whole versus most of our competition.

To give a better gauge of the underlying fundamentals of our direct-to-consumer website, as of October 15, playaresorts.com was pacing behind last year with $34.8 million of gross revenue on the books for 2020 versus $52.3 million in 2019. During the third quarter, playaresorts.com accounted for 27.5% of our total bookings, up 14 percentage points year-over-year. Looking ahead to 2021, playaresorts.com has generated $16.8 million of bookings for next year versus $13.1 million for 2020 at the same time last year.

As we look ahead, our direct channels continue to recover at a much faster rate than indirect, particularly the extremely challenged Tour Operator segment.

On the marketing front, we have significantly increased our local in-country marketing efforts and believe this strategic move is paying off well during this difficult time, particularly in markets where travel restrictions remain. We have rolled out contactless QR code access throughout our resorts as both a safety measure and as a driver of non-package revenue, and to facilitate the overall ease of the experience.

So far, we have been pleasantly surprised with the level of non-package spend per guest and we will look to expand on this early development. We also received quite a bit of media attention around our work and learned from Paradise initiative, which takes advantage of the current remote work environment for many people throughout the U.S.

Looking ahead, we are encouraged by the increase in demand as airlift is added to our markets. But it is difficult to predict how much airlift will ultimately be added as we move into high season. I would note that given the consistency and policy, we are most optimistic about airlift coming back to Mexico at a faster rate than our other destinations, as that has been the case so far.

We are encouraged by recent changes to the arrival protocols of the Dominican Republic. However, whether this will result in additional airlift remains to be seen.

With that, I'll turn the call back over to Ryan to discuss the balance sheet and what we are seeing in the operating environment.

Ryan Hymel^ Thank you, Bruce. Good morning again, everyone. I will first give you an update on our liquidity and balance sheet and review the fundamentals of the quarter, and finish off with a discussion of forward bookings and market trends.

Starting with balance sheet and liquidity. Much like last quarter, we've included a monthly cash bridge on Page 6 of our earnings release to help guide the discussion. We began the quarter with $251 million of unrestricted cash. And as we outlined last quarter, our cash burn rate in a totally closed resort environment would result in a burn rate in the low $20 million per month. And as we began to reopen hotels on July 1, we believe that would improve going forward.

Our burn rate indeed improved each month of the third quarter, burning approximately $18 million, $15 million and $16 million at each month respectively with September including our $2.5 million quarterly principal payment under our credit facilities. These figures also include incremental launch and start-up operating expenses for the additional hotels reopened during the quarter.

We exited the quarter with roughly $195 million in unrestricted cash and hope to continue to improve our cash burn rate as we move into the high season. Given the extremely limited visibility into our future business, we will not be providing burn rate or EBITDA guidance. What we can tell you is that the incremental expense at our resorts related to COVID are fairly minor and we have staffing in place at our resorts to support higher occupancy levels than we're seeing today.

Another item to note is the CapEx spend of approximately $9 million during the third quarter, $4 million of which was associated with payments discussed on our last earnings call for Hyatt Cap Cana CapEx that was originally going to be paid in 2020 and 2021, but was required to be paid in 2020 as part of the financing transaction we closed in the second quarter.

As we've also discussed in the past, we still have some outstanding payments to the Hilton La Romana conversion project, and we are in the process of negotiating the terms and final amounts of these payments. During the third quarter, we paid roughly $2.7 million of the outstanding amount and expect to pay roughly $4.5 million in the fourth quarter. We continue to expect minimal amounts of maintenance CapEx to be spent for the remainder of the year.

I'd like to now turn your attention to group business. At the end of our last call, we had $1.6 million of group business on the books for Q3, of which $1.1 million stayed, $200,000 canceled and the remainder moved. Our fourth quarter group revenue on the books is currently at $1.6 million. And of the group business on the books for the fourth quarter at the time of the last call, roughly 70% canceled and the remainder rebooked.

So, in aggregate, of the group business that was impacted by COVID in all of 2020, roughly 60% is outright canceled and 40% was rebooked. Our 2021 group business that has been impacted by COVID has seen roughly 80% rebooked for future periods, which we believe is a very positive signal. Our 2021 group business has been quite fluid and currently we are modestly trailing behind where we were pacing at the same time last year.

On the leisure side of the group business, our wedding sales and marketing team has been extremely active during the third quarter. Our wedding business on the books for 2021 has grown materially since mid-February and we are now in line with wedding business on the books at the same time last year, another encouraging sign that trends will hopefully begin to normalize as we head into 2021.

With respect to advanced deposits, as of the end of October, we had just over $23 million sitting with us versus '21 at the last time of our last earnings call, with roughly 31% of that $23 million related to stays in the fourth quarter of 2020. Of the Q4 deposits, only $2 million is related to groups and the rest is reflective of the deposit policy during the holidays. Another roughly 30% is associated with stays slated for 2021 and the balance is for all periods thereafter.

As a reminder, the majority of our leisure business does not pay in advance and there are no deposits to refund with most of our leisure cancellations. All the aforementioned efforts bring us to a total unrestricted cash balance of approximately $195 million as of September 30. Also, as a reminder, we have $27.6 million of additional restricted cash on the balance sheet from our June financing.

On the other side of the ledger, we have roughly $85 million of outstanding borrowings on our revolving credit facility and a total outstanding debt of $1.27 billion. We do not have any debt maturities until our revolver matures until April of 2022. And our term loan does not mature until April of 2024. As you may recall, in June we reached an agreement to amend our existing revolving credit facility to provide relief for the springing leverage-based financial covenant test through and including the second quarter of 2021.

One final item to note is the recently signed purchase and sale agreement for the Dreams Puerto Aventuras for a consideration of $34.5 million and expect to close that transaction during the first quarter of 2021.

As last quarter, our forecasted use of cash does not include additional share repurchases as we have decided to suspend buyback activity for now.

Moving on to the fundamentals. Starting in the Yucatan, as Bruce mentioned, fundamentals improved each month of the quarter as occupancies ramped alongside airlift into the market. This improvement has continued into the fourth quarter with October showing steady progress and an October average occupancy of 34%. We estimate that over 80% of our competitors have reopened in the Yucatan and pricing has remained rational thus far.

Recently, our occupancy decline has fared better than the decline in airlift into Cancun, further reinforcing our belief that direct channels are providing a competitive advantage but realize that appropriately yield managing is of the utmost importance until we get more visibility into airlift and demand. Given the shortened booking window in the market, we feel that we'll be able to react accordingly if the opportunity presents itself.

In the Pacific, we decided to open the Hyatt Ziva Los Cabos as part of our second phase of openings as this resort is usually more reliant on group business and doesn't have any of our other resorts nearby to cluster demand. Given the recovery in airlift into the Los Cabos market, which leads all of the markets we operate in, Los Cabos has come out of the gates very strong. Several airlines have made announcements about adding more direct flights from the East Coast than would be typical pre-COVID, which is a testament to the demand for this destination.

Hyatt Ziva Puerto Vallarta, which opened on October 1, has also seen a strong rebound in airlift into the market, helping to quickly ramp-up in occupancy. The Pacific segment saw October occupancy ramp to just under 40%. Throughout our resorts in Mexico, we've also made an active effort to market locally, resulting in our locally sourced mix increasing over 700 basis points year-over-year.

We began opening our resorts in the Dominican Republic in July, starting with the new Hyatt Ziva and Zilara Cap Cana and our managed sanctuary Cap Cana. In late July, the government-imposed COVID testing requirements to enter the country, immediately impeding the momentum we were seeing in the region. At the time of our last earnings call, the DR had been our strongest geographical segment for bookings in the fourth quarter as it was not seeing the same sort of cancellation activities as other markets.

Our occupancies continued to improve each month during the quarter despite the restrictions and no significant change in airlift. The government, however, removed the COVID testing requirement in mid-September and our DR bookings picked up right away, giving us a sense of optimism as we move into the high season. Airlift into this market remained extremely depressed throughout the third quarter, but has begun to pick up slightly in October with the absolute number of flights per week nearly doubling.

Similar to what we're seeing in the Yucatan, we are materially outperforming the traffic into the destination. With an estimated 20% to 25% of rooms back online in Punta Cana market at the end of September, we believe our direct sourcing strategy is enabling us to take share and maintain excellent pricing.

As you may recall, Jamaica was shaping up to be our strongest market as we approached Q3. But the momentum stalled out once COVID testing requirements were put into place in Jamaica in early July, severely disadvantaging this destination relative to our other locations. Though locally sourced business has helped the occupancies outside of our Hyatts in this market, such as the Hilton, the Jewel Paradise Cove, it has weighed on our ADR and mix of rooms sold.

We're starting to see some additional airlift into Montego Bay in October, which has increased occupancy levels at the Hyatt Rose hall in October, but we would like to see the COVID testing requirements relaxed or removed entirely to increase international demand. Until that happens, we do not expect demand to improve in this destination. On the competitive front, we estimate that roughly half the room inventory in Montego Bay remains closed.

Now taking a look at who is traveling, roughly 50% of the stays in the quarter came via our direct channels versus 23% in Q3 of 2019, which we believe was a function of the weakness in the Tour Operator channel, which was down 90%, and weakness in the OTA channel, which was down 84%, while our direct channels only saw a roughly 59% drop. Geographically, our U.S. sourcing increased 700 basis points to 62% of our managed room nights. Mexican source business increased 300 basis points. South America and Jamaican, both increased 100 basis points.

Given the state of travel restrictions, our Canadian and European mix both fell 500 basis points our Asian agent source mix fell 300 basis points. Our 18 to 34-year-old age demographic continues to trend ahead of last year, while the 35 to 54 demographic lags and the over 55 crowd remains relatively flat.

Our point redemption room nights booked increased year-over-year for both Hilton and Hyatt during the quarter, which is extremely encouraging. Hilton Honors redemptions were up 110 basis points and account for just under 10% of the bookings mix for our Hilton Hotels. World of Hyatt redemptions increased 150 basis points year-over-year and are approaching a mid-single digit percentage of our booking mix at our Hyatt portfolio.

We've mentioned several times that one of the biggest challenges we face in our industry during the reopening process has been the contraction of the cancellation period to roughly 24 hours across our portfolio and across the lodging industry generally. Much like last quarter, I won't go into too much detail due to competitive reasons, but we did see cancellation activity leading up to the reopening of our resorts across the board, which was in line with our internal projections. Cancellation activity recently, however, has leveled off and we are adding net revenue for future periods, which is an important milestone for us.

We shared on our last call that our revenue on the books for the fourth quarter of 2020 was down around 35% versus the same time last year and we expected that number to continue to trend lower. Our overall pacing did trend lower as expected, until early September when the pacing began to stabilize once school schedules became clear, followed by an actual improvement in October until a brief disruption at the hands of Hurricane Delta.

The improvement seen in October was the first uptick since before the pandemic. The rate of cancellations has leveled off, allowing the accelerating demand to result in net booking gains.

I also want to note that as we move into the high season, we are seeing a slight change in the booking window. As the reopening began in Q3, the average lead time for our stays was less than 1 month across the portfolio versus roughly 2.5 months a year ago. And while it steadily improved in Mexico, it has lagged our other markets.

As we look ahead, our long-dated room nights on the books for Q4 is significantly greater than what we experienced in Q3, but that is typical during the holiday period. This is encouraging, however, as it provides us a base of business with a continuation of the strength of close in demand, leading to potential upside, especially as airlift continues to be added to our destination. For the fourth quarter, our revenues on the books are a little less than half of what they were for Q4 2019 at the same time last year.

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

Bruce Wardinski^ Great. Thanks, Ryan. So just to recap, with the bulk of the portfolio reopened for business, our focus is on controlling what we can, which is delivering the best experience possible in the current environment, continuing to grow our direct business, managing cost to minimize cash burn and optimizing our portfolio.

We are operating under the assumption that airlift and demand will not get materially better and we, therefore, need to be diligent on expense control. We are highly encouraged by the stabilization in booking activity, the sequential occupancy increase through October and the demand we are seeing heading into the high season.

So again, thanks for all of your time and we'll now take questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Your first question is from Chris Woronka of Deutsche Bank.

Chris Woronka^ Thanks for all the data points. Very helpful. I did want to ask about first quarter and more in a directional sense, not to get nitty-gritty numbers, but can you maybe give us a sense as to what percentage of first quarter revenue was on the books at this time last year? And maybe just directionally, how you see that filling in this year?

Ryan Hymel^ Yes. So right now, the first quarter is right around 50% behind where it was prior year with revenues on the books. But as I mentioned earlier, that has actually increased slightly over the last 3 or 4 weeks. We've started to see net gains where our cancellations have leveled off. So we see that trending positively for the first time since pre-pandemic.

But as we've said many times, and I know you're probably tired of hearing us saying it, the cancellation policy makes it a little more difficult to predict how much of that is real. We talked about on the last call that roughly 75% of the business that we had in the books for Q3 canceled by the time it got to Q3, and that was similar in Q4 as well. So that's the hardest part when it comes to predicting things, but we have seen net pickup over the last 4 weeks, which is a positive signal.

Chris Woronka^ Yes. That's helpful. And then just a quick follow-up on that, on the cancellation policies. I mean, do you think hotels can delineate when they -- from airlines in terms of when the policies might become a little bit more restrictive again? Or do you think as long as airlines are allowing people to change for free, it's going to be difficult for hotels to push a change?

Bruce Wardinski^ I mean personally, Chris, I think it's going to be difficult. The only advantage we have being kind of a resort trip is something you have to plan a little ahead for. There's a little less likelihood that people cancel. I mean, they're much more likely to cancel kind of a domestic trip or an urban trip for the weekend or something like that. So ours is a little less.

But having said that, as long as the airlines are going to have it, which they have to, right, from a competitive standpoint, they're going to have to offer it. And we can't do anything that everybody else isn't doing. And that's kind of universally what's going to happen, so.

Ryan Hymel^ And on the positive side of that, we do see quite a bit of close in bookings. Again, it makes it hard to predict. But we've seen people book as close in as a week out to the date of travel, which is encouraging. But again, makes it hard to predict.

Bruce Wardinski^ And I'll tell you, and I think as you continue into kind of the remote work and the remote schooling environment, I think more people are going to be flexible with what they can do. And so we're seeing some of that. And you don't have to go now Christmas week because your kids go back-to-school, you can go in January when things are different.

So I really believe it's going to continue to be kind of flexible moving toward that. And I was going to ask you question, Chris. I mean, are you right now doing your call from one of our resorts, in our Work and Learn From Paradise?

Chris Woronka^ I wish I was.

Bruce Wardinski^ Okay. Well, you need to. I want to -- call me any time once you get down there and book it, okay?

Chris Woronka^ No, it's getting colder up here in the Northeast, so you might be onto something, Bruce.

Bruce Wardinski^ Exactly.

Chris Woronka^ Just had one last question, which is -- and this is more of a longer term, hopefully more fun to answer. Do you guys think you're getting enough from the Hilton and Hyatt? And whether you want to talk about them collectively or individually, but they have these huge -- Hilton has 110 million members, Hyatt is a lot smaller. Do you think you can get like more of your fair share of their customers, given how small the all-inclusive resort portfolios are for both of those companies?

Bruce Wardinski^ I believe so. I mean, one of the main motivations from our standpoint of partnering with our brand partners is that their resort portfolios aren't that significant. Obviously, their all-inclusive resort portfolios are pretty much nonexistent. But even their overall resort portfolios are relatively small. And if you look at it, who's going to be traveling? It's going to be leisure business, right? And it's going to continue to be that for some extended period of time.

And so, whether people are just tired of being kind of cooped up or they've got points that they can redeem, I think we're going to continue to get business from them. And as Ryan mentioned in his commentary, we've seen it, it's starting to happen. And I think it's going to be happening more going into 2021. And so, we're excited about that. The airfares remain cheap. People who travel have a much higher propensity to travel again. Then they come back and tell their friends, and it's kind of a word-of-mouth and it spreads or they go on social media.

And so, I think it's just going to continue to build going into next year. And like you said, the weather helps. I mean, if we have a cold winter, it's going to be beneficial to us. So the Northeast, the Midwest, I think there's also a lot of inks and overhang from the election. Whatever happens, that's going to be behind and I think people are going to be more open to traveling. And that's where I think we'll benefit. And our relationships with Hilton and Hyatt are critical to that.

You mentioned the numbers of members that they have in their frequent-stay programs. That is just not something that our competition can even touch. And so, just the ability, they've been doing a good job with it of just launching out promotions or anything, like our Work and Learn From Paradise and different things. They put those out there. That's stuff that our competition just can't even compete with. And so, I'm very positive that we're going to continue to build on that especially going into 2021.

Ryan Hymel^ And Chris, on the books for Q4, our percentage of Hyatt redemptions for the business on the books is nearing mid-single digits for Q4 for Hyatt and in the low-double digit percentages for Hilton, which would be an increase of 200 and 100 basis points respectively over Q3 results. So it's trending in the positive direction.

Operator^ Your next question is from Tyler Batory of Janney's Capital Market.

Tyler Batory^ First one is just a follow-up on the ADR. Can you elaborate on the strength in ADR in the third quarter, especially in Mexico? And is that something that has continued into the fourth quarter as well?

Ryan Hymel^ Yes. We've seen that. So in the third quarter, adjusting for the VAT adjustment, our rates in the Yucatan were still up almost 10% over prior year, which is, again, a testament to the direct strategy in our bookings mix and in the power of that portfolio there. We are seeing that continue into the fourth quarter as well.

Even in the Pacific Coast, where we only had 1 hotel open for 6 days in the quarter, that being Ziva Los Cabos, for that 6 days right after reopening, it still did 21% occupancy and its rates were only down 3.6% compared to prior year. Given the timing of all that, that's actually, in my opinion, very, very promising. And so, we're seeing that continue into the fourth quarter and into the first quarter as well.

Tyler Batory^ Okay. Great. And then I also wanted to follow-up on some of the commentary in terms of the airlift into some of your markets. I mean, at this point, do you think that the lack of airlift is really one of the primary governors on your results, especially in places like Mexico? I mean, do you think the demand outstrips the ability of travelers to get to some of your properties?

Bruce Wardinski^ Yes, 100%, 100%. So I mean, I think what you're going to see is -- the airlines, the airlines need to fly routes, okay? And so I think they were incredibly cautious about where to fly. And every new plane that they put out there has a cost component to them and so they were a little cautious. What you've seen in Mexico is the demand has followed the airlift. And so I don't know, it's the chicken and the egg.

But as more airlift has come into Cancun, Los Cabos, Puerto Varta, more people are flying. And so as our people just started going for business on those routes, they all sent back pictures of the airport and the planes. And the planes are crowded, if not full. And so I believe that what we need and will happen is more airlift will go into the market, and that will bring more customers into the market.

And kind of going back to your previous question about the rates, we made a very clear decision that it wasn't going to benefit us to just slash rates to try to drive demand going to the airlift issue, right? So there's a limited number of people who are going. The people who are going, their remain focus isn't on what the rate is. It's what is the experience. Are they going to feel safe, are they going to have a great time? So our focus has been on maximizing rate and delivering an incredibly strong experience for all of our guests. And so that's why I think you're seeing reflected there.

But I believe that as the airlines see their planes going in there full or very full, they're going to start adding more planes. And you've started to see that, and I think it's going to continue.

Ryan Hymel^ And I'll add a little more data there, Tyler. While we've seen progression in the right direction, sequential growth each month, let's be clear, the Cancun market for international arrivals exited the quarter still down roughly 60%, 65%; Puerto Vallarta down roughly 50%; Cabos down roughly 40%. But then you look at the DR, it's still down roughly 80%. Again, we mentioned that they're adding flights now, which is nice, but it's still down materially. And Jamaica is still down roughly 70%, 80%. And so that's, for us, the number 1 gating issue for our ability to kind of increase our results and be able to forecast more accurately.

Bruce Wardinski^ So let me just give kind of a little color on the numbers. The biggest reason for the decline in the Dominican and also affects Cancun are the European flights, okay? And so I think the one reality is, given what's going on in Europe, I don't think you're going to see a big rebound in that business. I think that can be significantly offset by increased demand coming out of the United States.

So number 1, where can Americans go for a leisure trip, right? They can't go to Europe. They can't go to Asia. And so where can they go? They can go to Mexico and the Caribbean. And today, there's a good article in the Wall Street Journal talking about people going to Mexico and going to Hawaii. And so I think that's what we're seeing very positively. And so I think we're seeing it, the airlines are seeing it, the customers are seeing it. So I think you're going to continue to have that business.

You add all these factors, right? Americans can't go to other destinations, so there's more demand going into our destinations. The airlines are starting to fly more flights there. You have the redemptions increasing. You have people having flexibility with their schedules, whether it's work or school schedule. So I think all of that points to improved conditions for us going into the first quarter.

Tyler Batory^ Okay. I appreciate that. And then just last question for me is on the asset sales. Just help us think about the strategic rationale for selling that property. And then also if you could touch on how this sale fits into your liquidity planning, your liquidity situation?

Ryan Hymel^ Yes. Much like the Jewel sales that we announced back in May, this particular asset doesn't fit our strategic vision. It would not be a candidate to be a brand without heavy additional CapEx and reimagining of that property given its location, which is probably, I think, of our entire portfolio, it's the furthest from the airport, it's bordering almost on to loom from the Cancun airport. And just given its heavy reliance on tour operators, the fact that we didn't manage it, we think it was probably -- would be one of the slowest properties to recover from the pandemic.

So we wanted to sell that asset to give us some optionality, give us some additional liquidity and allow us to see how things progress into the first quarter and into the first half of next year just given the fact that visibility is so low.

Bruce Wardinski^ Let me just say, we had had discussions with people pre-COVID pandemic, okay? And so we were talking about this a long time ago. And then when the crisis hit, everybody stopped talking because, right, everybody wanted to see what the situation was going forward. And then recently, the interest peaked and came back to us. And so that's kind of how this all evolved.

So we weren't going to sell at any kind of distressed price. We had no need to do that. It's a little different than the situation we were looking at back when we sold the two Jamaican hotels in May at the beginning of the crisis. But when we got very strong interest, we're like -- yes. As Ryan said, this isn't strategic to us. We got a good price. It helps with our liquidity situation and takes out of our portfolio a hotel that was just going to need more cash than deliver more cash.

Operator^ Your next question is from Smedes Rose of Citi Bank.

Smedes Rose^ Given some of the, I think, cost savings that you've pushed through the system and then sort of shift to more direct bookings, et cetera. Can you just maybe talk about what sort of occupancy levels you need now across your portfolio to just get to kind of breakeven from an EBITDA perspective, maybe either at the property level or corporate wide?

Ryan Hymel^ Yes. No, that's a great question. So as we've said before, year round, just on average, our breakeven property levels are roughly 35% to 45%. But as we move into high season, and as -- given the rates that we currently are seeing on the books, we think that in our various destination should be at the lower end of that spectrum, much closer to like the mid-30s to low 30s as you move into high season.

Smedes Rose^ Okay. But on a year-round basis, something like 35% to 40% would be --

Ryan Hymel^ Yes.

Smedes Rose^ Would at least get you to kind of 0 and then north of that you would start generating positive EBITDA.

Ryan Hymel^ At the property level, correct.

Smedes Rose^ At the property level. And what do you think you need to do to get to 0 at the corporate level or then move into positive territory?

Ryan Hymel^ Yes. Year round, we're around 60% -- around 60% occupancy. And obviously, that will move a little bit lower as we move into the high season.

Smedes Rose^ Mid-60% for the year round?

Ryan Hymel^ Yes.

Smedes Rose^ Based on rates you're seeing now. Okay.

Ryan Hymel^ Yes.

Smedes Rose^ And then, I mean do you have any -- I mean, can you guys help us, are you thinking that that's an achievable occupancy number for next year, for 2021, from what you're seeing now? Or how are you kind of thinking about that? I realize that there's not a lot of visibility, so you can bear with me though, so.

Ryan Hymel^ You are right. I mean, it's incredibly difficult to handicap at this point. You're absolutely right. I can't comment on whether or not that's achievable or not.

As Bruce mentioned, the underlying demand is there, but airlift is one of the biggest gating issues. Airlift, and then obviously the restrictions that we've discussed ad nauseam in Jamaica. And so it just makes it too hard to predict. So I apologize I can't give you a concrete answer on that, but it's something that we're striving towards, obviously. But our plan today is gaining share, focusing on direct and keeping the employees and the customers who are showing up and coming, happy, and coming back.

Smedes Rose^ Okay. And then could you just talk about on the asset sales, if should for whatever reason you feel like you need to raise incremental capital, how many of these kind of smaller noncore resorts do you have? And I guess how "easy" is it to take them to market and sell them? It seems like maybe you're selling them at like 9.5x, 10x EBITDA. I'm guessing on that. But is that -- how deep is the market there?

Ryan Hymel^ Yes. So you're absolutely right. On the Aventuras, we sold it about 9.5x, 2019. Again, we believe that's irrelevant in this world because I don't believe it will do the EBITDA it did in 2019, anytime soon, to be completely honest. But we have a couple of others. We haven't said publicly which ones we'd be targeting, but they look and smell a lot like what we've done already. They wouldn't be candidates for brand. They have some potential needs for CapEx, and it doesn't fit our strategy.

It's certainly easier than it was at the height of the pandemic when -- to actually execute these transactions, because now stating obvious, people can actually show up and tour the assets, therefore they're open.

Like Bruce mentioned, this was actually an asset we had identified for sale prior to all of this, and we kind of had to wait for things to reopen in order to do so. We were happy that we were able to sell the two Jewels back in May, but we realized we were fortunate and able to do so because we sold it to a group who resided in-country, and it made it easier. They could literally drive down the street and come see the asset.

So it's easier today, and there is still a market of buyers for these assets. So we have a couple of others we would look to do, and that would be our first and cheapest source of capital at this point.

Operator^ Your next question is from Chad Beynon of Macquarie.

Aaron Lee^ This is Aaron Lee on for Chad. I just wanted to talk about your non-package spend a little bit for a bit, and how you see that trending in the next few quarters? I know you mentioned in your prepared remarks that it was a positive to price during the quarter.

Ryan Hymel^ Yes.

Aaron Lee^ Do you expect that strength to continue? Or is it still ramping?

Ryan Hymel^ Yes. No, we've talked about this quite a bit internally because I personally was surprised at the amount of non-package spend from those people who were coming, particularly even in our Spa. What we knew was going to be a hot seller were dinners and isolated dinners on the beach, and now that we've rolled out, as Bruce mentioned, the QR code that we can actually sell cabanas and stuff like that. It's allowed people to socially distance in a more meaningful manner, the stuff we hadn't done before.

But the spa sales actually surprised me. Like to give you an example, at our Zilara Cancun, previously on a per guest basis, did the highest amount of dollars per guest ever in our entire portfolio. Our third quarter, our dollars per guest, we're bordering on what we did at its peak last year at that property. Obviously, it's beautiful spas and adults-only properties, so it's easier for couples or people to go to the spa, but that surprised even me.

I don't know enough about the psyche of the customers who are traveling today, but I think it's safe to say that the people who are traveling today, are a little less risk-averse. They're obviously comfortable getting on planes and stuff like that. So does the next wave of people that come who are maybe a little more hesitant today, will they be as likely to spend in a spa or something like that? My guess is probably, you would see those numbers come down a little bit because they may feel comfortable enough to get on plane and come, but they may not feel comfortable enough to get a facial treatment or a massage or something like that.

But that said, everything else, I think we continue to see strong positive bookings in non-package, whether it's transfers from the airport, private transfers from the airport, where you're with just your family and people will pay for that; again, booking our cabanas, dinners on the beach, wine upgrades, I don't see that slowing down anytime soon.

Bruce Wardinski^ And one thing I'll add to that, what Rya said, is that one trend we're noticing is that people are very willing to come to our resorts, and they feel very comfortable at their resorts. But they are leaving less frequently, okay? And so that's a lot of things that they might have spent by leaving the property, whether it's excursions or meals outside or any other activities, they're not. So they're trying to enhance their stay, but do it at the resort. And I think the beneficiary is the nonpackaged spend because of that trend.

Aaron Lee^ Last one for me. For your group re-bookings, are these things we booked for late 2021 or 2022?

Ryan Hymel^ Both, both. We are seeing some booked to 2021, but it's too hard to handicap whether or not they'll come or not, just depending on what happens in the world. But for the most part, things are moving into the second half of 2021 or into 2022.

Operator^ (Operator Instructions)

Your next question is from Gregory Miller of Truist Securities.

Gregory Miller^ First question I want to ask relates to the Mexican government. Can you update us if the government is reconsidering or changing its travel promotion strategy or possibly the reinstatement of the Mexico Tourism Board, given the pandemic?

Bruce Wardinski^ There's nothing that I have heard that they're making any changes. The President, AMLO has been kind of funny during the whole thing. He's almost ignored that anything has happened whatsoever anywhere in the world, let alone in Mexico with regards to anything. And so I don't believe he's revisited that issue.

I think it's a little -- let me just say, I'm not -- I was going to say a little less necessary or I guess maybe the impact felt is a little less impactful. Because a lot of the focus they did there was not just getting the leisure, but trying to get groups and other business, which that has dropped off anyway. And I think that just the fact that there's limited destinations where Americans in particular can go to, which is most of the focus of the Mexican Tourism Board was geared towards the United States, I think there's a lot of press that -- "Hey, here are your options." Like I said, with the today's article, it points that out very, very clearly.

The options for Americans to travel anywhere is somewhat limited. And so I don't think they're going to be doing anything anytime soon is my bet.

Gregory Miller^ I want to switch gears and ask about third-party management contracts. You noted interest in the past of picking up more management contracts or asset-light partnerships. Are you seeing more opportunities today or into 2021, perhaps? And if so, what kind of hotels and locations might be opportunities for you?

Bruce Wardinski^ So we have always had a very strong desire and we've stated it publicly before that we want to grow that part of our business. But it was very necessary to kind of grow our portfolio as fast as we could and as effectively as we could to get to the point where we could convince others, okay, other owners, other financial partners, that would make sense to do that, okay?

And so I think there's always silver linings of any crisis. And I'd say one of the silver linings of this crisis, which will benefit Playa in the near- and- medium-term is that, as Ryan alluded to, the biggest drop-off in how business is being booked was in the Tour

Operator segment, okay? A lot of our competition relies on that segment. Second segment that's been impacted is the OTAs. That's starting to come back a little bit, but the Tour Operator segment remains incredibly depressed from prior historical levels.

And so I think as we look at things going forward, we're going to get and have been getting a little more interest from people who have existing properties or new properties, and they see what's going on. And they say, "Wow, how come you're doing better than your competition, and it's basically because of our direct consumer sales strategy. And so I believe we're going to get more business. And we are having discussions. I can't tell you anything is going to materialize anytime in immediate or short term, but I can tell you we are having more discussions.

Gregory Miller^ Okay. Well, I guess we'll wait to see on that one. That's it from me.

Operator^ At this time, there are no further questions, and I would like to turn it back to the presenters for any further comments.

Bruce Wardinski^ Okay. Well, thanks again for everybody participating and your interest in Playa. We don't know any better than anyone else in the world about where things are going to go in the coming weeks and months. But as we mentioned on the call today, we're seeing a lot of promising trends and we hope that those trends will continue and that we'll benefit from that. So with that, I hope everybody has a great day. Thank you.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.