Ryman Hospitality Properties

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Patrick Omar: All right. Good afternoon, everyone, and thanks for joining us. We're here live with Colin Reed, Chairman and CEO, and Mark Fioravanti, CFO of Ryman Hospitality. Colin, Mark, thanks for being here and taking time today. Obviously, interesting times we're living in so let's jump in.

You guys provided an update last week with some recent occupancy and operating trends. Maybe we could just rehash some of those and what you've seen over the last couple weeks and months as we progress through the pandemic.

Colin Reed: Let's start with our hotel business. Mark, if I miss anything, please jump in here. Four of our five hotels are open right now. We have two small ones we really don't count as we talk about hotels in the context of big ones. Four are open. One are not. The one that isn't is based in Washington.

The four that are open, we reopened the first one of those early in June. We opened the other three towards the end of June. We've been pleasantly surprised with the levels of occupancy we're been putting through those hotels.

We've been generating anywhere from 15 to 20 points of occupancy at weekends. Those occupancies have moved up into the 30 percentage range. What I'd like to point out, Omar, to the folks that are listening in to this -- 20 points of occupancy in one of our hotels is a hell of a lot of room nights.

Our smallest hotel is 1,400 rooms. Our largest is 2,880. We're generating a lot of hotel rooms and a lot of outside of the rooms spend. We've been very happy with what is going on, especially with COVID.

Obviously, in our hotel business that have a lot of room nights canceled, just like every group hotel and every convention center across the nation. We laid it out in the report that we've put out on Friday, if you referenced. We've had about 1.7 million room nights canceled.

We have rebooked just over 45 percent of those room nights, which is substantial. We're very pleased about that. On the cost side, we have worked very, very hard with Marriott, our manager, in we furlough basically I would say 90 percent of our payroll in these hotels.

As we have reopened them and we have been bringing back certain of our management...to give you an example, in the Texan that has been operating probably at the highest level of all of those four hotels, we have about 180 managers, supervisors, managers, directors, vice presidents. We brought back Patrick, I think somewhere in the 80 range.

Our margins are pretty good. What we have laid out in these updates is that we estimate that if we can continue to build this and get to 30 points of occupancy, we should have those hotels breaking even from a cash flow perspective. That's where the hotel business is.

Our entertainment business, we've obviously been subjected to the criteria that a city like Nashville has put out, where businesses were closed and then slowly they've been allowing businesses to reopen now. For instance, our restaurant business here is operating at 25 percent seats available, but our Ole Reds that we have opened have all opened pretty well.

We've been very pleased with that. We've been live streaming at the Ryman. We've been doing paper views for the last four weeks on a Friday. We've been live-streaming the opera on a Saturday night, in front of no crowds whatsoever, just zero people in the opera house. We've been getting huge online activation.

Last weekend, not this weekend, going on the weekend before, we had Brad Paisley and Carrie Underwood. We streamed that to two million people, and we also had it placed on our Circle TV network.

Given this very, very unusual circumstance, I would say, we're in as good a shape as we can be in this very current time. I suspect that through the fourth quarter and into the early part of next year, you'll see, I think, our businesses continue to reopen and strengthen.

That is reflected in the estimated cash burn that we referenced in Friday's release, down materially from the third quarter, down materially, third quarter was materially down from the second quarter. We estimate somewhere between 22 and 24 million monthly cash burn, and that's after debt service too. We're making progress in a very unusual and difficult time.

Patrick: Awesome. You alluded to it earlier, but the Gaylord National is the only major hotel of yours that's closed. Can you give an update as to what you would expect or what would need to happen for that hotel to open whether it be on the operating side or the [inaudible] side?

Colin: Yeah, sure. We think about every hotel in a very consistent way, and there are a number of factors that we take into consideration. One, how much group business does the hotel have on the books between now and the year-end? Is it likely that we can generate tremendous leisure business in a particular hotel?

The fact of the matter is Gaylord National, the National has the highest percentage of group business on an annualized basis, and our leisure business in that market is relatively limited. That was a factor as to why we didn't open it.

The second part of it is the cost structure dealing in a market like Washington DC is higher simply because it is a union hotel.

The third thing that we took into consideration is that this is the only hotel that we have an outstanding major capital rooms refurbishment. What we have done is we've accelerated that refurbishment. We started doing that back in the June time frame, Patrick, I think. We're attempting to get 1,000 rooms done by the end of the year.

Over the next month to two months we'll be probably a little bit more definitive on when we're opening it. I very much doubt whether that hotel will open much before the year-end.

Patrick: OK. Awesome. That's helpful. Obviously a lot of the demand and a lot of the recovery has been driven by that drive to leisure guest. What are the different levers that have worked and didn't work in capturing that shorter lead time, that shorter lead time leisure guest?

Colin: What I would like to do is answer that question in a little bit more of a complicated way, which I think will be helpful to those that are listening. Our brand, this Gaylord Hotels brand, is a brand that this company designed, built, and operated. We handed it over to Marriott in the early part of '13.

Part of the characteristics of this brand was that we wanted to make sure that the physical product was exceptional, that we put entertainment in these things, that we have great service and we know the customer better than anybody else.

These hotels, Omar, I don't know whether you visited any of these hotels, but these hotels are very different to what you tend to see parked next to a large convention center in a city let's say like Indianapolis or pick it wherever you want to go.

These hotels have extraordinary attributes. We have beautiful stars. We have beautiful pool complexes. We have multiple restaurants. We have retail. We have beautiful atriums. The list goes on and on, sports bars.

There are one or two folks in the sale side, your brethren on the sale side, not with JP Morgan, that would say you're a group business. You're a group company. Therefore you can't drive leisure. That is so far from the truth.

The busiest time of the year for this company, for this brand, is in the period between Thanksgiving and the end of the year where we don't do group business. We overlay it with these really beautiful leisure propositions.

That's truly what we've been up to here with Marriott since this pandemic hit in early middle March. We obviously shut the hotels down, and then we prepared them for opening.

In that period in middle May through the middle of June, we spent a lot of time building leisure-driving programs in these particular hotels and frankly generating about 20 points of occupancy with the average hotel size I would think is probably 2,000 rooms, that's 400 room nights a night since we've reopened them in each of these hotels. If this was a 500-room hotel, each of our hotels were 500 rooms, we'd be running at 80 points of occupancy.

That's what we've been up to. Patrick Chaffin who runs asset management side and essentially responsible for our hotel business has been working with Marriott putting together these beautiful programs. In our disclosure, Mark, on Friday, we put in some illustrations of some of those programs.

They've been working pretty well. I would like it if we had maybe a bigger pool complex at one or two of our hotels, but right now, the assets that we have and the way we've marketed them, I think we're doing pretty well.

Patrick: Maybe if we pivot a little bit to the group business and talk about cancellation trends. How would you describe the evolution of the forward cancellations today? How far in advance are these events being canceled? We've generally seen 2021 cancellations focused on the first part of the year, maybe the first quarter or so.

With your recent update, 11 percent of cancellations were for 2021, which is a bit more than it was in July. Is this still the case, is it still restricted to that first part of the year?

Colin: Yeah. There is a reason for this, and I need to explain this to you. Every large group that we do business with, and one of the things, Omar, you would learn about our company is we have a very high loyal base of customers that we rotate from market-to-market, year-by-year. We'll talk a little bit more about that in a minute.

The way these contracts work is that if a company like JP Morgan comes to us and says, "Look, we want to come and visit you in three years from now." We negotiate the contract. We put in the amount of room nights you're going to generate.

We also put in food and beverage minimums and as the time between now and when you come gets closer, the amount of cancellation and attrition fees you may owe us will go up the nearer we get to the time you come to this particular convention. The way it works is, if you cancel in the period between a year out and six months out, you have to pay X.

If you cancel within six months, it's essentially our profitability. What is going on now with some of the groups who are contracted to come in that first quarter of 2021, they're saying, "We would prefer to cancel right now because the fees we would own you would be less than if we get to the end of the year and we find that we can't come because we don't have a vaccine."

That is why we're seeing some leakage in the early part of 2021, but it's because we have these really, really strong contracts. Now, the other thing that I want to say is that we took a decision as a company back in March of this year.

Now, because of the restrictions government have placed on people moving around this country, and regional governments, city governments, and state government saying you got to close your business, we took the decision in the early part of this pandemic that we would not enforce cancellation fees providing the group in question rebooked with us.

On one of the pages of the presentation, you'll see how those rebooked room nights have been rebooked into '21, '22, '23, '24, and above. That is what's going on here. The real good news is that 46 percent of the cancellations have been rebooked into contract form for periods downstream.

The moment our society gets comfortable about meetings taking place, these meetings will be held, our business will be at or about where we were a year ago. That is what's going on with group business. Mark, what else did I miss.

Mark Fioravanti: I would just add, to Colin's point, meeting planners and groups are trying to manage their contract cancellation exposure, their fee exposure going forward as we roll through this period and things begin to open up.

We had a conversation on Friday with our head of sales for Opyrland and he's very, very optimistic about the desire for groups to meet, even frankly, pre-vaccine. There are a number of groups who are anxious as restrictions get lifted to come back together.

Yes, groups are managing that fee exposure, but they're also very eager to get back to meeting. That makes us feel very optimistic about the speed with which our business can reramp once groups begin to travel.

Colin: If I may, let me just add one more. It's regarding our prosecution of attrition and cancellation fees. As I said just a second ago, we made the decision with Marriott that we weren't going to prosecute. In the spirit of time where the client could argue force majeure, that there are these external events that they have no control over.

What we have decided as a business is that as we move towards the end of this year and these restrictions are falling away, where cities are starting to open back up, if a client decides they want to cancel, let's say for February, March of 2021 today, we're taking the position that attrition and cancellation fees are owed to us.

Now, will we be lenient with the loyal customer and rebook that loyal customer? Probably. Overall, we're taking now a little bit of a different approach for the early part of next year than we took in the summertime of this year.

Patrick: I think you were touching on this a little bit in terms of the propensity to travel and that still being there. Does that differ by segments? Whether it be corporate planners, wedding planners, associations, large group?

Colin: Clearly, the wedding planner wants to hold the wedding. I don't know whether you're familiar with the association market. Associations all across this country use their annual meeting as a way of generating a large chunk of the money that they need to sustain the association.

For instance, in 2009, when we had the financial crisis, in that year, we had about 135,000, 140,000 room nights cancel of which, literally 96 percent of those room nights were corporate and only a fraction were association.

As soon as this country gets back and feels safe and secure, notwithstanding the point Mark made just a second ago, we think the association market is going to come back pretty quickly. Corporations are going to be a little different. It's going to be circumstantial based on each corporation. I'm sure, Omar, one of the questions you may have is the systemic changes to business caused by COVID.

One of the questions is, does work at home, stay at home change the convention industry, the group industry? Our thinking is, based upon some conversations we've had with the meeting planner, it should be positive for us. Corporations may scatter their employees across the four corners, but they've got to bring them together to build the culture and to talk strategy.

All of us don't like working at home in the basement. I don't think our segment of the industry is going to change much. I'm really glad that we as a company are not in the business transient side. Video conferencing, the likes of which we're doing here, could impact the one-on-one type meetings. When you need to bring 500 to 1,000 people together, this is a little bit more challenging.

Patrick: That's super helpful color. I appreciate it. If we look at your business and we think about the drive-to and the fly-to markets, historically, what percent of your stays do you think were fly-in business versus drive-to? Which of your resorts -- we touched on Gaylord National earlier being more of a fly-to market -- are best and worst positioned to address that in the near to medium term?

Colin: That's a simple question but it's a complicated answer. From a leisure perspective, I would say the vast majority of our business save Orlando is drive-in business. If you draw a concentric circle around each of our hotels, you go out 300 miles, you probably have 100 million people residing in that concentric circle. It's a drive-in market.

Orlando's very different because of its geographical positioning in the country but also because of the national attraction that Disney and Universal bring. We see from a leisure perspective more fly-in in that particular hotel. We predominantly do business with national customers. That's why when we opened Denver it was very important to us.

It gave us access to those western corporations that we're able to bring into a market like Denver and then rotate through the rest of our business. We have been very careful in terms of where we position these hotels. If you look at our hotels, apart from Washington, they all sit near a large airport.

Our hotel in Aurora sits next to that airport that, historically, has had 65 million deplanements and planements, three hubs, 12 international flights a day. Dallas, the same thing in Grapevine. Nashville here, huge. Orlando, the same thing.

From the group customer, we tend to like to do business with those group customers that are between 1,000 and 2,000 at peak. They are national and they come in by air. Frankly, we don't see any change in that. These groups have to meet.

Now, maybe there's a way in which we instead of doing one large meeting in one hotel, let's say, in Dallas, we do five meetings for the same company and link them together through videoconferencing. I don't think there's any systemic change to this. Whether they come by rail, or by car, or by air depends on the type of customer.

Patrick: Do you want to add to that, Mark? Anything else?

Mark: I would say that if you look across the portfolio, probably the Texan and Opryland have the strongest drive-in markets. They also have probably the most robust amenities to support drive-in leisure with the pool products that they have. Those are probably the two strongest.

Patrick: On the pricing front, how competitive is the market there on the present? Everybody's looking to increase occupancy off these incredibly low levels. How competitive has it been on that rate front? How much of that has translated into forward contracts when you talk about rebooking these large groups into future periods?

Colin: Again, what I want to remind you of is we are not -- you'll think I'm crazy here -- obsessively focused on ADR and RevPAR. For every dollar in the room, we generate a dollar and a half outside of the room. We think about total RevPAR. We map these hotels against competitive hotels through Smith Travel.

We, as you probably know, have had very large RevPAR indexes. The good thing about our business is our hotels are very different to what you tend to see. We're not out there slashing our rate to try and drive business. Our rates have been pretty good over the last two to three years. That's why our margins in our business have also been very, very strong.

The other part of it is, as you well know, pricing is a function of supply and demand. On the supply side, there aren't any hotels like our hotels being built in this country. When you look at the amount of meeting space that we have per guest bedroom, it's disproportionately greater -- it's don't on purpose -- than what you tend to see in our segment. Pricing has been decent.

One thing I look at, as does Patrick and Mark, every month all of the new business we sign up, we look at the pricing that Marriott is extracting and we compare that to the pricing grid of 12 months earlier. I've been very comfortable, as I know Patrick has, with how we're driving pricing for future years and future conventions in our business.

As I said, from a supply perspective, things are only going to get better. There is not going to be strong supply growth in the sector that we're in. Did I miss anything?

Mark: No. I would just say that the vast majority of business on the books was pre-COVID rates. The business that we're rolling and rebooking is at briefly contracted rates. When you look in the near-term, rates are not going to drive people to travel during COVID.

You see that in our transient rates. We're running about 140 percent star index on ADR compared to our CompStats. People are making choices about where to stay not based on rates but about amenities, and about their comfort with cleanliness, and other types of amenities.

Colin: I've been surprised that we're booking non-rebooking room nights. We're booking 40,000, 50,000 non-rebooking room nights. We've been booking those at a really good clip in terms of rate. Rate is the furthest issue that we have to deal with.

It's how do we drive room nights here over the next few months until our society becomes comfortable with traveling en masse, en bloc is, once again, a good thing.

Patrick: Generally, across your five major hotels, you need 30 to 40 percent occupancy to break even on EBITDA, 50 percent on free cash flow. We touched about rate. How does this assume rate in terms of channel mix?

Presumably, if you're leaning more on that leisure customer, given that dynamic we discussed about the out-of-room spend, how does your reliance on the leisure customer impact that break-even math?

Mark: To get to that break-even, that 50 points, you're going to be introducing group into the mix at that point. Your mix is going to be normalizing. It's going to be normalizing at contracted rates.

Colin: Let me give you some data here. We reopened these hotels way up in Texas when I said early part of June. We opened the rest in the third week of June. In the July and August timeframe, we did, believe it or not, 8,000 group room nights. We had a whole bunch of small groups turn up and also a couple of large groups turn up.

Between now and the year-end, Mark, Patrick, we have about 100,000 group room nights still on the books for this year. Group is not done and dusted. It's not obliterated. We've got groups wanting to come. Unfortunately, we had a group that wanted to come here in Nashville right now. It was for the second week of September.

The restrictions in place by government didn't allow that. It was a 500-person group. As these restrictions start to wane, as they start to burn off, we will do some group business between now and the year-end. By the way, in those numbers that we talk about cash burn, there's very, very little group business in those cash-burn numbers.

The assumptions are, essentially, that group is obliterated between now and the year-end. As these restrictions ease, we're going to see more and more groups turn up in our hotels. The other thing is, we're getting small groups booking for a short period of time.

I know one particular group here at Opryland booked for, I don't know, 40, 50 room nights for two nights for the month of November. I know that personally. There will be group business here coming in. Then, as our society gets confident, then we're very well positioned. We've got almost 40 points of occupancy on the books for next year. I feel pretty good about 2021.

Patrick: A little bit early to go to the queue but there is one question that's relevant to this topic. It's how will hybrid events impact the profitability of your hotels? If you can walk us through what it means for volumes, pricing, and margins.

Colin: Do you want to take that?

Mark: When you say hybrid events, what do you mean by that?

Patrick: I presume just events that overlap the three segments, whether it be association group and maybe the leisure front.

Colin: I don't understand.

Mark: Say that one more time for me. I'm sorry.

Patrick: The question is, how will hybrid events impact the profitability of your hotels, if you can walk us through what that means for volumes, pricing and margins?

Mark: I don't know of any events that we have that cross all three segments, if I understand the question correctly.

Patrick: Perhaps we can circle back offline and maybe get back to that one.

Colin: We're having a hard time with the question, Omar.

Patrick: No worries. If we shift and we focus on the corporate cost structure, how much of your fixed costs do you think you were able to permanently remove? How helpful has Marriott been in streamlining those other system processes?

Colin: I hate to rehash history, but when we converted from a C-corp to a REIT, we actually did all the work in '12. It occurred in '13. We eliminated a ton of costs in our company. We eliminated there or thereabouts about $60 million worth of costs, offset by $20 million of management fees.

What we have done since March is that we have eliminated costs at the corporate level. We have eliminated 60-ish positions. By the way, when I say corporate level, I mean in our entertainment corporate, as well as our corporate corporate.

We eliminated about 60 positions. We have cut comp costs right across the board for all of our senior management. With the team I've got sitting around this table, they've all suffered some pain here in all of this.

I suspect that when we're through this situation, our costs both on the corporate level and the entertainment corporate level will operate at a lower level. I suspect that when we're all said and done, Patrick, in our hotels, we should move our margin a little bit up.

What COVID has forced us to make decisions on, Omar, is on things like if we have two functions in a hotel, can we combine those functions and eliminate one of those management roles? We're doing that right across the board with Marriott in our hotel business.

When the pig's through the python, I suspect that we'll see improved margins at our hotels and, I'm hopeful, lower corporate costs than what we would have had, had COVID not hit us here. We've review this with our board every time we engage with our board, both virtual, because I think it is something that...I'm going to stop mid-sentence and say this.

In times like this, good organizations can figure out how they can benefit, and not just sit there and panic about, "Oh, my God. We need to make sure the company doesn't go under." Our goal as a management team and our goal as a board is, when we're through this, that this is a stronger company than it was when we went into it.

There's a lot of disruption going on right now in these big brands in the sales functions, in the meeting planning constituency, right across this country. In my mind, that is an opportunity.

Patrick: Maybe before we get to the one question on the entertainment business, which you guys also run as well, how do you think about the increased or the incremental costs that come along with cleaning rooms, social distancing? How does that impact the cost, either per room or the margin expansion story that you're trying to paint?

Colin: When we went into this, none of us, nobody in this country has had an experience in a pandemic -- nobody. There's a lot of rhetoric, a lot of posturing. We sat down. We're very close in this town to one of the great health hospital systems in the nation.

We sat with them and said, "Help us think about our hotels when we reopen as you would think about the cleanliness of one of your hospitals." We were able to build a program and at the same time, Marriott was off building its program. Then, we synthesized the two together. We think we've got best demonstrated practice in our hotels.

Patrick, I think we estimated initially that we were going to be in the $12 to $14 range, somewhere in that range, in terms of cost per room to do all of this new sophisticated stuff.

Now, three months, four months downstream, as we've reopened the hotels, we're doing different things. We're bringing in the health departments to help us think about the practices that we've put in place. We've been able to narrow that down to more like a $7 to $8 per cost, per room.

As I said, we believe over time that that's going to be offset by efficiencies that we've been able to gather in the consolidation of labor and certain practices that we had in place in these hotels. That's how I think about it. Mark, did I miss anything on that?

Mark: No. The only thing that I would add is that we have made these investments in cleaning obviously to give guests confidence. It's also paid dividends to us in terms of capacities, how we can utilize our buildings, our relationships with the health department and their confidence in us to allow us to have certain levels of occupancy for different activities that we might not have normally gotten.

Colin: One brief shout out, Omar, I don't want to take your time here. Our hotels and our entertainment folks, we have built some really quality relationships with the health departments across the markets that we're in. I want to thank them for their diligence in working with us as we've been reopening our businesses. They've been exceptional to work with.

Patrick: Great, definitely. Maybe one last question as we touch on the entertainment business. Where are you in regard to Nashville's four-stage reopening plan? How have you, over the past couple of months and while these venues have been closed, been able to keep that business relevant from a content perspective?

Colin: It's interesting. If it hadn't have been for COVID, we probably wouldn't have tried some things that we've tried. I would say net-net, I'm more excited today about our entertainment business. Mark, you may want to weigh in on this. I'm more excited about it today than I was probably six months ago, and I was very excited about it then.

Right now, we've got our [inaudible] facilities open, but we've got restrictions in place where we're only allowed to operate in some cases 25 percent capacity, and in others 50 percent capacity. They're operating at a really good level. I've been very surprised by how that business has been doing.

The Grand Ole Opry House, essentially we reopened it to tours. There's been no customers sitting in the arena. With what's taking place here in Nashville, a month and a half ago, Nashville had 800 cases a day. That number last Friday was 22.

The mask mandates, the work that is being done here has been very productive. We expect to see restrictions being lifted in the Opry House where hopefully we can put 500, 600 people in the Opry House, I hope, within a matter of a month.

With the Ryman, we've been doing virtual. We've been doing pay-per-views at the Ryman for the last four weeks, once a week on a Friday. That's been going very well. We wouldn't have tried that had we had all these concerts in the Ryman anyway. It's an interesting opportunity for us.

As I mentioned earlier, the Saturday night Opry show that we have been streaming has been extraordinarily well-received. We're not just in this country, but outside of this country. People are tuning into the Opry from all across the world. It has been very good.

I hope that over the next three to four months, you're going to see these businesses open back up where we can put customers in these venues and move this business back to where it was in the January, February level of this year.

Patrick: Awesome. That brings us to 2:50, the end of our 40-minute session. Colin and Mark, appreciate you taking the time.

Colin: Thanks, Omar.

Mark: Thank you.

Colin: If anyone has any other questions, they know how to get a hold of us. Thank you very much for your time.

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