THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RHP - Q4 2019 Ryman Hospitality Properties Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2020 / 3:00PM GMT

CORPORATE PARTICIPANTS

Colin V. Reed Ryman Hospitality Properties, Inc. - Chairman & CEO

Mark Fioravanti Ryman Hospitality Properties, Inc. - President & CFO

Patrick Chaffin Ryman Hospitality Properties, Inc. - Chief Operating Officer-Hotel Division

Scott J. Lynn Ryman Hospitality Properties, Inc. - Executive VP, General Counsel & Corporate Secretary

CONFERENCE CALL PARTICIPANTS

Charles Patrick Scholes SunTrust Robinson Humphrey, Inc., Research Division - MD of Lodging, Gaming and Leisure Equity Research and Analyst

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

Shaun Clisby Kelley BofA Merrill Lynch, Research Division - MD

Smedes Rose Citigroup Inc, Research Division - Director & Senior Analyst

William Andrew Crow Raymond James & Associates, Inc., Research Division - Analyst

PRESENTATION

Operator

Welcome to Ryman Hospitality Properties Fourth Quarter and Full Year 2019 Earnings Conference Call. Hosting the call today from Ryman Hospitality Properties are Mr. Colin Reed, Chairman and Chief Executive Officer; Mr. Mark Fioravanti, President and Chief Financial Officer; Mr. Patrick Chaffin, Chief Operating Officer; and Mr. Scott Lynn, Executive Vice President and General Counsel.

This call will be available for digital replay. The number is (800) 585-8367, and the conference ID number is 4726939. (Operator Instructions)

It is now my pleasure to turn the floor over to Mr. Scott Lynn. Sir, you may begin.

Scott J. Lynn - Ryman Hospitality Properties, Inc. - Executive VP, General Counsel & Corporate Secretary

Good morning. Thank you for joining us today. This call may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, including statements about the company's expected financial performance. Any statements we make today that are not statements of historical fact may be deemed to be forward-looking statements. Words such as believes or expects are intended to identify these statements, which may be affected by many factors, including those listed in the company's SEC filings and in today's release. The company's actual results may differ materially from the results we discuss or project today. We will not update any forward-looking statements whether as a result of new information, future events or any other reason.

We will also discuss non-GAAP financial measures today. We reconcile each non-GAAP measure to the most comparable GAAP measure in an exhibit to today's release.

I will now turn the call over to Colin.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Thank you, Scott, and good morning, everyone. Well, we ended another record year in 2019 on quite a strong note across our company, posting 4.8% RevPAR growth and 4.9% total RevPAR growth in our same-store Hospitality business in the fourth quarter; 34% adjusted EBITDAre growth in our Entertainment business; 12% growth in our AFFO per share for the quarter; and 17% in our AFFO per share for the year, which is ultimately what we are most pleased with in terms of delivering value to our shareholders.

And as you see for -- see in our guidance for 2020, it's set to surpass '19 and then some, starting with our expectations of 3% to 5% RevPAR growth and 2% to 4% total RevPAR growth for our hotels, which now includes the Gaylord Rockies as that property passed its 1-year anniversary in December.

Now turning to the bottom line. We expect our hotels, including the Gaylord Rockies, to generate $504 million to $518 million of adjusted EBITDAre in 2020 on a consolidated basis. And we expect our Entertainment business to generate $60.5 million to $68.5 million of adjusted EBITDAre, which includes both the impact of our pending acquisition of Block 21 in Austin, Texas and the substantial investment we're making in the first full year of our Circle Media joint venture. Given how integrated the Block 21 assets are with each other and the central nature of the entertainment to this location, we will include the results of the W Austin Hotel in our Entertainment segment once the deal closes, and it will not be included in the Hospitality metrics that we report. However, it will be managed and overseen by our own hotel asset management team.

Moving on. In 2020, we anticipate delivering $379 million to $398 million of total AFFO, a 9% increase over 2019. Again, this includes the impact of our pending Block 21 acquisition, and we expect to close at the end of March or early in the second quarter, and our new Circle Media joint venture.

Now these are great numbers for both the fourth quarter of '19 and our expectations for '20. And we can talk about some of the details in a moment, but I want to use the majority of my time to tie these numbers back to our overall strategy.

You see, our 2019 results and our '20 guidance are not simply the windfall of a few good years for group, as I expect some of the lesser informed might attribute them to. Rather, they are the direct outcome of the same strategy we have been messaging for years: the virtual circle of building and delivering to groups and meeting planners the product that they desire in the markets they want to travel to in an efficient, rotational, multiyear, multi-site booking package while reinvesting back into our business against a backdrop of low supply.

We don't sit back and wait for a good year for group to come around or for this or that downtown convention center to be renovated or for one of our markets to suddenly have a good city-wide calendar. Yes, of course, some of these things are nice to have at the margin, and of course we'll feel a bit of the impact when they swing one way or the other, and we're happy to walk you through those effects any time. But our business is really about capturing repeat customers; inducing our own demand; and then reinvesting, expanding, building, renovating and ultimately delivering a sustainable competitive advantage that is very difficult to replicate.

Since we are now at the start of 2020, let me take you back to almost exactly 4 years ago to our Investor Day in March of 2016.

We told investors then that with a stable economic background and just the projects we had announced at that time, we expected that in 2020, we would likely deliver, at the midpoint, around $473 million of adjusted EBITDA, excluding the minority share in Gaylord Rockies, and around $378 million of AFFO or $7.26 a share. And then if you look at the middle of the guidance that I just gave you for 2020, you will see we exceeded those figures, both adjusted EBITDAre, excluding minority interest, and total AFFO. And adjusted for the 3.5 million-share equity offering we recently closed in December of '19, our 2020 guidance would be above our 2016 Investor Day midpoint for AFFO per share as well.

We expect to exceed those prior targets because of the strength of our underlying group strategy and the many subsequent investments and acquisitions that we have announced in the intervening years that were not included in that forecast. These include our increased investment in the Gaylord Rockies; the opening of SoundWaves at Opryland; and the creation and the launch of our Ole Red venues; and of course, the pending acquisition of Block 21.

And for those of you that were in attendance, you may recall that was really the message that, that slide back into -- that was conveyed in that slide back in 2016. In fact, we circled it in bold at the bottom. We called your attention to the capital deployment opportunities created by the stability and visibility of our core business, which would allow us to make accretive investments in those upcoming years and which will enable us to make more as we look past 2020 to the next 5 years.

And that is the real story here, not just that 2020 will be a record year for us, but what we can and will do beyond 2020. Across our portfolio, we have so many opportunities to deploy additional capital at high rates of return in 2 really attractive, irreplaceable businesses. Let me give you some examples.

We just officially announced the $80 million 300-room expansion of the Gaylord Rockies, which we expect to open sometime in the middle of 2022. In Orlando, our 300-room expansion of the Gaylord Palms is proceeding on schedule and will open in early '21. So far, the sales performance of the expansion at the Palms is tracking the same as our successful expansion of the Gaylord Texan, and we are studying quite a few more high-ROI projects across our Hospitality portfolio that would help us to address the evolving needs of our group and leisure customers.

And then there are the greenfield possibilities against the limited supply backdrop, which involves identifying new markets our customers want to travel to and then cultivating the right partnerships and incentives to make that happen, whether from the ground up or from acquiring an existing asset that either is or can be positioned as the group meetings leader in that market.

And that is just in our hotel business. There are equally as many possibilities in our Entertainment segment. The popularity and crossover appeal of the country music lifestyle has supported our Ole Red brand in 3 large markets so far. And we're actively pursuing a few more and will likely be announcing a couple of those in the next several months.

The launch of Circle Media with Gray Television is an entirely new model added to the mix of our Entertainment offerings. Circle is now live in over 20 million homes on linear TV, and our digital subscription service will launch sometime in the middle of this year. By the way, the launch of Circle gives us great opportunity to use this platform to promote all of our existing operating businesses.

And then you add Block 21 and ACL Live at the Moody Theater in Austin to that mix and you have so many possibilities to cross-pollinate in this segment that would really need a separate call to fully dive into them.

But first, to bring it all back to our strategy, these are the kinds of things we're focused on day in and day out here at Ryman, not on flipping this or that hotel in order to spin our wheels and recycle capital from one market to another or on patiently waiting for the leisure and business transient traveler to show up or on trying to pivot and quickly group up a few percentage points if they don't show up. Ultimately, our shareholders have been the big beneficiaries of this differentiated strategy. Whether you look at just the calendar year of '19 or the last 2, 3 or 5 years running through today, our cumulative total shareholder return has surpassed not just our lodging REIT peers', but the broader market as measured by the S&P 500 as well, which is really something for a REIT in this long-running bull market.

So now let me briefly talk about our fourth quarter, just touching on bookings and then highlight a couple of factors at play in our year-over-year comparisons for both bookings and our financial results.

On a same-store basis, excluding the Gaylord Rockies, we booked 811,000 gross group room nights in the fourth quarter. Now this was in line with our expectations, as we told you on the last call, that we did not expect to match 2018's incredible record fourth quarter performance in which we booked just over 1 million group room nights.

Now the reasons for this are pretty straightforward. First, the simple fact is we have less availability to book into right now after the figures we posted the last few years, especially within the current corporate window. So we would expect bookings to move back into more of the 215,000 to 217,000 pattern than the bond burning years of '17 and '18. And that is essentially what we're seeing, which is still a very healthy group backdrop when you look holistically at all the metrics that we track such as attrition rates, lead volumes and by individual year and so on.

Second, we are now over the slight headwind as we lap the change to third-party commission schedules that kicked in at the end of '18 as well as the extensions that we saw in the booking window with so many corporate groups seeking to get ahead of rising demand and likely unlimited supply around that same time.

And finally, as I said earlier, there are incremental factors that do play in at the margin for everyone involved in groups, such as 2021 being an odd year which affects city-wides, plus the upcoming election, which, in the last few cycles, has seemed to give corporates a pause as they handicap the outcome, which seems to be a little bit more complicated this time around.

But as I also said, these are fairly marginal factors for our hotel business overall. All in, still excluding the Rockies, we had 6.8 million net room nights on the books for all future periods at the end of the fourth quarter, which is 2% higher than the end of '18 and 5% higher than the end of the third quarter.

In terms of pace, we entered this year of 2020 with 53.2% net occupancy points on the books compared to 50.8% at the start of '19. And for T plus 2 or 2021, we have 40.2% net occupancy points on the books at year-end, which, while relative to where the extremely strong 2020 was a year ago, is marginally down on pace, it's still in line with the average T plus 2 position of this -- of the prior 3 years. And then our T plus 3 or 2022 pace looks really, really encouraging right now as well.

Now I should add that apart from these figures, the Gaylord Rockies had an excellent booking quarter, posting 191,000 gross group room nights, an increase of 55,000 over the previous year. Going forward in '20, we will, of course, begin reporting the Rockies bookings within our overall same-store figure, just as we will for its financial results.

Now let me call your attention to a few key drivers of our results in the quarter for each segment. In Hospitality, for our same-store hotels, we were very pleased with RevPAR and total RevPAR performance, again growing 4.8% and 4.9%, respectively. Our mix of association versus corporate was higher in the quarter, most significantly at Opryland and Nashville, which drove lower growth in total RevPAR at these properties. Opryland's total RevPAR was a little challenged due to a less-than-expected performance of our Rudolph holiday show, which is put on by the hotel and hosted at the Grand Ole Opry House.

Moving to the bottom line. Same-store Hospitality segment adjusted EBITDAre of $109.6 million was 5.6% increase over the fourth quarter of last year. Now when you look at the same-store portfolio total revenue growth and then flow through to adjusted EBITDAre, as you know, we typically look for about 50% flow-through on incremental revenue. And in the fourth quarter, this figure was about 37%. That remaining delta is about $2 million. And simply put, 90% of that is wages and benefit increases. So it's no secret that we operate in a tight labor market in all of our markets. And I talked about this at length on our last call, so I won't belabor the point again, but it is essential for us to compete and retain the best employees to deliver consistent product and services to our customers given the business and growth that we have in front of us.

The key differentiator for us versus many of our peers facing this environment is that we have the business on the books and the RevPAR growth to accommodate these cost increases and still deliver good growth to our shareholders.

Moving to the Rockies. The numbers simply speak for themselves. Rockies had a remarkable first year with total RevPAR for the quarter and the year higher than the same-store portfolio average, flowing down to over $83 million of adjusted EBITDAre. As I said last quarter, if you want a single data point that illustrates the demand-supply imbalance for quality group hotels and meeting space and the power of the Gaylord system strategy, the first-year performance of the Gaylord Rockies is a pretty good example.

Now let us move to our Entertainment business. In the fourth quarter, revenue and adjusted EBITDAre for the Entertainment segment grew a robust 23% and 34%, respectively. Even including the easier comp created by Opry City Stage loss in '18, the adjusted EBITDA grew 25%.

Nashville just shows no sign of slowing down. In its first full quarter -- first fourth quarter comparison, for example, Ole Red Nashville grew revenue 18% and more than doubled profitability in that -- quarter-over-quarter. Our operating teams have really zeroed in on getting this unique light music and restaurant/venue hybrid model running efficiently. And we are excited to see Ole Red Gatlinburg post its own first full year in 2020 and to open all Old Red Orlando this spring with more locations in the works. And that was only the third most exciting milestone of the quarter and the year for this business as we also launched Circle in the fourth quarter. As I touched on earlier, as I -- we also launched Circle in the fourth quarter, which I touched on earlier.

The initial response from fans and artists alike has been very encouraging. And we're especially pleased to announce 2 weeks ago the addition of Bobby Bones to our programming roster. Bobby has a tremendous following in the space and will host a weekly 1-hour show featuring live performances and backstage interviews from the Grand Ole Opry.

But perhaps the biggest milestone for our Entertainment business of the quarter and the year was our announcement of the acquisition of Block 21 in December, which I touched on earlier. Now let me back up for one moment just in case anyone is not familiar. Block 21 is a mixed-use entertainment complex in the heart of Austin, Texas and is anchored by the 2,750-seat ACL Live at the Moody Theater as well as the smaller 3TEN at ACL Live Club, the 251-room W Austin hotel and 53,000 square feet of Class A commercial and retail space in the heart of Austin. ACL live is best known as the home of the longest-running music series on television, Austin City Limits, which, in turn, helped to spawn Austin's reputation as the live music capital of the world.

The combination of Block 21 assets with our Entertainment portfolio, including Circle Media, bridges the 2 most renowned music markets in the United States and offers so many opportunities that I hesitate to dedicate too much time on this call. But here's just a brie f list.

They include a new platform to create and distribute content, both physically and digitally; new creative outlets for artists with whom we have strong relationships; opportunities to cross-promote content and artists between ACL Live and our other venues and channels; opportunities to improve the W Austin Hotel utilization, especially in the group business segment; opportunities to maximize the commercial and retail space to its highest and best use, which may include the additions to our F&B and Entertainment portfolio; and finally, an opportunity to enhance margins through shared services as the acquisition will significantly leverage the infrastructure we have built around our Entertainm ent business.

So if you're keeping up with all of this, our company is in very good shape, and we expect things to be even better this year. We have an entire portfolio of new openings, product launches, acquisitions, investment and expansions underway or on tap for 2020 and beyond as we continue to pursue a consistent strategy.

In front of us is one goal, which is to continue to deliver high total returns to our shareholders. Of course, one of the mor e visible ways we do that is through our dividend. And I take great pleasure on these year-end calls announcing that once again, our Board has authorized a $0.05 increase to our quarterly dividend for 2020 from $0.90 to $0.95 or from $3.60 to $3.80 on an annual basis for an overall increase of 5.6%. This is something that you won't see much of the season from our peer group and something we're quite proud to deliver.

I'll now turn the call over to Mark, who will take you through some more details on how to model all of this as well as to update you a little bit on our balance sheet and liquidity and including our very successful first equity offering as a REIT. Mark?

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Thanks, Colin. Good morning, everyone. Thanks for joining the call. Colin has already covered our performance for the fourth quarter and our guidance ranges for 2020. And since we have a number of moving pieces going on right now across the company, from capital projects to pending acquisitions, our joint venture investments as well as some recent changes to our capital structure, I'll touch on a few of these to help all of you get a handle on your models and how you might approach this year as well as 2021 and beyond.

First, as Colin noted, in 2020, our guidance, booking figures and financial reporting for the Hospitality segment will all include the Gaylord Rockies on a fully consolidated basis rather than using the same-store format of 2019. Meanwhile, given the integrated nature of Block 21, the W Austin, once the acquisition is closed, will be reported in our Entertainment segment and not included in our Hospitality segment.

We continue to expect the Block 21 acquisition to close at the end of the first quarter. The timing of the closing will be dependent upon a loan assumption process, which is going according to plan. And the total purchase price of $275 million includes approximately $141 million assumption of debt and $134 million in cash, of which $15 million has already been delivered as a deposit, leaving $119 million for us to fund with unrestricted cash on hand. The Block 21 debt that will be assumed has a fixed rate amortizing CMBS loans secured by the whole Block 21 asset at a rate of 5.58%. It matures in 2026 and will be prepayable without penalty in October of 2025.

Circle, our 50-50 joint venture with Gray Television, will continue to be accounted for as a nonconsolidated entity with the -- in the Entertainment segment, so we will not recognize revenue or operating income from Circle. Rather, we will show our share of the JV's adjusted EBITDAre as a component of the segment-level adjusted EBITDAre buildup. For 2020, you can see in our guidance reconciliation we expect our investment in Circle to be approximately $10 million at the midpoint of the range.

In terms of our RevPAR and total RevPAR guidance, to give you some cadence, we expect the first quarter to be the strongest of the year, with both measures growing in the high single digits. We then expect a sequential step-down in growth rate for each metric over the subsequent quarters until we end with the fourth quarter expected to be the slowest year-over-year growth but still positive in the low single digits.

In terms of our balance sheet, the fourth quarter was a very active period. In addition to a $200 million tack-on notes offering, we repriced, extended and upsized our term loan A and raised $283 million in net proceeds in our first equity offering as a REIT. From these combined proceeds, we retired $100 million of term loan B, paid off all our outstanding balance of our revolving credit facility, with the remainder being held in cash for general corporate purposes, including a portion of the pending acquisition of Block 21.

At year-end, we had total debt, net of unrestricted cash, of $2.23 billion outstanding at a weighted average interest rate of approximately 4.2% and a fixed-rate exposure of 86% through the addition of our swap transactions. Note that this does not yet include the $141 million loan we will assume with Block 21, as I described earlier.

We ended the year with net debt-to-adjusted EBITDAre ratio of 4.4x. If you exclude the cash we plan to use to close the Block 21 purchase, our pro forma trailing leverage would be approximately 4.6x. We expect our leverage ratio to remain flat in 2020. And in addition to maintenance capital, we will spend approximately $80 million of the Gaylord Palms expansion budget in the year, and we will draw approximately $40 million of the Gaylord Rockies expansion loan onto our consolidated balance sheet over the course of the year. We will also spend approximately $10 million to complete our announced venue projects, which include Ole Red Orlando and the Wildhorse Saloon expansion here in Nashville. This capital spending will be partially offset by the additional adjusted EBITDA associated with Block 21. Assuming a March 31 close, we expect Block 21 to contribute $10 million to $12 million for the partial year, which has been included in our Entertainment segment guidance.

Looking beyond 2020, the only announced capital commitments we have at this time is the remaining capital spend for the Palms and Rockies expansions, so we would anticipate delevering at a steady clip once these projects begin contributing to adjusted EBITDAre in 2021 and 2022, respectively.

In the interim, after using the $119 million in unrestricted cash to close the Block 21 acquisition, we will have approximately $940 million of liquidity available, including our fully undrawn revolving credit facility. We review (sic) [view] this liquidity as an important component of our growth strategy as it provides us with the ability to fund future high-return investment opportunities in both of our business segments.

So as we close out a successful 2019, we're very pleased with our operating performance and balance sheet, and we're excited about our continued growth in 2020 and the strategic investments, our opportunities in the years ahead.

And with that, I'll turn it back over to Colin for any closing remarks.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Mark, I think what we'll do is just open up the call. So Maria, open up the call for questions. Maria, if you don't mind, ple ase.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Patrick Scholes of SunTrust.

Charles Patrick Scholes - SunTrust Robinson Humphrey, Inc., Research Division - MD of Lodging, Gaming and Leisure Equity Research and Analyst

A couple of questions here. Just quickly, and I apologize if I missed this in the prepared remarks, you did look like you had a bit of an uptick in cancellations in the quarter. I'm wondering if you can just touch on that.

Secondly, I'm sure the virus impact is pretty miniscule for you folks, but if you could just touch on your thoughts around that.

And then my third and last question concerns your guidance. It looks like hospitality RevPAR -- I'm sorry, the total RevPAR growth rate is a bit lower than the overall regular RevPAR growth rate, and it seems a little counterintuitive given the trends that we've seen. If you could give some color on that.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Sure. Patrick, do you want to touch on cancellations and just the whole hype around coronavirus?

Patrick Chaffin

Sure. Yes. In the fourth quarter, Patrick, the cancellations that we experienced were definitely within the range we normally expect. They're a little bit up year-over-year. But quite honestly, Q4 of 2018 was pretty low. One of the larger cancellations was simply a fact of a new CEO coming into a job and asking his group to take a pause as he get the lay of the land before they proceed with their group meeting. And so we experienced a cancellation there. We're going to collect the cancellation fee. But again, even with that one, we were still within the range that we would normally expect for a fourth quarter. Our Q4 2018 was just down a little bit, so we were not overly concerned with that.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

And Patrick, fast forward into this year because, obviously, there is a lot of, for want of a better word, paranoia around coronavirus, so would you just sort of talk about what we've been seeing here?

Patrick Chaffin

Sure. Yes, absolutely. I know a lot of folks are focused on that right now, so let me just go ahead and address it.

We have not seen any cancellations related to coronavirus or fears of coronavirus groups that we talk to or staying in very close contact with, especially those who are located in the tech industry or on the West Coast because they do normally have a lot of folks traveling internationally. Again, we've not had any cancellations related to this situation at this time. We've seen a little bit of attrition. We've had a couple of tech groups in-house that have made the decision to be proactive and have urged or restricted, I guess, is a better way to say it, some of their international participants from attending the meeting. That ended up resulting in about 800 room nights of attrition. It actually worked out okay for us because we were actually oversold for those nights. So we were able to offset it completely. But we expect somewhere around 650,000 to 700,000 room nights travel during the first quarter of 2020. So to see a very small amount of attrition at this point, we feel pretty good that groups are being very logical in how they approach this.

We continue to prepare within the hotels. We've had experiences with norovirus in the past, which is a much more difficult situation to deal with from eliminating the virus. And so our folks are well prepared, know how to isolate guests. If they do have any cases on site, they know how to prevent the spread. They know how to handle trash and everything like that, that may be affected. So we are watching it very closely but have not seen cancellations, have seen only limited attrition and feel very well prepared and have looked at room nights on the books and do not feel that we have a tremendous amount of exposure to this.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

And would you also remind Patrick Scholes, Patrick Chaffin, the way things like a virus or flu are accommodated within our contracts? Because remember, so much of our business is in contract form.

Patrick Chaffin

That's right. This has not been labeled a force majeure event. And so groups are on the hook for any cancellations. As in the past, as we always have, we will work to make sure that we maintain relationships with groups. So if there is a cancellation and this is a multiyear rotational customer, we will make sure that we're covering the business but also working with that customer to maintain their relationship with them long term. But again, this is not a force majeure event at this point. And therefore, contracts are all being enforced as they are written.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

And last but not least, on the guidance, total RevPAR, do you want to just, 1 of the 2 of you, address that issue?

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Sure. So Patrick, you're correct. Our -- at the midpoint, we're about 100 basis points lower on total RevPAR than RevPAR. And that's really driven primarily by mix of business as we've come into the year in terms of what we have on the books. We've also made a few changes. Patrick's team has been working on making a few changes at Opryland, specifically around efficiencies, one being the show that Colin mentioned earlier, the elimination of that show in our Christmas program going forward with now we have SoundWaves onboard. We've also made the decision to outsource laundry at Opryland. And both of those things reduce revenue year-over-year. They have about a 30 basis point impact on total RevPAR. So those are really the issues that are driving it. There's nothing -- we're not seeing anything, I think, that's alarming or concerning to us as it relates to...

Patrick Chaffin

Outside...

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Consumer behavior.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

And the other thing that we should also point out is that even though we've made these decisions at Opryland on outsourcing laundry, we're looking at margin growth, again, which is, frankly, unusual in our sector for 2020.

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Yes. I mean both of those things are to drive improved profitability.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Yes. That's exactly why we've done it. Okay, Patrick?

Charles Patrick Scholes - SunTrust Robinson Humphrey, Inc., Research Division - MD of Lodging, Gaming and Leisure Equity Research and Analyst

Yes. I have another question, but I'll get back in the queue to give others a chance.

Operator

Our next question comes from line of Smedes Rose of Citi.

Smedes Rose - Citigroup Inc, Research Division - Director & Senior Analyst

I just wanted to follow up on some comments you made on the wage and benefit increases that you're seeing. So what sort of increases overall are factored into your guidance? And are you seeing any kind of differentiation across markets? I understand Disney is implementing a higher minimum wage in that market. So you've -- and Universal's opening. So is that affecting your sort of expected margin at that property?

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

We -- Disney did that last year, late last year, and we adjusted our wage rates to be competitive in that market late last year. And really, frankly, Smedes, that was the genesis of the discussion we had in the December earnings call when we -- November earnings call -- we did the November Board meeting in December -- when we talked about wage increases.

In terms of 2020 budgeting, Patrick, how would you describe Smedes' question.

Patrick Chaffin

Yes, Smedes. This is Patrick. If you look across what we're expecting from a wage and benefit perspective, we're seeing about a 5% increase. That's equating to somewhere between $3 million and $5 million, just seeing how that's going to play out for us.

As you're aware, there are some very tight labor markets out there because employment in those markets is very high. Denver, Orlando and Nashville are especially challenging from a wage pressure perspective. They're just very popular markets right now on the Hospitality side. And so to attract and retain quality folks, we're having to make investments both on the wage side as well as on the benefits side. And from a benefits perspective, I think you've probably heard Host and others talk about the parity exercise, what they've gone through with Marriott, to make sure that we're keeping our employees very satisfied so that we can make sure that we keep the most efficient labor models in place long term.

And then additionally, a pressure that is always present for us because we have a union market in D.C. and that is a union hotel, the contract that's in place continues to drive up our wages and benefits. But about a 5% increase year-over-year, let's say, $3 million to $5 million of impact.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

And that's looking through one lens of the telescope, the 3 markets you talked about: Orlando, Nashville and Denver. But the other end of the telescope is that each of those 3 markets, we're going to have a record year in profitability this year. So we've recognized the fact that labor is scarce in those very, very frothy markets. But the good news is we have tremendous business on the books in 2020 here to accommodate profitability growth in every one of those markets.

Smedes Rose - Citigroup Inc, Research Division - Director & Senior Analyst

And then I just wanted to ask you on your Block 21 acquisition. I mean it looks like it's dilutive at least for the first year of ownership. So I believe the LTM EBITDA on that asset is around $16 million. You're factoring in $10 million to $12 million for partial year ownership. Where do you see that going over just like a multiyear period? Like what sort of numbers do you think you can generate out of that?

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Well, we haven't gone into specifics, but we really do think that there are multiple benefits of this. It's not just the growth in EBITDA from the -- from that particular platform. What we see occurring, we see occurring in the theater, we see occurring in the hotel. We're going to do a refurb of that hotel. And we believe the movement -- moving some of that retail to an entertainment district is also great. That's the first benefit.

But the second benefit, which we believe is very material, is our ability to now identify those consumers that are in this market for entertainment, particularly around the music side of it, and then be able to market to those folks our soon-to-be-launched SVOD platform that will go out at the end of June. So it's not just the significant growth we believe we'll get from the platform itself, but it's also the growth that we will get from the relationships that we will build with consumers that today we don't touch. So I know we're going to be doing an investor meeting here, Mark, towards later in the year. And what we'll do, Patrick, as we -- I'm sorry, Smedes, as we get into this business, get our feet under the rug, so to speak, we will be a little bit more explicit about how we believe we can grow profitability on that platform. But we bought this business because we believe we can run this business and grow profitability in a material way.

Operator

Our next question comes from the line of Shaun Kelley of Bank of America.

Shaun Clisby Kelley - BofA Merrill Lynch, Research Division - MD

Colin, appreciate your comments, and I think this was touched on in Smedes' question a moment ago about kind of wages. And you -- I think in your prepared remarks, you talked about flow-through. I was wondering if you could just kind of help us with the bridge to 2020. Is the net of where we are with wages at this moment being that we think flow-through is probably going to remain below that 50% level? It seems like that when we're trying to kind of work through the math on kind of a 3% total RevPAR gain, but I just want to make sure we're thinking about it correctly.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

I think the 39% we experienced in the fourth quarter -- what we had really in the fourth quarter was decent revenue growth, and that was the quarter in which we made adjustments in, I think, Patrick, 3 of the markets. But my sense is going forward, we still aim to find efficiencies to get to this 50% -- 50 -- I'm having trouble saying it, 50% flow-through. And we've got work going on right now with Marriott to improve efficiencies in this business because our goal was to get -- always be at this 50%-type flow-through. Patrick, you got any...

Patrick Chaffin

The other thing I would point out is there are other factors beyond just wages and benefits. We've seen a dramatic increase in property insurance given the number of named storms that we've seen over the past couple of years and the wildfire situation on the West Coast. We saw a property insurance increase of about 52% for 2020. We even went out and tried to see if we could privately place it outside of the Marriott property insurance program to see if there was an opportunity, and we found out that actually, even with the increase in rates, it was still very competitive. So that's going to drive another $1 million, let's say, of challenge to the bottom line. And then we have the increased property taxes from the Ole expansions that we've done, which are driving up our property tax costs.

Now to Colin's point, there are a number of things that we're going after to offset those, and I think that our internal plan and even our guidance demonstrate that we're having great success and believe we'll continue to have good success in offsetting some of these increased costs, whether it be on the utility side with going back and replacing some of our older central plan equipment, putting in LED lighting. We've opted for cogen facilities on -- at one of our locations and are looking at -- and evaluating that at other locations. And then we're also having external consultants come in and help us look at time-motion studies and productivity upside at our properties. So a number of initiatives underway to make sure that we mitigate the cost increases that we're seeing, both in taxes, wages and property insurance.

Shaun Clisby Kelley - BofA Merrill Lynch, Research Division - MD

Great. And then as a follow-up, maybe just to move over to the Entertainment division since there's a lot moving on or going on over there. I think it looks like, from an equity raise perspective in terms of what was done in the fourth quarter, you guys pretty meaningfully overcapitalized the Block 21 transaction relative to the amount of cash you actually need for that given the assumed debt. So can you talk about either future growth potential down the road? Is there something else being kind of contemplated there or how you're thinking about that -- maybe that next layer of growth? Or is this just more broader balance sheet conservatism? That'd be great.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Well, we feel that with the Entertainment business, there is a -- there's a ton of growth that we haven't talked about publicly that we're working on, and we've sort of touched on it in this call about multiple Ole Reds that we're working on. We've had a lot of outreach from cities and major corporations that would like to park an Ole Red close to entertainment districts that they currently operate. So we've got plans for that. And I think that this whole Circle TV and the OTT launch is also very, very exciting for our business. So I think that we're going to continue to see a ton of growth in this business.

In terms of the equity raise, we've never done one before. And as you well know, we -- the bankers have sort of been lining up wanting to do -- wanting to lead an equity raise. We've had liquidity issues in our stock because we've had so many shareholders that are very sticky. And so we did what we did to bring our balance sheet into that 4.5x debt-to-EBITDA range and also give us all the firepower we need to not only grow our Entertainment business but also continue to look at opportunistic ways to grow our hotel business.

Mark, do you want -- is there anything you want to add to that?

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

No. I think that you covered it. I mean our equity was trading at a value range that we were comfortable with that level of raise. As we talked about on the call, on a pro forma basis after we close Block 21, we'll be at about 4.6x net debt-to-adjusted EBITDAre. It's a level we're comfortable at, and it does give us some flexibility as we look forward in terms of organic growth opportunities or if we would see an opportunistic acquisition opportunity.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Shaun, let me just say one last thing. If you go back to that 4 years ago, and I think you were there at that Investor Day we had when we had laid out this is what we're going to do, and you look at the activity that we hadn't -- that we didn't talk about then that we've gone through over the last 4 years, we've got a very -- I think we got a management team here that is not sitting around twiddling their fingers hopefully -- hoping like hell that there's maybe a downturn in the hotel business and they can go out and buy assets on the cheap. We don't think about our business this way. We've got a very defined strategy. We look at the opportunities for growth. We see opportunities for growth all across our portfolio here, and we're going to continue to focus on that. Because as Warren Buffet said yesterday, he manages out for 10 years. That's how we think about our business. We don't think about our business with this overhang of coronavirus and oh my God, what's going to happen here in the next quarter and the next quarter. We're thinking about the long term here. We believe we've got a strategy that is unique, differentiated. We've got 2 brands that are worth a ton of money, and we're going to look for ways to continue to enhance value here just as we have over the last 5 to 10 years.

Operator

Our next question comes from the line of Chris Woronka of Deutsche Bank.

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

Congratulations on the quarter and year. And I guess as we look back at 2019, it seems like the group has clearly kind of outperformed your expectations versus initial guidance. And so I guess the question is with your initial 2020 guidance, it -- how much of that kind of continued outperformance, if any, are you baking in.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Well, I'm going to -- let me say this, and Mark's probably going to kick me under the table. But last week, we had our Board of Directors meeting, and we talked about our hotel business for last year. And we obviously showed our Board our year-end results. And the fact of the matter is our year-end results came right on top of that plan. The difference in profitability was like $1 million on our plan. So we have aggressive goals in our business. But in this environment, where the world is -- you listen to our competitors talk about margin problems and cost problems and no RevPAR growth. Here we are as a company. We are, by far, the tall puppy, the company that is projecting very healthy growth in RevPAR. And by the way, thank you for saying good job last year because we -- there's no other company that came close to the type of growth that we came close to. But our plans this year are aggressive. And so I'm not going to tell you what our operating plan is in comparison into our guidance, but we've got an aggressive plan. And Patrick and his team in the hotel business will be all over our operator to ensure that, that plan gets delivered and our Entertainment business leadership will be very focused on delivering the same. And that's how we think about it.

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

Great. I appreciate the color, Colin. And then just as a follow-up, with Block 21, you're showing a willingness to go into a new market in a pretty big way but without a traditional kind of big-box group hotel. And I heard your comments about looking at things that would be #1 in their group position in their markets. So does that make it maybe more likely you'd go into other I don't want to call them secondary markets but smaller markets where you don't have to have the 1,500-room hotel?

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

No. Look, our hotel business, we're in the large group business. That's where our expertise is. I mean you won't see us going into a market buying a 400-, 500-room hotel. The reason we went into this market and bought the W Hotel was because it was being sold as a part of that Block 21. And frankly, we would have bought everything in that block, except that hotel, if that was available to us, but it wasn't available to us. The seller wanted to sell the whole block. We believe, in this case, the pearl is worth the dive in the sense that the opportunity that we have to be in the self-proclaimed music venue capital of America in that market is absolutely critical to our long-term entertainment strategy. Between us, I will say this. We have coveted this -- that business, the Austin City Limits, Moody Theater and that package. We've coveted this for 4 years, Mark. I think we've looking at it for 4 years because we wanted to be able to build relationship with those customers in that market. So I don't think there's another market that affords that type of connection to the music consumer in the United States right now. And so I don't think you'll see us go and buy -- go into a market and buy a 300-, 400-room hotel. When we go into a market on our Hospitality strategy, you'll see us enter a market with a 1,000-room-type hotel with -- that we can expand to make it the dominant convention hotel in that market. That's how we think about it.

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

And Chris, we're going to -- Patrick and his team are going to manage that hotel. We think that we can improve the performance of it. We're going to undertake a pit there to improve the physical asset as well. And while there are some fees -- these issues in terms of fees associated with the CMBS today, there's no reason that in the longer term, that we have to continue to hold that asset. To Colin's point that -- we bought it because it was a package deal. There's no reason that we can't monetize it down the road.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Yes, where we can shed it into that debt

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Correct.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Yes.

Patrick Chaffin

But it's a perfect time because the W brand is in a reinvention mode, if you will. And so we're coming in on the heels of a lot of new group supply coming into that market. So we think there's an opportunity to tighten up the efficiency of group bookings and the sales process for this hotel. We think there's some additional synergies with the theater. And then we are at a point where with this renovation, and we're on the forefront of this brand being reinvented. So we think this is a great time for us to come in. And to Mark's point, down the road, we can demonstrate that we've added value and potentially sell the hotel at a premium.

Operator

Our next question comes from the line of Bill Crow of Raymond James.

William Andrew Crow - Raymond James & Associates, Inc., Research Division - Analyst

Patrick, you were the voice on coronavirus. As you look at the groups that are coming up over the next 3 or 4 months maybe, any group stick out as being particularly high risk?

Patrick Chaffin

Yes. Great question. We went through and looked at all the groups that are coming through. And we identified, let's say, about 30,000 room nights that could have any kind of impact from coronavirus. And as we look at how that plays out over the year, there was a minimal number of those actually traveling in the first and second quarter; more than travel in the third and fourth quarter, which to us is a good sign, right, because those are groups that this virus hopefully will be far behind us by the time those groups travel. But again, those are the groups that we then reached out to and spoke to the meeting planners and been getting a very clear read on how they're feeling, and we're cautiously optimistic. But the folks we've spoken to on the meeting planners side are not overly concerned. Those that are, are taking steps on the attrition side. And again, we're going to work with them to make sure that that's done properly. But we can take a little bit of attrition. That's always a better outcome than a cancellation.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Patrick, again, remind Bill how much of that business comes from Asia.

Patrick Chaffin

Oh, minimal. So our international business is really only about 5% of our total business. And if you look at how much of that 5% is coming from China, it's not even a percentage point.

William Andrew Crow - Raymond James & Associates, Inc., Research Division - Analyst

Good. That's helpful.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

And then the second thing, Bill, remember, we said that -- this is worthwhile just saying again -- those 30,000 room nights, they are part of a contract. So if all of a sudden the meeting planner is saying, hey, we're not going to do it for whatever reason, that would be subject to cancellation clauses or attrition clauses.

William Andrew Crow - Raymond James & Associates, Inc., Research Division - Analyst

Yes. No...

Patrick Chaffin

And this is one of those moments where being partnered with Marriott is very good for us because as a 5-hotel brand, we wouldn't have quite the visibility. But with Marriott's exposure in China and other places, they are proving to be a tremendous partner in staying ahead of the situation, preparing for it, looking into contingency plans, et cetera. So we value the inputs and the partnership that they've provided through this process so far.

William Andrew Crow - Raymond James & Associates, Inc., Research Division - Analyst

All right. Mark, the Circle Media, $10 million drag on EBITDA in 2020, is probably the biggest variance to our model, and we weren't expecting quite that much. I thought you guys had talked about maybe $5 million a year over 2 years, something like that. How do we think about that number evolving as we look beyond 2020?

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Yes. Well, so the way that we had described it was, was that we are going to make a $15 million contribution over 3 years. That was -- last year, in year 1, that -- it was about a $2 million contribution. This year, it's about $10 million. And then we should reach breakeven in 2022. We'll be profitable in 2022. So it's really...

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

But let's explain why, okay? This is -- from your perspective, you're sort of saying, oh, boy, this is bigger and this doesn't look good. But from our perspective, we're saying, this is bigger, and boy, this looks good. And there's a reason for this. The reason for it is the assumptions in our model have us having the distribution piece of this linear platform into -- with just the Gray -- with the Gray platform at or around 23%, 25% of the households. Where we are right now, because of what has happened with organizations like TEGNA, Meredith, CBS, have come, we will be at or around 60% of the households. It's 60% of the markets will be covered. And so the -- we've got increased distribution costs, but what we're seeing is that we're going to, in short order, have increased revenue coming from this through the advertising because we're just -- we'll have more platforms to advertise on. And so that -- this is the reason, but it's a really good reason. And as we sort of highlighted in the text that we talked about a few minutes ago, the response back from the markets have been tremendous about the actual content that we're showing. And we've got, I don't know, Mark, 25 to 30 new pieces of content unique to this platform coming that will also be available to the over-the-top strategy that we'll roll out middle of the year. So we've beefed up the costs in year 1 simply because the distribution allows us to do that.

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Right. But the -- our total investment...

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

won't materially changed.

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

Hasn't changed, yes.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

It won't...

Mark Fioravanti - Ryman Hospitality Properties, Inc. - President & CFO

It's just -- so it's timing.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

It won't materially change.

William Andrew Crow - Raymond James & Associates, Inc., Research Division - Analyst

And at what point do we -- are we able to access the actual programming in our local station?

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

I mean depends where you are. You can do it now in many markets.

William Andrew Crow - Raymond James & Associates, Inc., Research Division - Analyst

Oh, it is? Okay.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Yes.

Operator

And that was our final question, sir.

Colin V. Reed - Ryman Hospitality Properties, Inc. - Chairman & CEO

Lovely. Excellent. Well, thank you, everyone, and appreciate you taking the time in these difficult times as it relates to the issue around coronavirus in our sector. But thank you, everyone. If you have any further questions, you know how to get hold of Mark, Todd Siefert or me here at Ryman. Thank you.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may now disconnect.
