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RHP - Q1 2018 Ryman Hospitality Properties Inc Earnings Call

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## PRESENTATION

**Operator**

Welcome to Ryman Hospitality Properties First Quarter 2018 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. Mark Chaffin (sic) [Patrick Chaffin], Senior Vice President of Asset Management; and Mr. Scott Lynn, Senior 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 [7186786] (corrected by company after the call). (Operator Instructions)

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

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**Scott J. Lynn** - *Ryman Hospitality Properties, Inc. - Senior 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 facts 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.

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

Thanks, Scott. Hello, everyone, and thank you for joining us on the call today, and I'm very excited to be talking to you about our first quarter results. I first began talking about 2018 over 2 years ago on our fourth quarter 2015 call, at a time when our T plus 2 bookings position and strong lead volume led us to say that we expected '18 to be a very solid year for us. 2 years later, we confirmed this as we entered 2018 with 3% more net room nights and 5.8% more net rooms' revenue on the books than we had at the start of '17. As Mark told you in February, we expected Q1 of this year to kick things off with low single-digit RevPAR and total RevPAR growth, and we delivered better than that with RevPAR for the combined hospitality portfolio up 4.1% and total revenue up 4.3%.

Hotel by hotel performance was strongest at Opryland, Palms and Texan as well, with National encountering some headwinds but still materially outperforming the overall Washington, D.C., market.

Now let's start with Opryland, which had a fantastic first quarter, delivering 13.5% RevPAR and 10.4% total RevPAR growth, with tremendous flow-through driving adjusted EBITDA up over 20%. Associations saw the biggest room night mix increase at Opryland in Q1, but Corporate ADR and transient ADR were both up significantly. With the majority of its room product now beautifully renovated and a $90 million SoundWaves project rising adjacent, Opryland has a very bright future ahead of it.

Not to be outdone, Gaylord Palms delivered 5% RevPAR and 6.8% total RevPAR growth in Q1 with similarly strong flow-through, posting over 16% adjusted EBIDA growth. On top of a strong book of group business, the Palms layered on a healthy increase in transient leisure guests, who, no doubt, enjoyed our expanded pool offering and flow rider over their spring breaks. In fact, this hotel was over 82 points occupied in Q1.

Now let's move to the Texan. Two weeks ago, I was in Grapevine to cut the ribbon on our 300-room expansion there, and right this moment, the first group guests are enjoying these new rooms and meeting space. We're already hearing great things from those customers who are utilizing the space, and now that the project is open and more meeting planners can see the actual finished product, we are confident that Texan will continue to lead the Dallas meetings market. In this context, the Texas -- Texan's modest 0.08% RevPAR decline and 2.8% total RevPAR increase was solid, coming on top of a Q1 in '17 which was the hotel's highest-ever quarter occupancy.

Next, I will turn to the National, and it's important to note upfront that the National is performing quite well compared to the overall DC market, which seems to have entered a lull following last year's presidential election. To be precise, as we highlighted in the release, according to Smith Travel, RevPAR for the upscale/luxury segment of the DC market declined 14.7% in the first quarter, about 2/3 of this decline looks attributable to the inauguration, but whether the rest is due to the current political environment in Washington or simply a cyclical swing in travel preferences, time will tell. The one thing that we do know, though, is that the National is outperforming its peers in the face of this softness. While occupancy was up 1.6%, the mix of groups and transients that stayed with us at the National were slightly lower rated than in Q1 -- I'm sorry, slightly lower rated in Q1, leading to a 1.9% RevPAR and 2.7% total RevPAR declines. Some onetime items also impacted the hotel's ability to offset these decreases in revenue, including the presence last year of a large inauguration hall. We always say that we expect our hotels outperform their markets when they go through these periods of softness, driven not only by our large group mix but also by the unique attributes of our assets and the strength of our sales teams. And I believe you're seeing that right now at the National during this pause in the DC market.

Now let's turn to bookings, which continue to be quite healthy in the first quarter. With the torrid pace of record quarters we have been setting during the last several years in which we quite simply were booking rooms faster than we burned them off, we told you that our evaporating available inventory would allow us to shift to a greater emphasis on rate growth, and we are pleased with our results. Excluding the Gaylord Rockies our first -- our 4 hotels booked 472,000 gross group room nights in contract form for all future periods, which was only very slightly down from last year and ahead of both our expectations and our historic first quarter average. You may recall that our Q1 of '17 bookings last year were up 24.6% over the previous year. And these additional room nights that we booked this year came with an average 3% ADR increase, which we were very pleased with. At the end of March, we had a grand total of over 6.8 million gross group room nights on the books for all future periods, a 6.3% increase over this time last year. This is quite an achievement.

Both our T1 and T2 bookings pace of '19 and '20 are tracking nicely ahead of last year's position, indicating to us that the foreseeable future is looking really good.

Finally, on top of these figures, the Gaylord Rockies booked another 58,000 net group room nights in Q1, up 3.6% over the last year. With about 7 months still to go to open the Gaylord Rockies, we have already just shy of 1 million net room nights on the books for all future periods, and we are now in the prime booking window for the shorter-term Corporate groups.

One more topic to mention in terms of bookings, and the one that I'm sure all of you who follow the lodging space are aware of, is the recent change made by Marriott to third party meeting planner commissions, and this is very important. Marriott announced in January that it would lower this commission rate from 10% to 7% for meetings booked after March 31 of this year. Needless to say, we were advocates of this policy change and believe now is the right time to do it. We're very pleased that Hilton soon followed and that Hyatt has commented that they are studying the issue. The longer-term question is, will the commission change effect meeting planner behavior. But for a company that pays -- that paid $17 million last year in group commissions, our industry needs to take action on this particular area. While we have not seen any impact on our bookings thus far, we will, of course, be monitoring meeting planner behavior in the months to come.

To sum up what Q1 results and bookings continue to affirm is that our hotel business remains strong and the future continues to look great for the group and leisure businesses, and we all -- and we -- and so we continue to invest eagerly in our assets while the competitive supply pipeline sits nearly idle. And from a leisure perspective, our enhancements to our offerings position us really well to capture the more fun-seeking leisure consumer.

Now quickly to run through the investment projects once again with you briefly, I have some new information here. I mentioned earlier that we had cut the ribbon on our 300-room Texas (sic) [Texan] expansion 2 weeks ago and its first groups are currently in house as we speak, but I'm also very pleased to report that not only did we open this project on time, actually ahead of time, but also came in comfortably below our $115 million budget by over $8 million. That's a very nice boost to an already solid projected internal rate of return. The product we have delivered is truly exceptional. In my opinion, this hotel is the best of the best in the state of Texas.

In Nashville, as SoundWaves water experience is also progressing on time and on budget for its opening at the end of this year, you just saw in our Q1 results that Opryland is performing extremely well, driven by this group -- by the group and fun-seeking leisure consumer. And SoundWaves' arrival is coming just in time to further capitalize on this momentum. We believe the -- this addition to Opryland will reap rewards not only for our company and all of our stakeholders but also for our home city of Nashville in the form of jobs and tourism dollars. When we built -- what we are building here is truly one of a kind in this region.

Now at -- in Denver, our joint venture investment, the Gaylord Rockies, is likewise on time and on budget, and we expect to open the doors in December of this year.

In short, our hospitality business is thriving, our bookings pace is firm, and our investments in the group space are rolling of the line nicely. Things are pretty exciting in this arena.

Now let's turn to our Entertainment business. At the segment level, our Entertainment revenue was up 6.3% and adjusted EBITDA was down $2 million, but of course, the headlines do not reflect the story. There are a number of businesses in this segment and it's important to unpack these numbers a bit to understand what is really going on. Now starting with our core owned and operated Nashville assets, principally the Grand Ole Opry, the Ryman Auditorium, WSM Radio and their programming and licensing businesses, total revenue for this group was up 10.8%, and that was against a very strong 24.7% growth last year in Q1. There is no letup in our core Nashville Entertainment business, and this -- and the market growth that we're seeing is further amplified by what is going on at Opryland.

Now in terms of profitability of our core Entertainment business, we continue to make major investments in additional people and resources to service the growth that we've been experiencing and anticipate in this segment and to prepare for our investments coming online. We have recently hired a Senior Vice President of Venue Operations as well as a Senior Vice President of Marketing. And over the last couple of months alone, we have hired and trained just over 200 people for Ole Red Nashville to give you some appreciation for what's going on. Further, we're building a CRM, and Entertainment business is also building new content, which we intend to distribute in the future.

Moving to our Marriott-managed attractions, we must point out that the General Jackson Showboat was out of service for several weeks in the quarter due to the heavy rains and water levels on the Mississippi and Cumberland rivers this season, which prevented it from traveling back from its winter dry dock in New Orleans in time for the start of the spring season. This impacted both revenue and adjusted EBITDA for this set of assets. But I'm pleased to say that Jackson is here and she is now sailing.

In New York City, our Opry City Stage joint venture in Times Square got off to a slower start in Q1 than we had planned. Now operating a new concept in Times Square is a complex undertaking. And while we initially turned to a joint venture format, following the various construction delays, late in the year -- which triggered a late in the year opening, as well as a marketing strategy that we were not happy with, we've recently concluded, we will be better served to wholly own this asset and assume full control. City Stage products and services have been very well received by guests and our group -- and as well as a group and Corporate sales have been doing very well. But of course, in Times Square, our primary objective is to capture your share of tourism traffic. It is here, we need to do a better job getting the message out to our country lines and our consumers coming through New York City. This includes street appeal, marketing promotion, artist lineup and so on. Now given all of this, we've reached an agreement after the quarter-end to buy out the remaining 50% of Opry City Stage from our partners so that we can take full control of the marketing and promotional plan. We believe in this location and concept strongly, and we are committed to the long-term strategic value of this unique venue.

Meanwhile, the other member of our venue family, Ole Red in Nashville with Blake Shelton, will be actually opening in the -- opening to the public this morning, and we expect it to draw patrons from amongst the huge crowds of Nashville visitors that congregate in the music district. I wish you could all see this project right now as it's pretty spectacular, and we've some -- we have some very fun things planned for early June to coincide with the CMA Festival when Blake is actually here in town with us. And we'll have a 2-day grand opening series of celebrations that we'll let you know about. It's going to be very fun. Also, we're really excited about Ole Red, and we were very happy to announce in Q1 that we are hard at work bringing a third location to the over 11 million visitors that visit the Smoking Mountain region each year. Opening in the spring of '19, Ole Red Gatlinburg will be a 9,016,000 square foot venue, with 2 stores performance-based and then outdoor terrace located in the literal center of Gatlinburg where routes 321 and 441 converge in the busy tourist district. This location could not be more central to the millions of our core consumers.

To wrap up, '18 is off to a great start, and this includes April that Patrick may touch on in a minute. We passed 1 mile stone this quarter with the opening of the Texas (sic) Texan expansion, and we're one step closer to 2 more milestones we've seen looking forward -- which we've been looking forward to for a long time, the opening of Soundwaves and the Gaylord Rockies at the end of this year. On the Entertainment side, we have a little bit of work to do in New York City, but our core Nashville business has continued to thrive, and our major Ole Red location here in Nashville makes its debut today.

Based on our results this quarter and what we expect to happen through the rest of this year and our book of business for '19 and '20, the future of our company looks very exciting.

Now let me talk -- let me call over to Mark to walk you through a little bit more financials. Mark?

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

Thanks, Colin. Good morning, everyone. In the first quarter, the company generated total revenue of $288.4 million, up 4.5% from the first quarter of 2017, driven by a strong book of both group and leisure transient business at our Hospitality segment as well our core Nashville assets in our Entertainment segment.

Net income available to common shareholders of $27.3 million or $0.53 per fully diluted share was down a little over $5 million or $0.10 per fully diluted share. Adjusted EBITDA of $81.7 million represented an increase of $1.2 million in the quarter. The main differences between the increase in our adjusted EBITDA and the decrease in our net income include an increase of $1.9 million in preopening expenses, as we opened our Texan expansion in mid-April as well as incurred significant hiring and training costs as we prepared for our Ole Red Nashville soft opening happening today.

In addition, interest expense was higher by approximately $900,000 in the first quarter, versus last year, and that is driven by an increase in our floating rate debt balance as well as a move up in the underlying LIBOR-based interest rate.

Our policy has been to use our revolving credit facility to supplement our internal cash flows to fund our ongoing investments across both our Hotel and Entertainment segments, and we remained comfortably within our target leverage range at the end of the first quarter. We anticipate that as our enhancements and expansion projects open and begin contributing to adjusted EBITDA, the company will delever, notwithstanding any other investment opportunities that may arise.

Lastly, our effective taxes were higher in the first quarter by about $1.6 million following the resetting of our internal hotel lease agreements at the start of the year, which marked our 5-year anniversary of our REIT conversion and the expiration of the initial leases.

In terms of AFFO, the company produced $60.9 million, a 3% decrease over the first quarter of 2017 or $1.18 on a fully diluted per share basis. Our AFFO was impacted by the same year-over-year items I discussed above, except for the increase in effective taxes, as the majority of this was deferred and, thus, added back for AFFO purposes. Otherwise, the preopening and interest expense increases flowed to our AFFO line.

Moving specifically to our hotel segment. Attrition in the quarter of 13.4% was higher than the first quarter of 2017 by 210 basis points. However, in-the-year, for-the-year cancellations were lower by over 5,000 room nights, a 25.2% decrease in cancellations year-over-year. Hospitality adjusted EBITDA in the quarter grew 4.3% to $85.1 million on the heels of a strong 4.3% total RevPAR growth, which, as Colin describe, was fairly broad based across majority of our hotels, led by Opryland, Palms and Texan. Adjusted EBITDA margin remained flat at 32.1%.

Entertainment segment revenues for the first quarter increased 6.3% to $23.3 million, and segment adjusted EBITDA in the first quarter decreased $2 million to $3.2 million. As Colin walked you through these top-level numbers, mapped the underlined story in this segment, that is our core owned and operated Nashville Entertainment assets continued to grow at double-digit pace. Meanwhile, segment operating expenses were burdened by our continued investment in people and resources to drive and service our growth.

In addition, half of this year-over-year decline in adjusted EBITDA was the contribution of Opry City Stage. As Colin pointed out, we have reached an agreement with our partners to acquire their 50% ownership. We expect our Entertainment segment to continue on a strong growth trajectory with the opening of Ole Red Nashville and Opry City Stage under our full management going forward.

Lastly, Corporate and Other adjusted EBITDA totaled a loss of $6.5 million in the first quarter compared to a loss of $6.2 million in the first quarter of 2017, mirroring the same investments in people and resources at the corporate level to support growth of both of our segments.

Moving on to the balance sheet. As of March 31, we had total debt of approximately $1.6 billion net of unamortized deferred financing costs and unrestricted cash of $59 million, resulting in net debt outstanding of $1.5 billion, including $227.5 million of borrowing drawn under the company's revolving credit facility. Combined with available cash, this leaves the company with approximately $531.5 million of available liquidity. As I said earlier, we're very comfortable from a leverage perspective with our balance sheet and have ample liquidity to invest in our business and capitalize under -- on the underlying strengths of our end markets in both segments.

Finally, let me update the color we provided regarding the remainder of the year and the quarterly pace of RevPAR growth. As you will recall from our guidance in February, we anticipated that the second quarter would be the strongest quarter of the year. That remains the case. Given how April finished and the group business we have on the books for the remainder of the quarter, we expect second quarter RevPAR to be in the high single digits. The third quarter will be the slowest quarter, down low single digits, particularly given some of the challenges we're seeing at the Gaylord National and the broader Washington, D.C., market. We expect Q4 to return to low single-digit RevPAR growth, again, consistent with the color we provided in February. Thus, for the full year, we continue to expect 2% to 4% growth in RevPAR and 3% to 5% growth in total RevPAR across the Hospitality segment, and we reaffirm the dollar ranges we provided for Hospitality, Entertainment, Corporate, and consolidated adjusted EBITDA as well as consolidated FFO and AFFO.

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

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

Mark, thank you. I will skip them. I think what we'll do is get on to questions. If we -- Sarah, if we could have you handle that for us please.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Your first question comes the line of Jeff Donnelly with Wells Fargo.

**Jeffrey John Donnelly** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Just a question, I guess, on attrition. I was curious what led to the little rise up to 13 -- I think it was 13.4% of attrition in the quarter? I think it's the highest you guys had reported in a little while and seems to be at odds with the environment. Was that maybe broad based within the company? Or is it really related to a specific hotel or event?

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

Patrick?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Yes. This is Patrick Chaffin. Good question. If you look at Opryland Palms and Texan, their attrition was essentially in line with what they had seen in the first quarter of 2017. If you look at the National, that's where the rise occurred, and that was really something that we had planned for and expected. There are certain groups that just have higher attrition levels, just the nature of the group. We knew those groups were going to be in house. We planned for that. So the attrition level we saw was nothing out of expectation, and there was not a sign of a systemic issue or anything like that. It was really just the nature of the types of groups that were in house. And again, we had planned for it.

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

Yes, it's also, really, we had much lower cancellations in the quarter.

**Jeffrey John Donnelly** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Maybe, since I've got Patrick here, a lot of the other hotel RIETs, obviously, they're much more heavily concentrated in corporate transient. Reportings are, there have been inflection in demand so far this year. Are you guys seeing your short-term group booking pace rise? Or maybe, I guess, the trends and out of room spend or even just last-minute adjustments to large group attendants beginning to inflect this year? Or is it really kind of too soon to tell?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Honestly, it's really too soon to tell. We'll be watching it very closely. We've -- we had a good first quarter, both in terms of long-term bookings as well as the short-term in-the-year, for-the-year. Based on what I'm seeing just for April as of this morning, it looks like April in-the-year, for-the-year was pretty strong. So it's hopeful. We're cautiously optimistic, but it's really too soon to tell.

**Jeffrey John Donnelly** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And just one last question maybe for you Colin. I think shareholders will be voting on a shareholder-sponsored proposal to spin off the Entertainment asset, something which I know you have not opposed. If that initiative passes, I guess, how should we be thinking about next steps?

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

Well, I think whether it passes or whether it doesn't, it won't change the sort of trajectory that we are on internally. What we are trying to do is build this business with growth in multiple areas and prepare it for the time when it can stand on its own two feet. We'll see where we get to on Thursday when we have our shareholder meeting, but I really don't think, Jeff, one way, shape or form it's -- whether the shareholder say, "Yes, we think Mario's proposal is good" or "No, we don't," I don't think it's going to change, really, what we're trying to do with this business. So I don't think it'll influence time line one way, shape or form.

**Operator**

And your next question comes from the line of Chris Woronka with Deutsche Bank.

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

I think you mentioned that your rates on the -- all of the future business you booked in the first quarter were up about 3%, and question is really, I guess, are we at the point in this cycle where you maybe hold back a little bit of inventory for these stronger rates? And if that's true, what might that say about your future bookings in terms of how much more you're willing to put on the books now for future years?

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

Well, let me -- interested to hear Patrick's answer to that question, Chris. But I -- my answer to the question is, the old saying "A bird in the hand is is worth two in the bush." I -- with this crazy world we live in, this -- the political instability that we sort of witness hourly, daily, the geopolitical issues that go on all across this globe, we are not going to slow up in our bookings. Now what we will do is we won't take stuff that is heavily discounted in prime periods. We will not do that. So -- but our bookings pace, we're very, very pleased with. And we might as well get this out, Patrick, but April bookings numbers, which we pay particular close attention to because of the change in Marriott's -- in the overall commission structure, which we 100% support and applaud, we've seen no letup in our bookings in April. And we'll, obviously, give you more details in that in 2 or 3 months, but the April booking numbers are very pleasing to us. So we're going to continue to layer on as much quality business as we can. But as Patrick said, I think a little early. We really are encouraging our sales people to push for rate right now because we're in the sweet spot. Do you want to add to the, Pat?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Sure. This is Patrick. Just to add to what Colin has already said, as we've talked about for several quarters now, we're in the best position we've ever been in, in terms of what's on the books. So we are really running up against limited availability for certain dates. And so to -- just to expand on what Colin said, there will always be need dates. Dates that we are much more willing to take a lower rate because we are more interested in covering those dates because they are much less apt to have strong group travel over those periods. But on certain dates where we know that there is going to be strong demand, we are holding back some and making sure that we're driving the rate as much as possible, especially at the Rockies right now because we are way ahead of pace on the bookings there, and so we're really pushing hard on that team to drive rate. But we will always take a balanced approach and make sure that we're covering the dates we need to. But for some of these corporate dates over the shorter-term booking windows, we will definitely drive the rate.

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

Sure. Great. Just want to follow up a little bit on the Rockies. You guys talked in the past about this is going to be a big benefit for the rotational strategy. Are you already seeing that or is it too early? Does the property have to open or do you already see new groups kind of willing to go to the other existing hotels because they might be familiar with the brand? Maybe just some color on the cadence of how that's helping your existing portfolio.

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

We've got some good data on that. You want to share some of that, Pat?

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**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Yes. So Chris, as we started early on in the sales process for Rockies, we wanted to make sure that we're rotating groups that already existed within the brand into that hotel, but we also wanted to make sure that we are bringing brand-new groups into the brand because of the fact that Denver is much closer to the West Coast, and we're going to start exposing ourselves to some of those West Coast groups. We set a target for that team of around 40% of acquisitions to the brand. The team has done an excellent job. They are averaging right now between 38% and 40% acquisitions to the brand. That introduces new groups into the brand and introduces them in at a very attractive price point because of the nature of the ADR in the Denver market. And so we've been very pleased with the fact that we're -- have a lot of excitement from our existing groups who want to rotate into that hotel as well as bringing in a whole new generation of groups into the brand via that new hotel on more of a West Coast location.

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

And one obvious question is, does this hotel in any way, shape or form cannibalize the existing 4? And as you'll see by just the torrid pace of bookings that we're pulling in, the answer to that question is no. Into the existing 4, we've just -- we just had some tremendous booking periods here over the last 2 to 3 years, and so we're seeing a lot of excitement from the meeting planners.

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**Operator**

And your next question comes from the line of Smedes Rose with Citi.

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**Bennett Smedes Rose** - *Citigroup Inc, Research Division - Director and Analyst*

I was wondering if you could talk a little bit about the rooms renovation at the National that you mentioned in your press release. Is this just sort of a normal cycle of renovations? Or is there something -- is this more sort of incremental CapEx to upgrade the overall process from where it stands?

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

Colin. Pat can give you the exact numbers of when we're doing it, but we opened this hotel in '08. And it is now 9 years old, you can do the math. And the hotel needs an orderly rooms refurb, and that's what this is. This is all going to be done as part of our cycled capital replacement, reserve process. And we're going to do what -- how many this year, Pat? About...

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**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Yes, we'll start November 1. We'll have about 14,600 rooms out of service during the course of 2018. That will be in November and December. We will go through and renovate through the course of 2019. And quite honestly, the hotel has such a great, strong book of business for 2019 building right now that we are considering maybe even lopping off a couple of months at the end of the year and pushing a little bit into the first quarter of 2020 just so that we can accommodate some of that additional demand. But it is just a normal course of business, going in and refreshing the rooms, again, because they haven't been refreshed since we opened the hotel.

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

Within the reserve, right Mark?

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

It is.

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

Yes.

**Bennett Smedes Rose** - *Citigroup Inc, Research Division - Director and Analyst*

Okay. And then I was just wondering on the -- you talked about the groups coming through third party intermediaries, I guess. What sort of percentage of your overall group bookings come through those folks who are seeing the commissions being reduced?

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

You've got the data there, Patrick?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

I do. We have seen it increasing since 2013. If you look at the actual room nights that we have coming through that are -- have a third party connection, it's about 45% to 50% and has been growing over the past few years, upwards of 57% at times. So this is something that we have been pressuring Marriott for some time, and I think other owners have as well, to make a meaningful impact on this side of the business. And so we've been very pleased that they've taken action and that -- the third party intermediary community didn't like it, but they've taken it in stride and understand that business has to continue forward.

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

And this I think -- this is one of the areas that we anticipated we will see the benefit of the consolidation that Marriott undertook with Starwood. They have so much now group inventory in this country, and we're pleased with this outcome.

**Operator**

And your next question comes from the line of Bill Crow with Raymond James.

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

Three quick topics for you today. On the Rockies, what is the opening date? And when is the first large group expected to show up?

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

Well, we're going to open this hotel right at the end of this year. We anticipate a mid-December opening. We actually have just moved the group date forward to, Patrick, 1st of February, around that date now?

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**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Well, we actually have groups that we'll...

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

That's right, that new one.

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**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Yes, groups will be checking in as of January 15 at the property. And so to Colin's point, soft opening mid-December, group opening, if you will, mid-January. And then, once things calm down a bit, we'll have a grand opening ceremony and celebration mid- to late February.

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

So you don't see any risk that construction delays might interfere with the first group, you're okay there?

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**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

No, we -- honestly, we've -- weather has worked very much in our favor at this property during the construction process. Our partners at RIDA Development have been on top of it, and we are dried in. And at this point, the work is really progressing well. We have the summer in front of us. Unless something were to happen that we really can't anticipate, we don't see any reason to think that we would miss our soft opening date in mid-December.

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

We actually had this problem when we opened the National. We were moving the construction company out of the front doors -- back doors as we were moving a group into the front door, and we'll never do that again, Bill.

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

Yes, I remember. Second topic is City Stage. Could you tell us, with the buyout of the partner, what your total investment is today? Or will be when you finish this?

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

You want to do that, Mark?

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

Yes, our total investment will be about $20 million.

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

Yes, that's it.

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

Okay. And does the slow ramp kind of interfere with your expectations to be able to move this concept into other markets? Maybe it delays that until you get a handle on the true demand?

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

I don't think so. And -- but I think -- I hate to eye this, but I've been real clear with it up to their management in the Entertainment business, I want to make sure -- I want to see this business improve here as we now have inserted ourselves into the marketing and operational leadership of this business. And -- but I don't think it's going to effect the guide slope on distribution for Opry City Stage. We -- the issue that we had here is that we really weren't -- we weren't controlling -- we weren't in control of the construction of this project. We had multiple delays, one, because of the tragic accident that occurred in mid-summer last year. And we just couldn't start the partnership, couldn't start up the construction until later in the year. So we were never sure when we were going to open this hotel -- this venue. And the marketing plan was not what it needed to be, and that's what caused us angst here in this January-February time frame that led us to take the partnership group out of this facility. Look, we know how to run these things, and we made the decision. It was probably a poor decision to do this in a joint venture relationship in New York City in the first place, but we made that decision. But now we've got to crank this thing up, and we know we can. And we got a good marketing plan that is now being implemented in this place. And I think over the next few months, we'll see material progress here.

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

The final question. Colin, last week the Port of San Diego and City of Chula Vista approved key financing to begin construction of a what? $1.1 billion, 1600-room conference at our hotel that is supposedly going to be branded to Gaylord. I just wanted to get your thoughts. I know we talked about this briefly last quarter, but it feels like this has moved forward since then and I wanted to get an update from you.

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

Okay. So let me say this and, Patrick, you've spent a lot of time recently with our Denver partners, who are the people who are driving this project forward. So what I would say to you is this, we like the Chula Vista market, we always did. We were the authors of this deal in the first place. The issues for us when we walked away from that deal were really nothing to do with the leadership of Chula Vista. It was more macro than that. It was the issues that we were having with some of the other parties of interest.

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

I recall some of those challenges.

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

Yes. I'm trying to be diplomatic here. So from our perspective, we like the group, the ownership group that we're in partnership with in Denver. We like the location, and it's just what I said to these folks is that when you've got the deal confected and the issues that we had to deal with, I don't know 8, 10 years back, resolved then we will sit down with you, and I think that, that's where we are right now. So there is no deal on the table, but at the appropriate time we'll be communicating with our partners there in Denver to talk about a role for us in that location.

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

But it sounds like your partners and Marriott are moving forward. Is that a fair way to look at it?

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

It certainly would seem that way. And from the discussions we've had with our partners, they are intent on this. They loved the location as well.

**Operator**

And your next question comes from the line of Shaun Kelley with Bank of America.

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

A lot of my questions have been answered, but Colin, if you could -- can you just give us a little bit more color on the marketing and flow-through in the quarter. I know it's called out in the release that sales and marketing expenses were a little higher than expected, I guess, on a 4% type RevPAR number that probably came in better than you guys were planning. Just sort of wondering why we didn't see a little bit more flow-through?

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

Within our hotel business?

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

Yes, just on the hospitality side?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

I mean, Shaun, this is Patrick. The single biggest thing that impeded our flow-through was just the increase in incentive management fee. If you were to back that out, you would see a much more dramatic rise in margin. That's a good problem to have because it means both us and Marriott are making a lot of money off of these hotels. There were some other challenges, which are to be expected. Nashville and Orlando are both very hot markets, which are approaching very low unemployment rates. And so in order to attract talents, you have to continue moving the wages up. That impacted our ability on flow-through in the first quarter. And the second is credit card fees. More and more meeting planners turn to credit card usage for funding their meetings, and so the fees that come with that impact us. Those are -- those continue to occur, and we're seeing an increase in those, and things like what we've done on the third party meeting planner commission structure, that's some of the action we take to try and mitigate some of those, but IMF really was the big one and then wages and credit card fees impacted as well.

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

Okay, that's helpful.

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

Shaun, the other -- one other thing, one other issue is that with the impairment of the bonds in the first quarter, that's about a 20 basis point headwind in terms of the income that we recognize from those bonds at their new valuation. So that would go against that margin as well.

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

Sorry, Mark, that falls in the hospitality segment?

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

Correct.

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

Yes.

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

Got it. So the second thing along the same lines, it was -- I think there was a callout about higher income taxes on a, kind of, a rent reset. Could you guys just walk through a little bit more sort of how that works, given that you're sort of 5 years in and? What exactly the mechanic is there?

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

Sure. With the -- when we convert to a REIT, obviously, we set up the lease structure. Those leases were 5 years -- 5-year terms. So we renewed and renegotiated those leases, beginning in 2018, and reset those leases. And with that reset, we have a little bit more tax leakage as it relates to the TRS.

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

These are -- to be clear, these are specifically leases on just some of the TRS property? Is this mainly stuff that's the -- in the Entertainment business or...?

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

This is the -- this is -- these are the leases for our hotels between our opco and our propco.

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

Okay, understood. And then, I guess, last question would be, you talked a little bit about the strong great growth that you guys were able to drive for your, I think, your forward bookings. I think you said 3% ADR increase, at least for what you -- if I caught it right, I think it was for what you booked in this period over the last couple of months. Could you give us a sense of where you ADR increase came in on -- kind of on blended average basis for last year just to sort of compare that number to something?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

I think our rate increase year-over-year in 2017 was around 1.5% to 2%, just off the top of my head.

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

Why don't you take a look at that number, Pat, because I know we increased rate last year. But rather than let's speculate, why don't you get that number and get that to Shaun. But let me come back to the margin for a sec because we drove an additional $11 million in those 4 hotels in the quarter, just under $11 million, and we generated about $4 million of incremental profitability. And as -- the incremental flow-through was a pretty good. It wasn't at the 50% level, but those were the 2 or 3 things that Pat and Mark referenced. But $4 million on $11 million is not bad.

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

Yes. No, look I mean, you guys sort of have a -- you have a high absolute margin to start with, so -- but I just kind of wanted to get on the nuances, given, like you said, from a planning perspective, probably would've thought -- I was just wondering if there is anything different in your plan versus how things kind of came in, maybe pulled forward, any sales or marketing expense, that was really the genesis of the question.

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

Yea. No -- yes, good. And just FYI, we don't often talk about this and we probably shouldn't, but -- and I'm sure Scott, my General Counselor, is going to kick me, but our hotel business exceeded plan on the top line and on the bottom line. So we are actually happy with where we are. Q2 is going to be a good Q for us. And yes, he's just kicked me.

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**Operator**

And your next question comes the line of Gregory Miller with SunTrust.

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**Gregory Poole Miller** - *SunTrust Robinson Humphrey, Inc., Research Division - US Communications and Internet Infrastructure Analyst*

I'm on line for Patrick Scholes. Just one question from our end. Talking about competitive supply, is there any new supply in 2020 or 2021 that you see is is giving you new competition as it relates to booking volumes today?

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

The only -- I suppose the only one that is up in the air, 2 actually, it would be the supply associated with Genting's -- the room tower that Genting are trying to build in Las Vegas. And I -- to my knowledge, I don't think they have a deal on that yet. That's -- that would be 1,800 rooms in Las Vegas on the strip. And the other is the second part of the Miami Hotel. That's...

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

The Worldcenter.

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

Yes, the Worldcenter, which is being built in sort of 2 phases. They are doing, I don't know, what was it? 800 to 1,000 feet?

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**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

And they don't have a specified opening date for the larger...

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

So there's nothing else in the pipeline I think.

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

Yes. There's a 1,000-room hotel, which really just is a transient-focused hotel that's supposed to open in 2020. It's a Kalahari property. So that's a -- really more of a water park driven.

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

In (inaudible)?

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

No, that's actually in Round Rock, Texas.

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

Right.

**Patrick Chaffin** - *Ryman Hospitality Properties, Inc. - SVP of Asset Management*

So nothing that's really, we would say, is going to be competitive with our hotels.

**Operator**

And your next question comes from the line of Andrew Berg with Post Advisory Group.

**Andrew Berg** - *Post Advisory Group, LLC - MD - Investment Management*

I apologize if this came up before, I had to step out for a minute. Have you quantified the amount of your investment to take out the 50% of the JV? You don't know?

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

The one in New York City?

**Andrew Berg** - *Post Advisory Group, LLC - MD - Investment Management*

Correct.

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

Yes. No, it's -- I thought Mark answered the question, but the question actually was a little different. It was, what would our total investment be? Mark answered it $20 million. Our interesting investment is about $15 million. So you can do the math. The delta is $5 million.

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**Andrew Berg** - *Post Advisory Group, LLC - MD - Investment Management*

Okay. Yes, I figured it was small. Just wanted to double check. And then, Colin, you've been pretty good when talking about the entertainment sector. And obviously, it's been in the press what Gabelli is looking to do. And I think in your words you've said when it can stand on its own two feet. Can you help frame out what it needs to be to stand on its own two feet?

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

Right. We've guided this year of $40 million -- I'm doing this from memory. $44 million to $50 million, something like that. And I think this business is got to be at a run rate of $75 million because when it's a separate stand-alone enterprise, it's going to be burdened with additional costs right? It's going to have a board, it's going to have a legal structure, it's going to have public company expenditure, it's going to have its own IR -- Investor Relations, stuff like that. So I think it's got to be in and around that. The key, though, I -- we -- that we've talked about, Andy, multiple times, is that -- is the investor when this business is decoupled. The investor has got to see that there is going to be great growth in the business. So it's a combination of the -- it's got to have the wherewithal to send on its own two feet, but it's also got to have the growth trajectory, got to have the right organizational structure, and those are the things that we are hard at work putting in place at this stage. So I -- they are the things that we're working on.

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**Operator**

And at this time, there is no further questions. At this time, I'd like to turn it back over to Mr. [Reed] (corrected by company after the call) for any closing remarks.

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

Excellent. Well thank you, everyone. This is, I believe, a good start to the year for our company. A lot of exciting things going on. And as this year unfolds, we'll have other things that we will be sharing with you that I think will lead you to the conclusion that this company, its outlook is tremendous. So thanks very much. And if you have any further questions, you know how to get hold of us. Thank you. Thank you, Sarah.

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**Operator**

And this does conclude today's Ryman Hospitality Properties First Quarter 2018 Earnings Call. We thank you for your participation and ask that you please disconnect.

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