

KPMG's Caribbean Travel, Leisure and Tourism Contacts

Please contact the KPMG member firm represented in your country if you have any questions. KPMG member firms are represented in more than 18 countries in the Caribbean region, and have a specific knowledge and understanding of the business, cultural, economic and political facets of conducting business in each country.

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2016 Caribbean Resort Benchmarking Survey



Travel, Leisure & Tourism

September 2016



CARIBBEAN
HOTEL & TOURISM
ASSOCIATION

Message from CHTA

The Caribbean Hotel and Tourism Association (CHTA) is pleased to have partnered with KPMG in the conduct of the 2016 Caribbean Resort Benchmarking Survey. The results clearly point to the ongoing operational challenges which our industry faces, both in stimulating revenue and in containing costs.

It is instructive to note that in 2015 many hoteliers experienced an uptick in revenue, but also plowed that back into essential capital expenditures to help upgrade their product, realize new operational efficiencies, and maintain or increase their profitability.

We are encouraged by the increased investments which Caribbean hotels are making to improve energy efficiencies and reduce costs. The appetite to invest more in energy efficiencies and property upgrades continues to be tempered by the challenges hotels face in securing financing.

Today's successful hoteliers are using data like that found through the Benchmarking study to support business planning and drive greater efficiencies and revenue.

We wish to thank KPMG as well as all of those hotels which participated in the survey. Detailed results will be provided to the participants and the survey overview is available through CHTA's Knowledge Center on its website.

Sincerely,

Frank J. Comito
CEO and Director General
Caribbean Hotel and Tourism Association

Introduction

Dear Reader:

KPMG's Caribbean Travel, Leisure and Tourism group is delighted to present the results of KPMG's 2016 Caribbean Resort Benchmarking Survey ("survey"), which has been designed to help owners, operators, lenders and investors better understand the profile and performance of their Caribbean resorts.

This survey is the first piece of thought leadership that we at KPMG have produced in collaboration with the Caribbean Hotel and Tourism Association ("CHTA"). We hope, and expect, that it will be the first of many. Obviously the wider and deeper the pool of participants the more representative the survey; CHTA, through its membership, provides this opportunity, amongst many other positive contributions.

The general theme of this survey is a positive one, continuing the trend that we have seen in recent years. All Key Performance Indicators ("KPIs") - occupancy, ADR, REVPAR and average number of full time employees - are up for the period under review i.e. financial year 2015. It really does appear that those resorts which were able to survive the very difficult days of recession starting in 2007/2008 are now beginning to see the benefit of the difficult rate cutting that many had to introduce to survive. Furthermore, whilst it is not good news for developers of new resorts, today's higher confidence levels and improved liquidity are still not translating into readily available capital, which does represent good news for existing operators. The lack of new projects and associated new inventory represent a significant window of opportunity for existing operators to benefit from enhanced demand which

allows rates to rise again as we are seeing in this survey.

It is not all good news though. The three biggest challenges for Caribbean tourism in 2016/2017 highlighted by survey participants are the Zika virus, high utility costs and increased hotel operating costs. We hope the Zika virus is a "one-off" but high utility costs are a recurrent complaint and if this issue is still being cited as a major challenge whilst energy prices are low, it will obviously become an even bigger hurdle to growth when energy prices rise again as they undoubtedly will. It is no surprise that the major refurbishment and redevelopments planned by survey participants in the next 18 months relate to energy efficient investments. The issue of high operating costs is not a newcomer to this survey either and illustrates that the Caribbean is a very expensive region in which to conduct business.

A further cautionary note is that preliminary financial data from reputable sources seems to suggest that Key Performance Indicators (KPIs) may be falling somewhat thus far in 2016 but of course we won't know the full story until the financial year is complete and we compile next year's survey.

The term "window of opportunity" is another recurring theme of this survey. Existing operators have a window of opportunity within which they should aim to grow and establish their competitive positions before new room inventory comes along, before the full impact of recent developments in Cuba take effect and before fuel prices increase.

We take this opportunity to say a huge thank you, once again, to our survey participants who will also be receiving a more detailed analysis of the financial results of the survey. We welcome and encourage participation from additional resorts for future surveys.

If you have any questions concerning the survey please contact us or your local KPMG office listed on the back cover.



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Overview

Methodology

Financial information was collected from resorts in various Caribbean jurisdictions.

This survey is based on the survey data collected. Financial information was analyzed on a consolidated basis and is based on a non-weighted average (mean) of the number of properties.

Each line is calculated independently. The average amount and percentage shown for each revenue and expense line item will only represent the average amount and percentage for those resorts that contributed data for that line item. For example, for those resorts which did not make contributions to replacement reserves, the percentage of total revenue of all other line items will be impacted to the extent there has been a percentage of total revenue allocated to a line item that they did not incur, in this example an allocation to replacement reserves. This impact is inevitable as revenue and expense categories vary across the survey population but, as far as possible, responses were reclassified according to the tenth edition of the Uniform System of Accounts for the Lodging Industry (USALI) where necessary (note: eleventh edition now available and will be used for future surveys). Financial information from the survey is presented in accordance with USALI.

Where there is a discrepancy between the key performance indicators (KPIs) provided by a participating resort and the underlying data provided by that resort, the underlying data has been assumed to be correct and the KPI has been recalculated based on that underlying data.

The KPIs shown are based on the simple average of responses from survey respondents. Accordingly, such simple average KPIs may not necessarily appear to reconcile to certain source data. For example, the impact on survey results of the occupancy of a resort with a very large number of available rooms is quite different if a simple average approach is taken rather than a weighted average approach, particularly if that resort's occupancy is unusually high or low.

Where a participating resort's calculation of a KPI does not agree to the standard industry norm of calculating that KPI (for example $\text{RevPAR} = \text{ADR} \times \text{occupancy rate}$), the standard industry norm has been used.

Percentages of Total Revenue have been based on Total Departmental Revenue except for Departmental Expenses which are shown as a percentage of the associated Departmental Revenues.

The survey responses were not audited.

Differences between the survey and other reports may result from differences in the profiles of respondents.



The state of Caribbean tourism

The major operational issues facing Caribbean tourism are more subjective and uncertain this year than for probably any of our previous benchmarking surveys.

For example, what will be the impact of Cuba opening up? This is not a new issue by any means but developments relating to Cuba have accelerated since our last survey and what certainly is new is the opening of travel to Cuba for U.S. citizens.

What will be the impact on the region of Brexit and the associated weakening of sterling, particularly for the Eastern Caribbean, which is more dependent on the European tourist than elsewhere in the region?

How is Zika impacting Caribbean tourism now and how will it impact the region in the future?

How will increased global security concerns impact Caribbean tourism?

Cuba

CHTA's excellent article of June 2015 on Cuba entitled "The Great Disruption for the Good of the Caribbean" describes the opening of travel for U.S. citizens as "*the biggest and most disruptive pebble dropped in the Caribbean pool in fifty years*". In broad terms CHTA's views on recent developments in Cuba are consistent with the views expressed elsewhere in this survey and with the theme that there is a window of opportunity for existing Caribbean resorts and destinations.

"The coming Cuban disruption just might be the tonic that the (Caribbean) countries need individually and collectively to build the kind of strategic approaches to tourism development that will yield sustainable results for their citizens."

Brexit

As pointed out on page 5 of this survey for 10% of survey participants the UK is the strongest European source market for the region and is traditionally a particularly strong source market for the Eastern Caribbean. The vote on June 23rd for Britain to leave the European Union and the subsequent fall in the value of sterling has led to a great deal of uncertainty. Generally the consensus seems to be that British holidaymakers will, at least in the short-term, be more likely to stay at home or close to home and less likely to take long-haul flights.

Zika

The impact of the Zika virus on Caribbean tourism is, at the moment at least, a great unknown. There are many uncertainties relating to Zika which we do not wish to add to but the reality is that it is clearly a serious issue for the region. As pointed out on page 11 of this survey, it is considered by our survey participants to be the most significant challenge facing Caribbean tourism. The fact that it is considered to be more of a challenge than other issues such as high utility costs and increased operating costs speaks volumes for its potential impact.

Security

It is a regrettable fact that since our last survey there have been numerous terrorism acts globally. Concerns about security are changing the tourism landscape and certain destinations are being perceived as high risk for travel. They are obviously suffering as a consequence and perceived safer destinations are benefitting. Generally, the Caribbean is seen as a safe region and long may that continue. Furthermore, given its proximity to its main feeder market, the U.S., and the perceived additional feeling of safety of being "close to home" the Caribbean is likely to be a net beneficiary should the prevailing security landscape continue.

Profile of survey respondents

Approximately 39% of our survey respondents are full service resorts with condo hotels (24%) and all inclusive resorts (17%) being the next two most common categories.

Unsurprisingly respondents once again overwhelmingly cater to the leisure sector (66%) but both the business sector (15%) and group business (19%) featured more strongly than previous surveys. More than half (51%) of respondents are considered luxury or ultra luxury resorts.

In this survey 38% of respondents fall into the 50-99 room category. However the 21% of respondents with more than 200 rooms increased the average room size to 159.

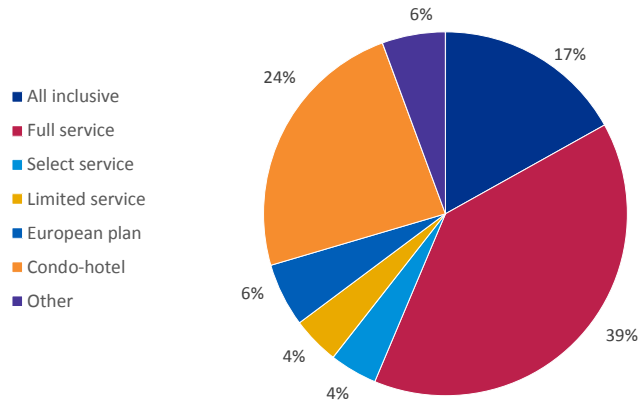
Since our last survey in 2014 there have been some interesting trends in distribution channels. At 28% (down from 30% in 2014) travel agents remain the most important generator of business but only just with resorts' own websites and reservation systems (26%) sharing second place with the rapidly increasing online travel agents (26%, up significantly from 17% in 2014). Direct walk ins and auction sites are both less important sources of business than in 2014, the latter significantly so, perhaps as a function of the improvement in the economy, and there being less pressure on rates.

North America again, unsurprisingly, is by far the largest source market with the U.S. responsible for 60% of guests and Canada 14%. The UK (11%) is the strongest European source market.

The number of room nights available increased by 19% versus prior years which corroborates the findings of our 2014 survey where 48% of respondents indicated an intention to expand and renovate.

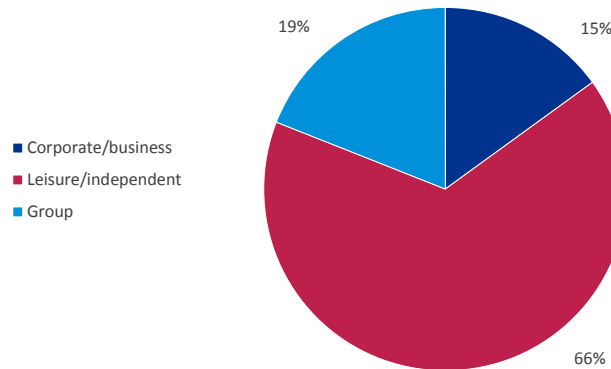
There is good news on the employment front too with a 8% increase in the average number of full time equivalent employees.

Resort Type



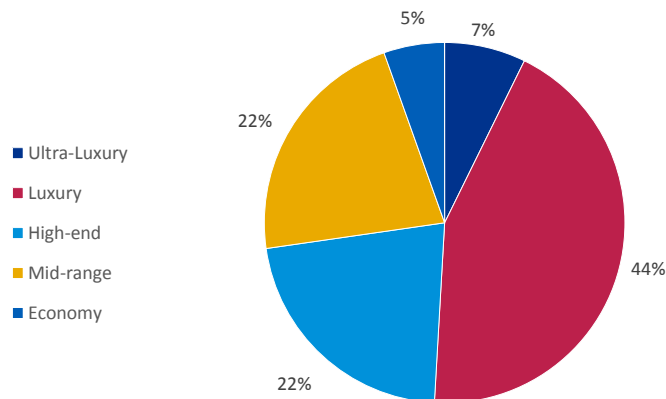
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Primary Guest Segment



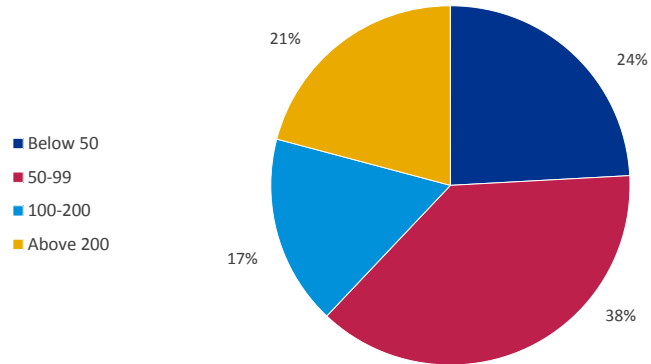
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Service Type



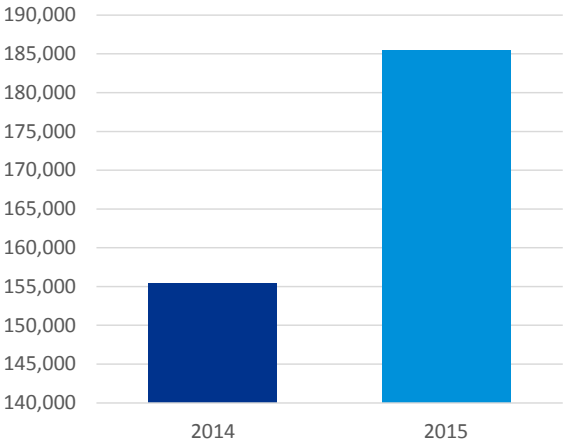
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Room Count



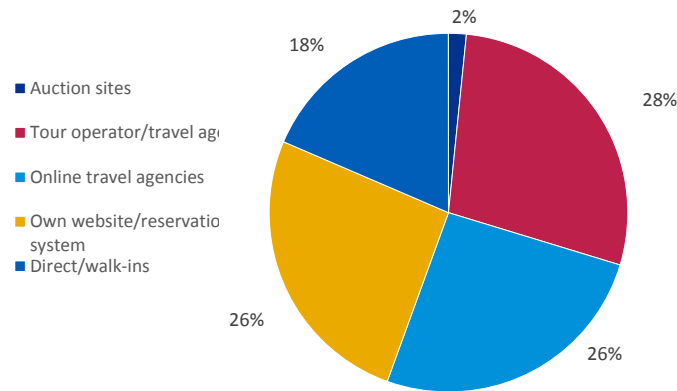
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Total Room Nights Available Per year



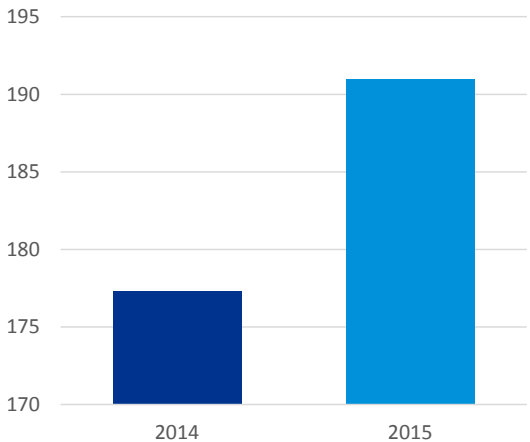
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Distribution Channels



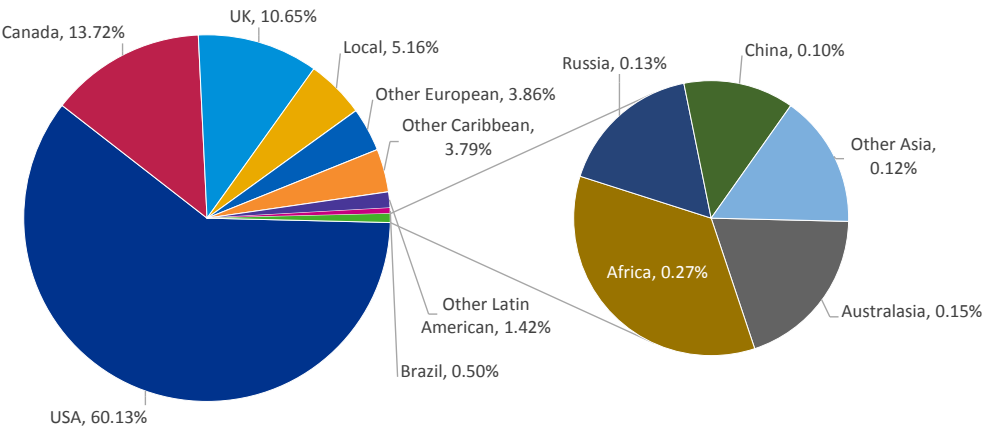
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Average Number of Full Time Equivalent (FTE) Employees



Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Primary Source Market



Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Our key findings

Benchmarking results

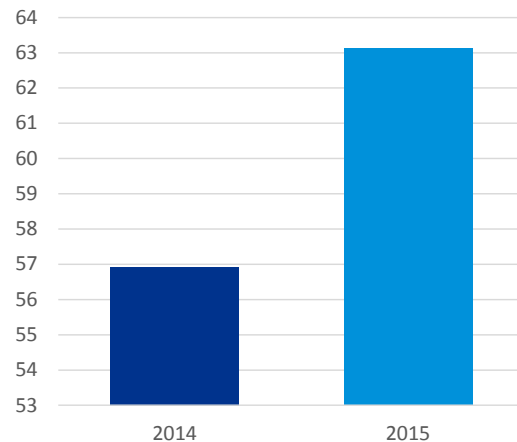
It is very encouraging that all KPIs are up for the period under review i.e. financial year 2015. Average occupancy is up from 56.93% to 63.11%, ADR is up 5.7% from US\$406.40 to US\$429.64, and RevPAR is up 12.3% from US\$227.49 to US\$255.53. In the 2007/2008 period many survey participants had to cut rates to maintain occupancy and in some cases to simply survive. However they are now seeing some improvement in the rates that can be secured. Furthermore, this has not come at the expense of occupancies; in fact occupancy rates have increased.

On a cautionary note preliminary financial data from reputable sources seems to suggest that KPIs may be falling somewhat thus far in 2016 but of course we won't know the full story until the financial year is complete.

Measures taken to maintain rates and occupancies are very consistent with our 2014 survey—perhaps because they appear to be working. Nearly half of the hotels surveyed in 2016 are using revenue enhancement as their primary performance improvement tool with increased marketing the second most popular performance improvement measure.

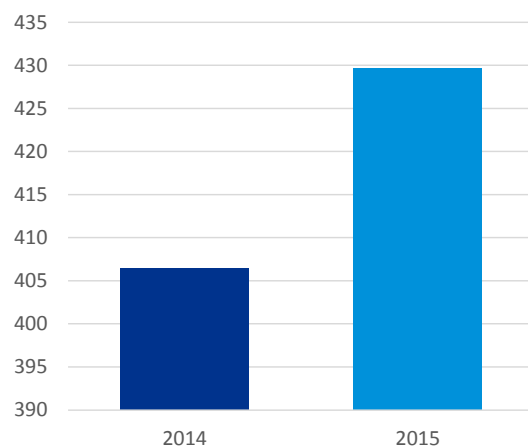
Annually we at KPMG produce a Caribbean Financing Survey and for several years now we have seen confidence levels increase and liquidity improve and yet this has still not translated into readily available capital. Whilst this is not good news for developers of new projects it does represent good news for existing operators who have benefited from the absence of new competition and the associated increase in supply, allowing them the time to improve their KPIs as seen in this survey.

Occupancy Rate (%)



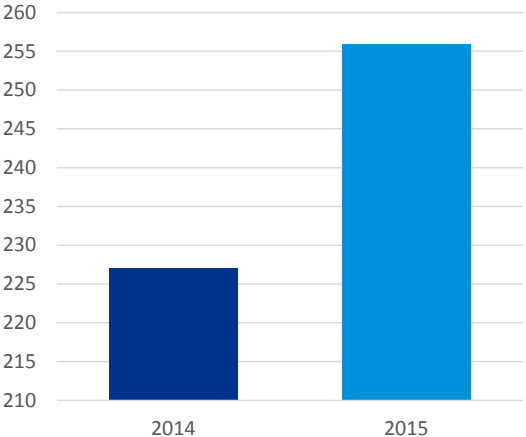
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Average Daily Rate (US\$)



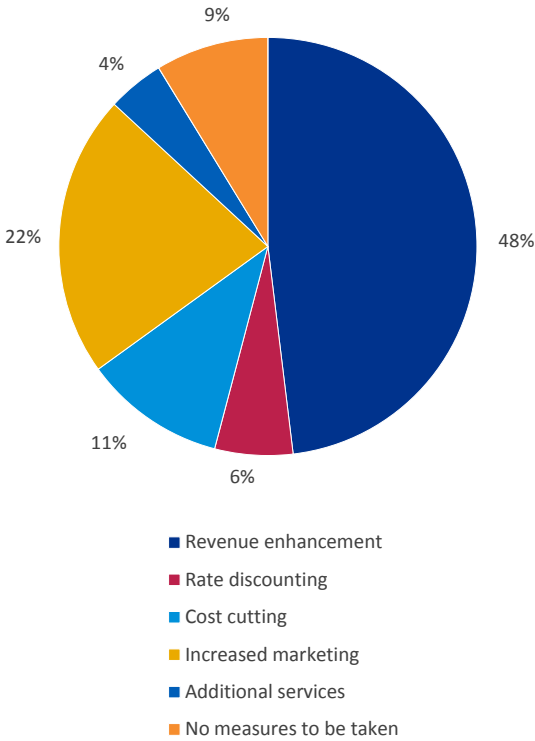
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

RevPAR (US\$)



Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Primary Performance Improvement Tools



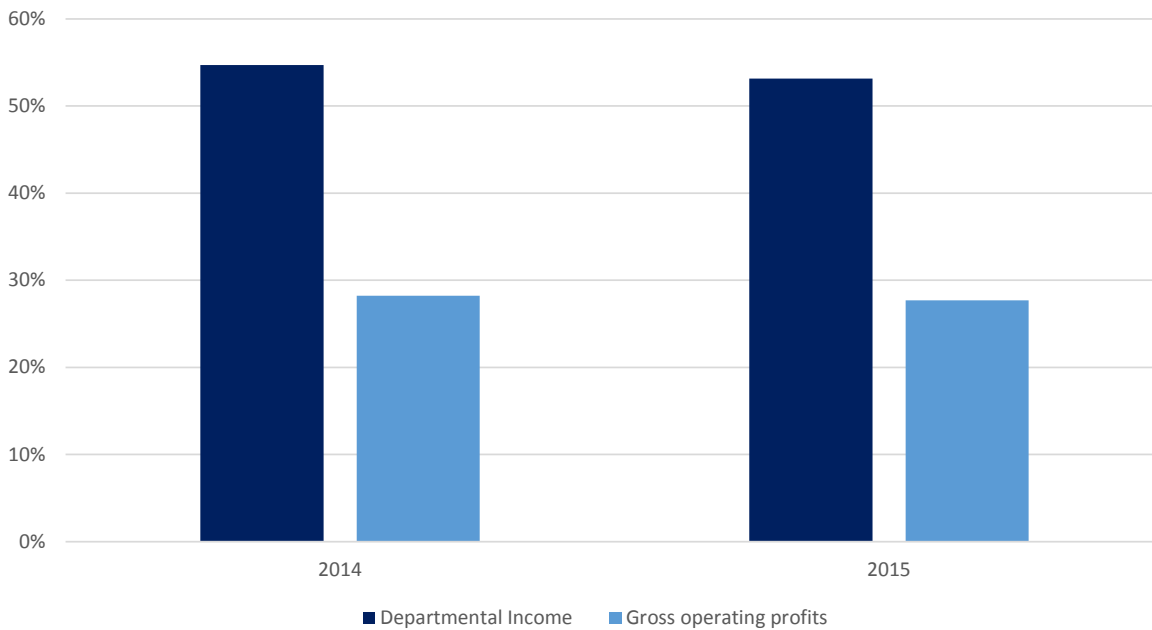
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey



Respondents' 2015 profitability and general operating performance is remarkably similar to 2014. However, the improvement in KPIs and the growth in revenue is offset by an equivalent increase in the cost of doing business. Departmental expenses increased by almost the same rate as departmental revenue. Utility expenses fell by 18% versus 2014 which is not surprising given the global fall in fuel costs and marketing costs fell by 10% which could relate to reduced pressure to maintain rates and occupancy. However, administrative and general expenses (11%) and property maintenance expenses (12%) increased which indicates continued pressure in certain cost areas.

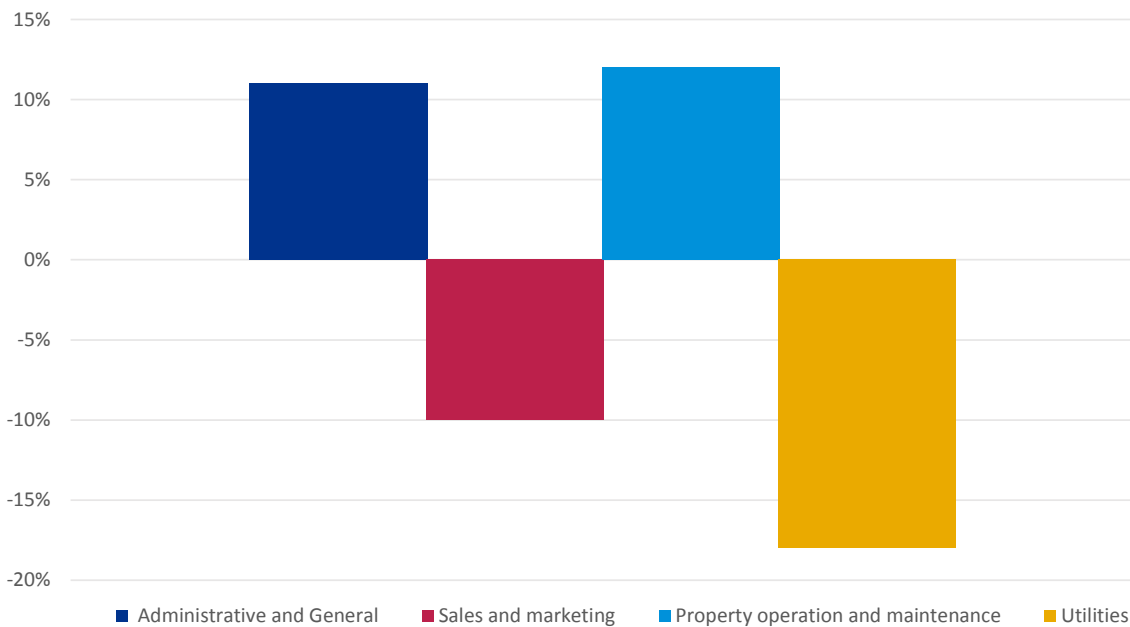
Overall it does illustrate that growing the top line doesn't necessarily translate into a growth in the bottom line. Increased profitability will continue to be a constant battle on two fronts—revenue growth and cost constraint.

Profitability (as % of total revenue)



Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Change in undistributed expenses 2015 versus 2014



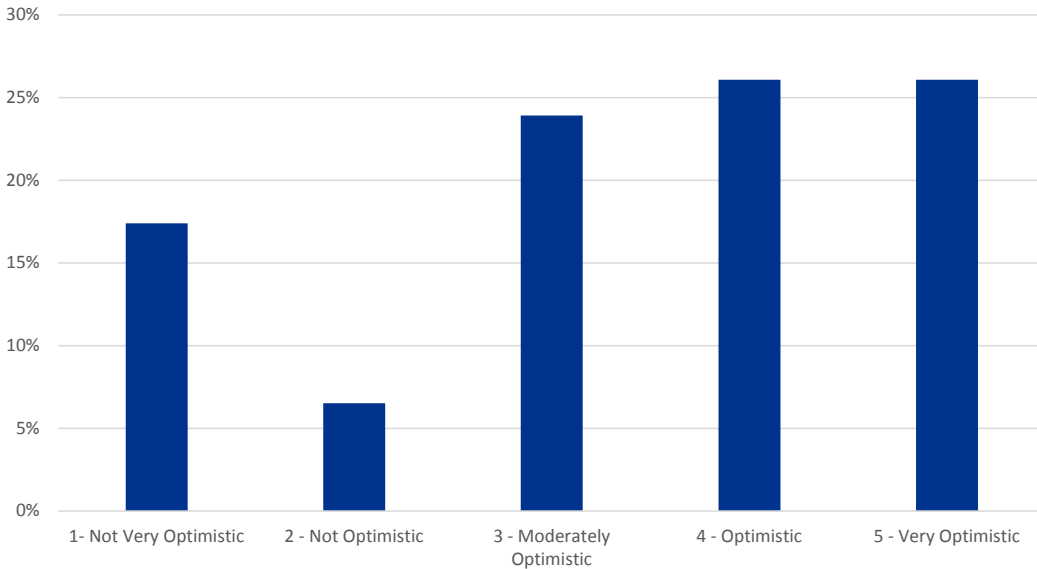
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Outlook

Approximately 26% of survey respondents are very optimistic that financial performance in 2016 will be better than in 2015 and 76% are at least moderately optimistic. These are generally very positive figures but there are a couple of cautionary notes. A rather large 17% of respondents are not at all optimistic and 2016 optimism levels, whilst high, are not quite as high as they were in 2014. Furthermore, as stated earlier in this survey, some reputable sources are reporting signs of a downturn in KPIs thus far in 2016.

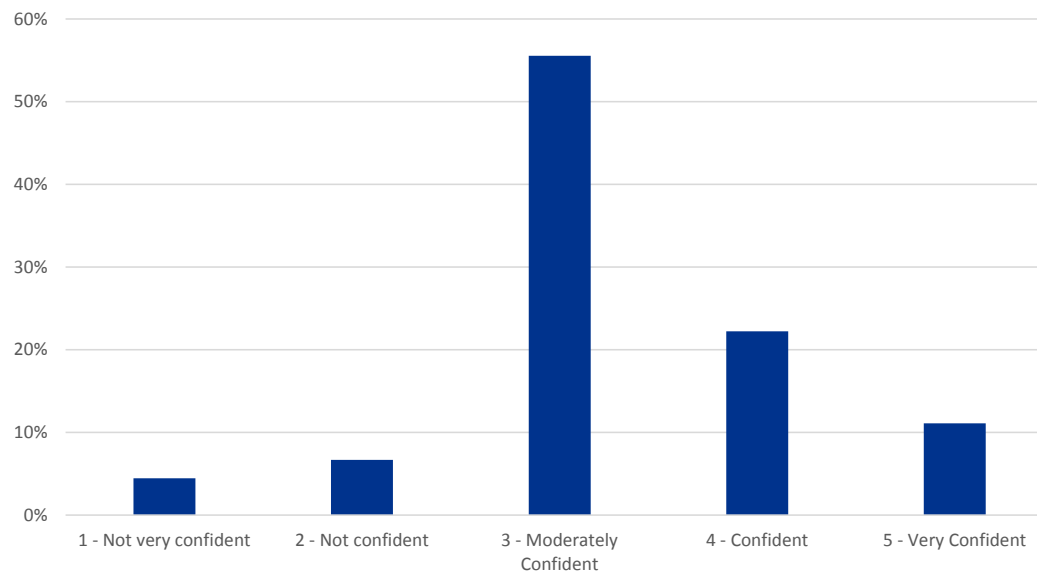
These cautionary comments were corroborated when we asked about confidence in the Caribbean tourism market for next year. An overwhelming 56% chose the “middle” option of moderately confident with more of the remaining respondents indicating that they are confident rather than not confident. Clearly whilst there is no lack of confidence there are no really strong convictions of confidence either.

Optimism for 2016 performance



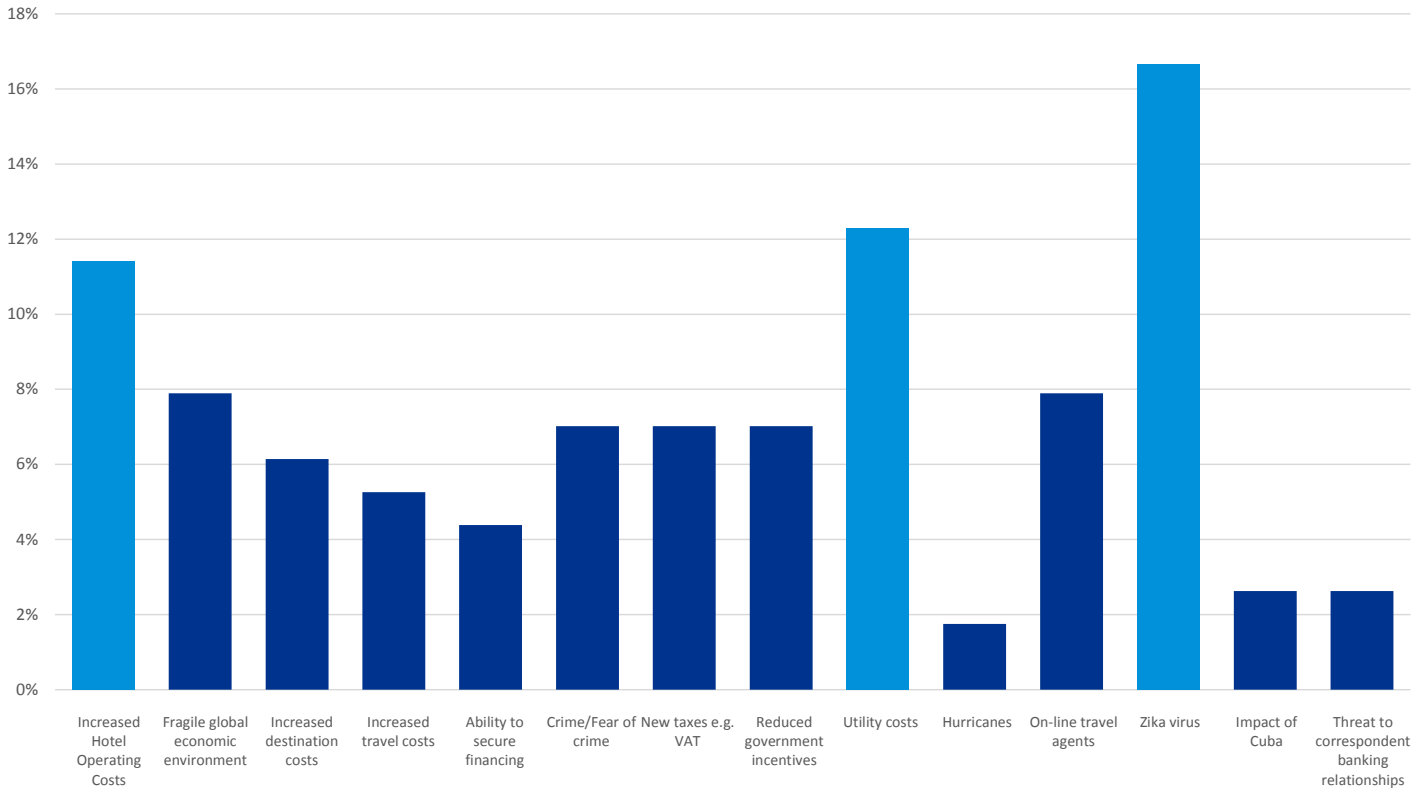
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Confidence in Caribbean tourism



Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

The three biggest challenges highlighted by survey participants for Caribbean tourism are the Zika virus, utility costs and increased hotel operating costs. Zika is a newcomer and hopefully will not be an ongoing issue. High utility costs are, however, a perennial problem and, even now, when energy costs are relatively low, they are still being cited as a major challenge to Caribbean tourism. Clearly, as energy prices increase, as they inevitably will, high utility costs will become an even more significant challenge. Increased hotel operating costs are the third biggest challenge cited by survey participants, an issue raised consistently in previous surveys and one which illustrates that our region is generally an expensive place to conduct business.

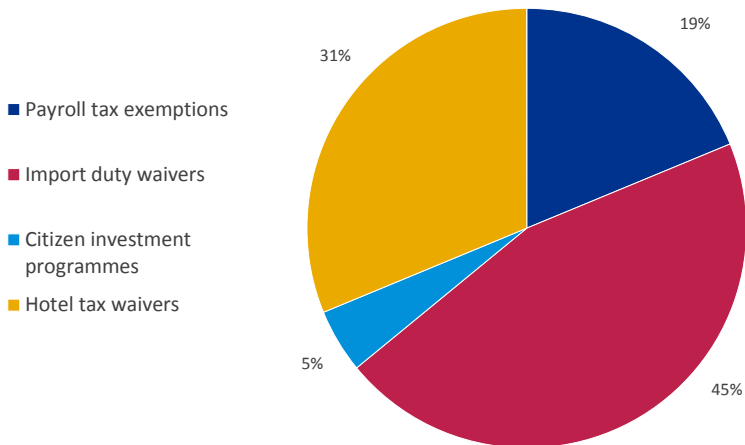


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Government concessions

What can governments do to help regional resorts? Somewhat surprisingly the polarizing issue of citizen investment programs received only 5% of support. Nearly half (45%) of respondents favored import duty waivers as the government concession considered to be most "favorable" towards resorts.

Government concessions considered "favorable"

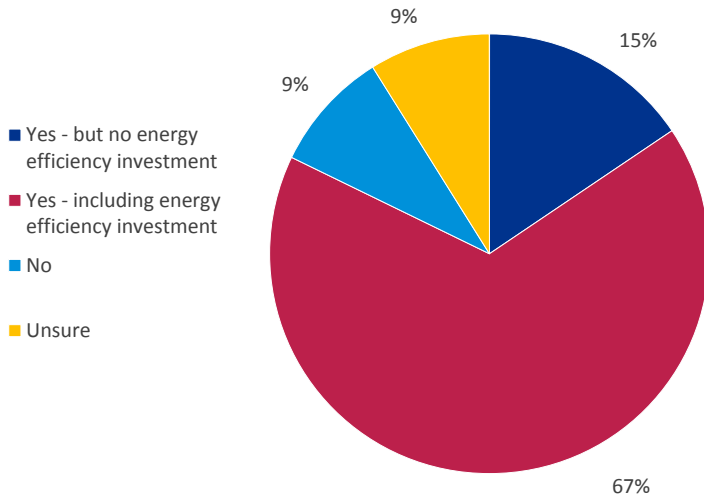


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Expansion plans

Two thirds of respondents plan to expand, redevelop or undertake major refurbishments with an energy efficient component over the next 18 months, a clear collaboration of the earlier message about the aforementioned challenges represented by high utility costs.

Major refurbishments/redevelopments in next 18 months?



Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey



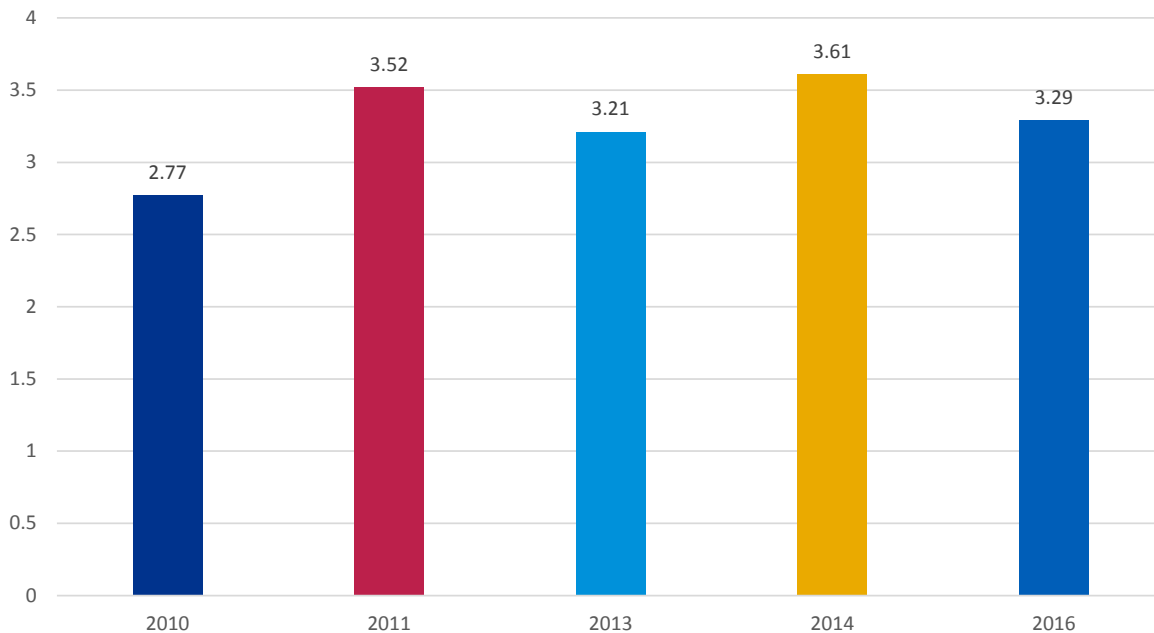
Conclusion

Considering the survey results in conjunction with the current state of the industry in the region we believe now represents a very interesting time for existing resorts, and can best be characterized as a “window of opportunity”. As discussed elsewhere in this survey there has been a lengthy period where capital has not been readily available to finance new projects. There are no signs of this changing any time soon and given the lead time needed to complete new projects existing operators can safely assume they still have at least a 3-5 year window before significant additional room supply comes on stream. However, they should not be complacent and should capitalize on this window of opportunity to grow and establish their competitive position and to increase and stabilize rates. As illustrated by CHTA’s article on Cuba there is also a window of opportunity for existing operators before the full impact on regional tourism of a more open Cuba takes effect.

Furthermore, as we have seen again in this survey, high utility costs are a challenge to regional resorts and it is only a matter of time before fuel costs rise again. Existing operators have a window of opportunity to invest in energy efficient measures and in this regard the aforementioned intention of many resorts to invest in energy efficient refurbishments is encouraging.

In closing we compare our 2016 survey respondents’ confidence levels with those respondents to previous surveys. We can see that whilst confidence levels are high they are not as high as they were when we conducted our last survey in 2014.

Caribbean Hotel Confidence Barometer



Source: KPMG International, KPMG’s 2016 Caribbean Resort Benchmarking Survey

At the conclusion of our 2014 survey, we stated that the resort industry in the Caribbean appeared to be starting to emerge from the downturn with some vigor and that it had set its eyes firmly on 2015 and 2016 as the years where the industry returned to robust and meaningful growth. This 2016 survey appears to corroborate this view for 2015 with all KPIs improving for 2015. Looking forward we now watch with great interest whether or not existing operators take advantage of this window of opportunity. Our next Caribbean Resort Benchmarking Survey will monitor progress. Stay tuned.

