

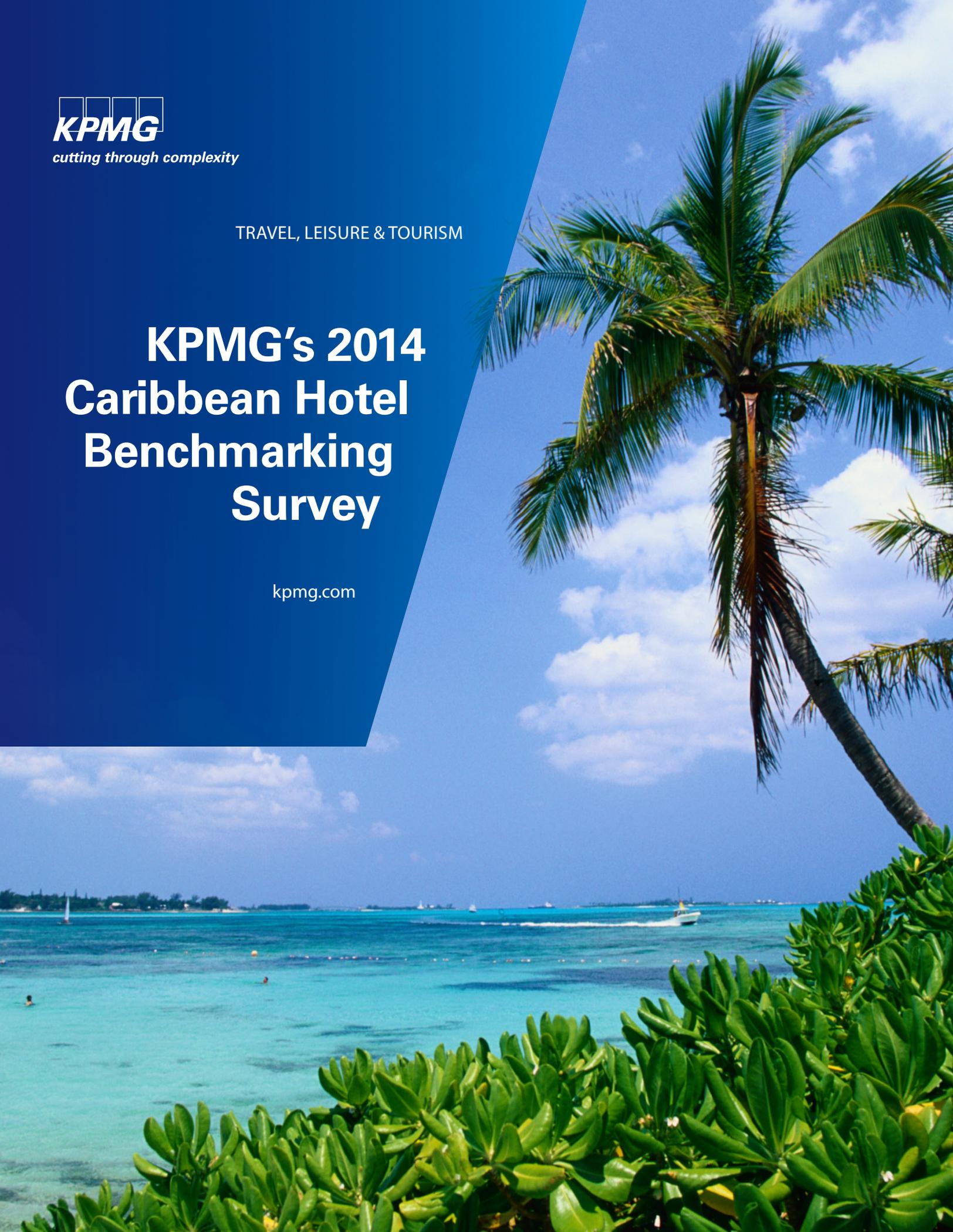


cutting through complexity

TRAVEL, LEISURE & TOURISM

KPMG's 2014 Caribbean Hotel Benchmarking Survey

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KPMG's 2014 Caribbean Hotel Benchmarking Survey

Dear Reader:

KPMG's Caribbean Travel, Leisure and Tourism group is pleased to present the results of KPMG's 2014 Caribbean Hotel Benchmarking Survey ("the Survey"), which has been designed to provide owners, operators, lenders and investors with a better understanding of the profile and performance of hotels in the Caribbean.

The Survey results corroborate the findings of our 2013 Caribbean Hotel Benchmarking Survey which identified encouraging signs of growth returning to our regional hotels. The key performance indicators of occupancy, ADR and Rev PAR are all up this year and hoteliers are more confident about the future than at any time since 2010 when we first started this initiative. Nearly half of respondents believe 2014's operational performance will be better than 2013 and most expect meaningful growth to return in 2015 or 2016. Furthermore, taken as a whole, the number of Caribbean stop-over arrivals has increased, although admittedly not in every Caribbean country. Cost saving measures, hard won during the downturn, appear to now be embedded as both departmental and undistributed costs have increased by less than revenue, leading to welcome increases in gross operating profit. So overall there is a lot of positive news to report.

Almost 75% of survey respondents have expansion plans for the next 18 months, with over half indicating energy efficiency is high on their list of priorities. That said the ability to raise financing for new projects and operations remains difficult with twice as many respondents finding it "very difficult" to raise funding compared to those who found it "very easy" to do so. Concerns about the stability of the global economic recovery, together with increasing local costs, feature highly on the list of challenges for the industry over the next year.

We take this opportunity to say a special thank you to our Survey participants (who will also receive a more detailed analysis of the financial results separately). We welcome participation from additional properties for future surveys.

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

Sincerely,



Stephen Woodward
Managing Director
KPMG in Bermuda



Charlene Lewis-Small
Director
KPMG in The Bahamas



Gary Brough
Managing Director
KPMG in The Turks and
Caicos Islands

Overview

Methodology

KPMG's Travel, Leisure & Tourism practice in the Caribbean conducted benchmark surveys into the region's hospitality industry.

Financial information for 2012 and 2013 was collected from hotel properties in various Caribbean jurisdictions.

This Survey is based on the survey data collected. Financial information was analysed 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 hotels that contributed data for that line item. For example, for those hotels 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. 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 hotel and the underlying data provided by that hotel, 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 hotel 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 hotel's occupancy is unusually high or low.

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

Comparative data reflects last year's performance for this year's respondents and thus will differ from the results reported in last year's survey which had a different set of respondents.

The Survey responses were not audited.

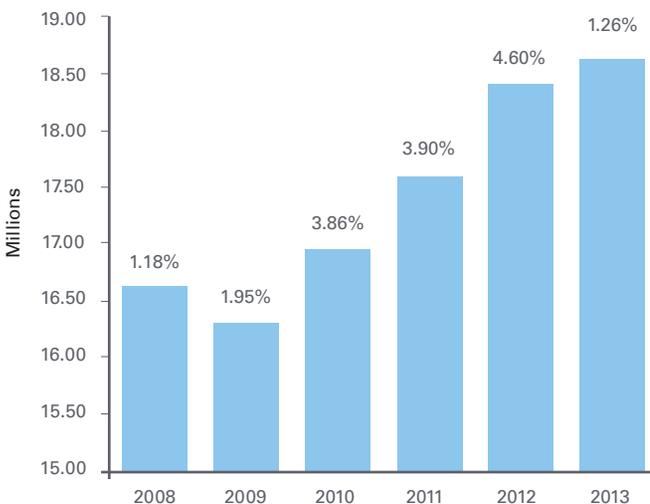
Differences between the Survey and other reports may result from differences in the profiles of respondents.



The state of Caribbean tourism

The number of Caribbean stop-over visitors grew by 1.26% in 2013, building on solid growth since 2010. Between 2008 and 2013, significant compound annual growth in tourist stop-over arrivals was experienced by Cuba (4.0%), Puerto Rico (3.8%), Aruba (3.4%) and the Dominican Republic (3.3%). Decreases were seen in some of the more established destinations including Barbados (-2.2%), Bermuda (-2.2%) and The Bahamas (-1.4%). An exception to this trend was Jamaica, where tourist arrivals increased by 2.6% in the period on a compound annual basis.

Growth in Caribbean tourist stop-over arrivals 2008-2013



Source: Caribbean Tourism Organisation, KPMG analysis.

Note: Numbers exclude some jurisdictions canvassed by the CTO in order to present a consistent sample across the time period.

KPMG has identified the following emerging global tourism trends which impact the industry in the region:

Expanding global middle class and the growth of affluent travellers

According to the World Economic Forum, the global middle class will expand by three billion people in the next 15 years. As a result, spending by this newly affluent demographic is expected to more than double by 2030, jumping from US\$21 trillion today to US\$56 trillion by 2030. Mega developments such as Baha Mar in The Bahamas are expected to have a dramatic effect on travel to the Caribbean over the next decade by a newly wealthy Chinese middle class. Analysis by the UNWTO concludes that

China became the largest outbound tourism market in 2012 with an expenditure of US\$102 billion increasing to US\$129 billion in 2013.

Closer to home, the U.S. continues to be the major feeder market for our region responsible for 49.3% of the total Caribbean guest market according to the CTO. The top 9% of U.S. households account for 29% of all spending on lodging and air travel. This demographic is expected to grow in number from 10.5 million in 2011 to 20.5 million by 2020 and their total wealth is expected to grow from US\$39 trillion to US\$87 trillion. These households have a high level of participation in hotel loyalty programmes with 77% of affluent travellers belonging to such programmes, considerably more than business travellers (68%) and the wider leisure traveller demographic (42%). On average they make use of 3.9 hotel loyalty programmes and use 2.5 of them at least once per year.

Energy efficiency

Energy efficiency is a pressing issue for the hospitality industry in general. Reducing operational energy costs and improving the hotel's image are of primary concern to hoteliers as customers demand 'greener' practices, actively commenting in social media on hotel efforts to become environmentally friendly and on examples of bad practice. As we point out in our social media commentary below, adverse comments on social media can have a material impact on the KPI's that a hotel can achieve.

In terms of the overall cost of energy and utilities, our Survey shows that, on average, our respondents' utility expense was 6.5% of total revenue in 2013, while in the U.S., according to STR, utility costs were 3.7% of revenue on average.

Chain and brand affiliated hotels are frequently ahead of the curve on energy efficiency issues, having the corporate guidelines and policies which dictate where the investment is best placed and having the ability to invest.

Social media

By Q1 2014, TripAdvisor had recorded 170 million reviews generated by some 128 million users, covering 850,000 hotels, together with some 23 million guest photos. In addition, 90% of questions posted to TripAdvisor's English-speaking forums are responded to by other travellers within 24 hours.

A recent Cornell University study asserted that transactional data from Travelocity illustrated that if a hotel can increase its review score by 1 point on a 5-point scale (e.g. from 3.3 to 4.3), the hotel can increase its ADR by 11.2% and still maintain the same occupancy.

These brief facts demonstrate both the enormous scale of social media and the broadening extent of traveller interactivity that can impact a hotel's business significantly. The effectiveness of a hotel's social media strategy is therefore potentially critical to profitability.

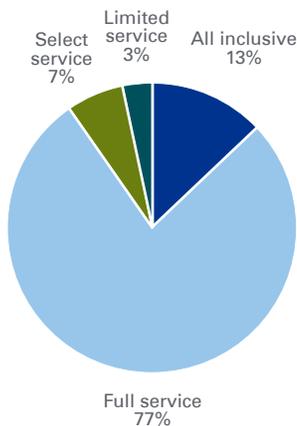
The question is, how can the Caribbean best capitalise on these emerging trends to help diversify, stabilise and strengthen our tourism market?

Sources: Resonance Report – 2013; "The Impact of Social Media on Lodging Performance", Chris Anderson: Cornell University; GBTA Report – U.S. Travel Outlook (July 2014), U.S. Travel Association; UN World Travel Organisation, World Economic Forum: The Travel & Tourism Competitiveness Report 2013; STR U.S. HOST Almanac 2014, KPMG research.

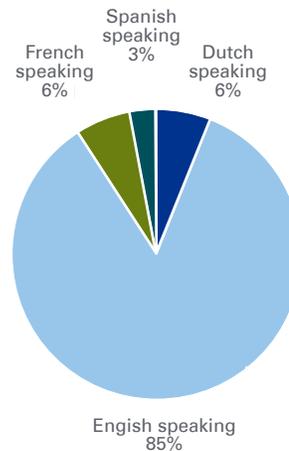
Profile of Survey respondents

The typical profile of our Survey respondents is that of a full service resort with less than 100 rooms in an English speaking jurisdiction. Respondents overwhelmingly cater to the leisure sector and North America remains by far the largest guest market. The number of available rooms decreased slightly by 0.5% in 2013 and the number of full-time employees increased by 4.3%. In terms of distribution channels, our respondents sourced 48.4% of their business via their own system or direct / walk in, with a further 46.9% being sourced via travel agents, 16.8% of these being through online travel agencies.

Property type

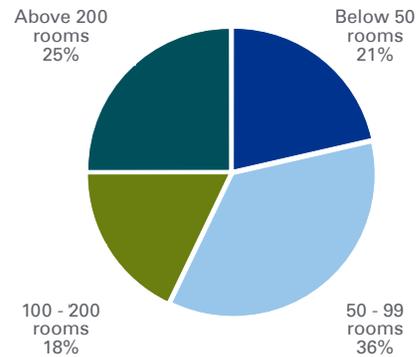


Caribbean location



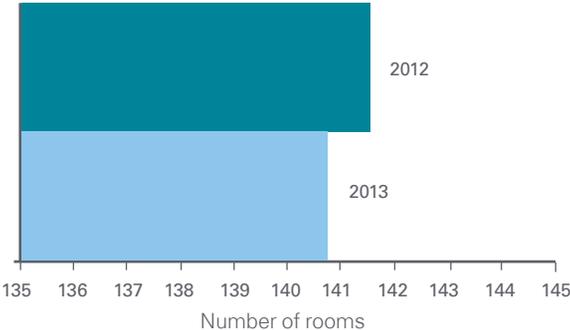
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Hotel size



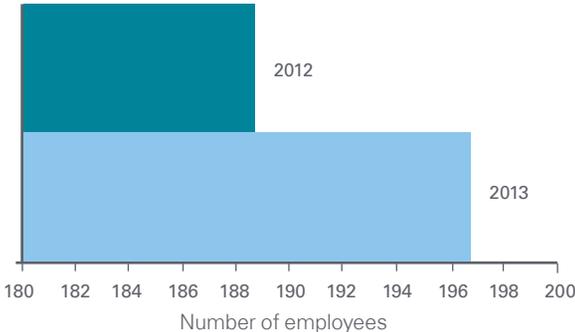
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Average number of available rooms



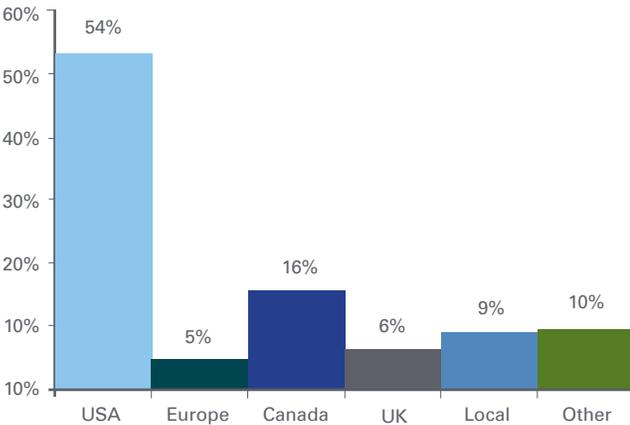
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Average number of full time employees



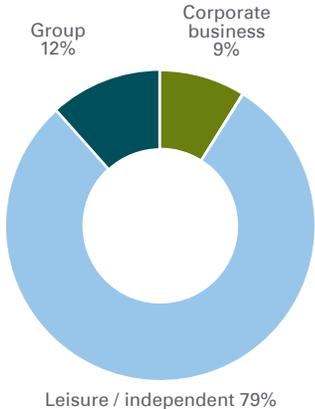
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Primary guest market



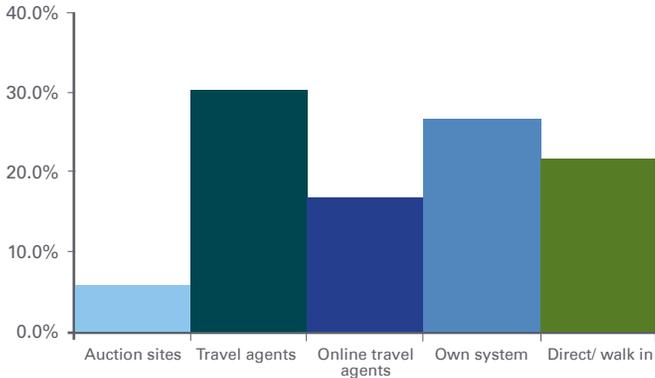
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Primary guest segment



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Distribution channels



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

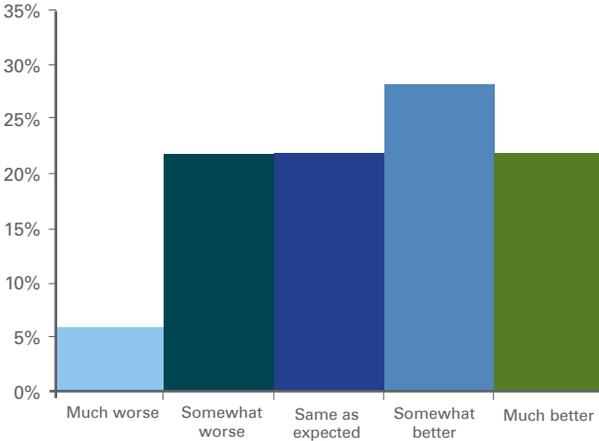
Our key findings

Benchmarking results

Our respondents appear to have priced improvement in market conditions fairly accurately into their budgeting process, with 72% reporting that they had met or exceeded their budget. Hoteliers appear to have learnt lessons from previous years where the industry had expected a recovery that did not materialise.

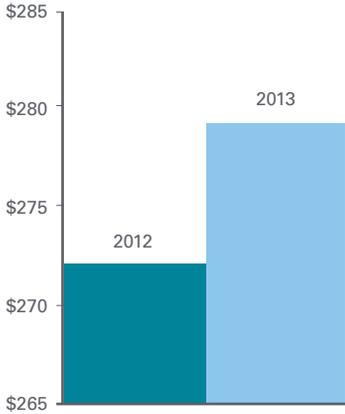


How did 2013's performance compare to budget?



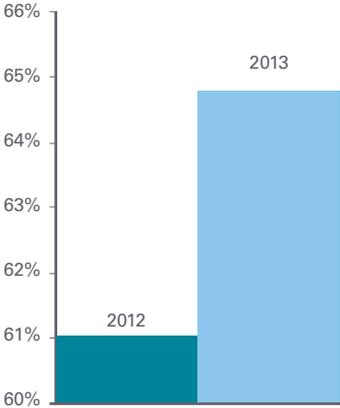
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

ADR (US\$)



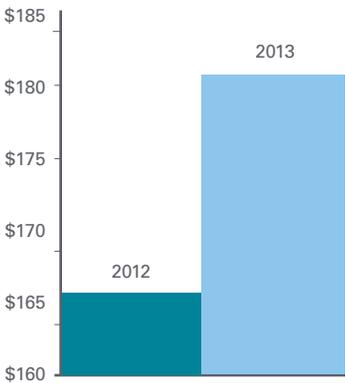
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Occupancy



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

RevPAR (US\$)



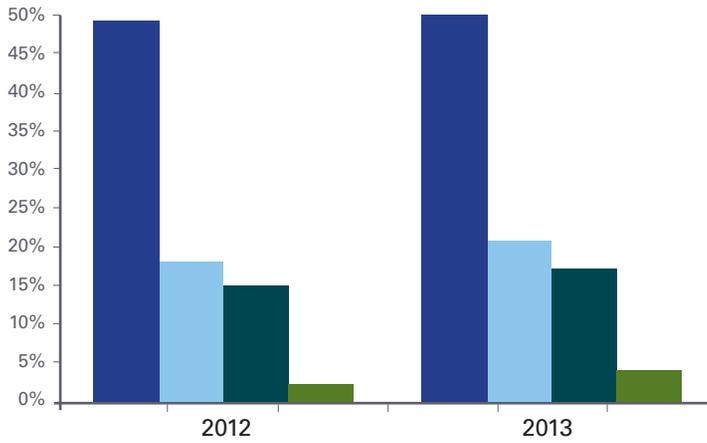
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Our Survey points to healthy growth in occupancy, ADR and RevPAR in 2013. Average occupancy increased from 61 % to 64.8%, ADR from US\$272 to US\$279 and RevPAR from US\$166 to US\$181.

Respondents' 2013 profitability showed improvement when compared to 2012. The increase in the major KPIs, together with solid control of departmental expenses, led to a modest increase in departmental profit. Administrative and general expenses were also well controlled suggesting that the cost cutting disciplines learnt during the recession are still in place. Survey respondents invested modestly in sales and marketing, with costs increasing by 4%. Utility costs fell almost 6% in 2013 against 2012, mirroring a slight decline during the year in the price of energy. The Survey also recorded an increase in property operation and maintenance spend, together with an increase in replacement reserve allocation, which suggests that hoteliers are now investing in their capital assets in preparation for better times ahead.



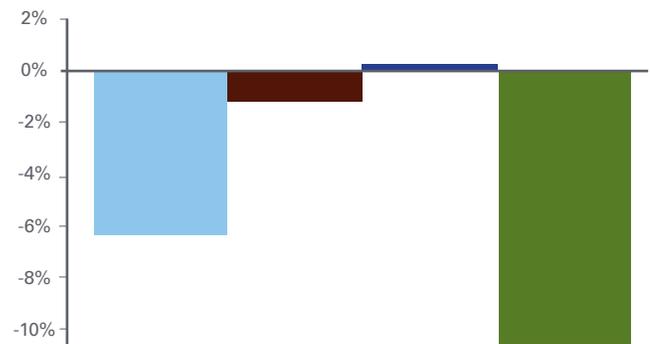
Profitability (as % of total revenue)



- Departmental income
- Gross operating profits
- Income before fixed charges
- Amount available for debt service & other fixed charge.

Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Change in undistributed expenses as a percentage of total revenue



- Administrative and general
- Sales and marketing
- Property operation and maintenance
- Utilities

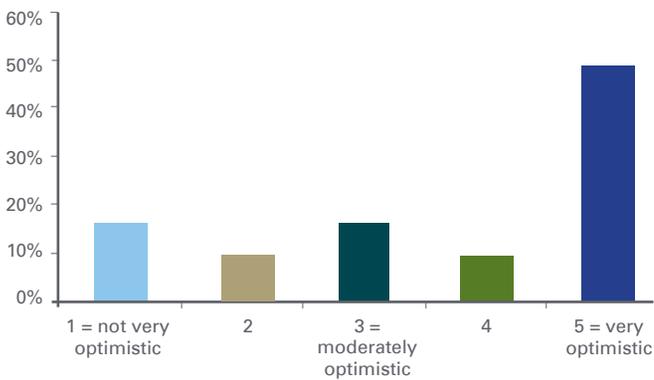
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Revenue growth outstripped increases in all undistributed expenses with the exception of property operations and maintenance, as noted above. On average, reporting hotels posted an increase in gross operating profit from 18.5% of total revenue in 2012 to 21.2% in 2013.

Outlook

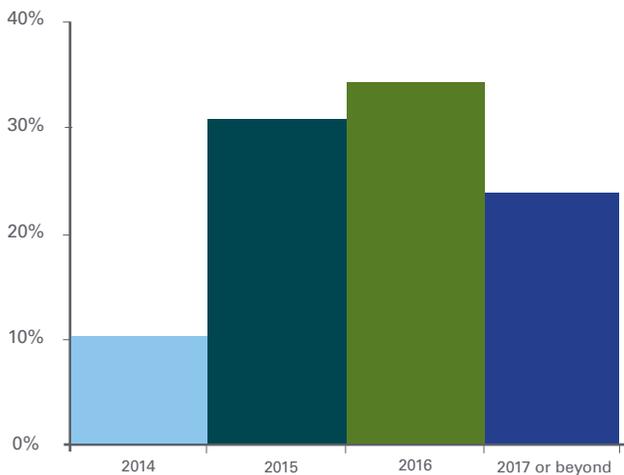
An encouraging 48% of participating hotels are very optimistic that 2014 will be better than 2013 and 90% of respondents believe that 'meaningful' growth will return in 2015 or beyond with 76% expecting such growth to return before the end of 2016.

Will 2014's performance be better than 2013's?



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

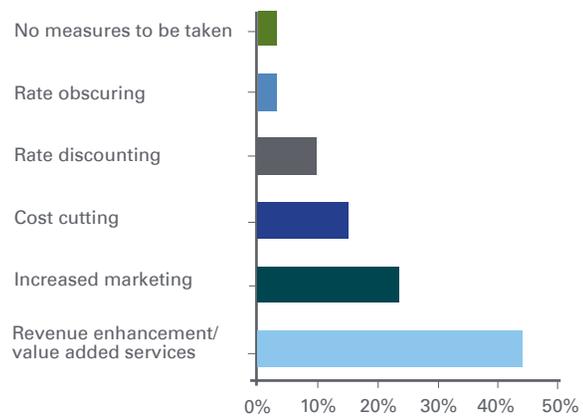
When will growth return?



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

In an effort to maintain or improve rates and occupancies, nearly half of the hotels surveyed are using revenue enhancement as their primary performance improvement tool for 2014. Increased marketing was the second most popular performance improvement measure, being used by nearly one quarter of respondents.

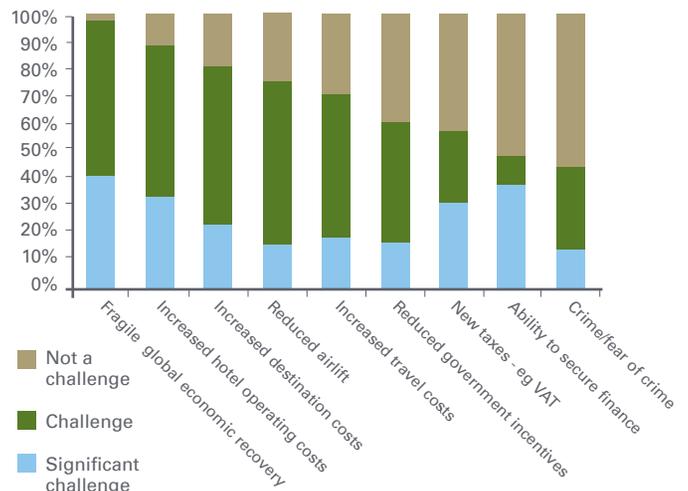
Primary performance improvement tool for 2013



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

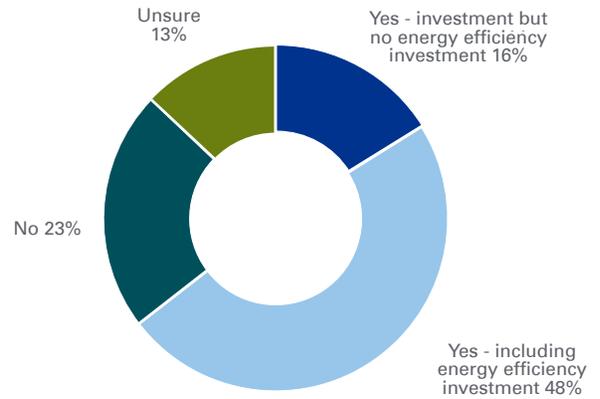
The fragile economic recovery, particularly in the main source markets for visitors, is seen as the primary hindrance to a rebound in the Caribbean tourism industry. Increased costs of doing business in, and getting to, the Caribbean also featured heavily amongst our respondents in terms of impact on profitability.

Challenges to Caribbean tourism



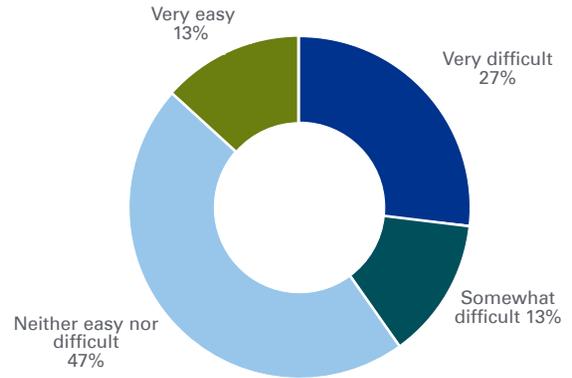
Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Do you have any expansion plans?



Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

Funding of expansion plans

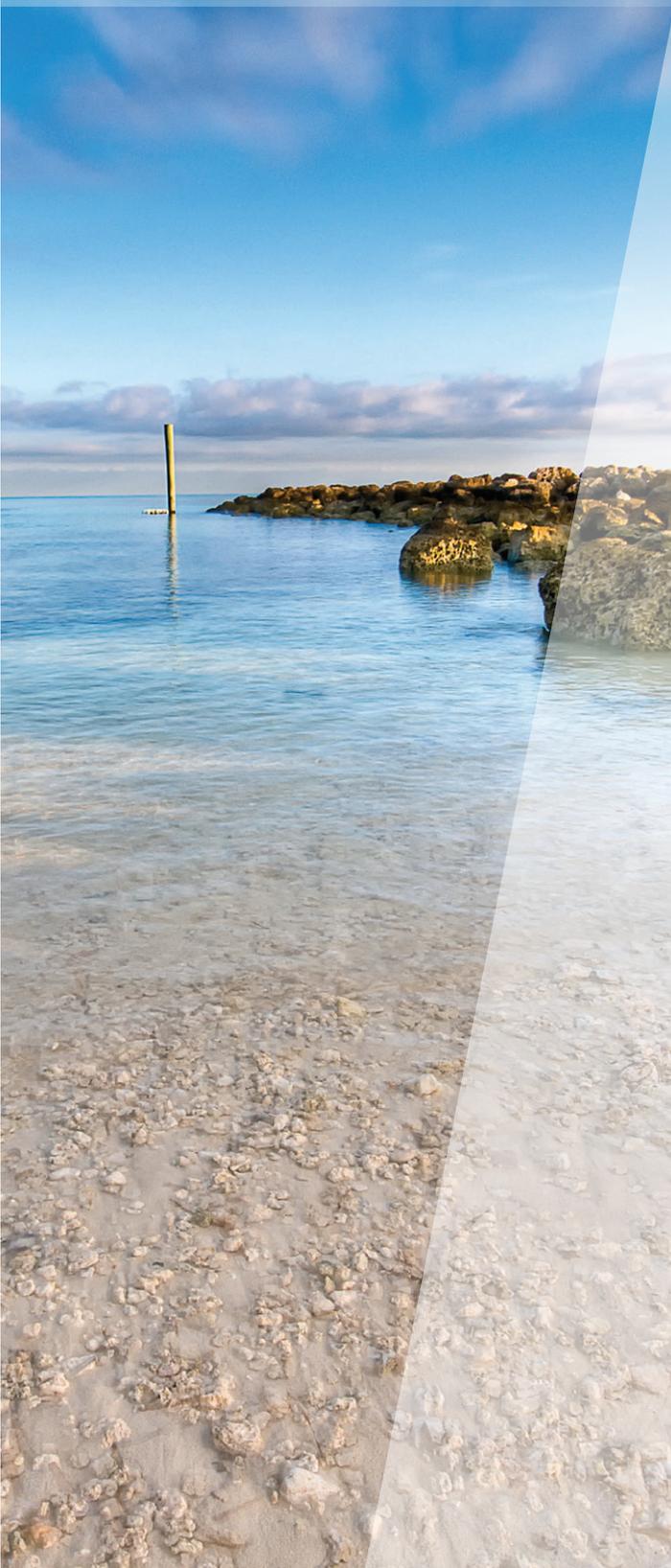


Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

The ability to raise financing for new projects and operations remains difficult with twice as many respondents finding it “very difficult” to raise funding compared to those who found it “very easy” to do so. More KPMG commentary on hospitality financing can be found in our 2014 Caribbean Hospitality Financing Survey at:

<http://www.kpmg.com/BM/en/IssuesAndInsights/ArticlesPublications/Pages/2014CaribbeanHospitalityFinancingSurvey.aspx>

Alternatively, please contact one of the KPMG offices listed at the back of this report.



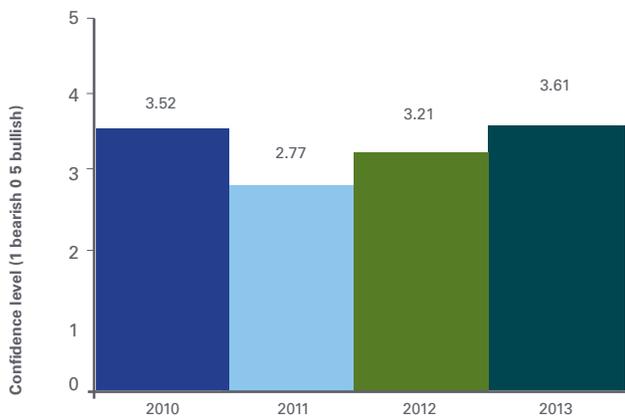
In conclusion

Confidence

Below we compare the results of 2014 Survey respondents' confidence in the industry against that of Survey respondents to our previous Caribbean Hotel Benchmarking Surveys. Hoteliers are more confident about the future than at any time since 2010, when we first started this initiative.

Our 2013 Survey struck a note of cautious optimism and we are gratified to see that this has proven to be the case. The long anticipated improvement in the region's hotel sector appears to be moving closer and closer.

Caribbean Hotel Confidence Barometer



Note: The Survey was not conducted in 2012.

Source: KPMG International, KPMG's 2014 Caribbean Hotel Benchmarking Survey

What hotels are saying:

" We have already converted to rain water recovery and also to solar energy for electricity"

" 2014 is poised to be a better year than 2013"

"2014 has picked up tremendously"



A photograph of a sunset over the ocean. The sun is low on the horizon, casting a golden glow across the sky and reflecting on the water. The foreground shows a sandy beach with gentle waves lapping at the shore. A large, semi-transparent blue trapezoidal shape is overlaid on the right side of the image, containing white text.

At the conclusion of our 2013 Survey, we stated that, while there were certainly some positive and encouraging signs of a return to growth, “the jury was still out”. This 2014 Survey appears to demonstrate that the hotel industry is starting to emerge from the downturn with some vigor and has its eyes set firmly on 2015 and 2016 as the years where the industry returns to robust and meaningful growth. Given the critical importance of tourism to our region, we certainly hope this is the case. Our next Caribbean Hotel Benchmarking Survey will continue to monitor this theme of opportunity and growth. Stay tuned!

KPMG's Caribbean Travel, Leisure and Tourism Contacts

Please contact the KPMG firm represented in your country if you have any questions. KPMG firms are represented in more than 20 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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