



2016 Resort Benchmarking Survey for the Turks & Caicos Islands

Travel, Leisure & Tourism

November 2016





Introduction

Dear Reader:

KPMG's Caribbean Travel, Leisure and Tourism group is delighted to present the results of KPMG's Resort Benchmarking Survey ("survey"), produced exclusively for the Turks and Caicos Islands ("TCI").

We are delighted that participation in the survey of resorts based in TCI was so strong that, in addition to our regional publication released recently, we have been able to produce this publication which is specific to TCI. We believe it speaks volumes for the TCI tourism community that TCI is the only jurisdiction in the region for which we received sufficient survey respondents to present results for that jurisdiction alone.

For the period under review, i.e. financial year 2015, the general theme of both this TCI survey and our general Caribbean survey, is positive with all Key Performance Indicators ("KPI's") - occupancy, ADR, RevPAR and average number of full time employees - showing improvement versus 2014.

What is striking when we compare TCI to the rest of the Caribbean is how clearly defined TCI's target market is. It is very much a small, (78 rooms average per TCI participant versus 201 rooms average per Caribbean participant) luxury resort (65% versus 44%) business model attracting much higher ADR's (US\$584 versus US\$340) and employing more employees per room (1.38 versus 1.19) than elsewhere in the Caribbean. Condo-hotels are more prevalent in TCI (48% versus 11%) and there is greater dependency on the US market (72% versus 54%).

However there are common concerns. Zika is by far the biggest challenge for Caribbean tourism cited by TCI

respondents to our survey and is also one of the top three issues cited by Caribbean respondents.

TCI resorts have spent many years building up a very valuable and hard earned "brand TCI". Just how valuable that brand is to TCI resorts and the importance to them of protecting it is one of the most fascinating insights highlighted in this survey. Putting aside the issue of Zika the next biggest challenges identified by TCI resorts were issues that impact TCI's brand such as crime and the role of online travel agents, rather than financial issues. On the other hand Caribbean resorts were more concerned about financial issues such as high utility costs and hotel operating costs.

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.

Thank you



Gary Brough
 Managing Director
 KPMG in The Turks
 and Caicos Islands

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 $\text{RevPAR} = \text{ADR} * \text{occupancy rate}$), 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 and how it relates to TCI

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

For example, how is Zika impacting TCI's tourism industry now and how will it impact TCI in the future?

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 of Brexit and the associated weakening sterling?

How will increased global security concerns impact Caribbean and TCI tourism?

Zika

The ultimate impact of the Zika virus on TCI's tourism industry 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 TCI. As pointed out on page 12 of this survey, it is considered by our survey participants to be the most significant challenge facing TCI's tourism industry. 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.

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 in our regional 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 6 of this survey for 15% of survey participants (2% - TCI) 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.

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

Given TCI's leadership position in the area of condo-hotels it is no surprise to see that 48% of TCI survey participants were condo-hotels versus 11% of participants from the rest of the Caribbean where the largest sector of participants were full service resorts (41%), which was also the second most popular resort type in TCI with 34% of survey participants.

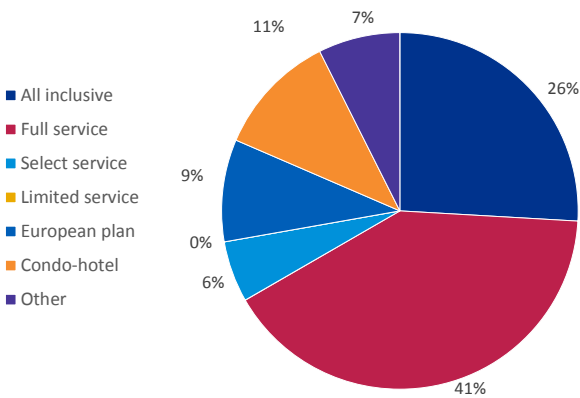
Likewise, given TCI's concentration on the luxury segment of the market, it is no surprise to see 65% of TCI survey participants classified as luxury or ultra-luxury resorts versus 44% of participants from elsewhere in the Caribbean, .

The average number of rooms for TCI survey participants was 78 with 50-99 rooms being the most common range compared to an average number of rooms of 201 amongst other Caribbean survey participants for which 50-99 rooms was also the most common market range, a profile which is consistent with TCI's concentration on the smaller, high value market rather than the volume market.

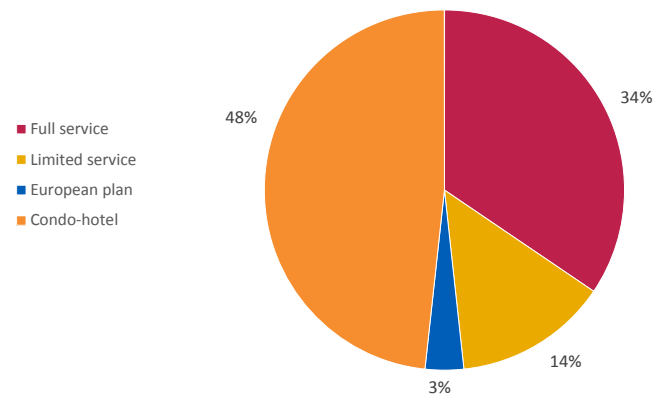
TCI's primary guest segment is overwhelmingly leisure (90%). TCI attracts less corporate business (5% versus 18%) and less group business (5% versus 27%) than its Caribbean counterparts.

The US market is overwhelmingly the primary source market for TCI respondents — much more so than elsewhere in the Caribbean (72% versus 54%). The Caribbean, especially the Eastern Caribbean, sources more tourists from the UK than TCI (15% versus 2%).

Resort Type (Caribbean*)

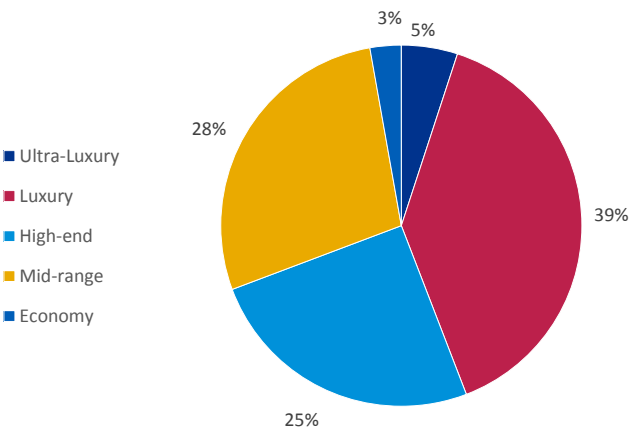


Resort Type (TCI)

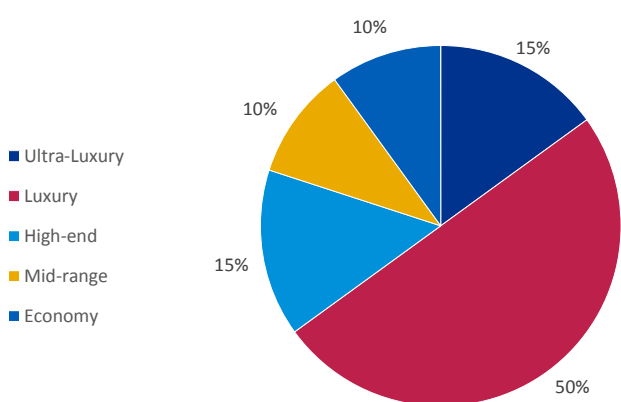


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Service Type (Caribbean*)



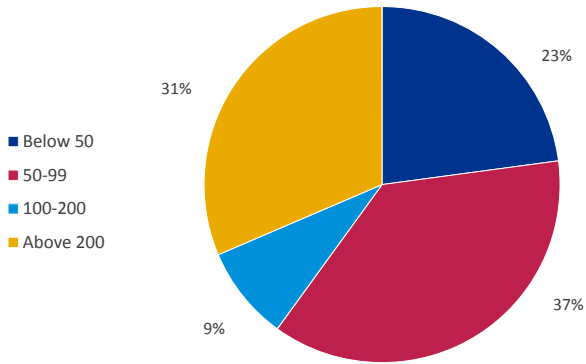
Service Type (TCI)



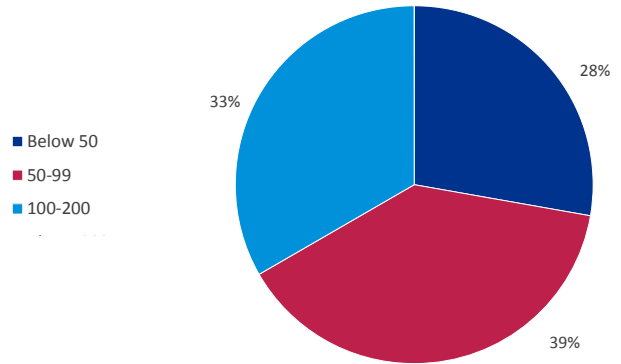
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

* excluding TCI

Room Count (Caribbean*)

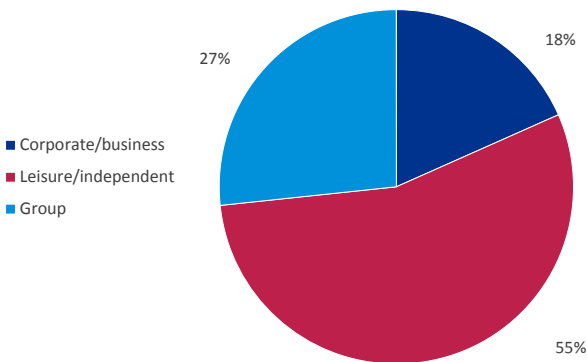


Room Count (TCI)

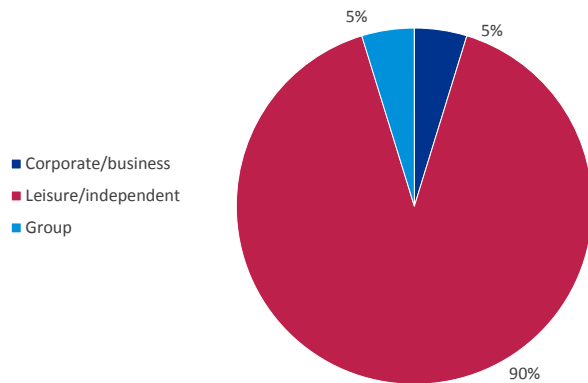


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Primary Guest Segment (Caribbean*)

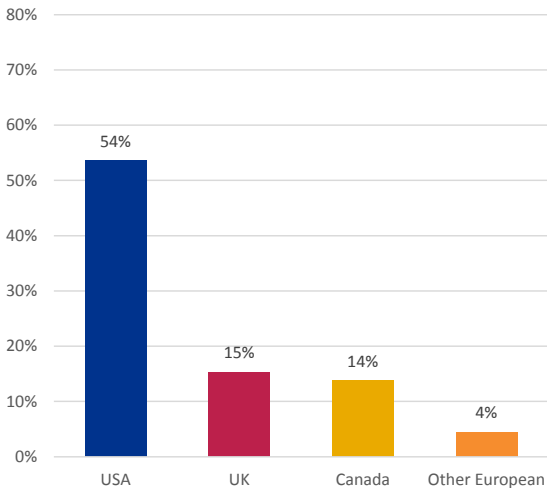


Primary Guest Segment (TCI)

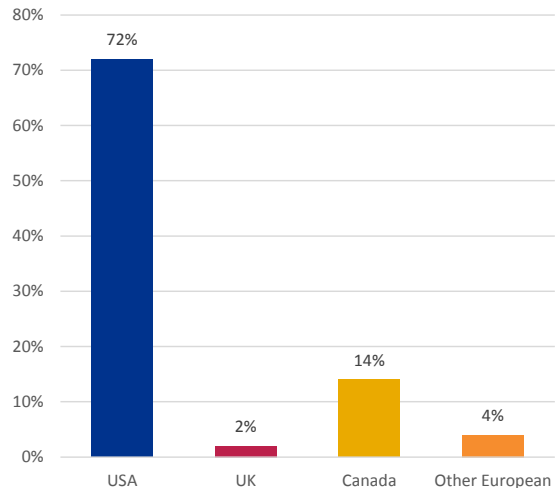


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Primary Source Market (Caribbean*)



Primary Source Market (TCI)



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

* excluding TCI

Our key findings

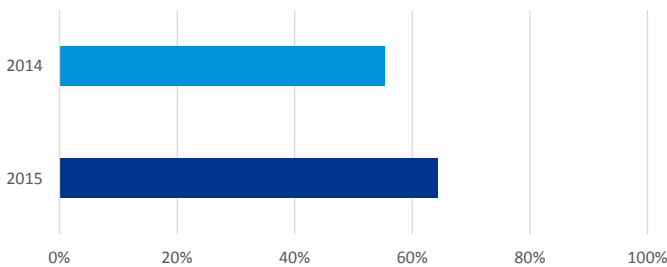
Benchmarking results

It is very encouraging that all KPI's are up for the period under review (i.e. financial year 2015) not only for TCI but also for elsewhere in the Caribbean.

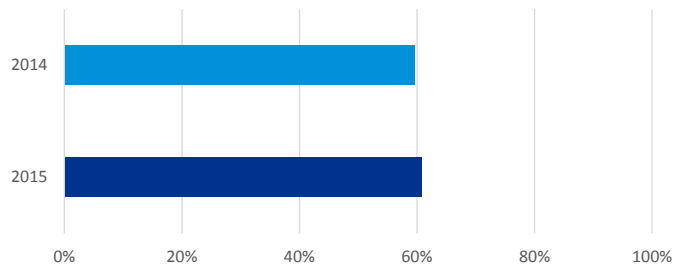
In TCI we saw a lower increase in occupancy than elsewhere in the region (2% versus 16%) but TCI's ADR of US\$584 was much higher than US\$340 for other Caribbean survey participants emphasizing TCI's concentration on the luxury market. The ADR of TCI participants did not increase as much in 2015 as for other Caribbean participants (6% versus 8%) and RevPAR (11% vs 17%) also did not increase as much, as a consequence of the occupancy differential.

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 (Caribbean*)

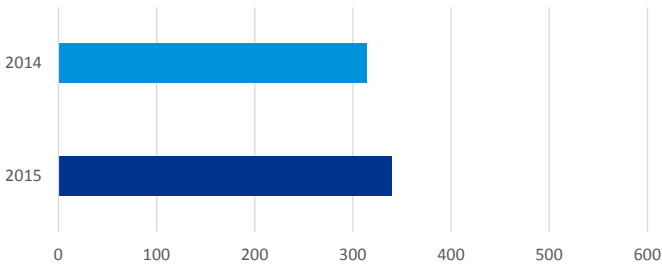


Occupancy Rate (TCI)

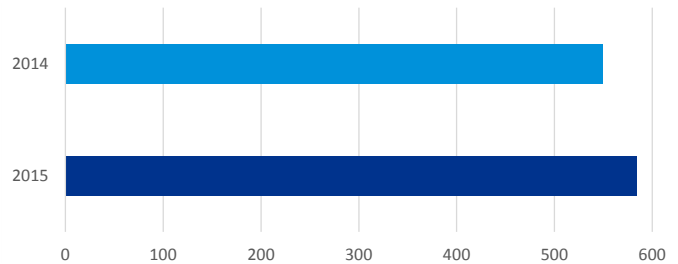


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

Average Daily Rate (US\$ - Caribbean*)



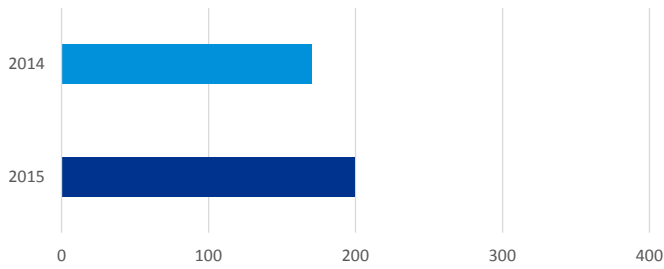
Average Daily Rate (US\$ - TCI)



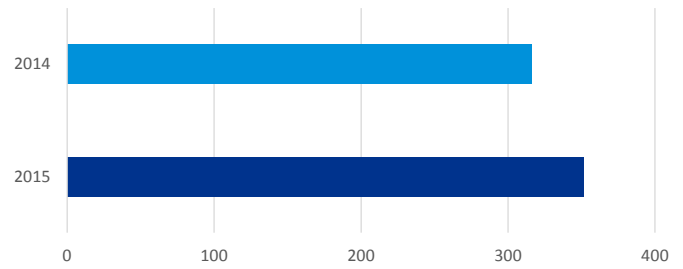
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

* excluding TCI

RevPAR (US\$ - Caribbean*)



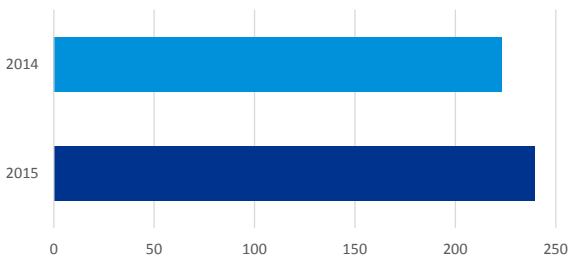
RevPAR (US\$ - TCI)



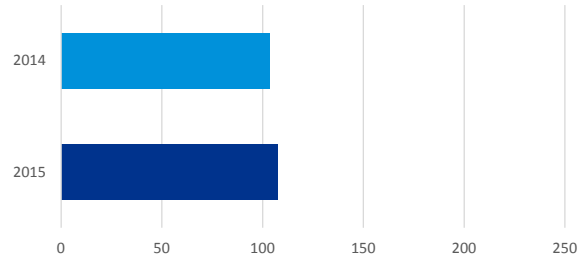
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

An average of 108 full time employees (FTE's) for TCI survey participants is considerably less than an average of 239 for other Caribbean survey participants which is consistent with TCI's profile of generally having smaller more luxurious resorts than elsewhere in the region as is the higher number of FTE's per room for TCI resorts of 1.38 versus 1.19 which reflects the need for more resources to be deployed in resorts catering to the luxury sector.

FTE (US\$ - Caribbean*)

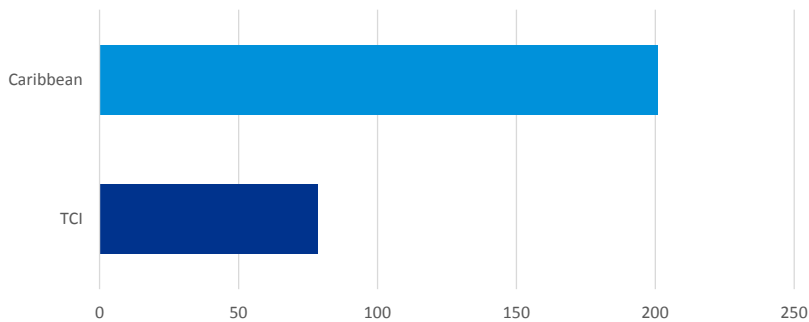


FTE (US\$ - TCI)



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

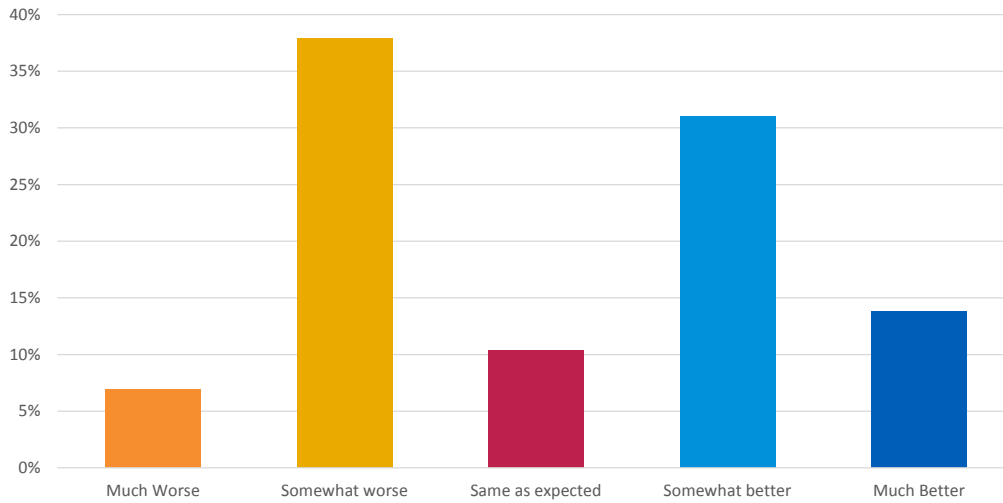
Average number of available rooms (TCI vs. Caribbean*)



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

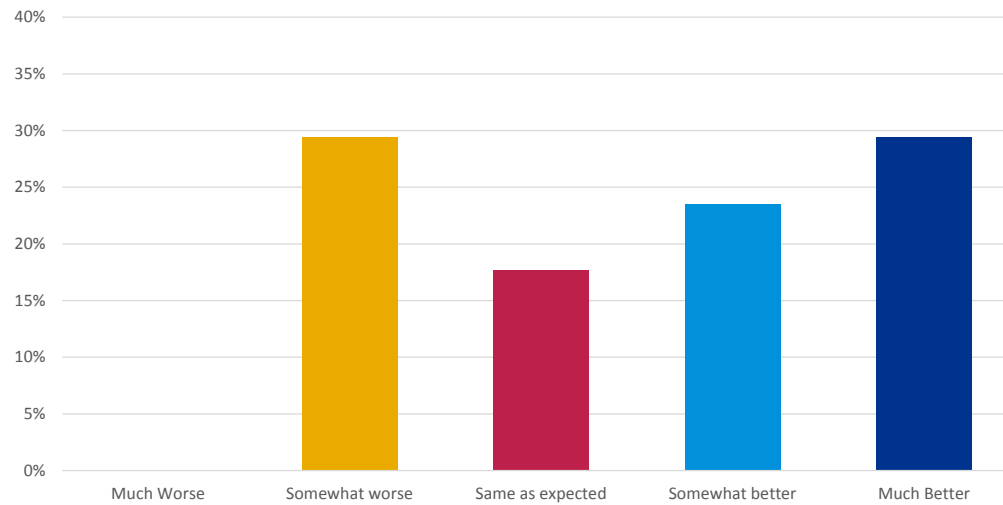
* excluding TCI

How did 2015's performance compare to budget (Caribbean*)



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

How did 2015's performance compare to budget (TCI)

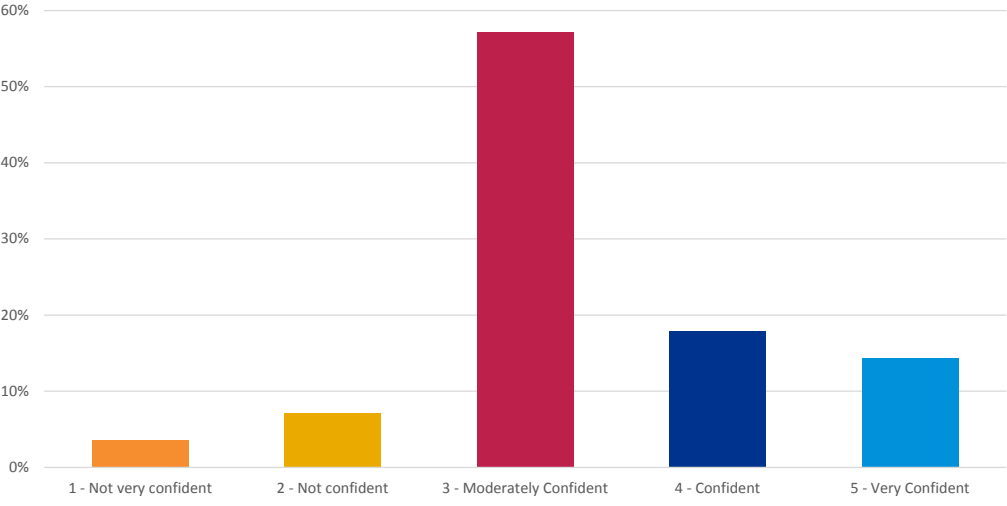


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

The 2015 performance of TCI's survey participants against budget was much stronger than other Caribbean survey participants. 29% of TCI survey participants performed much better than budget versus 14% elsewhere in the Caribbean and only 29% performed somewhat worse or much worse than budget whereas 45% of respondents from elsewhere in the Caribbean performed somewhat worse or much worse than budget.

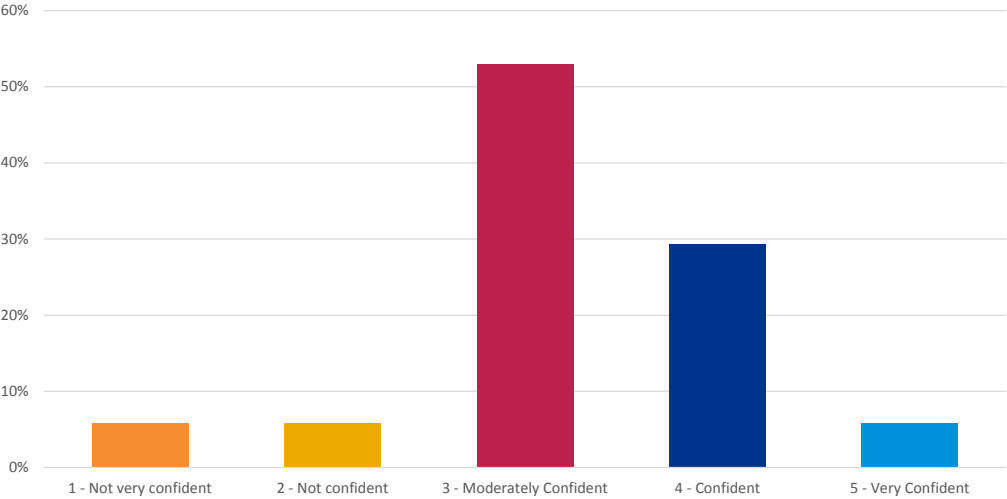
* excluding TCI

Confidence in the Caribbean tourism market for the next year (Caribbean*)



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

Confidence in the Caribbean tourism market for the next year (TCI)



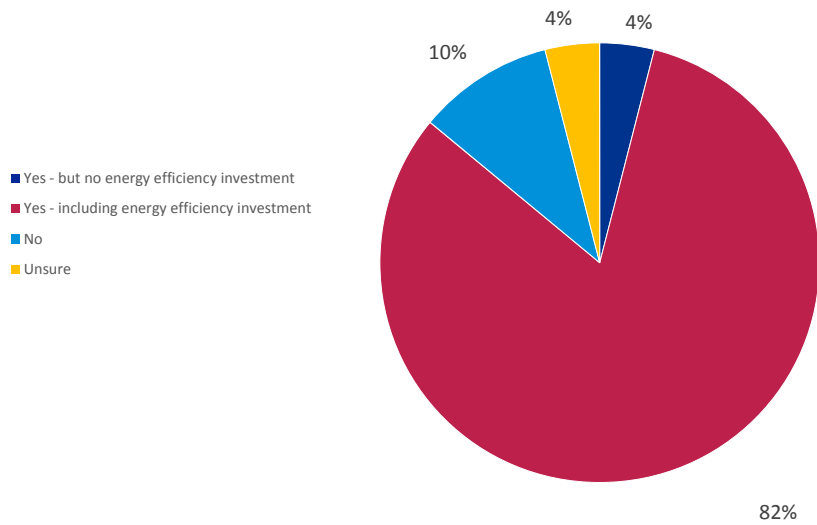
Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

The levels of confidence in the Caribbean tourism market of TCI survey respondents was very similar to that of other Caribbean survey respondents with 88% at least moderately confident versus 89% elsewhere in the Caribbean.

* excluding TCI

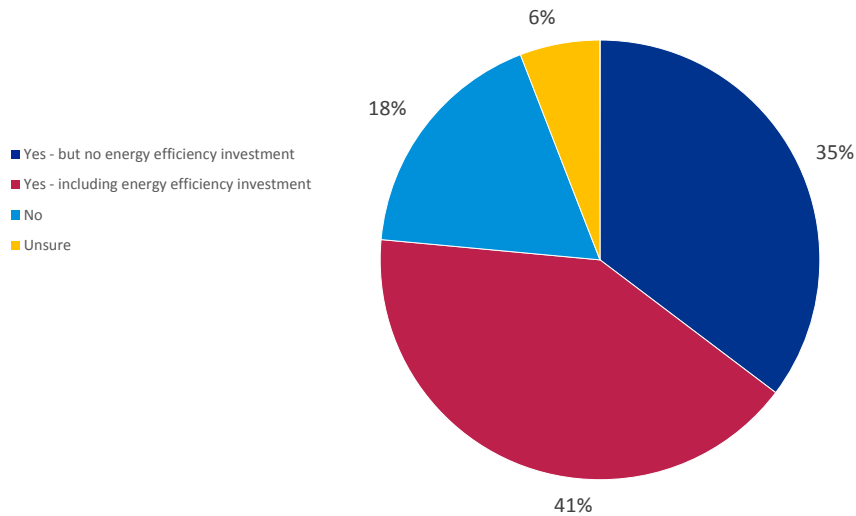
Whilst TCI respondents are highly likely to undergo major redevelopments and refurbishments within the next 18 months they are less likely to do so than their Caribbean counterparts (76% versus 86%) and, surprisingly, it's much less likely that their redevelopments and refurbishments will include an energy efficient investment (41% versus 82%). This could be linked to the fact that TCI resorts tend to be more modern and energy efficient than elsewhere in the Caribbean.

Major refurbishments/redevelopments in next 18 months? (Caribbean*)



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

Major refurbishments/redevelopments in next 18 months? (TCI)

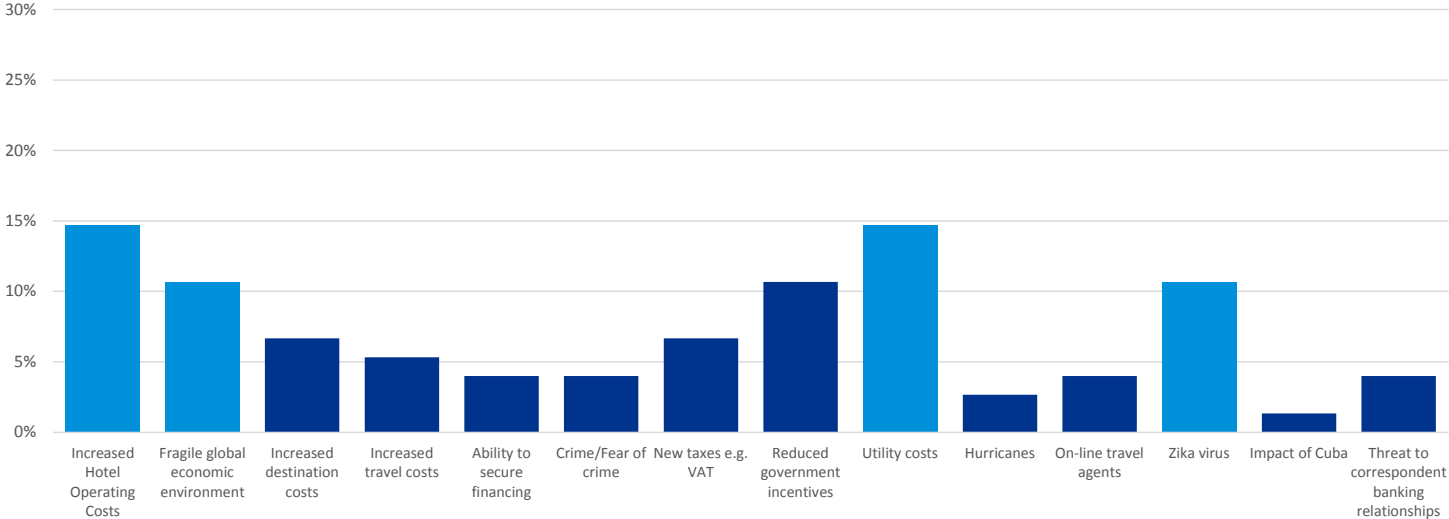


Source: KPMG International, KPMG's 2016 Caribbean Resort Benchmarking Survey

* excluding TCI

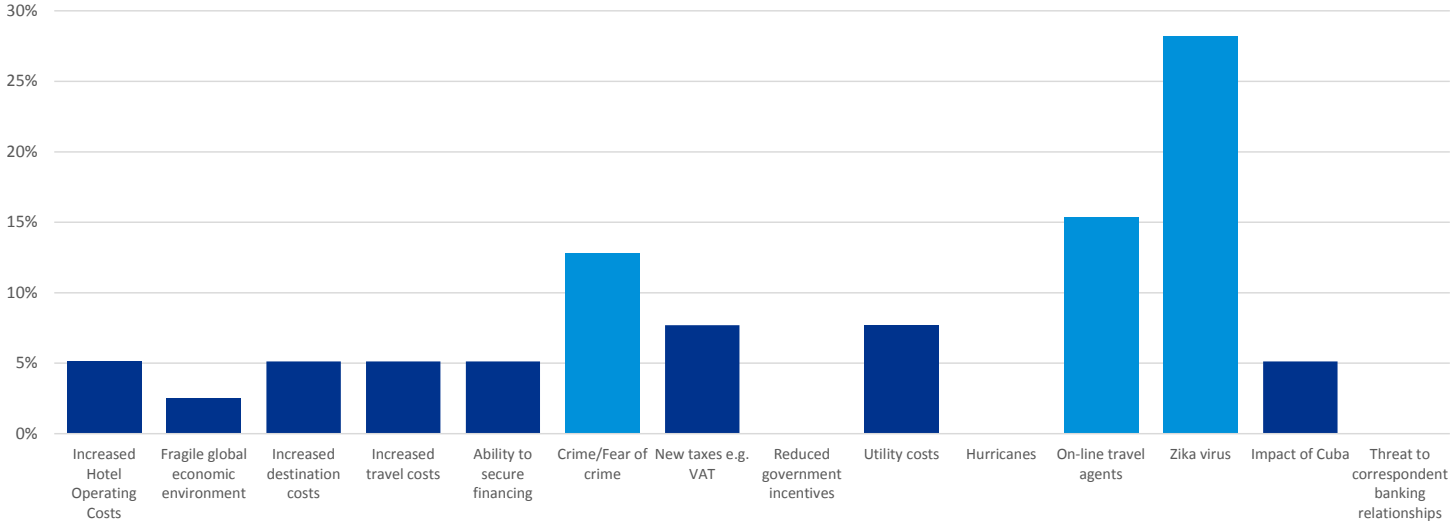
TCI respondents consider the Zika virus to be overwhelmingly the biggest challenge for Caribbean tourism over the next year. It is very interesting to note that TCI respondents appear to be more concerned about issues that could damage the hard earned, valuable “brand TCI” than financial issues whereas for the Caribbean respondents financial issues were the biggest challenges. They cited utility costs and increased hotel operating costs as their biggest challenges even more so than Zika.

What are the biggest challenges for Caribbean tourism in 2016? (Caribbean*)



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

What are the biggest challenges for Caribbean tourism in 2016? (TCI)



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

* excluding TCI

Conclusion

Considering the survey results for TCI respondents in conjunction with the regional survey results is quite fascinating and does reveal that TCI is a somewhat unique destination.

TCI's average ADR of US\$584 versus US\$340 elsewhere in the region is a quite staggering statistic.

It is revealing that concerns of TCI resorts primarily revolve around how to protect the all valuable "brand TCI" rather than the greater pre-occupation with financial issues such as utility costs seen elsewhere in the region. There appears to be a recognition amongst TCI resorts that it is the hard earned brand that results in such high ADR's and so if the brand is protected everything else should look after itself.

Accordingly, it is issues like the impact of on-line travel agents and crime that are the major concerns of TCI resorts along with the Zika virus which also features as a major concern elsewhere in the region.

TCI's business model is very well defined, being primarily small, luxury resorts, heavily dependent on the US source market, with a particular concentration of condo-hotels. This has its advantages and disadvantages.

It has clearly led to a leadership position in a lucrative market segment. It does, however, possibly illustrate a certain vulnerability in terms of dependency on a particular target market.

As evidenced by the excellent responses to this survey TCI clearly benefits from a professional, enthusiastic, energetic and "joined up" private sector.

Looking forward we now watch with great interest how successful TCI will be in terms of protecting its hugely valuable brand. If successful it will continue to move from strength to strength. If unsuccessful it could prove difficult to remedy damage to the brand. The stakes are very high. Watch this space!



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