General Introduction
2024 ADVISORY COUNCIL MEETINGS

The President of HICV Mexico and Royal Resorts Fernando López welcomed Advisory Council members to the General Meeting on October 21, 2024, and presented members of the management team, including VP of Hospitality Javier Vales, Resident Manager at The Royal Sands and The Royal Cancun Angel Estrada, Resident Manager at The Royal Haciendas Sandra Aguilar and Luis Sierra, Director of Finance Mexico. Diego González, Legal Vice President Mexico also attended.

Representing Holiday Inn Club Vacations were Lesley Nau, VP of Finance, Carlos Ramos Sr. Finance Director for Mexico, and Michelle Cypher, Sr. Director – HOA Accounting Services.

The session began with a presentation on the economic outlook for Mexico and the dynamic growth of Cancun, Playa Mujeres and the Riviera Maya at a current rate of five percent a year. There are 200,000 hotel rooms and 10,000 rooms are being added annually. In 2025, several major hotel chains such as Hyatt and Xcaret are planning to open new properties in the area, especially in the luxury segment.

The opening of huge new all-inclusive resorts with thousands of rooms creates an insatiable demand for labor, especially in the housekeeping, maintenance and food and beverage sectors, and for supervisor level employees. This makes it difficult to hire or retain staff, and as a result, the salaries for some staffing positions have had to be adjusted to keep them competitive with the market.

The minimum wage in Mexico has more than doubled in the last five years. Relatively few team members at our resorts earn the minimum wage, however, the increase affects salaries and benefits for unionized staff, which are negotiated on an annual basis.

Although there is cautious optimism that the impacts of several years of high inflation are behind us, we still face challenges such as payroll and staffing pressures. A cost of living salary increase of 5 percent is included in the budget for 2025.

The first six months of 2024 were very difficult due to the continued strength of the peso. The negative exchange rate effect was 5.07 percent, in terms of the resort operating budgets, one peso less than forecast. However, after the Mexican presidential elections in June, there has been a significant, ongoing devaluation of the peso. This means that the panorama for resort finances in the second half of the year has been slightly better.

The projection of the exchange rate used for the 2025 budget is 19.57 pesos per US$1 dollar and is based on a consensus of leading financial institutions in Mexico and major banks. This represents an 8.81 depreciation of the peso against the dollar when compared to 2024. See the Budget Assumptions section.

Political uncertainty will remain high as Mexico continues with constitutional reforms, increased social service and infrastructure spending; while also dealing with a ratings downgrade due to larger fiscal deficits, the stance of the incoming U.S. administration and trade concerns. Mexico is the USA's largest trade partner and "nearshoring" partner which should keep the peso in the 19.50 – 20.50 range.

The Citibanamex survey of more than 20 banks operating in Mexico gives an estimated inflation rate of 4.40 percent at the end of 2024. The projection for 2025 is 3.85 percent.

VP of Hospitality Javier Vales then presented the Resort Operations report. He noted that some of the new resorts in Cancun, Playa Mujeres to the north of Cancun, and the Riviera Maya have up to 3,000 rooms and up to 17 different dining experiences.

On the topic of local infrastructure projects, the bridge across the Nichupte Lagoon is still under construction and the completion date has been delayed. The authorities recently announced another project, a boulevard linking Cancun to Playa Mujeres to improve access to this new hotel zone to the north of Cancun in the mainland territory of Isla Mujeres municipal district.

The number of international passengers arriving at Cancun International Airport fell in 2024, with some visiting other parts of the Caribbean, a reduction in the number of seasonal flights as a result of airline maintenance programs, and possibly the impact of the opening of Tulum Airport. The Mexican Caribbean still accounts for 48.3 percent of all tourists to Mexico.

Javier Vales commented that occupancy at Royal Resorts has been 90.1 percent on average in 2024, with members accounting for 38.8 percent and a further 15.8 percent in Owner Loans. Renters account for 24.1 percent of the guests. Total occupancy is divided half and half between European Plan (room only) and All-inclusive guests; 35 percent of members purchase the REFINE package during their vacation and this percentage is increasing.

In terms of guest satisfaction, a new Medallia customer satisfaction survey was implemented in the fall. Topics frequently mentioned during 2024 are the cost of the restaurants, the concierge service and waitstaff speed of service, and beach erosion at The Royal Haciendas. They are areas of opportunity that Management is addressing.

Turning to environmental news, in 2024, 14,101 baby turtles were released at The Royal Sands as part of the annual sea turtle conservation program. In the recycling program, 94 tons of recyclable trash were sold and the money raised goes to Royal Resorts Foundation causes.

In 2024, US$51,423.91 was raised for the Royal Resorts Foundation YTD, giving a total since 2011 of US$1,329,333. The allocation of funds to the Royal Resorts Foundation causes is as follows: Royal Resorts Team Member Relief Fund 49 percent, Health programs 18 percent, Conservation 12 percent, Social 12 percent, Education 9 percent.

Javier Vales concluded his presentation by mentioning a new program introduced in 2024 for team members to address mental health, stress management, anxiety and more through online sessions and offer confidential therapy and counseling on request.

Budget Assumptions

An average exchange rate of $18.20/US$1 was considered for the preparation of the 2024 budget; however, it is expected to end the year at $17.99/US$1. This represents a negative variation of 1.18 percent.

Based on the projections of leading Mexican financial institutions, an average exchange rate of $19.57 pesos to US$1 was used for the 2025 budget. This represents an 8.81 percent depreciation of the peso against the dollar when compared to the exchange rate forecast for 2024.

FX Collars

FX collars were used in 2024 to mitigate the volatility of the peso. The use of collars limits downside risk while allowing Royal Resorts to benefit from a depreciating peso. In times of extreme volatility, collars are a good option.

Inflation and salaries

For budgeting purposes, an inflation rate of five percent has been considered for 2025. Inflation has a cumulative effect on payroll expenses and the 2025 budget includes a cost-of-living salary adjustment of five percent for team members. A possible minimum wage increase of 15 percent is also considered.

Water and Sewage

Budgets for 2025 are based on anticipated metered water and sewage charges. The cost of water is offset by the efficiency of the reverse osmosis plants that produce 80 percent of the water used by the resorts.

Electricity

Electricity accounts for a significant portion of the resorts' expenses. We are forecasting an increase of 11 percent in the rate per KWh for 2025 charged by the Federal Electricity Commission (CFE).

The power purchase agreement with Infra, a green energy broker, now provides 90 to 95 percent of our energy needs, more than the 80 percent it is required to supply by contract. It brings savings of around 25 percent in electricity costs when compared with what we would have paid if we obtained all our electricity from the CFE.