

FelCor Reports Operating Results

2007-08-01

FelCor Completes Dispositions - Renovated Hotels Exceeding Targets

FelCor Lodging Trust Incorporated (NYSE:FCH) reported operating results for the second quarter and six months ended June 30, 2007.

Second Quarter Summary:

œ Exceeded operating expectations for our 25 hotels where renovations were completed by the end of the first quarter 2007. Hotel EBITDA (Hotel Earnings Before Interest, Taxes, Depreciation and Amortization) for these hotels exceeded our second quarter budget by \$0.4 million, or 1.4 percent. This is greater than our goal of a 12 percent return on capital.

œ Completed renovations at 12 hotels during the second quarter and an additional five hotels in July. Through the date of this release, we have completed renovations at 42 hotels, or 51 percent of our portfolio. We expect to complete renovations at an additional 28 hotels in the second half of 2007, or 70 hotels by the end of 2007.

œ Increased Revenue Per Available Room ('RevPAR') by 9.9 percent at our hotels not under renovation or in New Orleans (47 hotels). RevPAR increased 2.6 percent for our 83 consolidated hotels.

œ Our operating results were impacted by major renovation projects. During the second quarter, 34 hotels were undergoing renovation. Renovation delays at six hotels and weakness in the New Orleans market negatively affected our EBITDA by \$3.5 million more than expected during the second quarter. For the remainder of the year we expect our EBITDA to be negatively affected by an additional \$4.1 million driven primarily by these renovation hotels and New Orleans.

œ Completed our disposition plan to sell 45 hotels with gross proceeds of \$720 million. In 2007, we sold 11 hotels for gross proceeds of \$191 million.

œ Agreed with Marriott International, Inc. to rebrand our San Francisco Union Square hotel to a Marriott by the end of 2008, following a redevelopment and repositioning of the hotel expected to cost approximately \$30 million.

œ Closed on the sale of 177 of the 184 units at our Royal Palms condominium project, through June 30, 2007. We recognized a second quarter gain of \$14.9 million and a year-to-date gain of \$18.1 million on these sales, which exceeded our original expectations.

œ Increased our quarterly common dividend by \$0.05 to \$0.30 per share.

Second Quarter Operating Results:

RevPAR for our 83 consolidated hotels increased 2.6 percent and Average Daily Rate ('ADR') increased 5.8 percent for the quarter compared to the same period in 2006. RevPAR for our 34 hotels undergoing renovation during the second quarter decreased 5.8 percent. Renovation-related displacement at these 34 hotels resulted in a decline in occupancy of 11.3 percent. For our 47 hotels not under renovation and excluding New Orleans, RevPAR increased 9.9 percent. Business continues to be strong in most of our major markets.

The additional renovation disruption during the second quarter was related principally to product delivery delays and changes in project scope at six hotels. The hotels experiencing delays are located in Boston, Indianapolis, Philadelphia, Raleigh, Santa Barbara, and Wilmington (Delaware). Our two hotels in New Orleans have increased their market share, but continue to be negatively impacted by the effects of hurricane Katrina, resulting in a RevPAR decline of 19.5 percent for the quarter. We expect EBITDA for the year to be negatively impacted by a total of \$7.6 million, due largely to the renovation process, which represents approximately \$4.5 million and New Orleans, which represents approximately \$2.1 million.

Net income was \$55.2 million for second quarter 2007, a \$45.0 million increase over the same period in 2006. Net income applicable to common stockholders was \$45.5 million, or \$0.73 per share, compared to net income applicable to common stockholders of \$467,000, or \$0.01 per share, for the same period in 2006. Net income was \$84.3 million for the six months, a \$64.3 million increase over the same period in 2006. Net income applicable to common stockholders for the six months was \$65.0 million, or \$1.05 per share, compared to net income applicable to common stockholders of \$641,000, or \$0.01 per share, for the same period in 2006.

Adjusted Funds From Operations ('FFO') was \$54.7 million for the second quarter, a \$12.6 million increase from the same period in 2006. Adjusted FFO per share increased to \$0.83, for the second quarter compared to \$0.67 for the same period in 2006, an increase of 24 percent. For the six months, Adjusted FFO was \$86.1 million, a \$12.0 million increase from the same period in 2006. Adjusted FFO per share increased to \$1.35 for the six months, compared to \$1.18 in the prior year, an increase of 14 percent.

FFO per share for the second quarter and six months ended June 30, 2007 assumes the conversion of our Series A Preferred Stock because it is more dilutive when our Adjusted FFO per share exceeds \$0.63 for the quarter and \$1.26 for the six months. The assumed conversion of our Series A Preferred Stock increases fully diluted shares outstanding to approximately 73 million.

Adjusted EBITDA (including sold hotels) increased to \$91.7 million in the second quarter, compared to \$83.8 million for the same period in 2006. Same-Store EBITDA increased to \$72.3 million for the second quarter, compared to \$71.5 million for the same period in 2006. For the six month period, Adjusted EBITDA (including sold hotels) increased \$228,000, to \$159.9 million compared to the same period in 2006. Same-Store EBITDA decreased by \$4.2 million for the six months, to \$133.9 million, or three percent to prior year.

Hotel EBITDA increased to \$81.4 million for the second quarter, compared to \$81.0 million in the same period in 2006. Hotel EBITDA margin was 30.7 percent for the second quarter, representing a 60 basis point decrease compared to the same period in 2006. For the six months, Hotel EBITDA decreased to \$153.3 million, compared to \$156.8 million in the same period in 2006, a decrease of two percent. Hotel EBITDA margin was 29.8 percent for the six months, representing an 88 basis point decrease to the same period in 2006.

Current quarter Adjusted FFO, Adjusted EBITDA and net income include a \$14.9 million gain from the sale of condominium units of \$14.9 million for the quarter and \$18.1 million for the year. Current year net income includes gains from the sale of hotels of \$22.5 million for the quarter and \$28.5 million for the six months. Prior year net income includes losses from the sale of hotels and impairment losses aggregating \$11.1 million for the quarter and \$12.1 million for the six-month period.

EBITDA, Adjusted EBITDA, Same-Store EBITDA, Hotel EBITDA, Hotel EBITDA margin, FFO and Adjusted FFO are all non-GAAP financial measures. See our discussion of 'Non-GAAP Financial Measures' beginning on page nine for a reconciliation of each of these measures to our net income and for information regarding the use, limitations and importance of these non-GAAP financial measures.

Renovation Program Update:

We completed major renovations at 12 hotels during the second quarter, and an additional five hotels in July. Through the date of this release, we have completed major renovations at 42 hotels, representing 51 percent of our portfolio, since we started our renovation program last year. We expect to complete an additional 28 hotels during the second half of 2007, or 70 hotels by the end of 2007.

Improvements and additions to our hotels for the first six months of 2007 totaled \$145.9 million, including our pro rata share of joint ventures. The renovations at our 37 hotels that were completed through the end of the second quarter were completed within one percent of budget.

Our hotels with completed renovations are exceeding our expected returns of 12 percent on the guest impact portion of the renovations. During the second quarter, RevPAR growth, Hotel EBITDA and Hotel EBITDA margins exceeded budget for these hotels. For our eight hotels where renovations were completed in 2006 and our 17 hotels completed in the first quarter 2007, RevPAR growth was 24.1 percent and 9.7 percent, respectively.

We conducted pre-budget meetings with our brand managers to review our return on capital model and 2008 targets for each hotel, to ensure that we remain on track to earn our expected return on the guest impact capital.

'I am pleased to see the hotels that have completed renovations are performing even better than expected. Despite the delays in a few hotels, we remain on track to complete renovations at 70 hotels in 2007 and to meet our 2008 targets,' said Richard A. Smith, FelCor's President and Chief Executive Officer. 'We remain confident in our strategic plan and look forward to superior growth in 2008 and beyond from the renovation and redevelopment programs.'

Development:

We have agreed with Marriott International, Inc. to rebrand our San Francisco Union Square hotel to a Marriott by the end of 2008, following a redevelopment and repositioning of the hotel expected to cost approximately \$30 million. This is the fourth redevelopment project that we have announced. We are currently in the planning and permitting stages for ten additional major redevelopment projects, which should continue to provide our portfolio with ongoing above-market growth beyond 2008.

For the six months, we recognized a gain of \$18.1 million on the sale of 177 condominium units at our Royale Palms project in Myrtle Beach, South Carolina. The remaining seven units will be sold on a selective basis to maximize the selling price, and we anticipate recognizing additional profit of approximately \$1 million on these sales. The total anticipated gain of \$19.1 million is greater than previously expected. To date, 65 percent of the condominium units have entered our rental program, which will result in additional continuing income.

Disposition Program:

In the second quarter we sold eight hotels for gross proceeds of \$126 million. This concludes our disposition program in which we have sold 45 hotels for aggregate gross proceeds of \$720 million since announcing the program at the beginning of 2006. The total gross proceeds from these dispositions are approximately \$75 million higher than we originally expected.

Capital Structure:

At June 30, 2007, we had \$1.3 billion of consolidated debt outstanding with a weighted average life of five years. Our cash and cash equivalents totaled approximately \$188.6 million at June 30, 2007.

'We have successfully executed the first phases of our strategic plan, including the disposition program, and are focused on completing the renovation and redevelopment phases of our plan,' said Andrew J. Welch, FelCor's Executive Vice President and Chief Financial Officer. 'We recently conducted pre-budget meetings with our brand operators to review our 2008 targets

and the meetings were very productive. We look forward to a very strong 2008, as substantially all the hotels will be renovated.'

2007 Guidance:

We are updating our full-year guidance as a result of second quarter results, additional anticipated displacement in the third quarter and continued weakness in the New Orleans market.

For 2007, we currently anticipate:

- œ RevPAR to increase between 4.0 and 5.0 percent for the full year and between 3.5 and 5.0 percent for the third quarter;
- œ Adjusted EBITDA to be between \$290 and \$294 million for the full year and between \$67 and \$69 million for the third quarter;
- œ Adjusted FFO per share to be between \$2.23 and \$2.29 for the full year and between \$0.47 and \$0.51 for the third quarter;
- œ Net Income to be between \$103 and \$107 million for the full year and between \$11 and \$13 million for the third quarter;
- œ Hotel EBITDA margins to be flat for the full year; and
- œ Capital expenditures of approximately \$225 million.

Third quarter and full-year guidance for FFO per share does not exceed the annual conversion threshold; therefore, fully diluted shares outstanding for the full year are assumed to be 63.2 million (i.e. our series A preferred stock is not deemed converted) for purposes of computing full-year FFO per share.

FelCor, a real estate investment trust, is the nation's largest owner of upper-upscale, all-suite hotels. FelCor's portfolio is comprised of 83 consolidated hotels, located in 23 states and Canada.

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