

Red Lion Hotels Q2 RevPAR at Owned and Leased Hotels Increases 14.3%

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Red Lion Hotels Corporation Reports Strong Second Quarter 2007 Results

Red Lion Hotels Corporation (NYSE:RLH) today announced results for the second quarter and six months ended June 30, 2007.

Key Second Quarter Results

- * RevPAR (revenue per available room) at owned and leased hotels increased 14.3%
- * ADR (average daily rate) at owned and leased hotels increased 6.4% to \$88.51
- * Occupancy at owned and leased hotels increased 4.6 percentage points to 66.5%
- * RevPAR increased 10.6% to \$56.11 at system-wide hotels
- * Total revenues from continuing operations increased 12.1% to \$49.0 million
- * Hotel segment direct operating margin improved 239 basis points
- * EBITDA from continuing operations increased 19.0% to \$10.1 million
- * Net income from continuing operations increased 29.9% to \$2.5 million
- * EPS from continuing operations was \$0.13 per fully diluted share, compared to \$0.12 per share in the second quarter of 2006
- * Net income increased 5.7% to \$2.2 million, or \$0.11 per fully diluted share
- * Completed non-core hotel divestment plan, generating \$3.9 million in gross proceeds in the quarter and total gross proceeds of \$72.6 million overall

Arthur M. Coffey, President and CEO of Red Lion Hotels Corporation, said, "We are very pleased with the second quarter results. Our hotels drove RevPAR growth that outpaced our competitors' growth and resulted in higher margins and EBITDA. Our performance demonstrates the success of our strategic initiative to establish the upscale Red Lion brand as the platform for longer-term expansion."

Second Quarter Results

The company's total revenues from continuing operations during the quarter were \$49.0 million, up 12.1% from the same quarter of 2006. Revenues in the hotel segment were up 10.8% over the prior year period to \$44.8 million. Franchise and management revenues increased to \$0.8 million. Revenues in the entertainment segment increased 6.2% to \$2.6 million. Other revenues totaled \$0.7 million, up from \$0.1 million in the second quarter of 2006.

EBITDA from continuing operations and net income from continuing operations increased 19.0% and 29.9%, respectively, in the second quarter of 2007. Overall reported net income was \$2.2 million, or \$0.11 per fully diluted share, compared to \$2.1 million, or \$0.14 per fully diluted share, in the prior year period.

Six Month Results

The company's total revenues from continuing operations during the six months ended June 30, 2007 were \$88.3 million, up 11.1% from the first half of 2006. Revenues in the hotel segment increased 10.8% over the prior year period to \$79.2 million. Franchise and management revenues increased to \$1.6 million. Revenues in the entertainment segment were up slightly to \$6.0 million and other revenues totaled \$1.5 million.

EBITDA from continuing operations increased 25.6% in the first half of 2007 and net income from continuing operations increased \$1.3 million, or \$0.08 per diluted share. Overall reported net income was \$0.2 million, or \$0.01 per fully diluted share, an increase of \$1.1 million, or \$0.07 cents per diluted share from the prior year period.

Hotel Operations

RevPAR at the company's owned and leased hotels increased 14.3% in the second quarter of 2007, driven by a 6.4% increase in ADR and a 4.6 percentage point increase in occupancy. For comparable system-wide hotels, RevPAR increased 10.6% in the second quarter of 2007, driven by a 6.7% increase in ADR and a 2.3 percentage point increase in occupancy.

RevPAR increases in the first and second quarters of 2007 were due to increases in rate and occupancy driven by the enhanced Red Lion brand. In addition, rooms were out of service for renovations at owned and leased hotels in the comparable periods in 2006. The company does not exclude rooms out of service for renovations at owned, leased or franchised hotels in calculating RevPAR or occupancy.

Revenues from continuing operations for owned and leased hotels increased 10.8% to \$44.8 million during the second quarter of 2007. This increase was primarily driven by a 15.1% increase in hotel room revenues. The hotels segment direct operating profit increased 21.7% to \$12.0 million in the second quarter of 2007. Direct operating margin for the hotels segment improved 239 basis points to 26.9% in the second quarter of 2007.

"Our strategic brand initiatives drove strong RevPAR increases in the second quarter," commented John Taffin, Executive Vice President, Hotel Operations. "We have been successful at adjusting our mix of business to maximize rate and occupancy, resulting in higher profits."

RevPAR at the company's owned and leased hotels increased 14.2% in the first half of 2007, driven by an 8.1% increase in ADR and a 3.2 percentage point increase in occupancy. For comparable system-wide hotels, RevPAR increased 10.6% in the first half of 2007, driven by a 7.3% increase in ADR and a 1.8 percentage point increase in occupancy.

Revenues from continuing operations for owned and leased hotels increased 10.8% to \$79.2 million during the first half of 2007. The hotels segment direct operating profit increased 26.1% to \$16.5 million in the first half of 2007. Direct operating margin for the hotels segment improved 251 basis points to 20.8% in the first half of 2007.

Recent Highlights and Key Events

Completion of Non Core Asset Disposition Plan

During the quarter, the company completed the sale of the WestCoast Outlaw Hotel in Kalispell, Montana, generating gross proceeds of \$3.9 million. This was the final hotel property of the 11 non-core hotel properties identified under the company's non-core asset disposition plan. In total, the sale of non-core assets generated \$72.6 million in gross proceeds, which after payment of transaction expenses and taxes and the repayment of \$20.0 million in associated property debt, generated net cash of \$46.3 million. The proceeds were used to fund renovations at company-owned hotels and enhance the Red Lion brand.

Red Lion Hotel Sacramento

The company is also pleased to announce that in July 2007, it entered into an agreement to sublease the Red Lion Hotel Sacramento to a third party with an initial term expiring in 2020. The sublease agreement provides for annual rent payments to the company of \$1.4 million, which will effectively reduce the company's consolidated annual aggregate rent expense for all leased properties by that amount. The party subleasing the hotel has also entered into a franchise agreement with the company and has committed to make a multi-million dollar investment to further improve and reposition the hotel. Overall, this transaction will have a positive impact on the company's EBITDA because the sublease payment coupled with the new franchise fees will exceed the hotel's current EBITDA before lease expense. Revenues at the hotel in 2006 and the six months ended June 30, 2007 were \$8.6 million and \$4.2 million, respectively. EBITDA at the hotel before any lease expense charge in 2006 and the six months ended June 30, 2007 was \$0.7 million and \$0.3 million, respectively.

Lincoln Plaza

During the fourth quarter of 2006, the company listed for sale the Lincoln and Grant office and retail buildings in Spokane, Washington. In July 2007, the company announced that it had entered into an agreement for the sale of the buildings to Barbieri Real Estate Company for \$13.3 million in a tax advantaged transaction. The buildings were marketed nationally and the company received multiple offers at or below that sale price. The structure of the sale anticipates payment through a combination of cash, Red Lion Hotels Corporation common stock, Red Lion Hotels Limited Partnership limited partner units, and the assumption of debt. This structure allows a portion of the company's tax on the gain to be deferred which will enhance the economic return to the company. The sale, approved by the independent members of the company's board of directors, is expected to close by the end of the third quarter 2007.

Renovations at Franchised Hotels

In 2006, the company implemented new upscale brand standards that all Red Lion Hotels are required to meet by the end of 2007. These new standards are intended to be consistent with or better than the finishes commonly found in new homes and feature upgrades that include granite vanities, plush pillow top beds and other upscale furnishings and décor throughout guestrooms, lobbies and meeting areas.

Franchise Update

During the quarter, the temporary franchise agreement for a hotel in Portland, Oregon expired and a limited service property in Vancouver, Washington left the system following a sale. As previously reported, a franchised hotel in San Diego, California ceased being a member of the system during the second quarter of 2007. A franchised hotel in Butte, Montana also left the system in the second quarter of 2007 in connection with a legal settlement relating back to the company's acquisition of Red Lion Hotels, Inc. in 2001. As of June 30, 2007, the company had 20 franchised hotels representing 2,992 rooms.

Outlook for 2007

The company is increasing its previous guidance for 2007. The company now expects 2007 RevPAR growth for company owned and leased hotels in the range of 9% to 11%, driven by increases in ADR and occupancy. It also now expects direct hotel operating margins in 2007 to improve between 150 and 250 basis points and EBITDA from continuing operations in 2007 to be in the range of \$32 to \$33 million.

Final Comments

"We are pleased to be able to increase our guidance for 2007. It reflects our strong performance so far this year and our confidence in the outlook for the hotel industry in the regions where we operate. We look forward to our franchised hotels completing their upgrades to our new Red Lion brand standards, and will continue to focus on our strategic initiative to expand the Red Lion brand to new markets," Mr. Coffey concluded.

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