

Interstate Hotels & Resorts Reports Third-Quarter 2007 Results

2007-11-07

Increases Full-Year Earnings Guidance

The company's performance for the third quarter includes the following (in millions, except per share amounts):

	Third Quarter		Year-to-Date	
	2007 (4)	2006 (5)	2007 (4)	2006 (5)
Total revenue (1)	\$33.7	\$40.9	\$97.5	\$99.0
Net income	2.0	15.2	20.8	19.0
Diluted earnings per share	0.06	0.48	0.65	0.60
Adjusted EBITDA (2)(3)	6.8	23.1	23.2	45.3
Adjusted net income (2)	(0.7)	11.8	1.6	19.8
Adjusted diluted EPS (2)	(0.02)	0.37	0.05	0.63

(1) Total revenue excludes other revenue from managed properties (reimbursable costs).

(2) Adjusted EBITDA, Adjusted net income, and Adjusted diluted EPS are non-GAAP financial measures and should not be considered as an alternative to any measures of operating results under GAAP. See further discussion of non-GAAP financial measures and reconciliation to net income later in this earnings release.

(3) Includes the company's share of EBITDA from unconsolidated joint venture investments in the amounts of \$1.2 million and \$1.5 million in the third quarters of 2007 and 2006, respectively, and \$3.1 million and \$3.0 million for the first nine months of 2007 and 2006, respectively.

(4) The third quarter and full year 2007 results include a \$2.8 million and \$20.4 million gain, respectively, related to the sale of BridgeStreet Corporate Housing (completed in the first quarter 2007), and included in income from discontinued operations. This has been excluded from the calculation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

(5) Third quarter and year-to-date 2006 results include \$15.1 million and \$19.2 million, respectively, in lump-sum termination fees, from affiliates of the Blackstone Group.

"We had another strong quarter, both in terms of our operating performance and the continued execution of our growth strategy of diversifying our earnings base through real estate ownership, both wholly owned and in joint ventures," said Thomas F. Hewitt, chief executive officer.

Wholly-owned Hotel Results

"Our portfolio of six wholly-owned hotels continued to perform very well, with RevPAR up 7.4 percent. Average daily rate accounted for most of the increase, rising 4.7 percent, while occupancy improved 2.5 percent. These results compared favorably with an average industry RevPAR gain of 6.0 percent, as reported by Smith Travel Research," Hewitt said. "We also were successful in driving these results to the bottom line, as illustrated by the 220 basis point increase in gross operating profit margins across the owned- hotel portfolio."

EBITDA from the company's owned hotels was \$6.0 million for the third quarter and \$15.6 million for the first nine months as illustrated below (in millions):

Owned Hotels	Third Quarter		Year-to-Date	
	2007	2006	2007	2006
Net income	\$0.6	\$0.3	\$1.9	\$1.0
Interest expense, net	3.2	1.0	8.2	2.4
Depreciation and amortization	2.2	0.6	5.5	1.5
EBITDA	\$6.0	\$1.9	\$15.6	\$4.9

"EBITDA contribution from the owned hotels grew dramatically from last year largely due to hotel acquisitions," Hewitt said. "We also were very pleased with the year-over-year performance of the hotels on a proforma basis, with EBITDA increasing 22 percent for the quarter."

"We continue to selectively seek opportunities to expand our ownership portfolio," he added. "During the quarter we signed an agreement to acquire our seventh wholly-owned property, the 288-room Sheraton Columbia in Maryland for \$46.5 million. The transaction is expected to close by the end of the year." Interstate will invest approximately \$12 million in capital improvements at the Sheraton Columbia, which would upgrade all guest rooms and public spaces. "This comprehensive renovation will allow us to take advantage of the hotel's excellent location in a major office and retail development in the high-density Baltimore/Washington D.C. corridor, featuring more than 2,500 businesses and 21 million

square feet of commercial and residential space.

"Investing capital to upgrade a hotel is an important tactic of our ownership strategy, it allows us to reposition the hotel and create value," he said. "Including the Sheraton Columbia, we have earmarked approximately \$35 million for strategic capital improvements at our wholly-owned properties through 2008. As we will be completing major renovations of the Westin Atlanta Airport Hotel and Sheraton Columbia in 2008, we expect to see significant operating growth in 2009 for these hotels. However, due to the magnitude of the renovations, there will be some renovation displacement in 2008."

In discussing the company's transformation, Hewitt noted, "We have successfully redefined ourselves over the last two years. With the addition of Sheraton Columbia, we estimate that 65 percent of our 2007 annualized Adjusted EBITDA, on a proforma basis, is now derived from longer-term real estate ownership, with our management fee stream contributing the balance of our income."

Joint Venture Investments

At the end of the third quarter, the company had minority interests in 20 properties through 15 joint venture partnerships. Of the company's reported Adjusted EBITDA of \$6.8 million for the third quarter, joint ventures contributed \$1.2 million.

The company continued to execute on expanding its joint venture portfolio during the quarter. In conjunction with the purchase of the Sheraton Columbia, the company formed a joint venture partnership with affiliates of Investcorp International, Inc. The JV will acquire the Hilton Seelbach in Louisville, Ky., and the Crowne Plaza in Madison, Wis., for \$71.5 million. Interstate will invest \$4.7 million for a 15 percent minority stake. "The hotels are well established in their markets, have steadily improving RevPAR and income levels, and will be purchased at attractive prices below replacement costs," Hewitt said.

Earlier in the quarter, the company formed a joint venture with Premier Properties to build three hotels—a Hyatt Place and two aloft hotels. Interstate will invest a 15 percent equity interest in the joint venture and will manage all three properties.

"The Premier Properties JV adds significant bulk to our already active development pipeline," said Leslie Ng, chief investment officer. "With the addition of the Premier hotels, we now have five joint venture properties scheduled to open in 2008 and 2009. Including these hotels under construction and the Investcorp JV, we will have joint venture interests in 27 properties and are aggressively seeking additional opportunities."

Hotel Management Results

Same-store(6) RevPAR for all managed hotels in the third quarter of 2007 rose 9.1 percent to \$102.93. Average daily rate (ADR) improved 7.5 percent to \$133.30, and occupancy increased 1.4 percent to 77.2 percent.

Same-store RevPAR for all full-service managed hotels advanced 9.9 percent to \$110.67. ADR increased 7.2 percent to \$142.65, while occupancy rose 2.5 percent to 77.6 percent.

Same-store RevPAR for all select-service managed hotels improved 5.7 percent to \$78.48, on a 7.6 percent gain in ADR to \$103.18 and a 1.7 percent decline in occupancy to 76.1 percent.

"Our managed portfolio continued to perform well in excess of industry norms at the top line," Hewitt said. "In addition, we have been able to closely monitor expenses and drive margin improvement for our owners. This has put us in a position to increase the midpoint of our incentive fee guidance by \$1 million for the full year."

During the quarter, the company added its third condo-hotel management contract to its managed portfolio. Interstate announced in August that it had been selected to manage the EuroSuites luxury condo-hotel in the Doral area of Miami, Florida. The nearly completed, sold-out, 368-suite property is being developed and asset managed by two groups headed by hotel industry veteran, Adel Wulff.

Hewitt noted that the number of managed properties has begun to stabilize. "While we lost eight hotels during the quarter, we gained five during that same period. Our pipeline for managed hotels has never been stronger, and we expect to see additions to our portfolio in the coming quarters. Also, the merger of Equity Inns was completed in October and we continue to manage this portfolio of 38 hotels."

Balance Sheet

On September 30, 2007, Interstate had:

* Total unrestricted cash of \$21.6 million

* Total debt of \$171.9 million, consisting of \$114.4 million of senior debt and \$57.5 million of non-recourse mortgage debt

"At the end of the quarter and through today, our entire \$85 million revolving credit facility remains available," said Bruce Riggins, chief financial officer. "We will use a portion of the revolver and cash on hand to initially fund the Sheraton Columbia acquisition, but expect to mortgage the property in early 2008. This will free up the majority of our revolver and provide sufficient flexibility to fund our strategic growth plans, including the opportunistic acquisition of wholly-owned and joint-venture interests in hotel real estate."

Full-year Guidance

The company provides the following guidance for full year 2007:

- * RevPAR, on a same-store basis, is expected to increase 8.0 percent to 9.0 percent,
- * Net income of \$28.0 million to \$29.3 million,
- * Diluted earnings per share of \$0.88 to \$0.92,
- * Adjusted net income of \$8.7 million to \$10.0 million,
- * Adjusted diluted earnings per share of \$0.27 to \$0.31,
- * Adjusted EBITDA of \$42.5 million to \$44.5 million, an increase of \$1.0 million from our previously issued guidance, which includes the following:
 - Approximately \$4.0 million from the company's share of EBITDA from unconsolidated joint ventures,
 - EBITDA from wholly-owned hotels of \$20.5 million to \$21.5 million,
 - Termination fees of approximately \$6.0 million,
 - Incentive fees of \$19.0 million to \$20.0 million.
- * Total capex of approximately \$13.0 million, including \$3.0 million to be funded out of mortgage-related escrows.

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