



Interstate Hotels & Resorts Reports Fourth-Quarter, Full-Year 2007 Results

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Same-store RevPAR improvement of 9.1 percent, compared to 5.7 percent for the industry.

Interstate Hotels & Resorts (NYSE:IHR), a leading hotel real estate investor and the nation's largest independent operator of full- and select-service hotels, today reported strong operating results for the fourth quarter and year ended December 31, 2007. The company's performance for the fourth quarter and full year include the following (in millions, except per share amounts):

	Fourth Quarter		Full Year	
	2007(4)	2006(5)	2007(4)	2006(5)
Total revenue (1)	\$58.6	\$41.6	\$156.0	\$140.7
Net income	\$6.8	\$10.8	\$22.8	\$29.8
Diluted earnings per share	\$0.21	\$0.34	\$0.71	\$0.94
Adjusted EBITDA (2) (3)	\$22.7	\$19.7	\$45.9	\$65.0
Adjusted net income (2)	\$10.5	\$9.0	\$14.6	\$28.8
Adjusted diluted EPS (2)	\$0.33	\$0.28	\$0.46	\$0.91

(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 reconciliations to net income later in this press release.

(3) Includes the company's share of EBITDA from unconsolidated Joint Venture investments in the amounts of \$1.3 million and \$1.2 million in the fourth quarters of 2007 and 2006, respectively, and \$4.4 million and \$4.3 million for the full years of 2007 and 2006, respectively.

(4) The fourth quarter and full year 2007 results include (i) \$2.4 million and \$11.1 million of write-offs of intangible assets related to the sale of certain hotels during the fourth quarter and full year, respectively, (ii) a \$2.9 million allowance for bad debts related to a note receivable the company holds with an owner of one of its hotels, included in administrative and general expenses on the company's statement of operations for both the fourth quarter and full year, and (iii) a \$20.4 million gain related to the sale of BridgeStreet Corporate Housing (completed in the first quarter 2007), which is included in Income from Discontinued Operations on the company's statement of operations for the full year 2007. Each of these items has been excluded from the calculation of Adjusted EBITDA, Adjusted Net Income, and Adjusted Diluted EPS.

(5) Fourth quarter and year-to-date 2006 results include \$0.8 million and \$19.2 million, respectively, in lump-sum termination fees, from affiliates of the Blackstone Group.

Fourth quarter 2007 highlights include:

Incentive management fees of \$21.1 million, a 26 percent increase compared to 2006.

Same-store RevPAR improvement of 9.1 percent, compared to 5.7 percent for the industry.

Adjusted EBITDA of \$22.7 million, \$3.0 million more than the same quarter of 2006.

Acquired the 288-room Sheraton Columbia, Md. for \$46.5 million, or \$161,500 per key.

Completed joint venture acquisition with Investcorp International of two hotels for \$71.5 million from The Blackstone Group.

Added 10 new management contracts, bringing the year-end 2007 total to 191 managed properties.

Wholly-owned Hotel Results

EBITDA from the company's owned hotels was \$6.1 million for the 2007 fourth quarter and \$21.7 million for the full year 2007, as outlined below (in millions):

Owned Hotels	Fourth Quarter		Full Year	
	2007	2006	2007	2006
Net Income	\$0.0	\$0.1	\$1.9	\$1.9
Interest Expense	\$3.4	\$1.1	\$11.6	\$2.9
Depreciation and Amortization	\$2.7	\$1.0	\$8.2	\$2.4
EBITDA	\$6.1	\$2.2	\$21.7	\$7.2

Interstate acquired the 288-room Sheraton Columbia, Md. for \$46.5 million in the 2007 fourth quarter, its third wholly-owned acquisition for the year, bringing the number of wholly-owned hotels in its portfolio to seven.

"During the fourth quarter, we not only achieved impressive operating results, as evidenced by the 7.9 percent RevPAR increase on our six wholly-owned assets, we continued to execute on our growth strategy to selectively acquire wholly-owned hotels by purchasing the Sheraton Columbia Hotel in Maryland," said Thomas F. Hewitt, chief executive officer.

"In early 2005, we set out to diversify and stabilize our income streams," he said. "With the acquisition of the Sheraton Columbia, we have now reached our near-term target of generating 50 percent of our Adjusted EBITDA from whole ownership. Although we will remain opportunistic in seeking additional wholly-owned assets, we expect the majority of our dollars invested in owned assets in 2008 to come through value-added capital improvements at our existing hotels."

Hewitt said that the company will invest approximately \$35 million to upgrade its owned hotels in 2008, including \$27 million related to completion of the comprehensive \$30 million renovation of the Westin Atlanta Airport and Sheraton Columbia hotels. Room renovations are underway at both hotels.

The Westin Atlanta Airport renovation represents approximately \$15 million of the company's total capital budget for 2008. In total, the company will have invested \$18 million for this comprehensive renovation project. The room renovations at the property are expected to be completed by July 2008. The remainder of the renovation project, including all meeting rooms and public spaces, will be completed by the end of the year.

The Sheraton Columbia property, representing \$12 million of the total capital budget for 2008, will undergo two phases of room renovations. The first phase, covering half of the guest rooms, is expected to be completed in mid spring, with phase two, including the other half of the guest rooms and meeting rooms, by the end of the third quarter. The entire renovation, including all remaining public spaces, will be substantially completed by the end of 2008.

"Not only do these capital expenditures give our hotels a competitive edge in their respective markets, they translate into significant embedded growth," Hewitt said. "We expect a \$3 million to \$4 million increase in EBITDA from these hotels in 2009, post-renovation."

Joint Venture Investments

During the quarter, the company's joint venture with Investcorp International completed the acquisition of two hotels for \$71.5 million from The Blackstone Group. The company closed the year with minority interests in 22 properties, and its share of EBITDA from joint venture investments for the 2007 fourth quarter and full year was \$1.3 million and \$4.4 million, respectively. In addition, during the fourth quarter, the company entered into two new joint venture partnerships, which acquired interests in a total of 26 properties in early 2008. As of today, the company has minority ownership interests in 47 properties.

"We have been extremely successful in sourcing capital through joint venture partnerships during the year," Hewitt said. "We not only added six new joint venture properties during 2007, we have added 26 more since the beginning of 2008 and have five joint venture properties under development or construction. We expect EBITDA from our joint ventures to more than double in 2008."

Hotel Management Results

Same-store RevPAR for all managed hotels in the 2007 fourth quarter increased 9.1 percent to \$97.70. Average daily rate (ADR) rose 9.5 percent to \$141.99, and occupancy declined 0.3 percent to 68.8 percent. This compares to RevPAR growth of 5.7 percent for the hotel industry as a whole. "We continue to significantly outpace the industry as our RevPAR increased 9.1 percent for the full year compared to the industry average 5.7 percent, according to Smith Travel Research," Hewitt added.

Same-store RevPAR for all full-service managed hotels rose 9.7 percent in the fourth quarter to \$107.76, ADR improved 9.9 percent to \$154.79, while occupancy showed a slight decrease, by 0.1 percent, to 69.6 percent.

Same-store RevPAR for all select-service managed hotels increased 6.7 percent to \$69.54, led by a 7.6 percent gain in ADR to \$104.52, offset by a 2.7 percent decrease in occupancy to 66.5 percent.

"While we saw a slight decline in occupancy in the fourth quarter, ADR continued to show strength, driving very healthy RevPAR gains across the portfolio," Hewitt pointed out. "Major urban, gateway and coastal cities continue to remain strong."

"We added 10 new management contracts in the quarter, bringing the number of management contracts at year end to 191," he said. "We not only have stabilized our portfolio in 2007, we have a very robust pipeline leading into 2008 as illustrated by our current hotel count of 220. We believe that our proven ability to deliver strong results throughout the industry cycle will be appealing to owners and investors who are in need of a proven management company to manage through potentially difficult financial circumstances in the future."

International Expansion

During 2007 the company increased its number of managed international properties from four to 11. This growth spanned four countries: Russia, Mexico, Belgium and Ireland. Interstate also has contracts to manage two additional properties under construction in Russia, which are expected to open in 2008.

"Interstate has performed very well at the three Marriott hotels we have managed in Russia for more than 10 years," Hewitt said. "Our consistent, high level operating performance is a key reason we have been afforded these opportunities to expand within Russia and to enter additional countries this year. We are focused on capitalizing on additional international opportunities as they arise, as we demonstrated most recently with our venture in India."

Last week the company announced the formation of a 50-50 joint venture partnership with JHM Hotels to operate and invest in hotels in India. The joint venture, named JHM Interstate Hotels India, will serve as the company's platform for all hospitality-related activities in India. In addition to this platform, Interstate has committed to invest approximately \$6.3 million in Duet India Hotels Limited, a U.K.-based, real estate investment fund dedicated solely to the investment of hotels in India. The fund has raised approximately \$175 million to date and is expected to raise in excess of \$200 million in total equity contributions.

"India is one of the fastest-growing lodging markets in the world," Hewitt said. "We are entering this market at a time when there are currently only 100,000 hotel rooms available, a number that will need to at least double by 2010 to meet projected demand. With this management platform and our investment in the fund, we are well positioned with a significant pipeline in this emerging market."

Balance Sheet

On December 31, 2007, Interstate had:

- Total unrestricted cash of \$9.8 million.
- Total debt of \$211.6 million, consisting of \$154.1 million of senior debt and \$57.5 million of non-recourse mortgage debt.

"During the quarter we borrowed a net of \$40 million on our senior revolving credit facility to fund our \$46.5 million acquisition of the Sheraton Columbia hotel, as well as approximately \$8 million in joint venture investments," said Bruce Riggins, chief financial officer. "We expect to place a \$30 million non-recourse mortgage on the Sheraton Columbia early in the second quarter of 2008. We continue to maintain a prudently leveraged balance sheet and have more than adequate capital available to fund our 2008 renovation programs and to respond to future business opportunities."

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