Starwood Hotels Q1 Profit Down 73.8% - Hurt By Tax Charge

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Worldwide REVPAR for Starwood branded Same-Store Owned Hotels increased 9.7% compared to the first quarter of 2007. REVPAR for Starwood branded Same-Store Owned Hotels in North America increased 8.2%.

First Quarter 2008 Highlights

Excluding special items, EPS from continuing operations was $0.44. Including special items, EPS from continuing operations was $0.42.

Excluding special items, income from continuing operations was $83 million. Income from continuing operations, including special items, was $79 million.

Total Company Adjusted EBITDA was $255 million.

Worldwide System-wide REVPAR for Same-Store Hotels increased 8.4% compared to the first quarter of 2007. System-wide REVPAR for Same-Store Hotels in North America increased 2.9%.

Management and franchise revenues increased 17.7% when compared to 2007.

Worldwide REVPAR for Starwood branded Same-Store Owned Hotels increased 9.7% compared to the first quarter of 2007. REVPAR for Starwood branded Same-Store Owned Hotels in North America increased 8.2%.

Margins at Starwood branded Same-Store Owned Hotels Worldwide and in North America were flat when compared to the first quarter of 2007.

Reported revenues from vacation ownership and residential sales decreased 16.8% when compared to 2007.

The Company signed 43 hotel management and franchise contracts in the quarter representing approximately 13,000 rooms.

During the first quarter, the Company repurchased approximately 6.1 million shares at a cost of $277 million.

Starwood Hotels & Resorts Worldwide, Inc. today reported EPS from continuing operations for the first quarter of 2008 of $0.42 compared to $0.56 in the first quarter of 2007. Excluding special items, EPS from continuing operations was $0.44 for the first quarter of 2008 compared to $0.48 in the first quarter of 2007. Excluding special items, the effective income tax rate in the first quarter of 2008 was 28.7% compared to 35.7% in the same period of 2007 primarily due to various tax planning initiatives.

Income from continuing operations was $79 million in the first quarter of 2008 compared to $123 million in 2007. Excluding special items, which net to a $4 million charge in 2008 and a $19 million benefit in 2007, income from continuing operations was $83 million for the first quarter of 2008 compared to $104 million in 2007.

Net income was $32 million and EPS was $0.17 in the first quarter of 2008, compared to net income of $122 million and EPS of $0.56 in the first quarter of 2007. The 2008 results were adversely affected by a $47 million tax charge to discontinued operations as a result of a 2008 administrative tax ruling for an unrelated taxpayer that impacts the tax liability associated with the 1998 disposition of a business.

Frits van Paasschen, CEO, said, 'Starwood has again beaten expectations due to our strong global presence and leading upper upscale and luxury platform. While domestic REVPAR growth slowed in the quarter, our international divisions continued to experience robust demand and delivered REVPAR growth of 15.5%. With 55% of our 120,000 room pipeline to be built outside of the US, we continue to expand our lead in international markets with strong new unit growth expected over the coming years. Our global portfolio of branded owned hotels also performed well, delivering world-wide REVPAR growth of 9.7%. Finally, we continue to reduce our share count, buying back 6.1 million shares in the quarter.'

Operating Results

First Quarter Ended March 31, 2008

Management and Franchise Revenues

Worldwide System-wide REVPAR for Same-Store Hotels increased 8.4% compared to the first quarter of 2007, including 17.5% in Africa & the Middle East, 16.3% in Asia Pacific, 15.3% in Europe, 9.1% in Latin America, and 2.9% in North America. Worldwide System-wide REVPAR increases for Same-Store Hotels by brand were: Le Méridien 16.8%, St. Regis/Luxury Collection 9.3%, Four Points 8.6%, Sheraton 7.6%, W Hotels 6.3%, and Westin 5.8%.

Management fees, franchise fees and other income were $210 million, up $18 million, or 9.4%, from the first quarter of 2007. Management fees grew 15.4% to $105 million and franchise fees grew 18.2% to $39 million.

Approximately 55% of the Company's management and franchise fees are generated in markets outside the United States.

During the first quarter of 2008, the Company signed 43 hotel management and franchise contracts representing approximately 13,000 rooms of which 39 were new builds and 4 were conversions from other brands. At March 31, 2008, the Company had approximately 500 hotels in the active pipeline representing over 120,000 rooms, driven by strong interest in all Starwood brands. Of these rooms, almost 70% are in the upper upscale/luxury segment and over half are outside North America.

During the first quarter of 2008, 10 new hotels and resorts (representing approximately 5,000 rooms) entered the system, including the Sheraton Denver (Denver, Colorado, 1,225 rooms) and Sheraton Dallas (Dallas, Texas, 1,840 rooms). Seven properties (representing approximately 2,000 rooms) were removed from the system during the quarter.

Owned, Leased and Consolidated Joint Venture Hotels

Worldwide REVPAR for Starwood branded Same-Store Owned Hotels increased 9.7%. REVPAR at Starwood branded Same-Store Owned Hotels in North America increased 8.2%. Internationally, Starwood branded Same-Store Owned Hotel REVPAR increased 2.9%, excluding the impact of foreign exchange, and as reported, in US dollars, branded Same-Store Owned Hotel REVPAR increased 12.3%.

Revenues at Starwood branded Same-Store Owned Hotels in North America increased 6.3% while costs and expenses increased 6.2% when compared to 2007. Margins at these hotels increased 6 basis points.

Revenues at Starwood branded Same-Store Owned Hotels Worldwide increased 8.0% while costs and expenses increased 8.2% when compared to 2007. Margins at these hotels decreased 9 basis points.

Approximately 45% of Starwood's Owned Hotel earnings (before depreciation) is generated from outside the United States.

Revenues at owned, leased and consolidated joint venture hotels were $560 million when compared to $559 million in 2007. Reported revenues and operating income were impacted by the sale and closing of 11 hotels since the beginning of the first quarter of 2007. These hotels had no revenues and expenses in 2008 as compared to $48 million of revenues and $36 million of expenses (before depreciation) in the same quarter of 2007.

Vacation Ownership

Total vacation ownership reported revenues decreased 16.2% to $191 million when compared to 2007. Reported revenues are significantly impacted by the timing of the recognition of deferred revenues under percentage of completion accounting for projects under construction. During the first quarter of 2008, the Company was actively selling vacation ownership interests at 17 resorts and is also in the predevelopment phase of several other new vacation ownership resorts in California, Colorado, Hawaii, and Mexico.

Originated contract sales of vacation ownership intervals decreased 6.9% primarily due to the sellout of the Company's Westin Ka'anapali Ocean Resort North in Maui. The impact in Hawaii was partly offset by stronger results in Orlando driven by higher tour flow and close rates. The average price per vacation ownership unit sold decreased 14.2% to approximately $24,000, driven by a reduction in the average sales price in Hawaii as the Company shifted to sales of lower priced inventory at the Westin Princeville Resort in Kauai. The number of contracts signed increased 8.8% when compared to 2007.

Vacation ownership results were well ahead of the Company's expectations for the first quarter, primarily due to the favorable product mix of units sold, timing of expenses and other items that were realized earlier than expected. The Company expects that full year 2008 results will be in line with the Company's prior guidance.

Conditions remain uncertain in the asset backed securities market. We continue to expect that we will complete a sale of vacation ownership notes receivable before the end of 2008. However, given market conditions, we are now assuming the gain from this sale to be $30 million to $35 million, down $10 million from prior expectations.

Residential

During the first quarter of 2008, the Company's residential revenues were $2 million compared to $4 million in the prior year as our residential inventory at the St. Regis New York is substantially sold out.

Selling, General, Administrative and Other

Selling, general, administrative and other expenses increased 15.5% to $134 million compared to the first quarter of 2007. The increase was primarily due to the impact of foreign currency exchange rates and two items that benefited 2007, the reversal of workers compensation reserves and the reversal of a performance guarantee liability that was eliminated.

Asset Sales

During the first quarter of 2008, the Company entered into purchase and sale agreements for the sale of four wholly-owned hotels. The expected sales proceeds from these sales, which are expected to close later in 2008, are $269 million.

Capital

Gross capital spending during the quarter included approximately $57 million in renovations of hotel assets including construction capital at the Sheraton Suites Philadelphia, W Times Square, aloft Philadelphia, aloft Lexington and Element Lexington. Investment spending on gross vacation ownership interest ('VOI') inventory was $106 million, which was offset

by cost of sales of $39 million associated with VOI sales during the quarter. The inventory spend included VOI construction at the Sheraton Vistana Villages in Orlando, the Westin St. John Resort and Villas in the Virgin Islands, the Westin Riverfront Resort in Avon, Colorado, and the Westin Lagunamar Ocean Resort in Cancun, as well as construction costs at the St. Regis Bal Harbour Resort in Miami Beach.

Share Repurchase

During the first quarter of 2008, the Company repurchased approximately 6.1 million shares at a total cost of approximately $277 million. At March 31, 2008, approximately $316 million remained available under the Company's previously approved share repurchase authorization. Starwood had approximately 189 million shares outstanding (including partnership units) at March 31, 2008.

Dividend

The Company paid a dividend of $0.90 per share on January 11, 2008 to holders of record on December 31, 2007. This represents a 7% increase over the prior year dividends.

Balance Sheet

At March 31, 2008, the Company had total debt of $4.115 billion and cash and cash equivalents (including $248 million of restricted cash) of $462 million, or net debt of $3.653 billion, compared to net debt of $3.229 billion at the end of 2007.

At March 31, 2008, debt was approximately 43% fixed rate and 57% floating rate and its weighted average maturity was 3.8 years with a weighted average interest rate of 5.3%. The Company had cash (including total restricted cash) and availability under the domestic and international revolving credit facility of approximately $1.352 billion.

In April 2008, $375 million of the revolving credit facility that was to expire on April 27, 2008 was converted to a term loan that matures in April 2010, with a Company option to extend until February 2011 as long as certain conditions are satisfied. The amount available under the revolving credit facility was reduced by $375 million.

Outlook

While overall lodging trends are currently strong, uncertainty surrounding the U.S. economic environment and its impact on travel patterns continues to make it difficult to predict future results.

For the full year 2008:

Assuming a REVPAR growth range at Same-Store Company Operated Hotels worldwide of 8% to 10% and a REVPAR growth range at Branded Same-Store Company Owned Hotels in North America of 4% to 6%:

-- Adjusted EBITDA would be between $1.250 billion and $1.300 billion.

-- EPS before special items would be between $2.40 and $2.58.

-- North America Same-Store Branded Owned Hotel EBITDA growth of 0% to 7% versus 2007 with margin changes between negative 50 basis points and positive 50 basis points.

-- Management and franchise revenue growth between 12% and 14%.

-- Operating income from our vacation ownership and residential business will decline $40 million to $60 million versus 2007 (including potential gains on sale of vacation ownership notes receivable of $30 million to $35 million in the fourth quarter of 2008).

-- Income from continuing operations before special items would be between $452 million and $486 million reflecting an effective tax rate of 33%.

Full year capital expenditures (excluding vacation ownership and residential inventory) would be approximately $500 million, including $300 million for maintenance, renovation and technology and $200 million for other growth initiatives. Additionally, net capital expenditures for vacation ownership and residential inventory, including Bal Harbour, would be approximately $275 million.

Full year depreciation and amortization would be approximately $355 million.

Full year interest expense would be approximately $220 million and cash taxes of approximately $200 million.

Full year weighted average diluted shares outstanding of 188 million.

The Company expects to open approximately 80 to 100 hotels (representing approximately 20,000 rooms) in 2008 and is targeting signing over 200 hotel management and franchise contracts in 2008.

For the three months ended June 30, 2008:

Adjusted EBITDA is expected to be $285 million to $295 million assuming:

-- REVPAR growth at Same-Store Company Operated Hotels worldwide of 10% to 12%.

-- REVPAR growth at Branded Same-Store Owned Hotels in North America of 5% to 7%.

-- North America Branded Same Store Owned Hotel EBITDA growth of 0% to 5% with margin changes of approximately 0 to negative 50 basis points.

-- Growth from management and franchise revenues of 12% to 14%.

-- Operating income from our vacation ownership and residential business will be down $50 million to $55 million.

Income from continuing operations, before special items, is expected to be approximately $95 million to $102 million, reflecting an effective tax rate of 33%.

EPS before special items is expected to be approximately $0.50 to $0.54.

Click here (Adobe Acrobat PDF file) to download the complete release including financial tables.

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