

FelCor Reports First Quarter Operating Results

2008-05-08

FFO Meets High End of Guidance

FelCor Lodging Trust Incorporated (NYSE: FCH) reported operating results for the first quarter ended March 31, 2008.

Highlights:

Increased Revenue per Available Room ('RevPAR') by 7.9 percent at our 61 hotels where renovations had been completed for at least a full quarter. RevPAR increased 4.6 percent for our 85 consolidated hotels.

Exceeded operating expectations for our 61 hotels where renovations had been completed for at least a full quarter. Hotel EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) for these hotels exceeded budget by 2.7 percent and are exceeding our targeted 12 percent return on the guest impact portion of total capital expenditures.

Completed renovations at 14 more hotels. We have now completed renovations at 75 hotels (approximately 90 percent of the hotels in our portfolio).

During the first quarter, we had 19 hotels under renovation. While the first quarter performance was affected by renovation disruption, we are now on a 'normal' renovation schedule.

Completed three redevelopment projects: a 35,000 square-foot convention center built adjacent to our Hilton - Myrtle Beach Resort, a spa addition at our Embassy Suites Hotel - Deerfield Beach Resort & Spa, and additional meeting space at our Doubletree Guest Suites at Doheny Beach.

First Quarter Operating Results:

In the first quarter, RevPAR at our 85 consolidated hotels increased 4.6 percent and Average Daily Rate ('ADR') increased 1.7 percent compared to the same period in 2007. RevPAR at our 61 hotels where renovations had been completed for at least a full quarter increased 7.9 percent compared to the same period in 2007. At our 24 remaining hotels, RevPAR decreased 2.2 percent largely from a 5.8 percent decrease in occupancy, which is attributed principally to renovation-related disruptions.

'With 90 percent of our renovations complete, we are now on a normal renovation schedule. In addition, we continue to earn the returns we expected on the renovations,' said Richard A. Smith, FelCor's President and Chief Executive Officer. 'We are pleased with our first quarter results, which were in line with our expectations. We are also pleased with the performance of our recent acquisitions, which exceeded their Hotel EBITDA budgets. Despite the economic headwinds and low visibility, we have not yet seen a widespread moderation in demand. However, we are cautious with regard to the remainder of the year and have worked with our managers to develop contingency plans for each of our hotels and continue to monitor travel trends very carefully.'

Our Same-Store Adjusted Funds from Operations ('FFO') increased to \$32.1 million, or \$0.51 per share, compared to \$28.3 million, or \$0.45 per share, for the same period in 2007. Our Adjusted FFO was \$32.1 million, a \$635,000 increase from the same period in 2007. Adjusted FFO per share was at the high end of our expectations.

Our Same-Store Adjusted EBITDA increased to \$71.2 million, compared to \$68.1 million for the same period in 2007, an increase of four percent. Our Adjusted EBITDA (including sold hotels) increased to \$71.2 million in the first quarter, compared to \$68.2 million for the same period in 2007.

Our Same-Store Hotel EBITDA increased to \$82.2 million, compared to \$78.4 million in the same period in 2007, an increase of five percent. Same-Store Hotel EBITDA margin was 28.2 percent, which exceeded our expectations and represented an 18 basis point decrease compared to the same period in 2007.

Net loss applicable to common stockholders was \$22.2 million, or \$0.36 per share, compared to net income applicable to common stockholders of \$19.5 million, or \$0.32 per share, for the same period in 2007. Our current year loss included a \$17.1 million impairment charge related to two hotels that are candidates for sale. The income for the same period in 2007 included \$3.3 million gains from sale of condominiums, \$11.2 million gain on sale of an unconsolidated hotel, \$6.0 million gains on sale of hotels in discontinued operations, and \$3.6 million operating income from hotels in discontinued operations.

EBITDA, Adjusted EBITDA, Same-Store Adjusted EBITDA, Same-Store Hotel EBITDA, Same-Store Hotel EBITDA margin, FFO, Adjusted FFO and Same-Store Adjusted FFO are all non-GAAP financial measures. See our discussion of 'Non-GAAP Financial Measures' beginning on page 8 for a reconciliation of each of these measures to our net income (loss) and for information regarding the use, limitations and importance of these non-GAAP financial measures.

Renovation Program Update:

During the first quarter, 19 hotels were under renovation. We completed renovations at 14 of those hotels. Since we started the program, we have completed renovations at 75 hotels, which comprise approximately 90 percent of our hotels. We expect to complete the remaining renovations during 2008. We had approximately 35,000 room nights (or approximately two percent of our portfolio) out of service in the first quarter of 2008, compared to 85,000 during the fourth quarter of 2007. As

of the end of the first quarter, we are now on a 'normal' renovation schedule with only seven hotels under renovation during May.

We spent \$48.4 million on renovations and redevelopment projects at our hotels during the first quarter, including our pro rata share of joint venture expenditures.

Overall, our renovated hotels are exceeding targeted 12 percent returns on the guest impact portion of total capital expenditures. Similarly, during the first quarter, RevPAR, Hotel EBITDA and Hotel EBITDA margin exceeded budget for these hotels. For the 61 hotels where our renovations had been completed for at least a full quarter, RevPAR increased 7.9 percent for the first quarter, compared to the prior year period. For these same hotels, Hotel EBITDA grew ten percent compared to prior year, which was 2.7 percent greater than budget.

Development:

We continue to progress on our redevelopment projects. We recently completed the new 35,000 square-foot convention center adjacent to our Hilton - Myrtle Beach Resort, the addition of a spa at our Embassy Suites Hotel - Deerfield Beach Resort & Spa and the additional meeting space at our Doubletree Guest Suites at Doheny Beach, California. The redevelopment of our hotel on San Francisco's Union Square to a Marriott remains on schedule to be completed by early 2009. We are currently in various planning and entitlement stages at our remaining projects.

Portfolio Recycling:

As part of our long-term strategic plan, we continually examine each hotel in our portfolio to address issues of market supply, ongoing capital needs and concentration of risk. Consistent with this plan, we have identified six hotels as candidates for sale. We recorded an impairment charge of \$17.1 million with respect to two of these hotels, but we expect an aggregate gain from the sale of the six hotels.

Capital Structure:

At March 31, 2008, we had \$1.5 billion of consolidated debt outstanding with a weighted average life of four years and a weighted average interest rate of 6.3 percent. As a result of the recent reduction in LIBOR, our weighted average interest rate is nearly 100 basis points lower than at the end of 2007. Our cash and cash equivalents totaled \$71.3 million at March 31, 2008. We have no material debt maturities in 2008.

'As we continue to recycle our portfolio, we will evaluate the use of proceeds from asset sales with an eye toward managing our balance sheet, maintaining flexibility and liquidity, and maximizing our capacity as we face an uncertain economic environment. We have no major debt maturities until 2009, however, we continue to look for ways to improve our balance sheet,' said Andrew J. Welch, FelCor's Executive Vice President and Chief Financial Officer. 'From an operational perspective, we expect RevPAR and Hotel EBITDA margin growth to accelerate going forward as we earn returns from the completed renovations, recapture displaced business and complete our redevelopment projects, including Union Square. As a result, we expect our dividend coverage to improve in 2009.'

2008 Guidance:

Our operating expectations for 2008 remain unchanged, as demand levels and pricing have been consistent with our expectations. Our guidance assumes that our portfolio will have an increase in RevPAR significantly higher than the industry average. RevPAR at our 85 consolidated hotels increased 6.6 percent in April 2008, compared to the same period in 2007. The benefits of our renovation program, including achieving the expected returns from our capital investment, are driving the relatively high increase in RevPAR. As a result, we currently anticipate:

Portfolio RevPAR growth between 6.5 and 8.5 percent for the full year and 7.0 and 9.0 percent for the second quarter,

Adjusted EBITDA to be between \$293 million and \$301 million for the full year and between \$87 million and \$89 million for the second quarter,

Adjusted FFO per share to be between \$2.29 and \$2.42 for the full year and between \$0.76 and \$0.80 for the second quarter,

Net Income to be between \$16 million and \$24 million (including the \$17.1 million first quarter impairment charge) for the full year and between \$22 million and \$24 million for the second quarter,

Hotel EBITDA margins to increase between 50 and 100 basis points for the full year,

Capital expenditures, including redevelopment projects, of \$150 million, and

Gain of \$400,000 from the sale of three condominium units during the year.

Second quarter guidance for Adjusted FFO per share, assumes the conversion of our series A preferred stock because it is more dilutive when our Adjusted FFO per share exceeds \$0.63 per share. This increases fully diluted shares outstanding to 73.2 million for the quarter. Without the conversion, our second quarter Adjusted FFO per share guidance would be \$0.79 to \$0.83. Our full year guidance 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 Adjusted 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 85 consolidated hotels and resorts, located in 23 states and Canada. FelCor's portfolio consists primarily of upper-upscale hotels, which are flagged under global brands such as Embassy Suites Hotels, Doubletree, Hilton, Renaissance, Sheraton, Westin and Holiday Inn.

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