Hotel News Resource

Starwood 2nd Quarter Profit Down 16.4 percent

2008-07-24

Net income for the three months ended June 30 fell to $105 million, or 56 cents per share, from $145 million, or 67 cents per share, in the same period a year earlier.

Starwood Hotels & Resorts Worldwide, Inc. (NYSE: HOT) today reported second quarter 2008 financial results.

Second Quarter 2008 Highlights

EPS from continuing operations was $0.56.

Income from continuing operations was $107 million.

Total Company Adjusted EBITDA was $299 million.

Worldwide System-wide REVPAR for Same-Store Hotels increased 9.6% compared to the second quarter of 2007. System-wide REVPAR for Same-Store Hotels in North America increased 3.0%.

Management and franchise revenues increased 11.6% compared to 2007.

Worldwide REVPAR for Starwood branded Same-Store Owned Hotels increased 6.8% compared to the second quarter of 2007. REVPAR for Starwood branded Same-Store Owned Hotels in North America increased 5.2%.

Margins at Starwood branded Same-Store Owned Hotels Worldwide and in North America decreased 84 and 58 basis points, respectively, compared to the second quarter of 2007.

Reported revenues from vacation ownership and residential sales decreased 29.2% compared to 2007.

The Company signed 37 hotel management and franchise contracts in the quarter representing approximately 9,000 rooms.

During the second quarter, the Company repurchased approximately 3.8 million shares at a cost of $182 million.

Starwood Hotels & Resorts Worldwide, Inc. ('Starwood' or the 'Company') today reported EPS from continuing operations for the second quarter of 2008 of $0.56 compared to $0.67 in the second quarter of 2007. Excluding special items, which net to zero in 2008, EPS from continuing operations was $0.56 for the second quarter of 2008 compared to $0.82 in the second quarter of 2007. Excluding special items, the effective income tax rate in the second quarter of 2008 was 28.3% compared to 24.1% in the same period of 2007 primarily due to the recognition of foreign tax credits in the second quarter of 2007, which were generated in prior years.

Income from continuing operations was $107 million in the second quarter of 2008 compared to $145 million in 2007. Excluding special items, which net to zero in 2008 and a $33 million charge in 2007, income from continuing operations was $107 million for the second quarter of 2008 compared to $178 million in 2007. The decline in 2008 results was primarily due to lower vacation ownership results and the inclusion, in 2007, of a $27 million gain from the sale of several hotels by a joint venture in which we held a minority interest.

Net income was $105 million and EPS was $0.56 in the second quarter of 2008 compared to $145 million and EPS of $0.67 in the second quarter of 2007.

Frits van Paasschen, CEO said, 'Starwood's global footprint and strong brands drove the Company's second quarter results above expectations and ahead of our competition. While international lodging demand remains solid, the economic picture in the US has continued to deteriorate, with lodging demand dropping significantly in May. We are pleased with our second quarter performance, but are focused on managing costs to minimize the impact of this slowdown. Despite the US economic picture, we remain bullish on our long-term growth prospects. Today, our pipeline consists of more than 120,000 high quality rooms with almost 60% outside the US.'

Operating Results

Second Quarter Ended June 30, 2008

Management and Franchise Revenues

Worldwide System-wide REVPAR for Same-Store Hotels increased 9.6% (4.8% using constant dollars) compared to the second quarter of 2007. International System-wide REVPAR for Same-Store Hotels increased 18.6% (8.7% using constant dollars). Worldwide System-wide REVPAR increases by region were: 26.1% in Africa and the Middle East, 18.9% in Europe, 16.1% in Latin America, 14.0% in Asia Pacific, and 3.0% in North America. Worldwide System-wide REVPAR increases by brand were: Le Méridien 18.7%, Sheraton 10.5%, Four Points by Sheraton 9.5%, St. Regis/Luxury Collection 9.0%, Westin 5.6%, and W Hotels 1.5%.

Management fees, franchise fees and other income were $218 million, up $23 million, or 11.8%, from the second quarter of 2007. Management fees grew 8.5% to $115 million and franchise fees grew 18.9% to $44 million.

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

During the second quarter of 2008, the Company signed 37 hotel management and franchise contracts representing approximately 9,000 rooms of which 36 were new builds and 1 was a conversion from another brand. At June 30, 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 and luxury segments and almost 60% are in international locations.

During the second quarter of 2008, 21 new hotels and resorts (representing approximately 5,000 rooms) entered the system, including the W Istanbul (Istanbul, Turkey, 134 rooms), the Sheraton Huizhou Beach Resort (Guangdong, China, 293 rooms) and three aloft hotels, officially launching our new brand. Thirteen properties (representing approximately 4,000 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 6.8%. REVPAR at Starwood branded Same-Store Owned Hotels in North America increased 5.2%. Internationally, Starwood branded Same-Store Owned Hotel REVPAR increased 9.3% (down 2.0% using constant dollars).

Revenues at Starwood branded Same-Store Owned Hotels in North America increased 4.4% while costs and expenses increased 5.2% when compared to 2007. Margins at these hotels decreased 58 basis points.

Revenues at Starwood branded Same-Store Owned Hotels Worldwide increased 5.9% while costs and expenses increased 7.1% when compared to 2007. Margins at these hotels decreased 84 basis points.

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

Revenues at owned, leased and consolidated joint venture hotels were $620 million when compared to $634 million in 2007. Reported revenues and operating income were impacted by the sale or closure of 11 hotels since the beginning of the second quarter of 2007. These hotels had $0 million of revenues and $1 million of expenses (before depreciation) in 2008 as compared to $40 million of revenues and $35 million of expenses (before depreciation) in the same quarter of 2007.

Vacation Ownership

Total vacation ownership reported revenues decreased 28.4% to $192 million when compared to 2007. Reported revenues are impacted by the timing of the recognition of deferred revenues under percentage of completion accounting for projects under construction. During the second quarter of 2008, the Company was actively selling vacation ownership interests at 18 resorts and is also in the predevelopment phase of new fractional or vacation ownership resorts in California, Colorado, Hawaii, and Mexico.

Originated contract sales of vacation ownership intervals decreased 25.7% primarily due to the sellout of the Company’s Westin Ka’anapali Ocean Resort North in Maui and a decline in demand. The impact in Hawaii was partly offset by strong results in Orlando. The average price per vacation ownership unit sold decreased 19.1% to approximately $21,000, driven by a higher sales mix of lower priced biennial inventory in Hawaii. The number of contracts signed decreased 7.7% when compared to 2007.

Vacation ownership results were ahead of the Company’s expectations for the second quarter, primarily due to the favorable product mix of units sold, timing of expenses and other items that were realized earlier than expected. However, the Company now expects that full year 2008 results will be lower than prior guidance due to lower sales in Hawaii and of our fractional product, as well as lower financing income.

Conditions remain uncertain in the asset backed securities market. The Company continues to expect that it will complete a sale of vacation ownership notes receivable before the end of 2008. However, given market conditions, the Company is now assuming that it will sell a smaller amount of receivables, and based on current advance rates and spreads, it now expects the gain from this sale to be $10 million to $15 million, down $20 million from prior expectations.

Residential

During the second quarter of 2008, the Company’s residential revenues were $2 million compared to $6 million in the prior year as our completed residential inventory is substantially sold out.

Selling, General, Administrative and Other

Selling, general, administrative and other expenses increased 7.0% to $138 million compared to the second quarter of 2007. The increase was primarily due to the impact of foreign currency exchange rates and the reversal, in 2007, of a litigation reserve as a result of a favorable outcome to the Company.

Asset Sales

During the second quarter of 2008, the Company entered into purchase and sale agreements for the sale of two wholly-owned hotels. The expected proceeds from the sales, which are expected to close later in 2008, are $123 million.

Capital

Gross capital spending during the quarter included approximately $61 million in renovations of hotel assets including construction capital at the Sheraton Steamboat Resort, Sheraton Fiji Resort, W Times Square, aloft Philadelphia, aloft Lexington and element Lexington. Investment spending on gross vacation ownership interest ('VOI') inventory was $120 million, which was offset by cost of sales of $36 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, 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 second quarter of 2008, the Company repurchased approximately 3.8 million shares at a total cost of approximately $182 million. In the six months ended June 30, 2008, the Company repurchased approximately 9.9 million shares at a total cost of approximately $459 million. At June 30, 2008, approximately $134 million remained available under the Company's previously approved share repurchase authorization. Starwood had approximately 187 million shares outstanding (including partnership units) at June 30, 2008.

Balance Sheet

At June 30, 2008, the Company had total debt of $4.054 billion and cash and cash equivalents (including $180 million of restricted cash) of $308 million, or net debt of $3.746 billion, compared to net debt of $3.229 billion at the end of 2007.

In May 2008, the Company completed a public offering of $200 million of the Company's 6.25% Senior Notes due 2013 and $400 million of the Company's 6.75% Senior Notes due 2018. The net proceeds were used to pay down the Company's revolving credit facility.

At June 30, 2008, debt was approximately 59% fixed rate and 41% floating rate and its weighted average maturity was 4.3 years with a weighted average interest rate of 5.5%. The Company had cash (including total restricted cash) and availability under the domestic and international revolving credit facility of approximately $1.914 billion.

Results for the Six Months Ended June 30, 2008

EPS from continuing operations decreased to $0.99 compared to $1.23 in 2007. Excluding special items, EPS from continuing operations was $1.01 compared to $1.30 in 2007. Excluding special items, income from continuing operations was $190 million compared to $282 million in 2007. Net income was $137 million and EPS was $0.73 compared to $267 million and $1.23, respectively, in 2007. Total Company Adjusted EBITDA, which was impacted by the sale or closure of 12 hotels since the beginning of 2007, was $554 million compared to $647 million in 2007.

Outlook

The 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 6% to 8% and a REVPAR growth range at Branded Same-Store Company Owned Hotels in North America of 2% to 3%:

-- Adjusted EBITDA would be between $1.180 billion and $1.220 billion.

-- EPS before special items would be between $2.17 and $2.32.

-- North America Same-Store Branded Owned Hotel EBITDA change of flat to down 3% versus 2007 with margin declines of 50 to 100 basis points.

-- Management and franchise revenue growth between 10% and 12%.

-- Operating income from our vacation ownership and residential business will decline $80 million to $100 million versus 2007 (including potential gains on sale of vacation ownership notes receivable of $10 million to $15 million in the third quarter 2008).

-- Income from continuing operations before special items would be between $407 million and $434 million reflecting an effective tax rate of 31%.

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 expense would be approximately $360 million.

Full year interest expense would be approximately $230 million and cash taxes of approximately $150 million.

Full year weighted average diluted shares outstanding of 187 million.

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

For the three months ended September 30, 2008:

Adjusted EBITDA is expected to be $290 million to $305 million assuming:

-- REVPAR growth at Same-Store Company Operated Hotels worldwide of 6% to 8%.

-- REVPAR change at Branded Same-Store Owned Hotels in North America of -1% to 1%.

-- North America Branded Same-Store Owned Hotel EBITDA change of -5% to -8% with margin declines of 100 to 150 basis points.

-- Growth from management and franchise revenues of 7% to 9%.

-- Operating income from our vacation ownership and residential business will be down $20 million to $25 million (including potential gains on sale of vacation ownership notes of $10 million to $15 million).

Income from continuing operations, before special items, is expected to be approximately $96 million to $106 million, reflecting an effective tax rate of approximately 31%.

EPS before special items is expected to be approximately $0.52 to $0.57.