Hotel News Resource

FelCor Reports Second Quarter Operating Results

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Met our Adjusted FFO and EBITDA guidance for the quarter.

FelCor Lodging Trust Incorporated (NYSE: FCH) reported operating results for the second quarter and six months ended June 30, 2008.

Highlights:

Met our Adjusted FFO and EBITDA guidance for the quarter.

RevPAR increased 8.7 percent for our 53 hotels where renovations were completed in 2007. RevPAR increased 4.7 percent for our 85 consolidated hotels, compared to 1.2 percent for the United States average.

Hotel EBITDA margin increased 215 basis points compared to prior year.

Market share increased approximately seven percent for our 53 hotels where renovations were completed in 2007, attaining our targeted return on renovations. Market share increased approximately four percent for our 85 consolidated hotels.

Completed renovations at three additional hotels. We now have completed renovations at 78 hotels (comprising approximately 94 percent of our portfolio).

Second Quarter Operating Results:

Revenue per available room ('RevPAR') for our 85 consolidated hotels increased 4.7 percent to $105.76, which was driven by increases in both average daily rate ('ADR') of 1.6 percent and occupancy of 3.0 percent, compared to the same period in 2007. At our 53 hotels where we completed renovations in 2007, RevPAR increased 8.7 percent and ADR increased 2.7 percent compared to the prior year.

'Despite softening industry-wide demand, our hotels are benefiting from our comprehensive renovation program and continue to increase RevPAR well above the industry. More importantly, our portfolio gained significant market share from its competitive sets, and we remain on track to earn our targeted returns from completed renovations,' said Richard A. Smith, FelCor's President and Chief Executive Officer. 'We will continue to focus on driving market share and still anticipate that RevPAR for our portfolio will increase significantly higher than the industry average for the remainder of the year and into 2009.'

Our Same-Store Adjusted Funds from Operations ('FFO') increased to $49.5 million, or $0.76 per share, compared to $37.5 million, or $0.59 per share, for the same period in 2007. Our Adjusted FFO was $49.5 million, compared to $54.7 million for the same period in 2007 (including sold hotels). Adjusted FFO per share met the low-end of our expectations.

Our Hotel EBITDA increased to $97.4 million, compared to $86.8 million in the same period in 2007, an increase of 12.2 percent. Hotel EBITDA margin was 31.9 percent and represented a 215 basis point increase compared to the same period in 2007, which was at the high-end of our expectations.

Our Same-Store Adjusted EBITDA increased to $87.2 million, compared to $77.6 million for the same period in 2007, an increase of 12.3 percent. Our Adjusted EBITDA was $87.2 million in the second quarter, compared to $91.7 million for the same period in 2007 (including sold hotels).

Net income applicable to common stockholders was $13.6 million, or $0.22 per share, compared to $45.5 million, or $0.73 per share, for the same period in 2007. Net income for the second quarter of 2007 included $40.7 million from gains on sale of condominiums, gains on sale of hotels, and operating income from hotels sold in 2007.

EBITDA, Adjusted EBITDA, Hotel EBITDA, Hotel EBITDA margin, FFO, and Adjusted FFO are all non-GAAP financial measures. See our discussion of 'Non-GAAP Financial Measures' beginning on page 13 for a reconciliation of each of these measures to our net income and for information regarding the use, limitations and importance of these non-GAAP financial measures.

Renovations and Development Projects:

During the second quarter, we completed renovations at three hotels. Since we began our renovation program, we have completed 78 hotels, which comprise approximately 94 percent of our portfolio. For the remainder of 2008, we expect the majority of the disruption to be at San Francisco Union Square. The redevelopment of this hotel to a Marriott remains on schedule to be completed in early 2009.

Overall, our renovated hotels continue to earn the expected returns on the capital expenditures. For the 53 hotels where we completed renovations during 2007, market share increased approximately seven percent relative to their competitive sets. RevPAR at these hotels increased 8.7 percent for the second quarter and Hotel EBITDA grew 17.6 percent compared to the prior year.

We spent $34.6 million on renovations and redevelopment projects at our hotels for the three months ended June 30, 2008, including our pro rata share of joint venture expenditures.

Capital Structure:

At June 30, 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. Our cash and cash equivalents totaled $70.9 million at June 30, 2008. In July, we repaid a $15.5 million single property mortgage loan and exercised the first of three, one-year extension options on our $250 million CMBS loan that was initially scheduled to mature November 2008. We have no scheduled debt maturities for the remainder of 2008.

2008 Dividend and Guidance:

We intend to reduce our quarterly common dividend, effective the third quarter of 2008, based on our revised forecast for the second half of the year and limited visibility for 2009. Given this limited visibility and our focus on liquidity and leverage, we are taking a more conservative approach by setting the new dividend to more closely reflect our taxable net income distribution requirement, and will adjust it accordingly to meet our targeted payout ratio. Therefore, we intend to set the dividend at $0.15 per share. Our revised dividend represents a yield in excess of seven percent, based on today's closing price. The dividend reduction would equate to annual cash flow savings of approximately $50 million.

'We are very pleased with what we accomplished during the second quarter, including gains in market share and managing flow-through by reducing costs across the portfolio. We expect that we will continue to outperform the industry in both RevPAR and margin growth,' said Andrew J. Welch, FelCor's Executive Vice President and Chief Financial Officer. 'There is no denying the current economic trends and potential for further deterioration in demand. Demand is being impacted by reductions in airline capacity, higher fuel costs, moderating GDP and negative sentiment towards the economy. As a result, we have revised our outlook for the remainder of the year and have taken a more conservative stance regarding our dividend distribution.'

RevPAR at our 85 consolidated hotels is expected to increase between 4.0 and 5.0 percent in 2008, compared to the prior year, which reflects our expectation that RevPAR for our markets will be between negative one percent and flat compared to 2007. Therefore, we continue to expect that RevPAR for our portfolio will increase significantly more than our markets. RevPAR at our 85 consolidated hotels increased 5.0 percent in July 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 our relatively high increase in RevPAR. The moderation in RevPAR growth is impacting our annual net income, FFO and EBITDA guidance. The upward shift in the forward interest-rate curve is further impacting net income and FFO.

We currently anticipate:

Portfolio RevPAR growth to be between 4.0 and 5.0 percent for the full year, and 4.5 and 6.0 percent for the third quarter,

Adjusted EBITDA to be between $283 million and $289 million for the full year, and $64 million and $67 million for the third quarter,

Adjusted FFO per share to be between $2.08 and $2.18 for the full year, and $0.43 and $0.47 for the third quarter,

Net Income to be between $5 million and $11 million for the full year, and net loss of $1 million and net income of $2 million for the third quarter,

Hotel EBITDA margins to increase approximately 40 basis points for the full year, and

Capital expenditures, including redevelopment projects, of approximately $150 million for the full year.

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(R), Doubletree(R), Hilton(R), Renaissance(R), Sheraton(R), Westin(R) and Holiday Inn(R).