Ashford Hospitality Trust Reports Second Quarter Results

2008-08-07

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Ashford Hospitality Trust, Inc. (NYSE:AHT) reported the following results and performance measures for the second quarter ended June 30, 2008. The proforma performance measurements for Occupancy, Average Daily Rate (ADR), revenue per available room (RevPAR), and Hotel Operating Profit (or Hotel EBITDA) include the Company's 105 hotels owned and included in continuing operations as of June 30, 2008. Unless otherwise stated, all reported results compare the second quarter ended June 30, 2008, with the second quarter ended June 30, 2007. The reconciliation of non-GAAP financial measures is included in the financial tables accompanying this press release.

FINANCIAL HIGHLIGHTS

Total revenue increased 8.2% to $318.4 million from $294.3 million

Net loss available to common shareholders was $33.5 million, or $0.28 per diluted share, compared with net income of $14.1 million in the prior-year quarter

Adjusted funds from operations (AFFO) increased 3.3% to $57.2 million

AFFO per diluted share was $0.41

Cash available for distribution (CAD) increased 4.4% to $46.1 million

CAD per diluted share was $0.33

Declared quarterly common dividend of $0.21 per diluted share

AFFO dividend coverage was 194% for the quarter

CAD dividend coverage was 156%

Sole debt maturity in 2008 refinanced. Debt maturities due in 2009 totals $30M

STRONG INTERNAL GROWTH

Proforma RevPAR increased 2.0% for hotels not under renovation on a 2.3% increase in ADR to $142.16 and a 18-basis point decline in occupancy

Proforma RevPAR increased 0.9% for all hotels on a 2.6% increase in ADR to $145.11 and a 134-basis point decline in occupancy

Proforma Hotel Operating Profit for hotels not under renovation improved 4.8%

Proforma Hotel Operating Profit margin for hotels not under renovation improved 95 basis points

CAPITAL RECYCLING AND ASSET ALLOCATION

Capex invested in the second quarter totaled $44 million

Three hotels sold in the second quarter for $208 million in proceeds

Two additional hotels sold in third quarter for $21 million in proceeds

PORTFOLIO REVPAR GROWTH

As of June 30, 2008, the Company had a portfolio of direct hotel investments consisting of 105 properties classified in continuing operations. During the second quarter, 97 of the hotels included in continuing operations were not under renovation. The Company believes reporting its operating metrics for continuing operations on a proforma total basis (all 105 hotels) and proforma not-under-renovation basis (97 hotels) is a measure that reflects a meaningful and focused comparison of the operating results in its direct hotel portfolio. The Company's reporting by region and brand includes the results of all 105 hotels in continuing operations. Details of each category are provided in the tables attached to this release.

RevPAR growth by region was led by: New England (2 hotels) with 5.6%, East North Central (10) with 5.4%, East South Central (2) with 4.9%, West South Central (10) with 2.7%, South Atlantic (38) with 1.5%, Mountain (8) with 0.1%, Pacific (22) with a 0.3% decrease, West North Central (3) with a 2.4% decrease and Middle Atlantic (10) with a 2.5% decrease.

RevPAR growth by brand was led by: Radisson (1 hotel) with 5.9%, Hyatt (3) with 5.6%, Starwood (6) with 1.8%, Hilton (34) with 1.6%, Marriott (57) with 0.0%, InterContinental (2) with a 0.2% decrease and Independents (2) with a 19.4% decrease.

HOTEL EBITDA MARGINS AND QUARTERLY SEASONALITY TRENDS

For the 97 hotels as of June 30, 2008 that were not under renovation, Proforma Hotel EBITDA (adjusted as if all hotels were included throughout both periods) increased 4.8% to $91.4 million. Proforma Hotel EBITDA margin (expressed as a percentage of Total Hotel Revenue) improved 95 basis points to 32.5%. For all 105 hotels included in continuing operations as of June 30, 2008, Proforma Hotel EBITDA increased 1.6% to $101.0 million and Hotel EBITDA margin improved 33 basis points to 31.6%.

Ashford believes year-over-year Hotel EBITDA and Hotel EBITDA margin comparisons are more meaningful to gauge the performance of the Company's hotels than sequential quarter-over-quarter comparisons. Given the substantial seasonality in the Company's portfolio and its active capital recycling, to help investors better understand this seasonality, the Company provides quarterly detail on its Proforma Hotel EBITDA and Proforma Hotel EBITDA margin for the current and certain prior-year periods based upon the number of core hotels in the portfolio as of the end of the current period. As Ashford's portfolio mix changes from time to time so will the seasonality for Proforma Hotel EBITDA and Proforma Hotel EBITDA margin. The details of the quarterly calculations for the previous four quarters for the current portfolio of 105 hotels included in continuing operations are provided in the tables attached to this release.

Monty J. Bennett, President and CEO, commented, "We are pleased with the performance of our portfolio in this challenging market. Despite the hotel industry decelerating RevPAR trends, we were able to generate a 2.0% increase in RevPAR and a 4.8% increase in EBITDA, while improving our EBITDA margin by 95 basis points for the 97 hotels not under renovation. Our strategy to enhance cash flow with property and enterprise-level contingency plans and aggressive management of fixed costs should help us navigate what is expected to be a difficult second half of the year in the lodging industry."

CAPITAL STRUCTURE

On June 25, 2008, the Company refinanced its sole debt maturity in 2008, a $73.1 million loan with MetLife that was secured by interests in the Hilton Tucson El Conquistador Golf Resort in Tucson, Arizona, and the Hilton Dallas Lincoln Centre in Dallas. The new $53.4 million interest only loan, which can be prepaid without penalty, has an interest rate of 200 basis points over LIBOR and matures in July 2011. The loan was subsequently paid down by $33.7 million in conjunction with the sale of the Hilton Dallas Lincoln Centre.

On August 6, 2008, the Company refinanced its major debt maturity in 2009, a loan with Prudential that was secured by interests in the Capital Hilton and the Hilton Torrey Pines. These two assets are owned in a joint venture between Ashford and Hilton. The gross principal outstanding was $127.2 million, with Ashford's share being $95.4 million. The new $160.0 million loan has an interest rate of 275 basis points over LIBOR and is for a three year term with two one-year extension options. The excess proceeds will be used to fund future renovations of the two hotels. The company's only remaining debt maturity for 2009 is a $30M loan secured by the Hyatt Dearborn.

At June 30, 2008, the Company's net debt (defined as total debt less unrestricted cash) to total gross assets (defined as un-depreciated investment in hotel property plus notes receivable) was 58.7%. The Company's $2.5 billion debt balance as of June 30, 2008, consisted of 91% of floating-rate debt, with a total weighted average interest rate of 4.99%. The Company's weighted average debt maturity including extension options is 6.6 years. The Company currently has no debt maturing in 2008, $30 million maturing in 2009 and $75 million maturing in 2010.

SECOND QUARTER INVESTMENT ACTIVITY

On June 9, 2008, the Company sold the Hyatt Dulles Airport in Herndon, Virginia, for $78 million and on June 17, 2008 the Hyatt Regency Montreal in Montreal, Quebec for $57.5 million. On June 26, 2008, the Company closed on the sale of the Hilton Dallas Lincoln Centre in Dallas for $72.25 million. Combined, the three transactions represented a sales price of $146,000 per key, a 6.8% trailing 12-month NOI cap rate, and a 11.7x trailing 12-month EBITDA multiple.

SUBSEQUENT INVESTMENT ACTIVITY

On July 14, 2008, the Company acquired a mezzanine loan participation secured by interests in 681 extended-stay hotels purchased by affiliates of Lightstone Group and Arbor Realty Trust. The loan participation, which is part of a $400 million mezzanine loan tranche, was acquired for $98.4 million and had a face value of $164 million and an interest rate of 250 basis points over LIBOR at par. Ashford's investment is priced to yield approximately 23.9% based upon the purchase price discount to par and the forward LIBOR curve through the final maturity of the loan (initial maturity in June 2009 and all three one-year extension options). The loan can be prepaid at anytime. Financing on the portfolio includes $6 billion in first mortgage and mezzanine financing senior to the $400 million tranche in which Ashford is participating, $1 billion in mezzanine financing junior to Ashford's position, and $600 million in equity, which is also junior to Ashford's position. Based on trailing 12-month net cash flow from the portfolio, the debt service coverage ratio at closing through Ashford's position is approximately 1.63x, and Ashford's investment in the capital structure is approximately 75% to 80% loan to cost, or $82,142 per key.

On July 23, 2008, the Company sold two other assets: the Radisson Hotel in Rockland, Massachusetts, and the Sheraton Milford in Milford, Massachusetts, for a combined $20.9 million that equates to $70,000 per key and a 5.1% trailing 12 month cap rate, and a 17.5x trailing 12-month EBITDA multiple.

Mr. Bennett concluded, 'The execution of our capital allocation strategy has hit the mark in the first half of the year with $310 million of asset sales completed. The proceeds have given us the flexibility to enhance our growth through mezzanine lending, debt paydowns, capital expenditures or share repurchases. We have already refinanced our sole debt maturity for 2008 and are in good shape to address our 2009 maturities in the very near future. With the diversity of options available to us from our capital recycling alternatives, we see several ways to enhance shareholder value in the near term.'