Hotel News Resource

Strategic Hotels & Resorts Reports Second Quarter 2008 Results

2008-08-07

North American total revenue per available room (Total RevPAR) increased 2.7 percent

Strategic Hotels & Resorts (NYSE:BEE) today reported results for the second quarter ended June 30, 2008.

Second Quarter Company Highlights

Comparable funds from operations (Comparable FFO) was $0.49 per diluted share. Excluding residential sales, Comparable FFO was $0.48 per diluted share, unchanged from the prior year.

Comparable EBITDA was $74.1 million. Excluding residential sales, Comparable EBITDA was $73.2 million, an increase of 0.9 percent compared with $72.6 million in the prior year. Property-level EBITDA increased 7.3% for the comparable year-over-year portfolio.

The company’s cost management programs led to 60 basis points of EBITDA margin expansion in North America during the second quarter of 2008.

The company closed on the sale of the Hyatt Regency Phoenix on July 2nd for a gross sales price of $96.0 million yielding an 11.0% unleveraged IRR over the company’s ownership period.

Operating Results

North American total revenue per available room (Total RevPAR) increased 2.7 percent and revenue per available room (RevPAR) increased 2.5 percent driven by a 3.5 percent increase in average daily rate (ADR) during the second quarter of 2008.

European Same Store Total RevPAR increased 8.1 percent and RevPAR increased 7.4 percent driven by a 13.4 percent increase in ADR during the second quarter of 2008.

Laurence Geller, chief executive officer said, "Our second quarter results reflect successful execution of the corporate strategies we identified last year to deal with a slowing market. We generated additional liquidity through the sale of the Hyatt Regency Phoenix, and improved operating margins through the diligent application of cost management programs at both the corporate and property levels. These successful asset management systems, combined with the high quality of our portfolio, the benign supply dynamic, and the capital investments we’ve made during the past years, position us to compete in today’s market and thrive in the inevitable recovery.

"Lodging demand is linked to the overall economic environment which is complex, multi-faceted and difficult to predict today. As such, it is appropriate for our company to continue to take prudent and conservative steps to manage through this uncertain period."

Financial Results

The company reported net income available to common shareholders of $11.6 million, or $0.15 per diluted share for the second quarter of 2008, compared with a net loss available to common shareholders of $25.3 million, or $0.34 per diluted share for the second quarter of 2007.

For the six-month period ending June 30, 2008, the company reported net income available to common shareholders of $4.5 million, or $0.06 per diluted share, compared with a net loss available to common shareholders of $34.9 million, or $0.46 per diluted share in the prior year period.

Adjusted EBITDA for the second quarter of 2008 was $79.7 million compared with $39.4 million for the second quarter of 2007. Comparable EBITDA for the second quarter of 2008 was $74.1 million compared with $79.0 million in the second quarter of 2007.

For the six-month period ending June 30, 2008, Adjusted EBITDA was $133.9 million compared with $90.0 million in the prior year period. Comparable EBITDA for the six-month period was $129.8 million compared with $135.5 million in the prior period.

Funds from Operations (FFO) for the second quarter of 2008 was $41.6 million, or $0.55 per diluted share, compared with $1.1 million, or $0.01 per diluted share in the second quarter of 2007. Comparable FFO for the second quarter of 2008 was $37.4 million, or $0.49 per diluted share, compared with $39.9 million, or $0.53 per diluted share in the second quarter of 2007.

For the six-month period ending June 30, 2008, FFO was $61.8 million, or $0.81 per diluted share, compared with $17.6 million, or $0.23 per diluted share in the prior year period. Comparable FFO for the six-month period was $60.8 million, or $0.80 per diluted share, compared with $62.4 million, or $0.82 per diluted share in the prior period.

Residential activity for the second quarter of 2008 contributed $0.9 million of EBITDA and $0.6 million of FFO, or $0.01 per diluted share, compared to $6.4 million of EBITDA and $3.8 million of FFO, or $0.05 per diluted share in the second quarter of 2007. Residential activity in the second quarter of 2007 included sales of hotel condominium units at the Hotel del Coronado.

For the six-month period ending June 30, 2008, residential activity contributed $1.0 million of EBITDA and $0.7 million of FFO, or $0.01 per diluted share, compared to $6.2 million of EBITDA and $3.6 million of FFO, or $0.05 per diluted share in the prior period.

Subsequent Events

On July 8, 2008 the company announced its Board of Directors had authorized a $50 million share repurchase program in conjunction with the sale of the Hyatt Regency Phoenix to Di Napoli Capital Partners L.L.C., in a joint venture with Pacific Coast Capital Partners, for a gross price of $96.0 million.

Quarterly Distribution

The Board of Directors previously declared on June 5, 2008 a quarterly dividend of $0.24 per share of common stock, payable to shareholders of record as of the close of business on June 30, 2008. The dividend was paid on July 10, 2008. Additionally, for shareholders of record as of June 20, 2008, the Board declared a quarterly dividend of $0.53125 per share of 8.50 percent Series A Cumulative Redeemable Preferred Stock, $0.51563 per share of 8.25 percent Series B Cumulative Redeemable Preferred Stock, and $0.51563 per share of 8.25 percent Series C Cumulative Redeemable Preferred Stock. The preferred stock dividends were paid on June 30, 2008.

2008 Outlook

Management is revising its full year 2008 guidance. The company estimates that Comparable EBITDA will be in the range of $248.4 million to $255.9 million, Comparable FFO in the range of $111.1 million to $118.6 million, and Comparable FFO per diluted share in the range of $1.46 to $1.56.

The company expects full year 2008 North American RevPAR and Total RevPAR to be in the range from a decrease of 1.0 percent to an increase of 1.0 percent.

The following tables reconcile projected full year 2008 net income available to common shareholders to projected Comparable FFO and Comparable EBITDA (in millions, except per share data):

	Low Range	High Range
Net Income Available to Common Shareholders	$38.5	$45.9
Gain on Sales of Assets	(35.5)	(35.5)
Depreciation and Amortization	110.9	110.9
Realized Portion of Deferred Gain on Sale Leasebacks	(5.0)	(5.0)
Deferred Tax on Realized Portion of Deferred Gain	1.6	1.6
Minority Interests	0.9	1.0
Adjustments from Consolidated Affiliates	(4.2)	(4.2)
Adjustments from Unconsolidated Affiliates	6.6	6.6
Hyatt Regency La Jolla Minority Interest	(3.6)	(3.6)
Other Adjustments	0.9	0.9
Comparable FFO	$111.1	$118.6
Comparable FFO per Diluted Share	$1.46	$1.56

	Low Range	High Range
Net Income Available to Common Shareholders	$38.5	$45.9
Gain on Sales of Assets	(35.5)	(35.5)
Depreciation and Amortization	112.1	112.1
Interest Expense	86.5	86.5
Income Taxes	11.7	11.7
Minority Interests	0.9	1.0
Adjustments from Consolidated Affiliates	(7.2)	(7.2)
Adjustments from Unconsolidated Affiliates	21.8	21.8
Preferred Shareholder Dividends	30.9	30.9
Realized Portion of Deferred Gain on Sale Leasebacks	(5.0)	(5.0)
Hyatt Regency La Jolla Minority Interest	(5.6)	(5.6)
Other Adjustments	(0.7)	(0.7)
Comparable EBITDA	$248.4	$255.9