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CORPORATE PARTICIPANTS

Stephen Schafer *FelCor Lodging Trust, Inc. - SVP of IR*

Rick Smith *FelCor Lodging Trust, Inc. - President and CEO*

Michael Hughes *FelCor Lodging Trust, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Shaun Kelley *BofA Merrill Lynch - Analyst*

Chris Woronka *Deutsche Bank - Analyst*

Bryan Maher *FBR Capital Markets - Analyst*

Susan Berliner *JPMorgan - Analyst*

Lukas Hartwich *Green Street Advisors - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Karina, and I will be your conference operator today. At this time, I would like to welcome everyone to the FelCor 4Q earnings release conference call.

(Operator Instructions)

Mr. Stephen Schafer, you may begin your conference.

Stephen Schafer - *FelCor Lodging Trust, Inc. - SVP of IR*

Thank you and good morning to everybody. On behalf of the management team, I would like to welcome you to our fourth-quarter earnings conference call.

With me today are members of our management team including Rick Smith, our President and CEO; Michael Hughes, our Chief Financial Officer. Following their remarks, we will take your questions.

Before I turn the call over to Rick, let me to remind you that with the exception of historical information, the matters discussed on this conference call may include forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are expressions of current expectations and are not guarantees of future performance.

Numerous risks and uncertainties in the occurrence of future events may cause actual results to differ materially from those currently expected. These risks and uncertainties are described in our filings with the SEC. Although we believe our current expectations to be based upon reasonable assumptions, we cannot assure you that our expectations will be attained or that actual results will not differ materially. And with that, I will turn the call over to Rick.

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Thanks Stephen, good morning everyone. 2015 was a very active year in which we accomplished a great deal.

We once again led the industry in RevPAR growth, which improved 8.1%. Over the last eight years, we have had better RevPAR growth than any of our relevant peers.

Overall operationally, we had a very strong year. Revenue increased 9%, margins improved 192 basis points. And despite the market volatility, we exceeded our budget and guidance for our 39 same-store hotels. This of course excludes the Knick, which I will discuss later.

We completed the portfolio repositioning program and now have a core portfolio that we expect will continue to outperform. We completed the balance sheet restructure that provides flexibility and protection moving forward. Michael will discuss this in greater detail later. And we finalized an agreement with Morgans that will allow us to sell both of our hotels unencumbered, which significantly increases their value.

Now let's talk about our streamlined focus in 2016. We remain committed to maximizing shareholder value, which includes mitigating or eliminating, to the extent we can, the disparity between asset values in our stock price. Our 2016 plan is designed to do just that.

First and foremost, asset sales, debt reduction and stock repurchase. Given the disconnect between asset values and public market valuations, we have a unique opportunity to sell assets based on their real estate value and use the proceeds to buy back stock while it is trading at a significant discount to net asset value.

The New York assets can be sold at extremely attractive pricing relative to their current yield given the current circumstances. In total, we will be selling five hotels to unlock this value for shareholders: Morgans and Royalton, which are currently under LOI. The Knickerbocker, we're receiving signed CAs for the Knick, and some tours have begun. We expect this process to pick up significantly in March.

The Renaissance Esmeralda marketing was launched in January, and we expect a call for offers in late March. And the Nashville Holiday Inn is currently in contract negotiations.

Selling these hotels enhances the Company and shareholder value. It will allow us to pay down additional debt and reduce our leverage below our long-term targets.

Pro forma for the sale of the five hotels, our leverage will be below 4 times, and our maturity profile, which is already by far the best in the sector, will improve further. It will create nearly $700 million of liquidity. This will allow us to buy back stock that currently trades at a significant to NAV.

It will afford us the opportunity to potentially buy some of the Series A preferred stock as opportunities arise. It will also continue the improvement in portfolio RevPAR, hotel EBITDA per key and EBITDA margins.

And the combination of our maturity profile, our capacity, our absolute leverage and our lower volatility given the Wyndham deal will provide considerable protection and flexibility regardless of what happens from a macroeconomic perspective moving forward. All of this will create significant shareholder value.

To date, we have purchased 4.3 million shares of stock for approximately $29 million, mostly under our 10b5-1 program. We expect to continue purchasing stock as long as it trades at a meaningful discount to NAV.

Our second area of focus this year is continued strong internal growth. This includes the continued outperformance of our portfolio, the last substantial increase in the Wyndham guarantee, the ramp up of the Knick and the execution of our three near-term redevelopments. Our well-located portfolio is positioned to continue to outperforming the industry as our markets are relatively insulated from new supply with lower average supply growth in our markets than the industry.

The eight Wyndham hotels continue to perform very well with 15% RevPAR growth during 2015, which was ahead of budget. We expect RevPAR growth at these hotels will continue to exceed the industry average and their markets.

The guarantee increases roughly 10% in 2016 to $59 million. Once those hotels reach stabilization, as we continue to remix the customer base into more premium customers, we expect them to outperform the guarantee level.

The Knick is starting 2016 in much better shape. The team is solidified and stronger, and the development is completely behind us. We expect 2016 to between $13 million and $15 million and still fully expect EBITDA stabilization to be at or above our original expectations.

Early 2016 results were promising. Our ADR index in January was 96%, and while January and February are slower months in New York, we have slightly exceeded budget to date, which is a good sign moving forward.

Lastly, our three near-term redevelopment projects remain on track in 2016. Kingston Plantation and Vinoy are set to begin this spring with Napa beginning later this year. All of the 2016 spending on these projects will be funded from free cash flow.

At Kingston and Vinoy, the improvements will include first-class spas, significantly improved fitness, and additional guest amenities. These will allow us increase club memberships, increase dues and improve customer mix by attracting higher-rated groups.

There will be very little disruption this year at these properties given project phasing. In Napa, we will be repositioning the hotel to considerably lift the rate ceiling as well as greatly enhancing the public space and meeting space.

Our guidance assumes RevPAR will increase 3.5% to 5.5%. While supply and demand trends remain favorable, we're in a period of modest yet moderating economic growth, RevPAR has been recently prone to periods of volatility such as August and November. Given these dynamics, we feel this level of growth properly reflects our best estimates for the year.

Also impacting our RevPAR growth relative to last year, albeit to a lesser degree, is the Wyndham portfolio. For 2016, we expect the hotels to generate RevPAR growth at roughly 2.5% more than the overall portfolio, which is a smaller premium than we experienced in 2015. We still expect that our growth will be above the industry and our peers and will also be augmented by our Wyndham portfolio generating strong growth and the Knick ramp-up.

We are pleased with the start of the year as RevPAR growth in January of 4.1% was slightly better than expected. And February also looks good as we expect growth of more than 7% including 22% for San Francisco hotels, which had a very strong Super Bowl.

A couple of notes before I close. We will be posting an updated investor presentation to our website in March. Once that is posted, we anticipate conducting many non-deal road shows this year including an analyst day at the Knick in May. We will announce the May date in a separate release shortly.

To close, I want to reiterate that our focus is very streamlined this year. That is, asset sales and the most prudent use of proceeds to continue to strengthen our balance and create shareholder value and continued strong internal growth. And with that I will turn the call over to Michael.

Michael Hughes - *FelCor Lodging Trust, Inc. - CFO*

Thanks Rick and good morning. As Rick mentioned, 2015 was an active year for us, and we made great strides with our balance sheets initiatives, including: issuing $198 million of common stock at $11.25 per share; redeeming all of our $170 million 8% series C preferred stock; issuing $475 million of 6% senior unsecured notes due in 2025 million and repaying $525 million of 6.75% senior secured notes due in 2019;Amending and restating our line of credit, which increased our borrowing capacity from $225 million to $400 million reduced the borrowing spread by 63 basis points and extended the final maturity from 2017 to 2020; Amending the Knickerbocker loan, which lowered our borrowing spread by 100 basis points and extended the final maturity from May 2017 to November 2018; Using asset sale proceeds and borrowings under our line of credit to repay $140 million secured term loan, a $64 million secured term loan and an $11 million unconsolidated secured loan; and increasing our unencumbered hotels from 9 to 18 and reducing our leverage by almost 1.5% times.

Our long-dated debt maturities and low fixed rates insulate us from any couple market disruption, giving us substantial flexibility to operate our business and pursue opportunities. However, while our balance sheet is in great shape, we will continue to make it stronger. Through continued earnings growth and our planned asset sales, we will further strengthen our balance sheet by paying down debt, improving coverage and reducing levers to below 4 times.

We are generally pleased with our portfolio's performance during the quarter. Our hotels performed in line with our expectations in October, underperformed in November but bounced back and outperformed in December.

Despite the month-to-month volatility and with the exception of November softness in corporate transient demand, our RevPAR growth once again outperformed the industry. The RevPAR penetration index for our same-store hotels grew 1.9%. Same-store adjusted EBITDA grew 12.8% during the quarter, and hotel EBITDA margins grew 77 basis points.

Many of our hotels continued to perform well. Other hotels in Philadelphia, San Diego and Los Angeles experienced solid RevPAR growth of 20%, 16% and 14% respectively. Our hotels in Napa and Mandalay Beach grew roughly 8%, and our South Florida hotels grew RevPAR 7.4% on average.

Our Wyndham portfolio continues to outperform with 9% RevPAR growth during the quarter. Most notably our Wyndham Houston Medical Center experienced 22% RevPAR growth despite Houston's market declining by 5.9%.

There were a few weak spots. San Francisco is mixed with double-digit RevPAR growth in Milpitas and Burlingame, partially offset by RevPAR declines at Fisherman's Wharf and Union Square due to a shift in the convention calendar. South Carolina was soft with RevPAR declines at our Wyndham Grand Charleston Mills House and our Myrtle Beach Embassy Suites due to flooding in that area during October. And Morgans and Royalton continued to underperform on general softness in New York.

Market fundamentals remain favorable, especially in the majority of our markets. However, our guidance takes into account the macroeconomic concerns affecting the overall economy.

For the year, we forecast RevPAR for our same-store hotels increasing between 3.5% and 5.5%. We forecast adjusted FFO per share between $0.90 and $0.99 and adjusted EBITDA between $238 million and $256 million.

Our guidance includes the lost EBITDA for the five planned asset sales from their forecasted dates of sales through the end of the year. We do not believe the impact of these sales are included in the analyst estimates. Additionally, our outlook assumes NOI for our Wyndham hotels equal to 2016 guaranteed amount. And with that, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Shaun Kelley, Bank of America Merrill Lynch. Your line is open.

Shaun Kelley - *BofA Merrill Lynch - Analyst*

Good afternoon. Thanks for taking my question. Rick, I was wondering if we could just talk a little bit more about some of the asset sales. You guys have given us a lot more color than most people typically do when these processes launch.

The $475 million in target proceeds, I assume a large number there is attached to the Knick. So could you talk a little bit more about does that assume -- I assume that implies a full asset sale for the Knick because I think you've looked at other alternatives or thinking about other alternatives in the past.

Number 1, is that for the full asset? And number 2 would be could you talk a little bit about the implied per key you're expecting there to get to that level of proceeds?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Yes, first of all, it does not include -- it does include a joint venture interest in the Knick and not the full sale of the full hotel. We're looking at -- given the comps in New York recently, I'm not going to get into specific numbers.

We're looking at very attractive pricing on a per-key basis significantly above our basis so to speak, and we have created a list of potential buyers. Some of the meetings have already started, and that will begin in more earnest next week. But the hotel we are selling given the quality and size of the rooms, the specific location, there is a recent comp in Times Square, and we should be well above it.

Shaun Kelley - *BofA Merrill Lynch - Analyst*

Is it fair to assume you are referring to the Doubletree?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

You have to make your own judgment.

Shaun Kelley - *BofA Merrill Lynch - Analyst*

(Laughter) okay. Thank you very much.

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Thanks.

Operator

Chris Woronka, Deutsche Bank. Your line is open.

Chris Woronka - *Deutsche Bank - Analyst*

Just a follow-up on the Knick question. As you get further into the process, what vetting do you do on potential buyers in terms of liquidity?

I know there is a certain group of buyers that we think of being as very liquid, but obviously things can change quickly. What background work you do when you start talking to these folks?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

That is a case-by-case vetting and qualifying on a particular buyer. I mean, a lot of the guys that we are targeting to discuss with and have meetings with we know out of the box what they've got. So that is a little easier.

Some of the other guys further down the list we will have to do some qualifying. And if that's going -- it could be any number of things. It just depends on exactly who they are.

But we're going to have to see evidence of liquidity and backing. If it gets far enough down the list where we don't really know anything about them, we will certainly have to qualify them through their bankers and through their financials before we would ever move forward with them.

Chris Woronka - *Deutsche Bank - Analyst*

Sure. Makes sense. And then second to that, when the time comes and you start looking at offers and things like that, I know price is obviously really important in the ability to close, but what other factors could go into it in terms of whether you join venture or sell outright?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

I'm glad you brought that up. Let's talk about that. There are a lot of pros to doing the JV.

The pros to doing the JV are, first of all, you keep an extraordinarily high quality asset in a market from a long-term perspective that has more RevPAR growth, more asset value appreciation, et cetera. It helps the overall quality of your portfolio, and you keep that in there.

Also given the refinancing potential down the road, the actual liquidity gained by selling it all versus selling a portion of it is really not that meaningful. And there is tons of liquidity available even if you only sell a portion of it to do everything you would need to do, whether it be buy back stock or go after the A?s, et cetera.

Basically the only reason that you would look at selling the entire thing would be if the pricing differential was just so ridiculously different or extremely compelling that it would lead you to that conclusion. What we are doing now is we have an open mind.

We would obviously prefer to do the JV. We would like to keep the hotel, and that mitigates the ramp up risk for the Knick and monetizes a huge portion of what your invested capital is and gets it back and greatly reduces the risk going forward. So we would prefer to do that.

But we will be very open-minded with regard to the process, and we will see what comes from the process and make a call. Does that answer everything?

Chris Woronka - *Deutsche Bank - Analyst*

Yes. That's great. And then as we think about a gain on the sale, unless you are going to buy something else, you're going to return a lot of that to shareholders in one form or another. But how do we think about potential tax implications?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Well, there will be probably some state tax implications on the Knick depending on the pricing. There might be slight federal -- but we are well above anything we would have to be from a taxable net income standpoint inclusive of any gain from the current dividend. So that's not really going to impact it one way or the other.

It's negligible, and also just to answer the other question you were talking about before, there's a lot of foreign investors that want to be passive and want to park real estate. There's a lot of foreign investors that need to be in a minority position but want to be in US real estate. And that's how we are identifying a number of those guys.

Chris Woronka - *Deutsche Bank - Analyst*

Okay. Very good. Thanks, Rick.

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

You're welcome.

Operator

Bryan Maher, FBR.

Bryan Maher - *FBR Capital Markets - Analyst*

When you think about these asset proceeds from the sales holistically, forget the number for a second whether it is $400 million or $500 million, how do you think about distributing that between paying down debt, buying back shares, and possibly harboring some cash for future acquisitions? Some of your competitors are seemingly going in my view a little over the top in lowering their debt levels and preparing for this asset price calamity that they want to buy properties on the cheap. How do you think about that?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Okay. That's a good question. I think first and foremost, we will pay down the debt that we can. We still need to delever. We are not down at 2 times or 2.5 times like some folks are at or wanting to be at.

Pro forma for the asset sales we will be below 4 times, but not down to that 2, 2.5 times. We will pay down that debt. The two pieces of debt that can be reasonably paid off, that it will make sense to pay off. We will pay down the line completely, and a portion or all of the debt on the Knick will go away depending on where you come out there. So that debt would go down and you would have zero balance on your $400 million line of credit, and you would have some cash remaining after that.

And then from the standpoint of what we will do with that, it's very simple. As long as our stock is trading at a significant discount to NAV, we are going to go after it. It is very compelling for shareholder value creation to do so. When you compare that to buying assets today, given where pricing has gone, given where we are in the cycle, given what the long-term IRR is and what the value creation opportunities are from doing that, it's not comparable to buying back stock when you are at a significant discount to NAV.

But we will continue on with our redevelopments, but most of that will come out of free cash flow. So as you get into latter years, there might be part of that that is coming from that reserve cash, but we will effectively go after the stock as long as it is trading at a meaningful discount, we will try to see what we can do with taking out the A?s if an opportunity arises that makes sense.

And then if we are sitting on a bit of cash going forward as we start to move from one part of the cycle to another, that's not the worst thing in the world. That will open us up for additional opportunities at that time, which could include further share repurchase, and it could include any number of opportunities. And whatever underwrites best for driving shareholder value is what we will do.

Bryan Maher - *FBR Capital Markets - Analyst*

Thanks Rick, that's helpful.

Operator

(Operator Instructions)

Susan Berliner, JPMorgan.

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Hi Sue.

Susan Berliner - *JPMorgan - Analyst*

I thought heard at the beginning of the call you said net proceeds assuming the full sales of the Knick of $700 million after debt repayment?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

No. That's not a proceeds number. That is an absolute liquidity number if you sell. That's not selling the full Knick.

If you sell 44% of the Knick and you sell the other four hotels that we're selling and we use the proceeds to pay off the debt under the revolver, then you have total liquidity of nearly $700 million. That's what that number was. That was the total liquidity number and not a proceeds number.

Michael Hughes - *FelCor Lodging Trust, Inc. - CFO*

So that was cash revolver availability.

Susan Berliner - *JPMorgan - Analyst*

So that does not include the Knick pay down?

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Correct.

Susan Berliner - *JPMorgan - Analyst*

Okay. And then Michael, I guess I wanted to ask you with regards to the bonds, I know there is a reinvestment period and they differ a little bit. But how do you think about that going forward with regards to renovation on some of your properties?

Michael Hughes - *FelCor Lodging Trust, Inc. - CFO*

Yes. The reinvestment period is 12 months under one bond indenture and under 24 months under another. I feel confident with the timing of our asset sales we're not going to trigger that reinvestment period or provision.

And if we do, we obviously can reinvest some of that capital to get that down which with our planned redevelopments in capital, that would whittle a lot of that down. But really you have to sell all of the assets pretty quickly to trigger that. And the worst case is, if you do trigger it and you have some excess left over after the measurement period, you would just offer to purchase some of those bonds at par, which wouldn't be the worst thing in the world.

Susan Berliner - *JPMorgan - Analyst*

Great. Thanks very much.

Operator

Lucas Hartwich, Green Street Advisors. Your line is open.

Lukas Hartwich - *Green Street Advisors - Analyst*

My questions have been answered. Thank you.

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Thank you.

Operator

There are no other questions at this time.

Rick Smith - *FelCor Lodging Trust, Inc. - President and CEO*

Excellent. Thank you guys for joining us and we will talk to you next quarter.

Operator

This concludes today's call. You may now disconnect.
