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PRESENTATION

Operator

Good morning. My name is Heidi, and I will be your conference operator today. At this time I would like to welcome everyone to the FelCor third-quarter 2016 earnings release call. (Operator Instructions)

Thank you. Abi Salami, you may begin your conference.

Abi Salami - *FelCor Lodging Trust Incorporated - Manager IR*

Thank you, and good morning to everyone joining us for FelCor's third-quarter earnings conference call. With me today is Troy Pentecost, President, Interim Senior Executive Officer, and Chief Operating Officer; and Michael Hughes, Executive Vice President and Chief Financial Officer. Following the prepared remarks, we'll be happy to take any questions.

Before I turn the call over to Troy, let me 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. Forward-looking statements are expressions of current expectations and are not guarantees of future performance.

Numerous risks and uncertainties and the occurrence of future events may cause actual results to differ materially from those currently expected. These risks and uncertainties are described in FelCor's 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 now I'll turn the call over to Troy.

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Thanks, Abi. Good morning. Thank you all for joining us. I plan to cover five topics with you today: our CEO transition and strategy; third-quarter results; asset sales; redevelopment; and the new Hilton management agreement.

I will begin with our CEO transition and strategy. As you know, Rick Smith recently retired from the Company, and the Board has engaged Spencer Stuart to work with us on the search for a permanent CEO. That process will take some time, probably past the end of the year.

We will not provide interim updates on the search until the process is complete and a new CEO has been hired. What I can say is that the search will be a thorough one, and the Board is committed to hiring the best-suited candidate.

In the meantime, we have an experienced executive team in place, and I appreciate the Board's confidence in our ability to continue executing on that strategy, our remaining focus on completing the announced asset sales, reducing leverage, and pursuing accretive investment opportunities in a disciplined manner.

Now I'd like to review our results for the quarter. I'm sure by now you have had a chance to review our press release. Despite disappointing RevPAR performance, we are pleased at the cost-containment measures begun last quarter and the other efforts that enable us to meet our bottom-line expectations. We continue to work with our hotels to control cost while looking for opportunities to strengthen our top-line performance.

On a same-store basis, RevPAR declined 0.7%, 1.3% coming from occupancy, with modest growth in ADR. Including The Knickerbocker, RevPAR increased 1.2%.

The same-store RevPAR decline resulted from several factors. Like many others, we continue to experience softness with transient demand, especially during the summer months, and we began to see weakness in group.

Corporate transient demand declined 2% and leisure transient demand declined 3%, while corporate and leisure ADR were flat to slightly down. Group demand declined 8%, which was the largest demand shift we saw in segment, although group ADR was up 6%.

Boston, New York, and San Francisco, accounting for 42% of our room nights, were especially weak. Michael will give you some more color on these markets in a few minutes.

In addition, we experienced several major storms, including three named storms that affected our hotels in the southeast. As many of these storms occurred during peak travel weekends, they had an outsized effect.

Finally, most of the major brands implemented programs to drive business directly to their websites and away from OTAs, which resulted in significant discounts to BAR that ultimately reduced ADR and share penetration. This discounting was especially heavy during the summer months, which were already experiencing soft demand. Some OTAs responded by dimming hotel listings, which means your hotel gets buried in the listings and has a negative impact on occupancy compression.

While our revenues did suffer in the midterm short-term, we support our brands' decision to initiate these types of programs. We believe they will improve customer booking habits in the long run, which is important for the health of our industry and our portfolio.

In addition, while these programs did and may continue to have a negative impact on our RevPAR, we expect the offsetting reduction in OTA commissions will result in greater profitability. In the meantime, we are working closely with the brands to optimize their discounting and maximize profitability at our hotels.

As we noted last quarter, we implemented several cost controls and other ongoing initiatives at our properties. These allowed us to meet our bottom-line expectations for the third quarter.

We continue to push revenue growth outside of the rooms department, leading to total revenue growth of 0.8%. In particular, food and beverage revenue grew 5%, with strong banquet and catering performance. Banquet and catering offer some of the highest food and beverage profit margins, leading to a 15% growth in the quarter.

We also focus revenues and resort our revenues on other ancillary revenues such as parking and resort fees, which grew 12.7% during the quarter. We pushed our managers to tighten operating cost controls, especially for the labor and the marketing expenses; and we continue experience utility savings from our energy initiatives. With regard to labor, we achieved greater operating efficiencies through tighter scheduling and overtime controls, neither of which will impair the quality of operations going forward.

While the short-term impact of the brands' efforts to drive business to their direct booking platforms adversely impacted the third-quarter revenue, it allows them to stem growing OTA commissions. Of course, getting the balance sheet right is critical and it is part of the ongoing focus.

Finally, Wyndham's Guarantee, which ensures increasing threshold bottom-line performance at our eight Wyndham managed properties, is working exactly as intended. In the third quarter, the Guarantee offset weak performance at our Wyndhams in Houston and Boston by roughly $1.8 million at the bottom line.

Without question, we have entered a challenging period in the lodging cycle, but our asset managers will continue working closely with the hotels to ensure that the necessary adjustments are made to maximize revenues and profitability.

Next I will discuss our asset sales and redevelopments. We continued making progress with our planned asset sales during the quarter, selling both the Renaissance Esmeralda and the Holiday Inn Nashville for combined gross proceeds of $108 million.

In addition, we are broadly marketing all three of our New York hotels through Jones Lange LaSalle. Given that the marketing of Morgans and Royalton began earlier than The Knickerbocker, their progress is more advanced; but I really can't say more beyond that. We will certainly update the markets when these assets go under contract with nonrefundable deposits.

We have two redevelopment projects underway: the Kingston Plantation Health Club and Spa addition, and the first phase of our Renaissance Vinoy Resort enhancements. Both projects remain on track and on budget despite four days of disruption at Kingston Plantation from the Hurricane Matthew.

The Kingston Plantation Health Club and Spa and The Vinoy's Golf Club renovation are approximately 30% complete and on schedule to open in early summer 2017. The second phase at The Vinoy, which is focused on the Resort, is scheduled to begin this coming March, with all the work to be completed in the second half of 2018.

We expect both projects to have internal rates of return in excess of 15% and stabilized EBITDA yields in excess of 10%. We continue to work through the planning and entitlements for other redevelopment opportunities and will update you on those projects as final start dates are determined.

Finally, I'm really pleased with what we recently accomplished with Hilton and with whom we have enjoyed a great relationship that continues to strengthen. In October we completed long-standing negotiations of management agreements on 15 Embassy Suites and two Doubletree Hotels where contracts were up for renewal.

These agreements shift a substantial portion of overall fees from fixed to variable incentive fees, after a base return on our invested capital. This change alone ensures closer alignment of the economic interest between FelCor and Hilton.

At the same time, we were able to negotiate comprehensive, long-term renovation plans that allow us to use our capital more efficiently. The new agreements will be very beneficial to our Company and our stockholders, ensuring that our investments in these hotels continue to reap rewards beyond the duration.

With that I will turn the call over to Michael.

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

Thanks, Troy, and good morning. As we reported, we sold two hotels during the quarter for a blended 12.4 times EBITDA multiple at a 5.4% cap rate based on 2015 earnings, illustrating the significant NAV discount between private and public markets as reflected in where our shares trade today. We used all the proceeds to repay our line of credit, thereby reducing leverage while increasing our flexibility to operate our business and pursue opportunities that will generate long-term value for shareholders.

Also during the quarter, we repurchased 477,000 shares of common stock at an average price of $6.33 per share. Today we have purchased 6.6 million shares at an average price of $6.78 per share.

Now as Troy mentioned, four of our markets accounting for 42% of our room nights were particularly weak. During the quarter, our Morgans and Royalton Hotels in New York experienced an 8.1% RevPAR decline. New York continues to be affected by new supply, which is putting downward pressure on ADR as hotels try to maintain occupancy at the expense of rate.

Softness in international travel is also producing some headwinds. Of the top 10 countries with the largest amount of inbound tourists to Manhattan, six are down in room nights. More importantly, all 10 are down in ADR, as international travelers trade down and seek deeper discounts to offset the currency exchange impact of a strong US dollar. For example, the UK is the largest producer of international room nights for Manhattan; and while UK room nights are up 2.4%, rate is down 9.6%.

Our San Francisco hotels experienced a 3.7% RevPAR decline during the quarter. The market is definitely feeling the impact of the Moscone Center renovations, which is hurting demand compression. Two large conventions from the prior year did not repeat, and attendance dropped for three large conventions that did return.

Our hotels in Boston experienced a 4.2% RevPAR decline during the quarter as the city continues to struggle with fewer citywide conventions, impacting both group and transient demand compression.

Our Wyndham Houston Medical Center experienced a 23.1% RevPAR decline as several large groups that we hosted last year did not return due to convention center renovations.

Several of our markets performed well. For example, our Los Angeles hotels had another strong quarter and grew RevPAR by 7.5%, and our LAX Airport Embassy Suites particularly benefited from the Sheraton and The Concourse Hotels being under renovation. Additionally, the Marriott LAX has recently started its renovation, which will allow our Embassy to absorb some of their displaced guests going forward.

Our hotels in Philadelphia had a particular strong quarter and grew RevPAR 22.9%. Our hotels benefited from the Democratic National Convention that took place in July and from several smaller citywide events that help to create additional demand compression.

Our hotels in New Orleans and Burlington, Vermont, also benefited from strong group demand and grew RevPAR 7.4% and 12.4%, respectively.

Despite the challenges in New York I noted a moment ago, The Knickerbocker is making progress. We continue to focus on rate positioning and grew our average rate index from 87.4% in the second quarter to 90.6% in the second quarter. The Knickerbocker's RevPAR, which is not included in our same-store metrics, grew 53.6% year-over-year, and F&B revenues grew by $500,000.

As Troy mentioned, we have entered a challenging period in the lodging cycle and visibility is limited. As such, we remain cautious in our outlook and have adjusted our guidance accordingly.

For the fourth quarter, we forecast a zero to 1% RevPAR growth. Our forecast accounts for the October revenue displacement from Hurricane Matthew, which reduced our forecasted RevPAR growth by 1.5%. For the year, we forecast a 1.25% to 1.5% RevPAR increase at our same-store hotels.

We forecast adjusted FFO per share between $0.88 and $0.90, and adjusted EBITDA between $236 million and $240 million. Additionally, our outlook assumes NOI from our Wyndham Hotels equals the 2016 Guaranteed amount.

And with that, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Patrick Scholes, SunTrust.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Good morning. I have to ask; you talk about your portfolio having a significant NAV discount, and with Rick having left and certainly some activists starting to make some noise here, why not use this time to seriously explore selling the Company? What are your thoughts?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Thanks, Patrick. As you know, we regularly solicit input from our shareholders and value this dialog, but we're not here today to talk or comment specifically on those discussions. The subject of today's call is our third-quarter operating performance and earnings, progress on asset sales and executing our strategy.

FelCor is currently marketing certain assets, returning capital to shareholders and improving our balance sheet. Some of the actions that have been suggested publicly would be far more complex than as presented, and would not benefit our long-term shareholders, especially when you consider the terms of our corporate debt and a potential negative impact on our credit profile, long-lasting business relationships, and related matters, as well as current market conditions.

That said, we are open-minded. We continue to evaluate opportunities for beneficial asset sales as part of our regular portfolio and balance sheet management. Most importantly, we are committed to doing what is in the Company's best interests, including maintaining a constructive two-way dialog with our shareholders.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Okay. You talked in the prepared remarks about an NAV discount. What do you believe that discount is right now?

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

Patrick, this is Michael. We look at NAV in a lot of different ways internally, but that's not a number that we share with the Street. But I think it's pretty clear when you look across the industry at us or any of our peers that we're all trading at a pretty significant discount to NAV. And it's going to vary company by company, but all we can say at this time is we think where our shares trade is definitely not where we currently value the Company.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Okay. Last, on The Knickerbocker -- and I may have missed this in the back pages -- it didn't come up as having RevPAR results in there like you did for your other hotels. Was that not comparable in the quarter? And if so, can you give us some statistics on how The Knickerbocker performed during the quarter?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Sure. Thank you, Patrick. The Knickerbocker in the third quarter -- actually, if we would've thrown that into our comparable, and it's not in our comparables, we would have ended with a 1.2% RevPAR increase for the quarter. ADR grew 4.2% for The Knickerbocker in the quarter; occupancy grew 47% to 88% for the quarter.

RevPAR grew 54% to $302, and our F&B revenue grew 26% year-over-year. The GOP margins increased 954 basis points to 31.2%; ADR penetration increased from 87.4 in quarter two to 90.6 in quarter three.

So we are continuing to see improvements in The Knickerbocker as we continue to ramp it up through the end of the year.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Okay. Then lastly, with The Knickerbocker up for sale, are you still thinking to sell it as a JV? Or all options on the table?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Yes, we're looking at all the options, Patrick. I think it's -- we're going to let the market dictate what comes back to us and what's the best deal and value for our shareholders, and we'll continue to look at all opportunities.

Patrick Scholes - *SunTrust Robinson Humphrey - Analyst*

Okay. Fair enough. Thank you.

Operator

Shaun Kelley, Bank of America.

Dany Asad - *BofA Merrill Lynch - Analyst*

Good morning, guys. This is actually Dany Asad on for Shaun. You mentioned that several factors are being a drag on your performance for the quarter here. So maybe can you help us quantify the RevPAR performance in terms of buckets? How much of it was a drag versus your expectations because of brand discounting, and how much of it was weather, and so on?

Just because your implied 4Q here is -- you are expecting a sequential acceleration in RevPAR. And I don't know if the overall market is going to be -- results.

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Yes, I think when you look at from a cost perspective, we had several reasons -- or from a revenue perspective, we had several reasons. We had the same softness that generally everybody saw in demand in the group, where -- as Mike mentioned, especially hitting 42% of our room nights in major markets were New York, Boston, Houston, San Francisco.

And then the storms really accounted for approximately 50 basis points for us, in the three named storms. That really had a major impact on us from the southeast from the standpoint of a lot of those named storms hit on weekends, where we obviously gain most of our market share of revenue.

We also had the brands and the direct booking changes that were out there, where they are competing against the OTAs and trying to drive things to their websites, and drive bookings to their website. We think that's, obviously, a great play long-term. We do feel like there was some pain here short-term.

But there were so many factors that were small factors that really accumulated, it was really like -- I hate to use this pun, but the perfect storm. We had all these small indicators or effects on our business, and it all came together at the same time.

We also had renovation displacement at two of our hotels. Dallas Love Field Embassy accounted for 19% decline in RevPAR over the year, year-to-year; and the Orlando South Embassy Suite, which was down 33% year-over-year.

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

I think one easy way to look at it is from the storms and the reno that Troy just mentioned, that kind of gets you flat. Those combined are about -- they are like the negative 0.7%, so that gets you to flat.

Then San Francisco is a big part of the markets that underperformed. You've seen that with some of our peers; we all [did] a Moscone. It's hard to quantify exactly what that is from the rest of it.

And of course you have the brand discounting and some of the other factors. So we can tell you how to get flat; the rest of it, though, it's really hard to attribute. But certainly (multiple speakers)

Dany Asad - *BofA Merrill Lynch - Analyst*

Okay. Then on the discounting, on the brand discounting, are there any specific brands that are being more aggressive than others? And then when you talk about OTA commissions that are being an offset to the heavy discounting, does it offset it completely or is it just a partial [here]?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Yes, I think of the brands -- and again it's hard to determine exactly which one. And as we looked at each market, we had to decide where the impacts are coming from. But it's hard to lay this all on one brand when all of the brands are making this move.

And again, we support it. We think it's the right move long-term for the industry as well as our portfolio.

I think when you put it all together, that's really where the -- the driving for the brand, trying to lay it at the feet of somebody really isn't the right thing to do. It's really let's band together as an industry and move in that direction.

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

Yes, I would add to that just philosophically, I think the way the brands are looking at it, as we've heard, is you are picking up profitability. So as you -- if they need a discount to drive more direct bookings, with the OTA commissions savings they are factoring around 10% profitability increase. It's too early to tell in our numbers whether that's going to pan out; but if that does, I think that would be great for us and for the industry.

Dany Asad - *BofA Merrill Lynch - Analyst*

Got it. So for now it's a drag, even on your bottom line. The commissions are not making up entirely the rate that you are losing here; right?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Yes, what we saw was that we saw the OTA bookings flatten out. We also saw that from a cost perspective -- it's kind of early to tell -- but from a cost perspective that we saw some flattening in the commissions.

Dany Asad - *BofA Merrill Lynch - Analyst*

Got it. All right. Thank you very much; that's it for me.

Operator

(Operator Instructions) Bryan Maher, FBR and Company.

Bryan Maher - *FBR Capital Markets & Co. - Analyst*

Yes, good morning, guys. Most of my questions have been asked and answered. I do have a question.

Can you drill a little bit deeper on the brand direct booking? Do you have any idea what the impact on RevPAR might be? Even if it's just not scientific, is it 0.5%, is it a full percent?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Yes, I think if I had to throw a number at it, and it's really -- I hate to stumble around this, but it's very difficult to tell. Because we've tried to pull this out, but I would say -- if I had to throw a number at it -- it would be about 1%.

But it's hard to tell because there were several programs that were going on at the time, so -- from all the different brands. And we also had some new revenue programs that kicked in during the summer. We had some discounting that went on during the summer.

So it's hard to really nail it down to one certain thing that caused this. I think again it was accumulation of a lot of different things that had the effect.

Bryan Maher - *FBR Capital Markets & Co. - Analyst*

Okay. Then you guys clearly made some inroads on cost savings; and you discussed utilities and what have you. Can you talk about where you're having the most success?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Well, I think utilities are a big part of that. For the year we've done very well, as you know.

I would say, having gotten onboard last quarter with the management groups and the brands, and moving some of the cost controls forward was probably the biggest thing that we could have done. You have to get ahead of the labor and be on top of your overtime and some of those expenses way ahead of time. You can't wait till you're in the month for the month to put those into play.

So I think our biggest advantage was that we started this, thinking about this in the second quarter. All year we've had some of our contingency plans in place, ready to pull them off the shelf and put them in play. And we were able to do that very quickly and move forward.

We do think that these are -- we can maintain these, because they are really looking at tight schedule controls and tight overtime controls, which are very important. As you know, labor is your single largest expense.

So we'll continue to look for that. As you drive forward in our industry you have to look for help from technology and some of the other areas to make sure that we're always looking at our productivity with our hourly employees.

Bryan Maher - *FBR Capital Markets & Co. - Analyst*

Thanks. I get it from your earlier response to Patrick's question that you don't seem to want to discuss the Snow Park letter, and I can appreciate that. But can you talk a little bit more about your thoughts on asset sales other than the three New York assets?

How do you look at the portfolio now? Clearly you see what we're seeing, which is private market transactions at multiples well above where lodging REITs are trading. So how do you think about that as a management team?

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Well, I think we constantly look at our hold/sell and our properties and look for opportunities to redeploy our capital. So if there is an opportunity in the future for us and it's the right thing to do for our shareholders, we would look at selling other assets.

You can tell through the years we've continued to do that and we will, on an ongoing basis, continue to look at the entire portfolio and see where it makes the most sense to either sell or hold an asset.

Bryan Maher - *FBR Capital Markets & Co. - Analyst*

Right. But how do you look at that also in the context of potential for future acquisitions? And I'm not necessarily referring to FelCor here; there are certainly others out there in lodging REIT-land where the portfolios have gotten too small to make sense. How do you think about asset sales and improving the balance sheet versus future acquisitions?

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

Hey, Bryan. I think we look at the asset sales on a case-by-case basis. When you look at the three assets that are on the market now, they make a lot of sense for us.

They accomplish a lot: giving us capacity, reducing leverage, giving us a little bit better diversification, taking us -- reducing our exposure in a challenging market. And we'll continue to look at assets on a case-by-case basis going forward.

There's lots of things to consider when you're looking at selling any asset. We sold 100 assets at this Company since 2006. We'll continue to manage our portfolio appropriately, and that will account for both dispositions and acquisitions going forward.

So you have a use of the proceeds, and you've got to have a reason for selling, and we will certainly do what makes sense. But beyond that we really can't speculate on what would be the next asset that we would consider selling.

Bryan Maher - *FBR Capital Markets & Co. - Analyst*

All right. Thanks, guys.

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

All right. Operator, I think we have time for one more question.

Operator

Whitney Stevenson, JMP Securities.

Whitney Stevenson - *JMP Securities - Analyst*

Hi, good afternoon, guys. I'm just wondering. In your answer to the first question in the Q&A, you mentioned some debt considerations that you've factored into your evaluation of exploring strategic options. I'm just wondering what the specific issues are that you were referring to there.

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

Whitney, as you know, we have different loans outstanding, including public bonds. All those agreements are public, and you can go and pull them down.

But like any company that has those types of issuance in place, there are restrictions on covenants and there are restrictions on what you do with proceeds. So you have to just take into account all the restrictions you have in place with your capital structure, which obviously we do; and it's just hard to make a carte blanche assertion that you can ignore those type of things.

So it's not anything I think out of the ordinary from what a lot of people have, whether they have lines of credit with covenants or bonds with covenants. We all have certain restrictions that have to be taken into account.

Whitney Stevenson - *JMP Securities - Analyst*

Okay. Maybe I can follow up with you guys after. Thank you.

Troy Pentecost - *FelCor Lodging Trust Incorporated - President, Interim Senior Executive Officer, COO*

Thank you.

Michael Hughes - *FelCor Lodging Trust Incorporated - EVP, CFO, Treasurer*

All right, thank you. That concludes our call and we'll talk next quarter.

Operator

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