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PRESENTATION

Operator

Good afternoon. My name is Shawntelle and I will be your conference operator today. At this time, I would like to welcome everyone to FelCor's First Quarter's Earnings Conference Call. (Operator Instructions)

Stephen Shafer, you may begin your conference.

Stephen Schafer - *FelCor Lodging Trust - VP, Strategic Planning, IR*

Thank you and good morning. On behalf of the management team I want to thank you for joining us for our first quarter earnings conference call. With me today are members of our management team including Rick Smith, our President and CEO; and Michael Hughes, our Chief Financial Officer. Following their remarks, we will take your questions.

Before I turn the call over to Rick, 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 Security Laws. 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 - President, CEO*

Thanks, Steve, and good morning. We had a very strong first quarter from every perspective. We exceeded the high end of our expectations for RevPAR and EBITDA growth. Our portfolio vastly outperformed the industry and our peers once again, experiencing a 13.1% RevPAR increase with across-the-board strength.

We sold three hotels in the quarter and have four under contract. The Knickerbocker opened in February and is a phenomenal property.

The multi-year transformation of the Company is largely complete. All that remains is completing the five remaining asset sales and using proceeds to repay debt; effectively positioning the Knickerbocker and stabilizing performance; and ensuring that our Wyndham hotels achieve their stabilization target, which is backed by the guaranty.

Although our balance sheet restructuring and portfolio repositioning programs are largely complete, these catalysts will continue to produce sustained growth in earnings, portfolio value, and cash flow significantly better than the industry and any of our peers, providing significant incremental value for our shareholders.

I'll briefly touch on the current catalysts and then discuss our future growth opportunities and how we are attacking those.

First, asset sales. We sold three hotels during 2015. We have five remaining to sell. Four of those are under contract, two with non-refundable deposits -- the Embassy Suites Hotel in Charlotte and San Antonio. We expect the other two will go hard in the next week, and we expect the closings to occur throughout the second quarter.

We are actively marketing the last remaining hotel, the Embassy Suites Chicago Lombard, and will have a call for offers near the end of May. That will complete our portfolio repositioning program, in which we will have sold 98 hotels.

Total proceeds for the eight hotels to be sold in 2015 will be roughly $200 million. As we sell the remaining hotels, we will use all the proceeds to repay debt, thus completing the balance sheet restructuring plan.

Now let me update you on the Knick. The hotel opened in February. The customer feedback has been extremely positive, the team is very excited about the quality and the potential of the hotel. We have eight guest room floors open, five through 12, or 232 rooms, as well as the ground floor lobby and cafe and a fourth-floor public space which includes the bar, restaurant, meeting space, and fitness center.

We are preparing to open the 7500-square foot rooftop bar and outdoor terrace the first week of May for banquet and private events, and May 11 to all guests and the general public. We expect to have guest room floors on 14, 15, and 16 complete later in May.

We have controlled the inventory in order to ensure proper service and experience levels. As we complete the suites and rooftop, we will begin opening up additional channels and welcoming VIPs. We are extremely focused on positioning this hotel effectively and ensuring that it produces results that we expect.

So far, our ADR is hitting our expectations. We continue to expect the hotel will generate roughly $25 million of EBITDA at stabilization, which should occur in late 2016 or early in 2017.

The eight Wyndham hotels continue to perform very well. The hotels grew RevPAR 20% during the quarter, which was slightly ahead of budget. The guaranty steps up about 25% this year, so we expect EBITDA at these hotels of about $54 million in 2015, which is about $11 million higher than 2014.

With the guarantee increases in 2016, the EBITDA will step up to $59 million. So the two-year growth of these assets will be $16 million, or 37%.

EBITDA for the hotels was budgeted by Wyndham to be slightly below the guaranty level in 2015. However, once the hotels reach stabilization, as we continue to remix customer base into more premium customers, we expect them to out-perform the guaranty level. And please note that, as always, our guidance reflects the guaranty level.

I'll talk a little bit about going-forward value. When we began the first phase of the strategic plan, our central thesis was that we had an opportunity to create more value than any of our peers if we executed our plan as presented to investors. We have done that. We have completely transformed the portfolio. Today we own a high-quality, well-diversified portfolio and our same-store RevPAR growth continues to outperform our peer group and the industry.

Our portfolio is in excellent shape, is well insulated from new supply, and is actually experiencing lower supply growth than the industry.

We have more exposure to out-performing markets than our peers.

We are achieving the desired collective returns on our acquired and redeveloped hotels.

And by reducing leverage and creating a best-in-class maturity profile, we have a much stronger and more flexible balance sheet that will continue to improve.

Executing this plan has created significant value today. However, there is still significant value to come, both on an absolute basis and relative to our peers. The ramp-up of the Knickerbocker, the final step-up in the Wyndham guarantee, and organic growth add substantial value over the course of the next two years.

This will be augmented by remaining asset sales, lower interest expense, and increased FAD. Thus, there is significant above-market growth potential for what we have, for all intents and purposes, already executed.

In addition to this interim value, we also have significant value-creation opportunities ahead as we begin to execute the second phase of our plan. High ROI redevelopment opportunities within our current portfolio and further and continued improvement in overall portfolio quality all represent opportunities to grow above market.

Additionally, further reducing our costs of debt and leverage will create an even stronger and more flexible balance sheet to allow for even greater growth opportunities in the future.

The recent equity offering is an example. We are using the proceeds to repay the highest-cost paper in our capital stack, the 8% Series C preferred stock, as well as provide capacity to fund our near-term high-ROI development projects at Napa Valley, Vinoy, and Myrtle Beach. We recently unveiled this detailed plan to investors and analysts and the investor presentation is available on our website.

We expect to continue these efforts with an Analyst Day at the Knickerbocker this summer, which we will announce soon.

As always, and most importantly, we remain completely focused on delivering superior shareholder value. And with that, I will turn the call over to Michael.

Michael Hughes - *FelCor Lodging Trust - CFO*

Thanks, Rick, and good morning. We continue to make great progress on the asset sales and will use all $118 million of anticipated sale proceeds from the five remaining nonstrategic hotels to repay debt.

We have the best debt maturity profile of any public hotel REIT, and our weighted average cost of debt is 5.4%, almost 100 basis points lower than a year ago.

This month we raised $199 million in a public common stock offering. We'll use $170 million of the proceeds to regain all of our 8% Series C preferred stock and the remainder will be used to fund our near-term redevelopment projects.

This equity offering further demonstrates our commitment to strengthen our balance sheet while increasing our FFO and FAD. While we have improved our balance sheet significantly, the capital markets remain robust and we'll continue seeking opportunities to lower our cost of debt, extend maturities further, and create additional capacity and flexibility as we progress through the lodging cycle.

As Rick mentioned, we had another great quarter. RevPAR, flow through, EBITDA, and FFO all surpassed our expectations. RevPAR at our same-store hotels increased 13.1% and total same-store revenues increased 13.7%.

RevPAR growth was strong across the board, including most of our major markets, led by San Francisco at 26%; Napa Valley at 25%; Myrtle Beach at 23%; Phoenix at 18%; Boston at 16%; and Tampa at 15%.

Food and beverage revenue increased 18%, driven by better group demand and higher out-of-room spend. Same-store food and beverage margins increased approximately 400 basis points.

As part of our ongoing asset management efforts to enhance returns on investment, we've taken over food and beverage operations at 10 hotels over the past few years. During the first quarter, those hotels increased food and beverage revenue 23% compared to the same period last year.

We're able to contain costs effectively in all areas and departments, which resulted in revenue-to-EBITDA flow-through of 54% and hotel EBITDA margin growth of 362 basis points. Same-store adjusted EBITDA grew 38%, reflecting both strong revenue growth and cost management.

The lodging industry remains strong and demand continues to surpass all-time records. During March, average US occupancy hit a new record. We expect our high-quality and diverse portfolio will continue outperforming the overall US lodging industry. As a result of better-than-expected first quarter results, we increased our 2015 RevPAR forecast and now expect RevPAR to increase between 8.5% and 9.5% for our same-store hotels.

We increased our adjusted EBITDA expectations by $5.5 million on the low end and $2 million on the high end. We forecast adjusted FFO per share between $0.84 and $0.90 and adjusted EBITDA between $240 million and $248.5 million.

Excluding the Knickerbocker and non-strategic hotels, we project adjusted EBITDA growing 16% with revenue-to-EBITDA flow-through of 1.9 to 2 times.

And with that, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Woronka, Deutsche Bank.

Chris Woronka - *Deutsche Bank - Analyst*

Hey, good morning, guys.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Good morning.

Chris Woronka - *Deutsche Bank - Analyst*

Hey, want to talk a little bit about your expected booking curve at the Knick in terms of how far out you ultimately expect to be able to book.

And then, have you revisited at all kind of your customer mix profile, I guess given the supply increases, which obviously are well known? Or the US dollar strength relative to maybe what you said last quarter?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Well, first of all, with regard to the Knick, the customer mix hasn't changed at this point. Thoughts on customer mix related to supply hasn't changed.

With regard to the dollar, when you look at how a stronger dollar affects customers, it is much more related to tour and travel. From a direct impact perspective, the customers that we would be targeting from Europe aren't as impacted by that as much, and therefore it doesn't affect their travel as much. So we're not seeing a lot of impact from that yet.

Having said that, it is very early in the process. We get the roof open in a week or two from a general public perspective and that's when we start welcoming in the VIPs. And so we're going to have to get through a couple of months of having the whole thing open and having all the channels open and less tight controls on the inventory to be able to assess exactly where to push that.

We still feel like the positioning of the hotel is exactly the same as we had anticipated from the beginning of this thing. We still are going after high-end corporate, high-end leisure travel and so those are going to be the primary tenants. So nothing has changed at this point.

Certainly as we get through -- for our next call, we will have a couple of months under our belt that is related to what we are seeing, and we will be starting to get into the ROP process, and we'll let you know at that point if there are any changes. But right now, everything still looks on track.

As I mentioned in the prepared remarks, the hotel looks fantastic from a quality standpoint. The team is very motivated and engaging. So everything is looking good from that perspective. But we will keep you posted on things as we move forward there.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, great. And then, on a couple of your next kind of value-add opportunities, I realize some of those are expansions or repositionings, potentially. The question is, wherever you think we might be in the cycle, how willing are you to kind of undertake a lengthier repositioning or renovation project? Is that what you're envisioning for some of these things, or do you think you can get them done without a lot of disruption, say in 2016?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Well, some of the disruption is more than others. I mean, on Napa and Myrtle Beach there will be far less disruption than there would be at the Vinoy, for example, because the stuff you're doing spa-wise at the Vinoy kind of sits in the middle of the property so there's more noise, more disruption, and things of that nature.

As it relates to your question on cycles, the entire point of getting ourselves to where we were from a clean-up standpoint is to be able to manage the cycles effectively. I am happy to continue doing a redevelopment.

Actually, if you do a redevelopment in a downturn, assuming your balance sheet is solid enough, you get to -- I mean, you're at a point where you're experiencing less disruption. It's the perfect time to do it as long as you have the strong balance sheet so if you elongated the maturity profile you don't have any risk from that standpoint, you have tons of coverage, and you've got great cash flow, and so forth.

So that's the whole point of getting the Company into position to do that so that we don't have to worry about timing on redevelopments, or at least it's part of it. So you just do those when it makes sense to do them and not be scared of doing things because of where you are in the cycle.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, great. And final question is on the Morgans Royalton. I guess the question would kind of be was there anything different in the first quarter that the operator was doing or not doing? I mean, we weren't necessarily surprised that it had a negative quarter. It's obviously partially market-driven.

But was there any change there in what they were doing or not doing, are they anticipating some kind of bigger event, or was it just exogenous to the market?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Not much, Chris. The only thing that was there -- we were redoing the fire system at Morgans in the first quarter. That affected kind of two floors at a time while we were redoing the fire system. But other than that, the market was what the market was, but no real change. We are where we are with them. As we've discussed before, when the timing is appropriate we will move forward with that.

Chris Woronka - *Deutsche Bank - Analyst*

Okay, very good. Thanks, Rick.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Thanks, Chris.

Operator

Nikhil Bhalla, FBR.

Nikhil Bhalla - *FBR & Company - Analyst*

Hi, good morning. Good morning, Rick.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Hi, Nikhil.

Nikhil Bhalla - *FBR & Company - Analyst*

Hi. Just a question on sort of the value-add opportunities that I think you kind of talked about -- are those contemplated in some of the very preliminary expectations you laid out for 2016 in your latest presentation?

Rick Smith - *FelCor Lodging Trust - President, CEO*

No. I mean, we really don't. That's part of -- like in the latest presentation, that would be part of the future stuff versus the interim stuff. The reason being is it's going to take -- we're not going to get started on them until late 2015, early 2016, and it's going to take a while to get those done, particularly where you have room additions. That's a 12- to 15-month process to get through any room additions, at least.

So you're looking at -- that's all in the future stuff, not in the immediate stuff. The immediate stuff really is just the ramp-up of the Knick and the step-up, the final step-ups, on the Wyndham portfolio. Getting the last five assets paid down -- I mean, getting them sold -- getting the interest expense down further and the FAD up. And then, just market growth, pretty much.

So you've got -- the things that we have already executed are what are alluded to in the interim value in the investor presentation. Everything else is in the future value piece.

Nikhil Bhalla - *FBR & Company - Analyst*

Got it. And just if you can give us your updated thoughts on what you may think about acquisitions down the line, that would be helpful.

Rick Smith - *FelCor Lodging Trust - President, CEO*

I think from an acquisitions standpoint right now, we're getting to a point in the cycle -- I think we still have plenty of room in the cycle, don't misunderstand what I'm saying here. But I think we're getting to a point in the cycle that prices for stabilized assets, given that there will be a downturn, make it hard from a return standpoint to pay those prices on stabilized assets, particularly given our cost of capital, even though that continually comes down, relative to some of our peers. So buying stabilized assets right now really doesn't make a great deal of sense for us, in my opinion.

I think what makes sense for us is to look for opportunities similar to what we did in San Francisco. In 2007, that hotel, as Crown Plaza, did $1.5 million of EBITDA. We took an underbranded, undermanaged, undercapitalized hotel that was therefore underperforming and we did a massive redevelopment. And as a Marriott, it's $13 million, $13.5 million of EBITDA in this peak versus the last peak at $1.5 million. That's a huge return.

Looking within our top 10 markets -- in the strongest submarkets, within those top 10 markets, if we were able to find some opportunities like that and be able to acquire, then we would do that now without hesitation. That would be huge return for the shareholders.

If we can't find any of those opportunities, then the capacity that we are creating heading into the next downturn will make us immensely well prepared to take advantage of the next downturn. So that's kind of the thinking right now on acquisitions philosophically, Nikhil.

Nikhil Bhalla - *FBR & Company - Analyst*

Got it. So it basically seems to me that there is nothing imminent at this point in time.

Rick Smith - *FelCor Lodging Trust - President, CEO*

No. There's nothing on the board currently. We're busy getting the Knick done, selling the last five hotels, and we've been a little busy with some other things like the equity offering and things of that nature.

So we're looking at what's available on the market, we're looking at the types of hotels that I've just described that would make sense now that are not on the market; and that's key. And assessing what opportunities will come to us over the summer and what discussions that leads to, we will discuss at an appropriate time.

Nikhil Bhalla - *FBR & Company - Analyst*

Sounds good. And just a final question on any updated thoughts on the two Morgans assets in New York. Are you getting close to making a decision on which way you're likely to go?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Answer to the first question is no, no updated thoughts; it's exactly the same as before. And yes, it's getting closer, Nikhil.

Nikhil Bhalla - *FBR & Company - Analyst*

Okay, sounds good. Thank you very much.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Thanks.

Operator: Steven Kent, Goldman Sachs.

Anto Savarirajan - *Goldman Sachs - Analyst*

Good afternoon. This is Anto Savarirajan on for Steve Kent.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Good morning.

Anto Savarirajan - *Goldman Sachs - Analyst*

Good afternoon. Curious about the customer mix so far. You spoke of about the Knick a little while ago. The recent Fed beige book noted that theaters in the area are seeing some weaker revenue trends. Is the expectation still that you would look for 30% to 35% of the bookings there from international travelers? Has that undergone any change? Just curious whether for the next 12 months, the bookings that are coming in have some deviation from what you would have initially expected.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Well, like I said before, it's still early to tell that. First of all, the mix hasn't changed. We still expect that range on international.

But we haven't fully opened up the channels yet because we have been controlling the inventory. We need to get a couple of months under our belt with everything open and have all those channels open and see where that's going.

However, a lot of our research has indicated that we are not going to have to deal with that because -- the strong dollar, etc., etc. -- because it doesn't impact directly. It will impact compression because tour and travel will get hit a lot harder because those people can less afford to travel if the dollar is stronger.

We will adjust the markets as we need to on a going-forward basis based on what we are seeing. But right now, we are not seeing a great deal of that. Now, if other things arise from global market issues or global -- macroeconomic issues or whatever the case may be, we will certainly be in position, and we're always vetting that. So we will certainly be in position to make changes quickly. But it is still too early in the process to talk about a change in mix at this hotel.

Anto Savarirajan - *Goldman Sachs - Analyst*

Understood. Michael, one for you. Now that you addressed the 8% Series Cs, has your thinking or the timetable on the 6.75% changed? Would you try to accelerate so that you go with a much stronger balance sheet into 2016?

Michael Hughes - *FelCor Lodging Trust - CFO*

Yes. I mean, it's certainly something we continually look at. Obviously on the 6.75% notes, we're coming up on the first call date. You probably see out there financing markets are very strong and very attractive and rates continue to stay low. So I can tell you we're assessing it and we're looking at it very hard. If there's opportunity I would always be predisposed to do things earlier than later.

Anto Savarirajan - *Goldman Sachs - Analyst*

Thank you.

Michael Hughes - *FelCor Lodging Trust - CFO*

You're welcome.

Operator

Shaun Kelley, Bank of America Merrill Lynch.

Shaun Kelley - *Bank of America Merrill Lynch - Analyst*

Hi, good afternoon, everyone.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Hey, Shaun.

Shaun Kelley - *Bank of America Merrill Lynch - Analyst*

Just wanted to ask about the RevPAR outlook. So Q1 obviously coming in extremely strong at 13% and well ahead of the industry. So the question is, the outlook, you did raise the range but still implies a bit of a deceleration. Is that just seasonality, that Q1 is smaller, or could you just remind me if there's anything that you're lapping as you move into the back half that will kind of naturally bring down that average?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Well, it's partially that. It's also -- a great deal of it is Wyndham getting stabilized. It continues to step up on a quarter-over-quarter basis. But as we were going into last year, the quarters got stronger as we went. So the improvement this year at the Wyndhams decelerates as you go through the quarter and you get to that stabilization.

I mean, we won't have 20% RevPAR at Wyndham every quarter. It steps down a little bit in the second quarter and then significantly in the third quarter. And by the time you get to the fourth quarter, you're at 8% versus 20% on the Wyndhams because they've hit stabilization.

That's a really big part of it but we don't feel anything fundamentally is wrong that would lead to any deceleration. It's just more circumstantial within our specific portfolio.

Shaun Kelley - *Bank of America Merrill Lynch - Analyst*

Okay, that makes perfect sense. And the second question would be, and maybe you could remind us -- I didn't see it in the release. If it's in here, I apologize. But where does net leverage go inclusive of the preferred after the equity offering?

Michael Hughes - *FelCor Lodging Trust - CFO*

Inclusive of the preferred, that's down at seven times, and it's going to go, obviously, down to a lot more. In 2016, we're looking at a five times.

Shaun Kelley - *Bank of America Merrill Lynch - Analyst*

So around five times by -- that would be end of 2016?

Michael Hughes - *FelCor Lodging Trust - CFO*

End 2016; correct.

Shaun Kelley - *Bank of America Merrill Lynch - Analyst*

Inclusive of the preferreds.

Michael Hughes - *FelCor Lodging Trust - CFO*

Right, inclusive of the preferreds. Obviously more in the low fours inclusive of -- or, not inclusive of the preferreds in 2016.

Shaun Kelley - *Bank of America Merrill Lynch - Analyst*

Got it. And the big change is really just the ramp-up of the Knick combined with the continued step-up in the guarantee at Wyndham plus organic growth? Those are sort of the three ingredients of that?

Michael Hughes - *FelCor Lodging Trust - CFO*

Correct.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Yes, and the final five assets.

Michael Hughes - *FelCor Lodging Trust - CFO*

Perfect. Thanks, guys; I appreciate it.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Thanks.

Operator

(Operator Instructions) Lukas Hartwich, Green Street Advisors.

Lukas Hartwich - *Green Street Advisors - Analyst*

Thank you. Hi, guys.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Hi, Lukas.

Lukas Hartwich - *Green Street Advisors - Analyst*

Hey Rick, can you remind us what the Wyndham guarantee step-up is beyond 2015?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Well, after you get to the end of 2016, it's just a 3% clip for the rest of the term.

Lukas Hartwich - *Green Street Advisors - Analyst*

Okay.

Rick Smith - *FelCor Lodging Trust - President, CEO*

The EBITDA number -- when you look at the guarantee with the amortization, the EBITDA number for Wyndham is expected to be 59 in 2016. So that reflects the total step-up of about 10% over this year.

Lukas Hartwich - *Green Street Advisors - Analyst*

Okay, great. And then, lastly, on the investor presentation, can you talk about -- I think it's on page 7 -- on the kind of future actionable opportunities. You kind of highlight five hotels that you might sell for $350 million. Have you talked about which hotels those are?

Rick Smith - *FelCor Lodging Trust - President, CEO*

Well, no. Nothing is set in stone. There are some opportunities that we have that could be very -- well, opportunistic. They could be high-multiple opportunities for us that would allow us to create capacity and utilize that capacity to do things that would bring greater returns than holding those assets, all things considered, going forward.

To the extent that those materialize, they would be part of it, but we haven't really gotten into detail around those.

Lukas Hartwich - *Green Street Advisors - Analyst*

Okay. That's it for me; thanks.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Thanks.

Operator

There are no further questions at this time. I will now turn the call back over to the presenters.

Rick Smith - *FelCor Lodging Trust - President, CEO*

Okay. Thank you all for joining us and we'll talk to you next quarter.

Operator

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