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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for your patience. You joined the La Quinta Holdings Q1 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference may be recorded. I would now like to turn the call over to your host, Senior Vice President of Investor Relations, Ms. Kristin Hays. Ma'am, you may begin.

Kristin Hays

Thank you. Good afternoon, and welcome to La Quinta Holdings First Quarter 2017 Earnings Conference Call.

As a reminder, the presentation this afternoon includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflects the company's current view of future events and financial performance. Words such as guidance, outlook, expect, will, plan, anticipate, believe and other similar expressions identify forward-looking statements. Any such forward-looking statements are subject to risks and uncertainties, and the company's future results of operations could differ materially from historical results or current expectations. For more details, please refer to the company's annual report on Form 10-K for the year ended December 31, 2016, and other SEC filings.

In addition, in today's remarks, we will refer to certain non-GAAP financial measures. You can find a reconciliation of the historical non-GAAP financial measures discussed in today's call to the most comparable measures calculated and presented in accordance with GAAP in our earnings press release, which may be found in the Investor Relations section of our website at www.lq.com.

Please note that no portion of this presentation may be rebroadcast or rewritten in any form without the prior written consent of La Quinta. For those listening after May 3, 2017, please note that this presentation will not be updated, and it is possible that the information discussed will no longer be current.

With that, I will now turn the call over to our President and CEO, Keith Cline.

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Thank you, Kristin. Good afternoon, and welcome to La Quinta's First Quarter 2017 Earnings Conference Call. Also joining me today is Jim Forson, our Chief Financial Officer. On the call today, we will review La Quinta's first quarter performance, our development activity and our progress as we continue to execute on the strategic priorities and initiatives we laid out at the beginning of last year.

The year is off to a solid start at La Quinta. We continued to make progress on our key strategic initiatives to drive consistency in our product and in the delivery of an outstanding guest experience as well as to drive increased engagement with the La Quinta brand. We strongly believe that these initiatives put La Quinta on a path to delivering long-term profitable growth for our shareholders.

During the first quarter, we grew RevPAR, including a positive contribution from our properties in the STR-defined oil tracts and continued to see significant improvement in our guest satisfaction scores, which led us to our third consecutive quarter of market share growth.

We also added to a strong pipeline that will allow us to further expand our reach into new markets and take advantage of our unique growth opportunity in the industry. Our repositioning efforts are well underway, and we are encouraged by the early positive results we are seeing. The investments we are making in our people, our product and the overall guest experience are taking hold, and our guests are taking notice.

And now I will share some highlights of our successes in the first quarter. For example, we grew system-wide comparable RevPAR by 2.8%, driven by outperformance in our franchise business with 4.7% RevPAR growth over the same period last year and 90 basis points of RevPAR growth in our owned segment; grew our franchise and other fee-based revenue 8%; continued to see significant positive movement in our Net Promoter or guest satisfaction scores, especially at our owned inns and suites. In addition, our franchised properties continue to generate Net Promoter Scores well above the average of their competitive set. And we continued to grow our market share with a 150 basis point improvement in RevPAR index, making this our third consecutive quarter of market share growth. We firmly believe that the continued and increasing momentum in our guest satisfaction scores and market share growth are positive indicators that the investments we are making in our properties and in our guest experience are working.

Also during the first quarter, we made significant progress in our repositioning efforts for approximately 50 of our owned hotels. Several more of these renovated hotels will finish construction late in the second quarter and will be reintroduced as having been repositioned upwards within their markets in order to drive revenue growth. Grew our geographic reach with 9 new franchise openings while expanding our pipeline to 249 locations and continued to generate strong cash flow.

As evidenced by these successes, I am extremely proud of the progress that we are making in our key strategic priorities and initiatives of driving consistency in our product, driving consistency in the delivery of an outstanding guest experience and driving engagement with our brand by investing in points of differentiation.

Before walking you through the progress on our strategic initiatives, I'll update you on our franchise development activities during the quarter. As I mentioned previously, we grew our footprint during the first quarter with the opening of 9 franchised hotels, totaling approximately 800 rooms, including our 9th location in Mexico. We also signed 12 new franchise agreements, including key locations in San Francisco, California and in one of the fastest growing cities in the U.S., Frisco, Texas, adjacent to the Toyota Stadium, home of Major League Soccer's FC Dallas. These new agreements bring our total pipeline to 249 hotels and over 23,000 rooms at the end of the quarter.

Our pipeline continues to be geographically diverse, improves the quality of our brand portfolio as new hotels come online and continues to extend our distribution to higher RevPAR markets. Some highlights of our current pipeline include: approximately 18% are in urban locations; approximately 90% are new constructions; 11% represent international locations in Mexico and Central and South America, including locations in Chile, Colombia, Guatemala, El Salvador and Nicaragua; approximately 60% are locations outside of our top 3 states of Texas, Florida and California, and strategic locations such as Times Square in Manhattan, Downtown Baltimore, Downtown San Diego, Queens New York and Midtown Miami as well as airport locations at Chicago O'Hare and Boston Logan and 3 locations in metro Seattle

La Quinta continues to have a unique growth opportunity compared to others in our competitive set given that our brand is not yet represented in nearly 1/3 of the STR market tracts and still has room to expand in many of the markets where we do have a presence. In fact, our pipeline puts us into 37 new STR market tracts, leaving 1 quarter of the STR tracts completely open to new growth for the La Quinta brand.

And now I'll call out a few highlights from our Q1 performance. Our system-wide comparable RevPAR increased 2.8% in the first quarter. Several of our most significant markets delivered double-digit or high single-digit RevPAR growth during the first quarter, markets such as West Texas, East Texas San Antonio, Southern Louisiana and New Orleans, Southern California, Southern New Mexico and the Research Triangle of North Carolina. Offsetting these stronger performers were certain markets, including South Florida, which experienced challenges early in the quarter consistent with the lodging industry, and Houston and Chicago, cities that are under pressure from increased supply. It's also important to note that our properties located in the STR-defined oil tracts grew 5% in the first quarter, adding 24 basis points to our system-wide comparable RevPAR results.

And now for a bit more detail on our strategic initiatives. At the core of our first key strategic priority, driving consistency in our product, is the ongoing review of our real estate assets with the belief that these assets will follow 1 of 3 potential paths: One, the property is appropriately positioned within its market; two, the property should be renovated and repositioned upward within its marketplace; or three, the property should be disposed of and/or removed from the La Quinta brand, opening the market to potential new franchise development.

Since we launched this strategy in the first quarter of 2016, La Quinta has exited 29 franchised properties from the brand, including 4 in Q1 2017. In addition, over 100 franchised properties have either undergone or are undergoing a renovation. On the owned side of our business, we disposed of 19 properties in 2016 and an additional 3 properties in Q1 2017. And approximately 50 are undergoing a significant repositioning in 2017 as I described earlier.

To put all of these efforts in perspective, by the close of 2017, this strategy will have meaningfully impacted over 20% of our hotels by either removing them from the brand or by significantly improving the property through renovations. These strategic investments and selective dispositions are vitally important to delivering a consistent product for our La Quinta guests.

For the approximately 50 owned hotels that are a part of the significant repositioning effort, our belief is that with the appropriate scope of capital investment, these hotels can be repositioned upwards within their market, capturing occupancy and additional rate while being measured against new higher-quality competitive sets.

It is worth reminding everyone that these are not our typical cycle renovations. Rather, these hotels are undergoing an intentional strategic repositioning effort that involves a makeover of the exterior to incorporate elements of our most current Del Sol prototype, significant changes inside the guest rooms and bathrooms, updating common areas like the lobby, great room and breakfast areas as well as significant upgrades to our fitness centers.

This is an exciting time for the owned hotels operations team, which is working closely with the sales and marketing teams to ensure that these properties are well positioned when we reintroduce them to the marketplace. In the end, our goal is to drive higher rate and occupancy while delivering appropriate returns on our capital investment.

Moving on to our second key strategic priority, driving consistency in the delivery of an outstanding guest experience. During the first quarter, we continued to build upon the momentum we started to generate toward the end of 2016. As a company, we are more committed than ever to delivering an experience that helps our guests feel assured, settled in and optimistic. In fact, delivering an outstanding experience was a key focus of our national conference in March. This conference was themed Elevate with the intent of elevating our business, elevating our employee and guest experience and elevating our revenue.

We spent several days with over 1,600 attendees focusing on the importance of and providing tools for the creation of authentic and meaningful emotional connections with our guests and our fellow employees. All of the content and education at this conference was designed to directly support our 3 strategic initiatives. This conference served as yet another platform to build upon the very positive momentum in guest satisfaction scores that we have already created.

Turning to our third key strategic priority, driving engagement with the La Quinta brand. La Quinta Returns was recently ranked in the top 5 by U.S. News & World Report as a best travel rewards program. In early January, we relaunched our La Quinta Returns loyalty program, introducing several exciting and innovative enhancements such as Redeem Away! and Instant Free Nights, which offered new ways for La Quinta Returns members to engage with the program and our brand on a regular basis. And later this year, we will be rolling out a significantly enhanced lq.com user experience. We continue to believe that our focused efforts and investments in these key strategic initiatives will drive value, and we are encouraged by the positive results we are seeing.

With that, I'll turn the call over to Jim to give you more details on the company's financial results. Jim?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Thanks, Keith. During the first quarter of 2017, total revenue was $234.3 million compared to $241.8 million in the prior year first quarter. As we mentioned during our year-end earnings call, our 2017 results will be impacted by the sale of a number of owned hotels, which contributed revenues of approximately $29 million and EBITDA of approximately $9 million to our 2016 results.

In the first quarter of 2016, these hotels generated approximately $9 million of revenues, which did not recur in the first quarter 2017. As an update, we closed the sale of 3 of the 5 hotels that were identified as assets held for sale at the end of 2016, and we added 1 hotel to the held-for-sale category for a total of 3 at the end of the first quarter.

For the first quarter, system-wide comparable RevPAR increased 2.8% as compared to the prior year quarter, which, as Keith mentioned earlier, was lifted 24 basis points by the performance of our properties in the STR-defined oil tracts. Our overall system-wide RevPAR results were driven by a 4.7% increase in comparable RevPAR at our franchised hotels and a 90 basis point increase in comparable RevPAR in the owned hotel portfolio. These results outperformed our expectations and were influenced by stronger-than-expected performance in the industry overall at our Chain Scales but also benefited from a couple of other factors, including our ability to continue to take market share in the form of RevPAR index, which we believe is, in great part, a result of our key strategic priorities taking hold and influencing results on both the owned and franchised sides of our business and lower-than-expected displacement at the owned hotels undergoing repositioning, both as a result of excellent coordination and management by our operations and construction management teams as well as some shifting in the time line for certain of these projects.

The RevPAR increase for our owned hotels in the first quarter was driven by a 1.3% year-over-year increase in ADR partially offset by a 25 basis point decrease in occupancy. The RevPAR increase for our franchised hotels in the first quarter was driven by a 1.1% year-over-year increase in ADR and a 220 basis point increase in occupancy.

Total adjusted EBITDA for the first quarter was $72 million compared to $84.3 million in the prior year first quarter. As we previously mentioned, our total adjusted EBITDA in 2017 as compared to 2016 will be negatively impacted by a total of $9 million due to the sale of owned hotels in 2016 and early 2017. These hotels contributed EBITDA of approximately $2.5 million in the first quarter of 2016, which did not recur in 2017.

As we discussed when we outlined our expectations for 2017, our total adjusted EBITDA was impacted in the first quarter by competitive wage pressures and a normalized bonus accrual as well as the elevated presence of OTAs in our channel mix as compared to the prior year. This also reflects our investments in customer-facing areas in order to fully support our key strategic priority of consistently delivering an outstanding guest experience. As a result, our total adjusted EBITDA margin for the first quarter was 30.7%, lower than last year but in line with our expectations. Despite the near-term pressure on EBITDA margins, these investments have begun to benefit our results as evidenced by the significantly increased guest satisfaction scores and increased market share Keith mentioned.

For the first quarter of 2017, adjusted net income was approximately $4.5 million compared to $11.2 million in the prior year first quarter. And GAAP net income was $1.6 million compared to a net loss of $38.8 million in the prior year first quarter. Adjusted earnings per share for the first quarter of 2017 was $0.04 compared to the prior year quarter at $0.09 per share, and GAAP earnings per share was $0.01 compared to a loss of $0.31 per share in the prior year first quarter.

With respect to our balance sheet, as of the end of the quarter, the ratio of our total debt less cash or net debt to our trailing 12-month adjusted EBITDA was approximately 4.4x. We continue to believe that our flexible debt structure, strong cash flow and an undrawn revolving credit facility position us well to support our operations and the planned investments in our business.

Capital expenditures in the first quarter totaled $46 million, which included approximately $30 million related to our owned hotel repositioning efforts mentioned earlier. We continue to expect the total incremental spend associated with these projects to be in a range of approximately $165 million to $185 million. Of this amount, $30 million occurred in 2016. We currently expect the vast majority of the remaining repositioning capital to be spent during the balance of 2017.

Turning to guidance. Our guidance for 2017 remains unchanged. This year, we expect that system-wide comparable RevPAR growth will be in a range of 0 to 2%, and we expect total adjusted EBITDA to be in a range of $320 million to $340 million.

Now we'll turn the call back over to Keith for some closing comments. Keith?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Thank you, Jim. As many of you know, earlier this year, we announced a plan to pursue the separation of our owned real estate business from our franchised and management businesses. This would involve spinning off the company's owned real estate assets into a separate company with our franchising and management businesses continuing to reside within La Quinta Holdings Inc., the current publicly traded company.

We remain positive on the long-term growth attributes of the upper mid-scale and mid-scale segments of limited service as well as our ability to realize the benefits of the proactive steps we are taking to enhance our brand. We also believe that this kind of strategic split could be the best path to maximizing return on investments in capital and people.

Our team is working diligently on preparing the necessary Form 10, and we still anticipate that a filing could occur in the second quarter. The Form 10 would include historical and certain pro forma information, and in the event that we move towards making the spin effective, it would be our intent to also provide supplemental information about the 2 separate businesses during an investor update.

I will close by saying that one of the biggest competitive advantages at La Quinta is our people. All of our people are dedicated to delivering an outstanding guest experience, and we believe we have put the right teams and have the right strategy in place to propel the brand forward. I will take this opportunity to thank our thousands of employees for their hard work and dedication to La Quinta.

With that, let's open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Chris Woronka of Deutsche Bank.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Do you guys have maybe an estimate of Super Bowl impact in the first quarter or even more broadly than that just kind of within Texas, if you could think about maybe some of the oil and gas related accounts? And was some of the RevPAR increase in those markets driven by energy-related accounts? Or is it something else?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Yes. So as we think about the energy markets, as we've been discussing over the past year, we expected the performance in those markets to continue to moderate. And they continued to do that in the first quarter. As you think about what drove some of the impacts in those markets, it was really petrochemical companies that were really placing inbound calls to get rooms in those markets throughout Q1. Now in terms of the Super Bowl impact, I don't have a number sitting at my fingertips. Jim is diligently looking to see if he has anything to add.

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

I mean, the only thing I will tell you, Chris, as you would expect, as you look at Houston over the 3 months sequentially, you can definitely see the pop in February, so it certainly helped the results in Texas.

Chris Jon Woronka - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, great. And then maybe on the cost side, remind us maybe when you begin to cycle some of the more severe increases you saw last year on the wage front. And do you think we get to a more kind of normalized inflation rate in the back half? Or do you think there is something more kind of structural or secular about these wage increases?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. Chris, that's a great question. So if you think about when we put these strategic initiatives in place and when John joined the business and started putting in place a lot of the changes and things that he's got going in terms of that strategic initiative on delivering on a consistently great customer experience, it was really in the latter half of 2016. So to answer your question, I think you probably start cycling over those things towards the back half of Q3 and into Q4.

Operator

Our next question comes from Joe Greff of JPMorgan.

Joseph Richard Greff - *JP Morgan Chase & Co, Research Division - MD*

I know you guys used to talk about net rooms growth, and now you don't officially guide for that. So maybe I'll ask it this way. When you think about your pipeline growth and all the things described and all the characteristics of your pipeline, would you expect to grow the number of net new rooms in franchise in '17 similarly on an absolute basis as you did in '16? Or do you see it de-selling just because of the base?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

No, I think that's a great question. And you're spot on. I would expect to see a very similar growth profile between 2016 and 2017 on franchising front.

Operator

Our next question comes from Bill Crow of Raymond James.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Couple of thoughts. I'm just curious, as you think about splitting the company and going down that path, your results this quarter and last quarter are showing some real green shoots of improvement across a number of areas where you're really focused. And how much does that -- the success of that turnaround influence your decision? Or how much does the market's recognition of your progress sway you one way or the other about going down that path?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Right. That's -- it's a very good question. As we mentioned from the onset of us pursuing a potential spin, we had thought that this could be the next logical step as we think about the evolution of the business, and we really do believe that spinning the organization into 2 independently operating companies with independent strategies and management teams, pursuing kind of opportunities that naturally flow to each business could actually be additive to our strategies. And as you think about some of the investments that we're putting into the business now specifically, a lot of the repositioning efforts that are going along, that clearly will benefit propco and opco in this potential new structure. So I think that our performance and the strategies that we're putting in place really could be additive to a spin transaction. Regardless of whether we end up spinning the business into 2 organizations or not, we believe we're on the right path to create long-term value for the entire enterprise, and spinning the company into 2 different organizations, I believe, wouldn't throw that off track.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Do you anticipate that Blackstone would maintain their ownership through this process? Do you have any feel?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

I don't have any insights into that. I can tell you that Blackstone, as a private company, was an outstanding partner, and now as a public company, obviously, they are very helpful and committed board members. And we don't talk about what their investment horizon or holding period looks like. But I can just say that they are incredibly helpful across our business and certainly serve as solid partners on our board.

William Andrew Crow - *Raymond James & Associates, Inc., Research Division - Analyst*

Okay. And then finally, I think it was -- we already addressed the oil issue, and we addressed the Super Bowl issue. But trying to gauge how much Easter helped or hurt you and maybe you could comment on what April looks like as the Easter shift gets pushed back.

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. So Bill, as we took a look back at Easter and how much that might have benefited the business, our best estimates are that it helped us in the range of 80 to 90 bps for the quarter. And then April and the Q2 and looking forward, all of that is baked into our kind of reaffirmation of our outlook for the rest of 2017.

Operator

Our next question comes from Smedes Rose of Citi.

Bennett Smedes Rose - *Citigroup Inc, Research Division - Director and Analyst*

I just wanted to ask you about your EBITDA outlook, just taking the midpoint of guidance. And really just 2 questions. One, is there any kind of disruption factored into that or EBITDA loss from the properties that are under renovation? And also, does that include a portion of EBITDA for assets being sold? And if they contributed $9 million last year, what would -- what do you feel like the full year contribution would be this year that's in that number if it's in there?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. So Smedes, just full year, to answer your last question first, when we built our outlook for 2017, that $9 million number, that was contemplated. Now we did add an asset to the held-for-sale category in Q1, and there are some timing shifts in terms of when we actually close some assets. But all of that was pretty well baked in. I think there was maybe a $500,000 to $700,000 drop as we kind of updated those estimates, but we didn't feel like that was enough to move the midpoint of the guidance range. So it's kind of all baked in there. And then as far as displacement, we continue to look forward. Now it slid a bit between first quarter and second quarter in terms of the amount of construction that we were able to get done. But for the full year, I think, at year-end, I talked about our estimate was the impact would be 50 to 75 bps to the system overall, and we continue to believe that's a reasonable range of expectation.

Bennett Smedes Rose - *Citigroup Inc, Research Division - Director and Analyst*

Okay. And then just one final one. At least relative to our estimates, your SG&A line was higher than what we were expecting. I'm just wondering, is that a reasonable run rate going forward? Or is there some items in there that don't recur maybe?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. So just a couple of comments around that. I mean, we talked about a few things in the prepared comments. The corporate bonus being accrued at a more normalized rate, it's at a higher rate actually at the end Q1 than as compared to a year ago. We actually have had some increased health care costs year-on-year that have been a little higher in terms of claims experience than what we were expecting. Now my hope is that, that will settle out. It does ebb and flow as the year progresses, so we'll continue to watch that. And then there are -- in the G&A, there is some costs that relate to the pursuit of separating the businesses, and if you look in the press release, when you get back that far on Pages 11 and 12, there's a little more detail there. But that certainly increased that run rate. And then there's one other thing I'll point out, which has to do with the timing of our annual long-term incentive equity based compensation grant. There's a portion of that, that occurred in Q1 this year versus it occurred in Q2 last year, so you had a little bit more cost in Q1 this year from that.

Operator

Our next question comes from Thomas Allen of Morgan Stanley.

Thomas Glassbrooke Allen - *Morgan Stanley, Research Division - Senior Analyst*

So you called out the increased use of third-party travel agencies is contributing to higher expenses. Can you just talk about what your OTA mix was this quarter versus a year ago? And did that benefit RevPAR growth at all? And how do you think about it for the rest of the year?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

In terms of percentage of mix, as we went through 2016, we saw a ramping throughout the year, which, I think, we talked about each quarter as we discussed, and then we contemplated kind of a settling out, which we saw towards the back half of 2016 in terms of their penetration into our channel mix. And we contemplated that leveling out that we saw in Q3 and Q4 through 2017, and we did see that. It met our expectations in Q1. However, when comparing year-on-year, there still was an increase in dollars year-over-year. And then in terms of impact on revenue, Keith, any comments?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

No, I mean, as we talked about before in terms of OTA as a channel, right, we really feel there is no free distribution channel across any part of our business. And still, close to 80% of the bookings that come into La Quinta are really from our direct channels, either property direct or call center or laquinta.com. Now we did talk about, in the midpoint of last year, that we did see a little bit of higher investment on the advertising and marketing side from the OTA, which did push a little bit of channelship as we moved through kind of that typical corporate transient business period as you get out of peak summer months and go into the fall. But to Jim's point, we did see that level out versus our expectations as we entered the first quarter, but it's still -- it's a little bit of a comparison issue from a year-over-year.

Thomas Glassbrooke Allen - *Morgan Stanley, Research Division - Senior Analyst*

Okay. And then just my follow-up, your 2.8% RevPAR growth, it sounds like outperformed your expectations. I guess, why didn't you raise your full year guidance? And how should we think about kind of the trajectory of RevPAR growth by quarter going forward?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

So as you think about how the year is going to play itself out, as we think about Q1, Q1, in a capsule, really did exceed our expectations as a business, top and bottom line. And as you think about the rest of the year, maintaining our RevPAR guidance and maintaining our EBITDA guidance is really just acknowledging that as you move throughout the year, no matter who you look at, is it PTF or STR, PwC generally, there's a belief that, from a corporate and business leisure travel perspective, there is just a little bit of a weakening as you go through the last part of the year. Now on the owned side of our business, we really are creating our own catalysts with these repositionings that'll be coming onboard in Q2 and Q3. So we believe that the balancing of what we expect on the owned side of our business, which is accelerating RevPAR performance, combined with what we see in the franchising business, which is really more reflective of a lot of the projections that you're seeing out there within the industry, give us some comfort that maintaining our 0 to 2% RevPAR guidance is the right thing to do and maintaining the EBITDA range of $320 million to $340 million. Jim, any additional commentary?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

No, that covers it.

Operator

Our next question comes from Shaun Kelley of Bank of America.

Shaun Clisby Kelley - *BofA Merrill Lynch, Research Division - MD*

Just maybe a follow-up on that channel shift question. Just trying to think through, where in the P&L does that expense show up? Because when we look at your -- I think, some of your marketing promotional costs, those actually fell year-on-year. And so are these showing up in G&A? Do they show up in some sort of like gross RevPAR that we can't see because of the merchant model? Just, generally, what's the -- how do these things work through the P&L?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. As it comes -- as it affects the owned assets that comes through on the direct lodging line, as it affects the franchise assets, it doesn't come through our P&L at all, but on the owned side, it's coming through direct lodging.

Shaun Clisby Kelley - *BofA Merrill Lynch, Research Division - MD*

Okay, great. And then the other thing just I know it's at a high level, was that it's pretty big spread between the way the franchise hotels performed this quarter and then the owned hotels. And I don't want to read too much into that if there's nothing to read into it, but when I went back and looked, it looked like that spread was wider than what we've typically seen in the past. Any obvious reasons for that, that you'd call out to us?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Well, one of the biggest reasons, Shaun, is the repositioning that's underway at many of those big boxes. So when we talked about prioritizing the hotels that qualified for this program, these were those hotels that were in the right market that had the ability to reposition upwards because of the adjacency against the right kind of competitors in the upper mid-scale set. So there are some big boxes that are under the knife, so to speak, right now that certainly did affect the first quarter. So really, the most obvious thing that is affecting the owned business is the number of large hotels that are currently under renovation.

Operator

Our next question comes from Jared Shojaian of Wolfe Research.

Jared Shojaian - *Wolfe Research, LLC - Research Analyst*

So on the pipeline, the growth was a little lighter sequentially just relative to your prior trend. Do you think this has anything to do with Hilton opening up Tru to outside owners that may have chosen La Quinta brand historically? Or maybe is there something else? Or do you think I'm reading too much into this?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

No, I think -- if I think about our pipeline for the year, I wouldn't read too much into the pipeline growth for the first quarter. As you know, the signing of deals as well as openings can be a little lumpy as you move throughout the year. And as I think about Tru specifically, right, we compete against all the brands in our set both in the upper mid-scale space and mid-scale space every single day. And certainly, Tru will be a real competitor, and we'll continue to compete against them like we've done successfully against every other competitor in our space for many, many years. In fact, we've seen franchisees that are La Quinta franchisees open up Trus and La Quinta, La Quinta next to each other. There's a couple of those projects in place as we speak, so I wouldn't read too much into the cadence of the numbers in the first quarter.

Jared Shojaian - *Wolfe Research, LLC - Research Analyst*

Okay. And do you know maybe just directionally the percentage of your pipeline that comes from existing owners versus new developers and how that's been trending over the last several quarters?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

It's north of 50% of the deals come from existing partners, and that number has been increasing.

Jared Shojaian - *Wolfe Research, LLC - Research Analyst*

Got it. Okay. And then just last one. Can you help me think about the positive contribution of oil tracts in the first quarter and how you see that playing out the rest of the year? I mean, is it reasonable to assume that the 24 basis points you called out in the first quarter accelerates sequentially in the second quarter and then accelerates again in 3Q and 4Q? Is that reasonable?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. I mean, we saw what we expected to see, right, a moderating of the impact and a turn. Now I'm not sure I would have called out a 5% turn for the quarter, but in terms of those markets and their impact on the brand overall, it's really when the production of oil reaches a kind of point of froth where it really becomes truly impactful on the upside because you have to displace all the other market drivers and demand drivers within those markets to really get outsized ADRs to where it becomes really, really impactful on the upside. So I don't know that I would expect an acceleration through the year. I would just -- I would expect that these things have kind of stabilized and returned to their normal demand drivers.

Operator

Our next question comes from Jeff Donnelly of Wells Fargo.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Just a question on some of the very earliest repositionings you guys have undertaken. I think some of them were completed in the quarter. I know not a lot of time has elapsed. Are you able to maybe share with us any kind of anecdotes or early data points you're getting from those on how they're faring with customers or sort of in their immediate comp set. I know that can -- in some situations, it'll only be weeks that have passed.

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Right. No, that's a fair question. So I'll give you a massive data set of one hotel that's been open long enough for us to really get a decent read. This would be our Clifton, New Jersey property that came out much earlier, right? It completed its renovation in November 1, 2016. And as we look at the subsequent 3 months that, that hotel was open, RevPAR was up roughly 15% at that hotel. We gained about 1,000 basis points of market share against their comp set, and Net Promoter Scores doubled. So that particular hotel literally didn't have an extended ramp time at all. It was reintroduced to the market, I think, extraordinarily well between operations, marketing and sales and immediately contributed to our brand. Now we'll get a much better read as you think about the next group of hotels that'll be coming out as we move through the second quarter.

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

And just one other comment that I -- data point that I found encouraging is we've had several hotels under the knife, as Keith said, during quarter 1 that the Net Promoter Scores at those hotels has actually increased while under the knife, which I called it out in my prepared comments that the operations team and the design and construction team have done a great job coordinating and minimizing the impact on the guests. And I think that just speaks to how well they're managing that (inaudible) .

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

We're receiving a lot of unsolicited feedback from our corporate customers that would book through our sales team, that they are noticing a big difference in what we're doing, and they're extraordinarily pleased. Now that's anecdotal obviously, but we are getting a lot of positive inbound feedback from our corporate clients.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

We'll just extrapolate that to the other 888 hotels.

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Yes, that would be (inaudible) .

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Actually, when's the next -- I mean, maybe you can help us out. Just when's the next batch of these done so that we can kind of have a sense of how this kind of rolls through the year? I know it's Q2 and Q3, but I'm just curious what -- when's the timing maybe we can get some early feedback out of these larger groups that are being done.

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Yes. The next batch will be coming out, Jeff, on current time line towards the end of May and then a handful more in June. So my expectation, my hope is that I'll have more detail, some early reads on those when we do our Q2 call.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And then just to switch gears on RevPAR index. It was an impressive increase in the quarter. I was just curious if we can read into sort of the sequential move from 95.6% in the fourth quarter to 95% this quarter. I know RevPAR has a seasonal behavior, but I would think indexing on a portfolio as large as yours would mitigate some of that. So I'm not sure if that's a relevant comparison in your eyes or if it's sort of rounding error or maybe you're hoping for a larger RevPAR index gain. Just any thoughts on that?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

No, it is seasonal. If I look at our RevPAR index curve, we do see a seasonal curve to it. So as I think about the index that we gained kind of Q1 to Q1 and like our RevPAR performance, that was at the upper end our expectations for the quarter. But I wouldn't read a whole lot into the Q1 number in and of itself because there is a bit of a seasonal curve to the way that our index performs.

Jeffrey John Donnelly - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And just one last question. I noticed that your wording in your release around the separation has shifted from when it was announced sort of to -- from a could involve a spinoff to today it's sort of will involve a spinoff. And I guess, I was curious, did you guys ever put out feelers to see if there was interest in a sale of the real estate portfolio and that led you to conclude the spin was the most likely outcome and that's why it sort of firmed up in the wording? Or is it just wordsmithing?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Well, I would just call it wordsmithing, right? I mean, as we've consistently said, our bias is to seek the most optimal way to create value for all of our stakeholders. That would be employees, franchise partners, shareholders, et cetera. And I wouldn't read too much into the changing of those words. I think, as you think about the amount of work that's already gone into preparing all the information that goes into a Form 10, I mean, we are certainly acknowledging that there's been a lot of work and thought going into the pursuit of this opportunity. And as you think about a total company sale, I can't theorize or speculate about what a competitor may or may not do. Our bias continues to be the path of least resistant to create the most value for all of our stakeholders.

Operator

Our next question comes from Stephen Grambling of Goldman Sachs.

Stephen White Grambling - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just have a couple of quick follow-ups. First on the OTA growth, how much of the improvement there is driven by your own actions to drive traffic in the channel versus overall consumer preferences? And as a related question, where is the penetration of Google Hotel Ads at this point? What's the cost of that channel versus your other channels?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Honestly, that's a great question on the Google Ads. If our marketing team was here, they could give you all the information about it. I don't have that granular of information available at my fingertips. And can you give me a little more clarity on the first part of your question about our efforts versus OTA efforts?

Stephen White Grambling - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes. Just trying to see if you're doing anything differently to try to drive traffic either through that channel or other channels to try to fill (inaudible) rooms.

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

I mean, obviously, we're always looking at every one of our distribution channels in terms of optimizing how we take our share. As you know, it's an extraordinarily fluid environment, especially in the online world where information changes extraordinarily rapidly. As you think about the overall point of what we're trying to accomplish with our strategy in terms of driving product consistency, driving consistency and experience and driving engagement. It's all about increasing share, increasing Net Promoter and putting ourselves in that consideration set when someone enters a booking path, regardless of what path they're actually entering. So what we're doing is pursuing what we think is the right strategy to build the overall business regardless of distribution channel.

Stephen White Grambling - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Then one other clarification just on the unit growth. Does the franchise growth that you cited as being similar to last year, does that include any conversion of owned properties?

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

There are some conversions in there. It typically hovers in the 10% to 20% range.

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Conversion of owned.

James H. Forson - *La Quinta Holdings Inc. - CFO, EVP and Treasurer*

Oh, excuse me. I'm sorry. Yes, those have slowed down in terms of how we've sold assets out of the system and moved them over temporarily into the franchising portfolio. We tried real hard in the press release, in the development paragraph to kind of walk you through when that happens. So have a look there, and then let us know if you have any follow-ups.

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Yes. So as you think about the franchise and growth, right, if we are primarily, in terms of the pipeline, a new construction brand, there are conversions in our pipeline. And in some situations, although not very common, you could have an owned hotel that we've decided to kind of exit from our portfolio that could go through a substantial PIP, property improvement plan, similar to what we're doing with these repositioned hotels and maintain the flag. But I can't really think of very many of those that have actually happened.

Stephen White Grambling - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And I may have missed this. But how much of the pipeline is actually under construction now?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

I mean, it's about 30%. I could be off 1 or 2 percentage points, but it's about 30% is under commencement.

Operator

At this time, I would like to turn the call over to President and CEO Keith Cline for any closing remarks. Sir?

Keith A. Cline - *La Quinta Holdings Inc. - CEO, President and Director*

Great. Thank you. Just thanks again for all your support and interest in the brand, and thanks for all your time today. We appreciate it.

Operator

Thank you, sir, and thank you, ladies and gentlemen, for your participation. That does conclude your program. You may disconnect your lines at this time. Have a wonderful day.
