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LQ - Q3 2017 La Quinta Holdings Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the La Quinta Holdings' Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

Kristin Hays

Thank you, operator. Good afternoon, and welcome to La Quinta Holdings' Third 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, intend, 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 may 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 November 1, 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 Third Quarter 2017 Earnings Conference Call. Also joining me today is Jim Forson, our Chief Financial Officer. On the call today, we'll review La Quinta's third quarter performance, our development activity and I'll provide an update on the significant repositioning effort underway at approximately 50 of our owned hotels as we continue to execute on our key strategic priorities and initiatives. We will also discuss the impact of Hurricanes Harvey and Irma on our business both in the third quarter and also looking ahead. At the end, we will have time to take your questions.

Almost 2 years ago, we outlined 3 key strategic priorities and initiatives designed to significantly enhance the La Quinta brand. We are focused on delivering a consistent product to our guests, consistently delivering an outstanding guest experience and engaging with them in new and more meaningful ways. We are executing against these key strategies with the end goal of driving revenue, regaining market share and delivering profitable growth for our stakeholders.

As you know, one of the primary components of this strategy involves the renovation and repositioning of approximately 50 hotels in our owned portfolio. In just a moment, we will share a detailed update on our repositioning effort, but as I've said before, we believe that the strategic investments we are making in our people and in our product is helping to drive the momentum in our business. To that end, we are pleased with our performance last quarter.

In the third quarter, we grew systemwide comparable RevPAR by 2.9%. Excluding the impact of the hotels under renovation as a part of our repositioning effort, RevPAR grew 4% last quarter. We grew franchise and other fee-based revenue 9.4% over the same period last year. We also marked our fifth consecutive quarter of market share growth with a 147 basis point improvement in RevPAR Index in the third quarter, and we continue to improve our customer experience as evidenced by substantial positive movement in our Net Promoter Scores, even with many of our hotels undergoing a significant renovation. These are all indications that the underlying health of our business continues to be strong.

Turning to our development activity. We opened 9 franchised hotels totaling approximately 725 rooms, expanding our footprint into new locations in Brooklyn, New York and Anchorage, Alaska. This brings us to 23 franchise openings for the year with an expectation of a strong finish to the year. We increased our franchise pipeline to 252 hotels, representing approximately 23,700 additional rooms and continued to expand the brand's footprint with 16 new franchise agreements including locations in downtown Nashville; Santa Cruz, California; and the Beacon Hill neighborhood of Kansas City, Missouri.

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 into higher RevPAR markets. Some highlights of our current pipeline include: approximately 20% are urban locations; approximately 90% are new construction; about 10% represent international locations in Mexico and Central and South America; approximately 60% are locations outside of our top 3 states of Texas, Florida and California in strategic locations such as Times Square in Manhattan, Downtown San Diego and Midtown Miami, as well as airport locations at Chicago O'Hare and Boston Logan.

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 36 new STR market tracts, leaving 1/4 of the STR tracts completely open to new growth for the La Quinta brand.

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. Since we launched this strategy in the first quarter of 2016, La Quinta has exited 38 franchised properties from the brand and over 200 franchised properties have either undergone or are undergoing renovation. On the owned side of our business, we have disposed of a total of 23 properties and approximately 50 are undergoing a significant repositioning. 8 of these hotels came out of the construction phase of repositioning in the third quarter. Each of these 8 properties is now in the process of being reintroduced within its local market. Early results show a very positive response with significant improvement in the NPS and guest satisfaction scores.

For the hotels that have been out of construction for more than 2 months, we compared their recent performance versus the prior year and on average, Net Promoter Scores are up over 50%, RevPAR is up over 11% and RevPAR Index has improved over 800 basis points, primarily driven by double-digit growth in ADR. We expect approximately 15 to 20 more hotels to come out of the renovation phase in the fourth quarter, and we expect the remainder to be complete in the first quarter of 2018. Once complete, we will have meaningfully impacted more than 1/3 of our hotels by either removing them from the brand or by significantly improving the property through renovation. These strategic investments and selective dispositions are vitally important to delivering a consistent product for our La Quinta guests.

Moving on to our second key strategic priority, driving consistency in the delivery of an outstanding guest experience. We continue to experience gains in market share, net promoter and service and product quality scores. We believe these improvements are a direct result of our focus on the guests and the investments we are making in the guest experience. We also firmly believe that the continued momentum in our guest satisfaction scores and market share growth are positive indicators that our strategy is working and will benefit the La Quinta brand for the long term.

Turning to our third key strategic priority, driving engagement with the La Quinta brand. We are making several enhancements to the La Quinta Returns loyalty program to encourage our return members to engage with the brand in new ways and on a more regular basis. For example, after Hurricane Harvey, we invited our Returns members to donate their La Quinta Returns points to Team Rubicon to assist volunteers during its hurricane relief operations. Team Rubicon is an organization that unites the skills and experience of military veterans with first responders to deploy emergency response teams to areas after disaster strikes. As of today, our loyalty members have donated over 18 million La Quinta Returns points to team Rubicon.

We're also making improvements to the user experience on lq.com, especially for our La Quinta Returns members who will receive a tailored experience compared to the first-time visitor to our site. As I've said before, our La Quinta Returns program members are our best customers. We intend to continue to invest in maintaining and growing that loyalty, and we'll keep you updated on our progress going forward.

Switching gears. I'd like to take a few moments to talk about the impact that Hurricanes Harvey and Irma had on our business. In the third quarter, Hurricane Harvey had a slightly positive impact on our results. The damage sustained from Hurricane Harvey was primarily due to flooding on the ground floors, lobbies and break rooms. We currently have only 2 owned hotels, or just over 200 rooms, closed within the areas impacted by Hurricane Harvey and an additional 200 rooms out of service in Texas. Overall, however, Hurricane Harvey positively impacted our business in the third quarter.

By comparison, Hurricane Irma has had and continues to have a negative impact on our operations in Florida and parts of Georgia and South Carolina where the wind and rain caused our hotels to suffer substantial roof damage and water intrusion. We currently have a total of 6 owned hotels closed in Florida and a significant number of rooms out of service.

To be more specific, the La Quinta brand has a total of 74 hotels in the State of Florida and 39 in Georgia. Of these hotels, we own and operate 49 hotels in Florida and 14 in Georgia, representing over 7,500 rooms. As of today, over 2,600 of those owned rooms remain out of service. Our teams are on the ground working very hard with our insurance adjustors, contractors and general managers to bring those rooms back online as quickly as possible. Our assessments are ongoing, but we currently expect to have 1/4 of these rooms come back into service by the end of 2017 and the vast majority back in service by the end of the first quarter of 2018.

Irma has had and continues to have a rather significant impact on our business, more than offsetting a positive impact from Hurricane Harvey. Due to the significant number of rooms out of service, we've adjusted our owned hotel revenue and adjusted EBITDA forecast for the remainder of the year, which is reflected in our updated adjusted EBITDA guidance range.

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 third quarter of 2017, total revenue was $268.6 million compared to $272.3 million in the prior year third quarter. As a reminder, compared to the prior year, our 2017 revenues are reduced as a result of the sale of a number of owned hotels, which contributed revenues of approximately $29 million to our full year 2016 results. In the third quarter of 2016, these hotels generated approximately $7 million of revenue, which did not recur in the third quarter of 2017.

For the third quarter, systemwide comparable RevPAR increased 2.9% as compared to the prior year quarter. Our overall systemwide RevPAR results were driven by a 5% increase in comparable RevPAR at our franchised hotels and a 40 basis point increase in comparable RevPAR at our owned hotels. The RevPAR increase for our franchised hotels in the third quarter was driven by a 2.1% year-over-year increase in ADR and a 204 basis point increase in occupancy.

The RevPAR increase for our owned hotels in the third quarter was driven by a 25 basis point increase in occupancy while ADR was flat year-over-year. Our franchise RevPAR results continued to exceed our expectations, while RevPAR results for the owned hotels continued to be impacted by displacement related to the hotels under significant renovation. Even considering the effects of Hurricane Irma and the hotels that are under significant renovation, our overall fleet is benefiting from 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.

Total adjusted EBITDA for the third quarter was $93.8 million compared to $100.7 million in the prior year third quarter. As I mentioned earlier, as compared to the prior year, our 2017 results will be impacted by the sale of a number of owned hotels, which contributed adjusted EBITDA of approximately $9 million to our full year 2016 results. In the third quarter of 2016, these hotels contributed adjusted EBITDA of approximately $2 million, which did not recur in the third quarter of 2017. The balance of the difference between this year and last year EBITDA results continues to be driven by the items we have discussed throughout the year: competitive wage pressures as the cost of labor continues to climb; investments in the guest experience; normalized bonus accruals compared to the same period last year; and an elevated presence of OTAs in our channel mix, partially offset by higher revenue generated from the outperformance at our franchised hotels.

During the third quarter, we incurred costs related to the separation of our real estate business from the Franchise and Management businesses totaling approximately $6 million, which primarily includes professional services and retention costs. These costs are reflected within general and administrative expenses on our face financial statements but have been removed for purposes of calculating adjusted net income and total adjusted EBITDA.

For the third quarter of 2017, adjusted net income was $15.9 million compared to $22.1 million in the prior year third quarter, and GAAP net income was $12.4 million compared to a net income of $22.7 million in the prior year third quarter. Adjusted earnings per share for the third quarter of 2017 was $0.14 compared to the prior year quarter at $0.19 per share, and GAAP earnings per share was $0.11 compared to $0.20 per share in the prior year third 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 total adjusted EBITDA was just under 4.5x. Capital expenditures in the third quarter totaled $53 million, which includes $35 million related to our owned hotel repositioning efforts mentioned earlier. We currently expect a generally similar level of spend on this initiative in the fourth quarter, and we also expect that the vast majority of the repositioning capital will be deployed prior to the effectiveness of our contemplated spend.

As Keith mentioned earlier, our business has been impacted by Hurricanes Harvey and Irma. From an operational standpoint, Hurricane Irma's impact will be much more significant than that of Hurricane Harvey given the number of rooms we currently have out of service in Florida and Georgia. Our teams on the ground at these hotels have already done a tremendous amount of work to recover and take care of our employees and guests, and we're very thankful for their outstanding efforts to date.

As it specifically pertains to our owned hotels, as Keith mentioned, we are working closely with our contractors and insurers to put these rooms back into service as quickly as possible. This process is ongoing, but our current estimates indicate that our gross property loss related to both hurricanes will be an excess of $50 million, which includes estimates of both insured and uninsured losses. We currently estimate that the insured portion of this amount will be subject to a deductible amount currently estimated to be in the range of $10 million to $15 million. We also intend to file business interruption claims, which we expect would be recovered in 2018 at the earliest.

Turning to guidance. As we contemplated our guidance update for this quarter, we considered several factors including our performance through the first 3 quarters of the year, the RevPAR outperformance against expectations at our franchised hotels as well as the ongoing displacement at our owned hotels undergoing significant renovation. All of these things considered, we now expect RevPAR for the year to grow in the range of 2% to 3% with that growth being driven by the continued outperformance at our franchised hotels.

In addition, we are lowering the top end of our range for total adjusted EBITDA to reflect the expected negative impact of owned rooms out of service as a result of damage caused by Hurricane Irma, leading us to reduce our Q4 adjusted EBITDA forecast by approximately $5 million. We now expect total adjusted EBITDA to be in a range of $320 million to $335 million.

Now I'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. While we expect the damage from the hurricanes to have a near-term impact, we are encouraged by the health of our underlying business. We fully expect that our focused efforts and investments in our key strategic initiatives will drive long-term value. We are pleased by the positive results we are seeing thus far, including double-digit ADR growth in our newly renovated properties, significant improvements in Net Promoter Score and 5 quarters of market share growth. We strongly believe that La Quinta is on a path to delivering profitable growth for our shareholders.

With that, we'll open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Chris Woronka with Deutsche Bank.

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

Appreciate all the color on some of the hurricane impacts and the other items. I guess the question is on the franchise RevPAR, it was quite an impressive result you had in the quarter. And I wanted to ask, I mean, what's driving that? Is that maybe isolated to any regions? And also, where do you think your RevPAR guidance might be kind of if the hurricanes had not happened at all?

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

Great question, Chris. As you think about the franchise business, I mean, certainly, we've been seeing an accelerating momentum in the franchise side of our business as we moved throughout the year. Certainly, we have a lot of hotels in the affected area in Florida, and those rooms are open and ready for service. So we're clearly benefiting in Florida in our franchising business from the excess demand that's been created by Hurricane Irma. I mean, on the owned side of the business is really where you're seeing the impact of the storm. And as we mentioned in our prepared comments, we've got nearly 3,000 rooms out of service on the owned side of the business that are not benefiting from this excess demand driven by Hurricane Irma. So as you think about our overall guidance in the absence of that second hurricane, we certainly would be raising our RevPAR guidance, as we are on this call, but we certainly would be talking very differently about EBITDA, most likely narrowing our range of EBITDA but pulling it up from the bottom end of the range. The change in EBITDA is really being driven by the owned impact in Q4 of Hurricane Irma.

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

Okay. Helpful. And then as we think about some of the pluses and minuses on the cost side heading into next year without any kind of formal guidance, but on things like labor and property insurance, I guess, is it -- do you have any kind of rough estimate of what kind of RevPAR growth you might need from the owned hotels to kind of offset that?

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

Yes, Chris, that's a good question. We -- in a model that's kind of pre-hurricane, we're probably talking high 2s into 3s where you'd be leveraging RevPAR into margin. I think we're experiencing, obviously as we've talked about quite a bit, OTA pressure, competitive wage inflation, et cetera, that is starting to settle out, but the labor costs have continued to have some pressure out there. And OTAs, while their growth in our channel mix has slowed this year, it is still growing, so we are still experiencing some pressures there. So I can't give you a specific RevPAR number, but it's probably north of what we have talked about in the past.

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

One thing to think about as you move into 2018 is we will begin to see the benefit of the significant repositioning that many of our owned hotels are going through. And we'll also be in a position where we're kind of lapping the ramp-up period on some of the investments that we're making in the guest experience that are really part of the success story here in driving kind of incremental Net Promoter Score, product and service quality as well as our gains in RevPAR Index share. So as we go into 2018, I think you'll see much of that cost structure begin to normalize, but the new element that you really see is the benefit from these 50 repositioned assets, which we believe will be significant on the owned side of our business.

Operator

Our next question comes from Thomas Allen with Morgan Stanley.

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

Couple questions. First, does the -- do the hurricanes have any impact on your expected unit growth for the year?

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

No. As we think about the openings, I'm not aware of any openings that there located in the affected areas. As we mentioned on the call, we really do expect a strong finish to the year in terms of fourth quarter openings. So at this time, I'm not anticipating any impact.

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

So I think you said on the franchise side that should be a similar net growth of last year. Last year was about 25 hotels. Should we still expect that in 2017?

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

Yes, we had talked about a very similar performance just given the number of properties that we're exiting from the system as a part of our strategy of driving product consistency. We assumed that the net unit growth year-over-year will be fairly consistent.

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

Perfect. And then are we still expecting the spin around the first quarter of '18?

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

Yes, as you think about the timing, we are still on our anticipated track. We are expecting to receive permission to go effective from the SEC by January of 2018, although today, our conversations with them are ongoing. And we have many other processes that have to run concurrently, one being the refinancing of our debt as a part of the spin. But ultimately, we believe we'll control the timing, and we still expect that spin to really go effective some time in Q1 2018.

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

Great. And then sorry if I missed this, but can you quantify the impact to RevPAR in the third quarter from the hurricanes?

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

Yes, it actually, Thomas, turns out to be a little bit neutral when you boil it all up because Harvey actually, occurring earlier in the month, had a lift and then Irma in the back half of the month obviously went the other direction. And so impact to RevPAR in Q3 is fairly neutral.

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

And I assume the assumption is in 4Q, too, or it's going to be a negative -- it's going to have a negative impact in 4Q.

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

Well, I think you got a little bit of a divergence on the franchise side, right? They're participating in the upside, so to speak. And on the owned side, as we've talked about, we've got a fair number of rooms that are out of service, which obviously has an impact on the EBITDA.

Operator

Our next question comes from Smedes Rose with Citi.

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

You mentioned in your release the elevated pace of terminations -- franchise terminations across the course of the year. And I'm just wondering, do you expect that to continue into '18? Or do you think the net additions to the system will start to grow maybe faster than what you're seeing this year?

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

Those terminations are going to begin to taper off, as we talked about, I believe in the outset of the year, that 2016 and 2017 will be years when we're continuing to drive that product consistency part of our strategy, not only on the owned side of the business but also on the franchising business. As we move into 2018 and beyond, we would expect the exit rate from our franchising system to return to kind of its more historical rate, which is around 1% of opened properties. So in '18, you'll start to see us push back towards that rate.

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

Okay. And then I just wanted to ask you, just to clarify on the renovations. You said 50 hotels are in renovation with 8 came back during the quarter. So there's 42 remaining in renovation. Is that right?

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

Actually, 10 came out in Q2. A lot of those coming out in June. So we're up -- and then you'll remember we talked a while back about Clifton. So you're really in the high teens at this point.

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

Okay. And then my final question I just wanted to ask you, you mentioned the RevPAR Index increased. I know it'll be in the 10-Q. But what -- do you have just what the RevPAR Index was for the quarter?

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

Well, the increase is 147 basis points year-over-year, and we're looking for the actual number itself, which is in -- it's in the Q.

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

It's actually in the press release as well. It's 96.8%, 3 months period.

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

96.8%.

Operator

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

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

Just to kind of stick on the sort of the delta between what you're seeing on the owned side and the franchised side. I'm curious, like, as we kind of try and drill down on the 0.4. Could you just walk through -- I think you mentioned there was like an -- you're seeing the hotels that have exited renovation an 11-point lift. In the third quarter, if we sort of exclude the hurricanes and are just looking at sort of renovated versus non-renovated portfolio, was that a net tailwind in the third quarter? Are we sort of at that point in the ramp-up phase of everything? Would've been net tailwind, net neutral or still a headwind given how many properties are under the knife?

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

Yes, I think what you said at the end there, Shaun, is on point. If you think about the owned portfolio and you do like we do at the system and quote with and without the owned portfolio, the renovations costed about 200 bps of RevPAR in the third quarter.

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

Which is 110 bps to the system, right? So we're still seeing a headwind to owned RevPAR because of the hotels that are under the knife, so to speak. But as you think about the way these hotels are coming out, and honestly, the ones that have come out to date and have some amount of time under their belt, as we talked about in our prepared comments, these are all performing in excess of the original underwriting that we actually underwrote the deal, so to speak, on the renovation spend. So we're very pleased with what we're seeing now. It's just a function of getting the properties open, which provides a nice benefit for 2018.

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

And sorry I'm making you repeat it, because I think you said this as well, but in terms of the time line to reach, let's call it, stabilization post-reno, did you say 2 months? Was that kind of the ballpark that you were looking at or giving?

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

When we underwrote the deals, and I think we talked about it in the past, once you're out of the construction phase, we think it's about a 6- to 9-month period for the asset to be reintroduced to its market.

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

Right. So the numbers that we quoted on the call, we're really giving you a data point. So based on the hotels that have come out and have at least 2 months of performance, here's the average performance. To Jim's comment, we don't believe they've reached stabilization yet, but that's at least giving you an indication of how they're performing out of the box.

Operator

Our next question comes from Jeff Donnelly with Wells Fargo.

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

Actually, just sticking on the recently completed renovations, I mean, just curious, do you guys have handy what the RevPAR Index gains were for the assets that came out from underneath the knife in the quarter as well?

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

Well, I don't have the raw number, maybe Jim does. But I know that as a group, the index is up about 800 basis points, so pretty significant. And as you can imagine, given the on-average 11% RevPAR increase, the driver of that is really ADR gains.

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

Can you just repeat what the timing is of the completions? You were talking earlier in your remarks about how many units -- or how many hotels will be coming out of completion in Q3, Q4 and I think was first quarter of '18?

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

Yes, so we would expect in Q4 about 15 to 20 more will come out of construction phase, and then you'll have a handful coming out in 2018. We think the bulk of them would be in Q1 with a few trailing potentially in the very early part of Q2. Could be payment or retention is -- more I'm talking about CapEx spend here.

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

And for you, Jim, on guidance. I guess, I just want to clarify, is the only drag on the revision the annual EBITDA guidance for $5 million for the owned hotels that you mentioned? Or does the revision also factor in the $10 million to $15 million deductible that you've mentioned? I'm just curious because it's just struck me that for 100 to 200 basis point increase in full year RevPAR, I would have thought there would have been a more pronounced increase to the EBITDA guidance.

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

Well, so if you think about that, that's a good point. But if you think about what's really driving the RevPAR right now given some of the disruption that we're seeing on the owned side is franchise. So when franchise RevPAR is driving that top line aggregate RevPAR number, obviously, it's a fee-based system on that side of the business that we're seeing kind of a percentage of a percent flow through. When you have a disruption like Irma in the State of Florida and you've got as many rooms out of service as we do, you see a disproportionate impact to the bottom line. So that's really what's causing that dislocation between the RevPAR revision and the EBITDA revision.

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

Yes, and it is -- just to answer your question more directly, it really is pretty exclusively related to owned impact from Irma.

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

And I'm sorry, is the deductible in those figures or no?

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

The deductible will end up being a capital item.

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

Okay. And then just one last question. I'm not sure if you gave specifics on this, but can you tell us what percentage of your bookings, either quarter-to-date or year-to-date, are through third-party distribution channels? I know that in 2015 and '16, I think it was going the wrong way for you guys. And I'm just curious if, because of the renovations and the work you've been doing, if you feel like that's been heading in the other direction.

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

Well, I mean, we continue to talk about the growth of the OTA in our channel mix. I think in the K last year, I don't have it in front of me, we had a percentage that was in the 18%, 19% range. And it has -- though the growth rate has slowed, it has continued to grow into 2017.

Operator

Our next question comes from Bill Crow with Raymond James.

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

Couple of questions here, following up with -- on the OTAs. Anything that you're doing, any initiatives that you're taking -- undertaking to kind of slow down the growth of the OTAs? Or when is your next negotiating period for the commission rate?

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

Well, for Expedia in particular, we're kind of in the midst of negotiations now with our Expedia contract, which is they play the larger percentage of our mix from that distribution channel. In terms of what we're doing from an overall perspective, it's really about how you position and invest in your brands. If you back all the way out and take a look at our strategy of driving product consistency, consistency of experience and investing in kind of new and differentiating ways for us to attract and retain customers, we're hitting at all the things that we believe drive market share and drive guest satisfaction. So at the end of the day, we really believe there's no free distribution channel for the business. But if we can curate experiences within our brand and provide a meaningful way for guests to engage with our brand in differentiating ways, be it things like Redeem Away! or Instant Free Nights or any other things that we've added to our relaunched loyalty program, it's really all about getting that guest to commit to La Quinta. Now we have to acknowledge that there's a fixed amount of money that we can spend in this space within our brand, and I believe that we're doing a nice job being surgical about how we do invest. At the end of the day, best product and best service is going to win. And regardless of where a guest comes in to our hotel, it's our job to really teach them the features and benefits of booking direct on their next stay and make them a part of our loyalty program.

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

Okay. As we fast forward to the end of the first quarter and as you wrap up the owned hotel renovation program, how many hotels within the entire system will be exterior corridor?

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

Well, I think it really -- I mean, the assets that we've removed as we've gone throughout 2017, a fair number of those have been exterior corridor, and I think we've updated that asset count with each quarterly release.

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

Yes, so there should be a table in the Q that will show exterior corridor properties across the chain. And as you think about our overall asset strategy and that we've talked about several times, it's really a three-pronged approach. You can have assets that are positioned on the absolute correct street corner with the right kind of adjacencies and environment where we can actually price the asset up, and those will be the ones that are qualified for a significant repositioning, of which we've identified 50. You have the next set of assets where they are properly positioned on the right street corner with the right asset quality against the right adjacencies. And then you have this third tranche which are assets that aren't necessarily positioned on the right street corner or have the right adjacencies. As Jim mentioned several quarters ago, the assets that we talk about potentially divesting fall into that third bucket, many of which can be exterior corridor hotels. But I also want to remind you that we have a lot of exterior corridor hotels that are in the right market, on the right street corner and are in exterior corridor markets that are very relevant for our brand. So I think...

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

Yes, and once you get to that table, Bill, in the Q you'll see that there's 95 at the end of the third quarter. We've got 3 in assets held for sale which will close, we expect, by the end of this year. So I would expect that number to come down by 3.

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

Okay. That's helpful. And then finally, just thinking about the damage to your assets from the hurricanes, and clearly you have more exposure than others but it feels like the damage to your hotels may have been more significant than maybe some other ones, anything in the actual construction quality or anything that you're looking at as taking a lesson away from the damage that you sustained?

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

Well, as you know, we are talking about a wind-driven rain intrusion, there's a lot of variables that can go into that. A piece of it is the location and distribution of the assets in the affected area, and you can actually get right down to how was the asset positioned on the street corner and which wall took the brunt of the storm as it came in. So even as we've looked at our asset, it really isn't a one-size-fits-all story. There's a lot of variables there. But certainly, the one thing that we did learn is that certainly a storm of this size, given the amount of hotels we have in distribution in Florida, can certainly create some level of business risk and we, unfortunately, are experiencing it right now.

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

Yes, no doubt. But you don't think your portfolio performed worse than other similar hotels in the same markets, right?

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

What was that question again? I'm sorry, I couldn't hear the beginning.

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

From a hurricane damage perspective, your hotels basically succumbed to the same issues that other competing similar hotels did in the same markets, right? I mean...

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

Yes, I guess, I can't talk to the other competing hotels. Really, all we know is what we're experiencing, and it didn't affect every hotel and every market. It really depended on how the storm came into that market and how the hotel was positioned and where it took the wind and rain.

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

Yes, if I could ask one more question on the separation effort. At what point do you think we're going to hear about hiring C-suite folks?

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

Yes, the board continues to do their work there, and I would describe it as on track compared to our time line given the fact that we would expect permission to go effective some time around the end of the year and complete the spin in the first quarter. Certainly, as soon as the board is ready to make an announcement and issue an 8-K, the markets will be among the first to know, but just quite not -- I'm not in the position yet to announce anything.

Operator

Ladies and gentlemen, thank you for participating in today's question-and-answer session. I would now like to turn the call back over to Mr. Keith Cline for any closing remarks.

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

I just want to thank everyone for their continued interest in our brand, and thank you for your time today.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect, and have a wonderful day.