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Choice Hotels International Inc Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

[Operator Instructions]. And, the first question is from the line of Steve Kent from Goldman Sachs. Please go ahead.

Steve Kent

Hi, good morning, Steve.

Stephen P. Joyce

Good morning.

Steve Kent

May be the first question is just because it's a little bit out of the ordinary or out of what you, what Choice has historically done. The \$20 million to \$40 million financing program, how should we think about the returns on that relative to your core business and then may be you could give us some sense for the sensitivity, last quarter you advised, you were quite down a 100 basis points didn't really change EPS. Now you are lowering RevPAR by 350 basis points and you moved your guidance down by \$0.08 cents so, by the way your unit growth seems to be pretty good. So, I'm trying to figure out the sensitivity to those factors?

Stephen P. Joyce

Well, let me I'll have Dave talk about the sensitivity and the impact of RevPAR on our earnings. But, in general on the capital the way that you should think about it is we're going to make some sliver equity investments sliver debt programs to spur growth primarily Cambria and extended stay. But, it will not amount to significant dollars for the company's balance sheet. We put an estimate on it simply to give you some guidance around it. But, we are in a process of having discussions with developers and other partners to pull this program together and with the leadtime for a new construction unit that capital will be going out the door over say the next couple of years if the program takes shape. We don't expect that capital to get to any serious level of investment versus where the company has been in the past, we believe that we also have significant capacity available to continue with the shareholder repurchase program, the share repurchase program as well as our dividend policy. So, in general for those brands we believe some investment will help spur the growth and that the investment return for those investments will be a stronger turn that is in the realm of all what is expected by our shareholders. Dave you want to talk about the RevPAR impact.

Dave White

Sure. Yeah, Steve there is couple of things. One is in terms of RevPAR, we took down kind of our second half RevPAR guidance by, call it 400-500 basis points which translates on a full year to somewhere around \$10 million of royalties and EBITDA and the other thing you have to keep in mind is from a seasonality perspective the second half of the year for us represents 56%-57% of our business. So, the second half is a little bit stronger than our first half normally. That's why the first, our reduction in last quarter didn't have quite as much impact on EPS as you see in this time around. The other piece of it that also incorporated in our revised guidance is we've seen a little of softening on the re-licensing side of things, the number of hotels, sales transactions has a fall off in the second quarter and so we would expect in light of that what's going on there aren't there any environment with sellers being reluctant to transact unless they are really forced to as a better financial situation or fund maturity need. To dispose property we took down the re-licensing revenues a bit as well in the second half which is the other piece that's impacting EPS guidance for the second half.

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