

Earnings Recaps

RLHC nearly doubles franchise revenue in 2017

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As RLH Corporation is determined to realign to a franchise business, the company saw many successes during the fourth quarter and full year, including nearly doubling its franchise segment revenue to \$48.6 million.



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DENVER—For RLH Corporation, 2017 was a time of strategic and financial proliferation as the company continues to focus on moving from an ownership model to a fully franchised business, President and CEO Greg Mount said.

Capping the year, [RLHC](#) executed 144 licensed franchise agreements, including 29 midscale and 115 economy properties, surpassing its initial contract goal of 90 to 120 agreements, he said on the company's fourth-quarter and full-year earnings call.

Franchise segment revenue for 2017 nearly doubled year over year, growing by 97.1% from \$24.6 million

to \$48.6 million, [according to the company's earnings release](#).

During the first quarter of 2018, RLHC sold five of its remaining 18 owned assets to realign as asset-light. In the third quarter, [11 assets were approved for sale](#) and franchise rights have remained with RLHC for all of the assets, said EVP, CFO and Treasurer Douglas Ludwig.

Two more asset sales are expected to close within the next month or two, in addition to the five, Ludwig and Mount said, finishing out the 18 assets in total—four are leaseholds, and the remaining 14 are joint ventures.

“We feel really good about accomplishing what we set out to do, which is not just refining our business model further, but the key being the debt reduction, freeing up the balance sheet, the freeing up of our capital for future franchise activity, including acquisitions,” Ludwig said. “So far (it’s been) a lot of blood, sweat and tears.”

Franchise targets

Kicking off the first quarter of 2018, the company added 10 new franchise license agreements with both midscale and upscale hotels owned by affiliates of Inner Circle Investments, totaling 2,584 rooms among one Hotel RL and nine Red Lion Hotels.

The properties in the agreement include:

- Hotel RL St. Louis, Missouri
- Red Lion Hotel St. Joseph, Missouri
- Red Lion Hotel Baltimore, Maryland North
- Red Lion Hotel Harford, Connecticut
- Red Lion Hotel Cheyenne, Wyoming
- Red Lion Hotel Billings, Montana
- Red Lion Hotel High Point, North Carolina
- Red Lion Hotel Cromwell, Connecticut
- Red Lion Hotel Paper Valley, Appleton, Wisconsin
- Red Lion Hotel Albany, New York

The company is focusing on these particular segments as well as targeting 20-year terms for the agreements, Mount said.

“We are really excited with the Inner Circle deal,” he said. “It is a great example of the type of deals that we’ve been talking about ... and really look to accelerate our growth in the franchise side. As we’ve talked about it in the past, these deals can be worth anywhere between five and 10 of our economy-scale deals.”

Mount said he sees this deal as significant and believes there are more like this to come with a focus on midscale and upscale deals, but will still keep the company’s economy segment on the radar.

At the Hunter Hotel Conference last week, Roger Bloss, RLHC EVP and president of global development, hinted the company is [actively looking for brands to acquire](#).

While neither Mount nor Ludwig provided any specifics about acquisitions during the call, Mount did mention, however, he feels there are a number of good opportunities for mergers and acquisitions out there for the company and they will continue to filter those.

“I think you’ll see us be active (and) diligent. ... We’re not going to overpay (for deals), that is important,” he said. “We also feel the consolidation going on in the industry is really creating an opportunity for companies like ours to acquire.”

To help propel franchise business, the company has increased its franchise and development team to help bring in more deals, Ludwig said.

Q4 performance

Systemwide revenue per available room for the quarter was up 2% year over year to \$47.54, occupancy increased 2% to 54.2% and average daily rate decreased 0.1% to \$87.69, according to the earnings release.

Adjusted earnings before interest, taxes, depreciation and amortization from continuing operations during the quarter was \$2.7 million compared to \$2.5 million this time last year.

The company ended 2017 with 21 total company-operated hotels and 1,061 franchised hotels.

RLHC’s stock as of press time was trading at \$10.75, up 9.1% year to date. The [Baird/STR Hotel Stock Index](#) was down 5% during the same period.

2018 outlook

Looking ahead, RLHC expects to execute 150 licensed franchise agreements in 2018.

And in Q1 2018, the financial impact of its asset sales will begin to lower the adjusted EBITDA, Ludwig said, as well as an expected net loss of approximately \$500,000.

“Performance is expected to be down from the same period in 2017 by \$1.5 million,” he said. “A large portion of the decrease is due to the sale of five hotels in February of this year.”

