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Ownership

Pebblebrook courting shareholders in LaSalle pursuit

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Pebblebrook Hotel Trust appears to be leveraging shareholder interest in a combined company as it continues to pursue LaSalle Hotel Properties even though the latter has an agreement in place with Blackstone.

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REPORT FROM THE U.S.—As Pebblebrook Hotel Trust has again revised its merger proposal for LaSalle Hotel Properties, Pebblebrook EVP and CFO Raymond Martz believes shareholders are on his company's side.

In an interview after Pebblebrook announced its revised offer, Martz said Pebblebrook's revised offer with an implied price per share of $37.80 is more than a 10% premium over Blackstone's offer of $33.50. The investment community has "clearly spoken" and it wants the Pebblebrook deal to go through, he said. The share price of LaSalle is trading at a premium compared to Blackstone's discounted cash offer, he added.

"That just really shows the investment community does not like the Blackstone deal and wants to go with ours," he said.

At this point, the Blackstone offer is below LaSalle's current trading value, which closed Tuesday at $35.50. Investors believe Pebblebrook's offer can still happen because they keep purchasing LaSalle stock, Martz said.

"Everyone buying shares now is a vote for our deal," he said.

LaSalle declined to comment for this story. Blackstone did not respond to a request for comment.

Martz said Pebblebrook officials are pleased with the support they have received from shareholders who reached out to call their company's offer superior to Blackstone's.

Looking back at competing offers over the past 11 years, Martz said, a deal hasn't gone through in the real estate investment trust sector when there's another offer that is 1% greater.

LaSalle's board needs about two-thirds of its outstanding shareholders to vote in favor of the Blackstone deal for it to go through, which Martz said is a "very high hurdle." Combining Pebblebrook's 5% ownership with shareholder activists' shares, such as HG Vora Capital—which continues to push for the deal—amounts to about 20%.

"We've had a flood of other investors calling us saying they're strongly supporting us," he said. "So that means when you start adding up votes, it's very difficult."

Analysts' insights

While Pebblebrook's letters have been directed to LaSalle's board of directors, company officials are also making sure LaSalle's shareholders know what is out there and understand Pebblebrook's rationale behind the offer's terms, said Wes Golladay, VP and equity research analyst at RBC Capital Markets.

"It has been their stance this whole time to make sure the shareholders know what they could have," he said.

The biggest question that remains is whether Blackstone will want to come back with a higher offer, Golladay said, which is followed by whether that will make everyone else quiet down and walk away. It's a matter of how much work Blackstone wants to do here, he said.

It is possible Blackstone could decide it would be satisfied with the $112 million the company would receive from LaSalle for terminating the agreement, Golladay said.

"That's not a bad pay day," he said.

Pebblebrook has likely made its official final offer now, Golladay said, unless Blackstone comes back with something different.

"It just shows they really think they can create the value here," he said about Pebblebrook's persistence. "They know the products, the markets and the operators well. They must see something they're pretty bullish about."

In a note from the morning of Pebblebrook's revised offer, C. Patrick Scholes—managing director of lodging, leisure and gaming equity research at SunTrust Robinson Humphrey—wrote it would be difficult for LaSalle to garner enough votes to support the Blackstone offer as it stands.

"Our math suggests that 78% of the non-PEB (Pebblebrook) and activist shareholders would have to vote 'Yes' in order for the BX (Blackstone) deal to happen (and some arbs would not be able to vote due to when they bought stock)," he wrote. "This hurdle only gets more difficult with the revised and in our opinion moderately more attractive PEB offer. The most realistic scenario in our opinion is that BX raises their initial offer, thus reducing the 13% premium that PEB is offering over BX."

Michael Bellisario, VP and equity research senior analyst at Baird, wrote in his company's note that while the key terms in Pebblebrook's offer haven't changed since its last submission (it still has a 0.92 fixed ratio and 20% cash component), the proposal is effectively about 3% higher now because it "contemplates the $112-million termination fee payable to Blackstone."

"We believe LaSalle's board will now need to more seriously consider Pebblebrook's offer given the meaningful increase in Pebblebrook's stock price (and implied consideration for LaSalle) since the 0.92 fixed exchange ratio offer was last presented," he wrote.