

Choice Hotels Reports 2000 Results; Recurring Diluted EPS Increases 7%

PRNewswire
SILVER SPRING, Md.

Choice Hotels International, Inc. today reported 2000 recurring net income of \$58.4 million, or \$1.10 recurring diluted earnings per share (EPS), increases of 2.0% and 6.8% respectively, over the \$57.2 million in recurring net income and \$1.03 recurring diluted EPS reported for 1999. The company reported recurring net income of \$14.8 million for the fourth quarter 2000, as well as fourth quarter 1999. Recurring diluted EPS was \$0.28 for the fourth quarter 2000, compared to \$0.27 for the same period a year ago. These results exclude certain charges related to previously announced actions, which are discussed below.

Net income for 2000, including the impact of the settlement of the Sunburst Hospitality receivable, a company-wide restructuring and Choice's investment in Friendly Hotels plc, was \$42.4 million or \$0.80 diluted EPS, compared to \$57.1 million in net income and \$1.03 diluted EPS for 1999. For fourth quarter 2000, net income was \$2.5 million or \$0.05 diluted EPS, compared to \$14.0 million and \$0.26 for the same period a year ago.

Recurring earnings before interest, taxes, depreciation and amortization (EBITDA) increased to \$109.7 million for the year, an increase of 7.7% over the \$101.9 million for 1999. EBITDA margins increased to 65.5% for 2000 from 64.6% for 1999.

The company reported royalty revenues of \$137.7 million for 2000, compared to \$128.7 million for 1999, an increase of 7.0%. For fourth quarter 2000, royalty revenues were \$35.1 million, a 6.0% increase over the \$33.1 million for the same period in 1999.

"2000 proved to be a pivotal year in getting the company better positioned for future growth" said Charles A. Ledsinger, Jr., president and chief executive officer. "The settlement of the Sunburst receivable strengthens our balance sheet considerably. As a result, we have more capability to build our core business and to capitalize on new development opportunities. We also continue to aggressively buy back shares of our common stock, with our Board authorizing an additional five million shares just last week."

He added, "In our hotel franchising business, we enjoyed another good year for unit growth, executing almost 300 new domestic contracts and opening more than 300 new properties. In addition, we ended the year with nearly 500 projects under development."

As previously disclosed, the company recorded certain charges in the fourth quarter related to the settlement of the Sunburst receivable, a corporate-wide restructuring and its investment in Friendly Hotels.

Choice recognized a \$5.6 million charge related to the company's domestic and international operations reorganization. The restructuring will improve service and support to its franchisees and create a more focused and competitive overhead structure. The restructuring charges also include the costs related to the termination of an in-room Internet initiative launched earlier in the year.

In January 2001, the company received from Sunburst approximately \$102 million in cash and an 11-3/8% seven-year senior subordinated note in the amount of \$35 million. For the year 2000, the company recognized a loss of \$7.6 million on the monetization of the Sunburst note.

In Europe, Friendly Hotels plc announced a comprehensive restructuring program to strengthen its balance sheet, improve its operations and accelerate growth of its franchising business. Elements of the restructuring include a revaluation of its real estate portfolio, disposal of non-core assets, restructuring of

its banking arrangements and certain commercial arrangements with Choice, and a strengthened management team. Choice recorded an equity loss of \$12.1 million associated with this restructuring for the year 2000. The company is required to recognize changes in Friendly's book value as an equity adjustment to its recorded investment.

System Growth

In 2000, the total number of domestic Choice hotels on-line grew 3.9% to 3,244 from 3,123 for 1999. For the year, the total number of domestic hotel rooms increased 3.0% to 265,962 from 258,120 in 1999. Choice executed 298 new domestic hotel franchise contracts in 2000 and opened a total of 274 domestic hotels. At the end of 2000, Choice had 493 hotels under development in its domestic hotel system, representing 39,539 rooms.

As of December 31, 2000, the total number of Choice hotels worldwide grew 3.4% to 4,392 from 4,248 as of the same date a year ago. This represents an increase of 3.6% in the number of rooms open of 350,351 from 338,254.

Domestic revenue per available room (RevPAR) increased 4.4% from \$35.17 in 1999 to \$36.72 for 2000. For fourth quarter 2000, RevPAR increased 4.7% from \$34.94 to \$36.59.

For the year 2000, the effective royalty rate increased 5 basis points from 3.80% to 3.85%. In fourth quarter 2000, the effective royalty increased from 3.86% to 3.89%.

Notable Events

Among the notable company events occurring since the previous earnings report:

* Authorization for an additional repurchase of up to five million shares of common stock. Since the Board first authorized a share repurchase program in October 1997, the company has repurchased approximately 16 million shares. Currently there are approximately 45 million shares of common stock outstanding.

* Selection of Arnold Worldwide/Washington as the company's agency of record to create a new marketing campaign for the company's hotel brands.

Choice Hotels International is the second-largest hotel franchisor in the world with 4,392 hotels open, representing 350,351 rooms, and another 703 hotels under development, representing 60,927 rooms, in 43 countries, as of December 31, 2000. Its Comfort, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn and MainStay Suites brands serve guests worldwide.

Certain matters discussed in this press release may constitute forward-looking statements within the meaning of the federal securities law. Such statements are based on management's beliefs, assumptions and expectations, which in turn are based on information currently available to management. Actual performance and results could differ from those expressed in or contemplated by the forward-looking statements due to a number of risks, uncertainties and other factors, many of which are beyond Choice's ability to predict or control. For further information on factors that could impact Choice and the statements contained therein, we refer you to the filings made by Choice with the Securities and Exchange Commission, including its registration statement on Form S-4 and report on Form 10-Q for the period ended June 30, 1999.

Additional corporate information may be found on the Choice Hotels' Internet site, which may be accessed at <http://www.choicehotels.com/>

Comfort, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites and ChoiceBuys.com are registered trademarks and service marks of Choice Hotels International, Inc.

Choice Hotels International, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share amounts)

| | Three Months Ended | | | For the Year Ended | |
|--|--------------------|--------------|--------------|--------------------|--|
| | December 31, | December 31, | December 31, | December 31, | |
| | 2000 | 1999 | 2000 | 1999 | |

| | | | | | |
|---------------------------------------------|----------|----------|-----------|-----------|-------|
| Revenues | | | | | |
| Royalty fees | \$35,117 | \$33,109 | \$137,721 | \$128,653 | |
| Initial franchise fees and relicensing fees | 2,092 | 4,016 | 12,154 | 13,910 | |
| Partner service revenue | | 3,783 | 2,892 | 10,300 | 9,055 |
| Other | 3,556 | 3,640 | 7,297 | 6,111 | |
| Total revenues | 44,548 | 43,657 | 167,472 | 157,729 | |

Operating expenses

| | | | | | |
|-------------------------------------|--------|--------|--------|--------|-------|
| Selling, general and administrative | 16,998 | 17,051 | 57,780 | 55,860 | |
| Restructuring charges | 5,637 | -- | 5,637 | -- | |
| Depreciation and amortization | | 3,238 | 2,694 | 11,623 | 7,687 |
| Total operating expenses | 25,873 | 19,745 | 75,040 | 63,547 | |

| | | | | | |
|------------------|--------|--------|--------|--------|--|
| Operating income | 18,675 | 23,912 | 92,432 | 94,182 | |
|------------------|--------|--------|--------|--------|--|

Other

| | | | | | |
|------------------------------|---------|---------|----------|----------|--|
| Interest and dividend income | (3,849) | (4,478) | (15,534) | (17,146) | |
| Interest expense and other | 4,371 | 4,349 | 18,495 | 16,409 | |
| Equity loss-Friendly Hotels | 10,291 | 175 | 12,071 | 380 | |
| Loss on note-Sunburst | 3,465 | -- | 7,565 | -- | |
| Loss on investment | -- | 1,328 | -- | 1,328 | |
| Loss of sale of property | 254 | -- | 253 | -- | |
| Gain on sale of stock | -- | -- | -- | (1,260) | |
| Total other | 14,532 | 1,374 | 22,850 | (289) | |

| | | | | | |
|----------------------------|---------|----------|----------|----------|--|
| Income before income taxes | 4,143 | 22,538 | 69,582 | 94,471 | |
| Income taxes | 1,616 | 8,529 | 27,137 | 37,316 | |
| Net income | \$2,527 | \$14,009 | \$42,445 | \$57,155 | |

| | | | | | |
|--------------------------|----------|----------|----------|----------|--|
| Recurring net income (a) | \$14,786 | \$14,839 | \$58,373 | \$57,236 | |
|--------------------------|----------|----------|----------|----------|--|

| | | | | | |
|-------------------------------------|--------|--------|--------|--------|--|
| Weighted average shares outstanding | 52,512 | 53,957 | 52,895 | 54,859 | |
|-------------------------------------|--------|--------|--------|--------|--|

| | | | | | |
|----------------------------|--------|--------|--------|--------|--|
| Diluted shares outstanding | 52,827 | 54,830 | 53,253 | 55,667 | |
|----------------------------|--------|--------|--------|--------|--|

| | | | | | |
|----------------------------|--------|--------|--------|--------|--|
| Diluted earnings per share | \$0.05 | \$0.26 | \$0.80 | \$1.03 | |
|----------------------------|--------|--------|--------|--------|--|

Diluted recurring earnings per share

| | | | | | |
|-----|--------|--------|--------|--------|--|
| (a) | \$0.28 | \$0.27 | \$1.10 | \$1.03 | |
|-----|--------|--------|--------|--------|--|

(a) Recurring net income and diluted recurring earnings per share exclude the impact of the equity loss-Friendly Hotels, the loss on note-Sunburst, loss on investment, loss of sale of property, gain on sale of stock, and restructuring charges.

Choice Hotels International, Inc.
Consolidated Balance Sheets

(In thousands)

| | December 31, | December 31, |
|--|--------------|--------------|
| | 2000 | 1999 |

(Unaudited)

| | | |
|-----------------------------------|----------|----------|
| ASSETS | | |
| Cash and cash equivalents | \$19,701 | \$11,850 |
| Other current assets | 32,386 | 30,072 |
| Total current assets | 52,087 | 41,922 |
| Fixed assets and intangibles, net | 174,772 | 166,062 |

| | | |
|-------------------------------|---------|---------|
| Note receivable from Sunburst | | |
| Hospitality | 137,492 | 141,853 |
| Investments and other | 119,770 | 114,821 |

| | | |
|--------------|---------|---------|
| Total assets | 484,121 | 464,658 |
|--------------|---------|---------|

LIABILITIES

| | | |
|-----------------------------------|--------|--------|
| Current portion of long-term debt | 50,046 | 44,646 |
| Other current liabilities | 43,784 | 44,097 |
| Total current liabilities | 93,830 | 88,743 |

| | | |
|---------------------------------|---------|---------|
| Long-term debt | 247,179 | 262,710 |
| Deferred income taxes and other | 53,020 | 47,589 |

| | | |
|-------------------|---------|---------|
| Total liabilities | 394,029 | 399,042 |
|-------------------|---------|---------|

| | | |
|----------------------------|--------|--------|
| Total shareholders' equity | 90,092 | 65,616 |
|----------------------------|--------|--------|

| | | |
|--------------------------------------------|-----------|-----------|
| Total liabilities and shareholders' equity | \$484,121 | \$464,658 |
|--------------------------------------------|-----------|-----------|

Choice Hotels International
Supplemental Operating Information by Brand
Domestic Hotel System
(Unaudited)

| | For the Quarter Ended December 31, | | For the Year Ended December 31, | |
|--|------------------------------------------|------|---------------------------------------|------|
| | 2000 | 1999 | 2000 | 1999 |

COMFORT INN

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 1,291 | 1,246 | 1,291 | 1,246 |
| Rooms | 100,988 | 97,592 | 100,988 | 97,592 |
| Avg. Daily Rate (ADR) | \$62.00 | \$58.95 | \$62.03 | \$59.09 |
| Occupancy % | 63.4% | 64.1% | 63.2% | 64.2% |
| RevPAR | \$39.29 | \$37.79 | \$39.18 | \$37.91 |
| Effective Royalty Rate | 4.31% | 4.28% | 4.27% | 4.21% |

COMFORT SUITES

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 277 | 224 | 277 | 224 |
| Rooms | 21,773 | 18,135 | 21,773 | 18,135 |
| Avg. Daily Rate (ADR) | \$71.50 | \$69.14 | \$71.89 | \$69.70 |
| Occupancy % | 65.6% | 65.9% | 66.0% | 66.7% |
| RevPAR | \$46.87 | \$45.57 | \$47.47 | \$46.48 |
| Effective Royalty Rate | 4.64% | 4.60% | 4.64% | 4.57% |

QUALITY

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 436 | 431 | 436 | 431 |
| Rooms | 49,191 | 49,331 | 49,191 | 49,331 |
| Avg. Daily Rate (ADR) | \$63.07 | \$60.22 | \$64.05 | \$61.58 |
| Occupancy % | 57.7% | 56.9% | 57.6% | 57.8% |
| RevPAR | \$36.38 | \$34.28 | \$36.86 | \$35.58 |
| Effective Royalty Rate | 3.46% | 3.43% | 3.44% | 3.41% |

CLARION

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 114 | 112 | 114 | 112 |
| Rooms | 18,537 | 18,815 | 18,537 | 18,815 |
| Avg. Daily Rate (ADR) | \$80.71 | \$78.68 | \$81.37 | \$75.10 |
| Occupancy % | 58.2% | 59.6% | 58.8% | 59.1% |
| RevPAR | \$46.98 | \$46.90 | \$47.86 | \$44.41 |
| Effective Royalty Rate | 2.71% | 2.44% | 2.57% | 2.30% |

SLEEP

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 261 | 224 | 261 | 224 |
| Rooms | 20,158 | 17,199 | 20,158 | 17,199 |
| Avg. Daily Rate (ADR) | \$55.85 | \$54.10 | \$55.82 | \$54.01 |
| Occupancy % | 59.1% | 59.3% | 59.6% | 60.1% |
| RevPAR | \$32.99 | \$32.07 | \$33.25 | \$32.45 |
| Effective Royalty Rate | 3.88% | 3.82% | 3.85% | 3.82% |

MAINSTAY

| | | | | |
|--------|-------|-------|-------|-------|
| Hotels | 34 | 29 | 34 | 29 |
| Rooms | 3,099 | 2,681 | 3,099 | 2,681 |

| | | | | |
|------------------------|---------|---------|---------|---------|
| Avg. Daily Rate (ADR) | \$65.91 | \$59.99 | \$63.69 | \$58.87 |
| Occupancy % | 70.1% | 69.2% | 70.0% | 66.0% |
| RevPAR | \$46.17 | \$41.53 | \$44.59 | \$38.88 |
| Effective Royalty Rate | 1.18% | 3.58% | 1.23% | 3.50% |

ECONO LODGE

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 684 | 691 | 684 | 691 |
| Rooms | 42,611 | 43,754 | 42,611 | 43,754 |
| Avg. Daily Rate (ADR) | \$45.77 | \$43.89 | \$46.33 | \$44.77 |
| Occupancy % | 53.1% | 52.8% | 52.9% | 53.8% |
| RevPAR | \$24.32 | \$23.19 | \$24.51 | \$24.08 |
| Effective Royalty Rate | 3.86% | 3.84% | 3.84% | 3.82% |

RODEWAY

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 147 | 166 | 147 | 166 |
| Rooms | 9,605 | 10,613 | 9,605 | 10,613 |
| Avg. Daily Rate (ADR) | \$46.57 | \$44.96 | \$48.25 | \$45.66 |
| Occupancy % | 50.7% | 49.5% | 50.3% | 50.0% |
| RevPAR | \$23.60 | \$22.26 | \$24.25 | \$22.83 |
| Effective Royalty Rate | 2.87% | 2.98% | 2.79% | 2.79% |

TOTAL CHOICE - DOMESTIC

| | | | | |
|------------------------|---------|---------|---------|---------|
| Hotels | 3,244 | 3,123 | 3,244 | 3,123 |
| Rooms | 265,962 | 258,120 | 265,962 | 258,120 |
| Avg. Daily Rate (ADR) | \$61.10 | \$58.40 | \$61.45 | \$58.46 |
| Occupancy % | 59.9% | 59.8% | 59.8% | 60.2% |
| RevPAR | \$36.59 | \$34.94 | \$36.72 | \$35.17 |
| Effective Royalty Rate | 3.89% | 3.86% | 3.85% | 3.80% |

SOURCE: Choice Hotels International

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Website: <http://www.choicehotels.com/>

<https://stage.mediaroom.com/choicehotels/2001-02-12-Choice-Hotels-Reports-2000-Results-Recurring-Diluted-EPS-Increases-7>