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RLH - Q2 2017 Red Lion Hotels Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the RLH Corporation Second Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. David Wright. Thank you, Mr. Wright. You may begin.

David Marshall Wright - *Red Lion Hotels Corporation - VP of Accounting, Tax & External Reporting*

Thank you. Hello, and welcome to RLH Corporation's Second Quarter 2017 Earnings Call. With us today are President and Chief Executive Officer, Greg Mount; and Executive Vice President and Chief Financial Officer, Doug Ludwig. Also joining the call for the question-and-answer period is Aaron Howard, Vice President of Financial Planning and Analysis; and myself.

Before we get started, I want to remind you that the company's remarks today contain forward-looking information, defined by the SEC, that is subject to a number of risk factors that may cause actual results to differ materially from those expressed or implied. These risks are discussed in the annual report filed with the SEC on Form 10-K on March 31, 2017. The report is available on rlhco.com, Investor Relations or through the SEC website at sec.gov.

The company will also be referring to a number of non-GAAP measures. The reconciliations of these measures to their comparable GAAP measure is provided in the table to the press release issued today. That release is also available on the Investor Relations section of our website. For the purpose of this discussion today, the company will be referencing second quarter results on a comparable basis for all periods presented.

I'll now turn over the call to Greg Mount.

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Thank you for joining us today. Our team continued to execute on our key business plan objectives in the second quarter. Similar to the first quarter, our financial results for the second quarter were solid. And we remain confident that we can achieve full year results towards the top of our guidance ranges. The second quarter franchise segment results continued to demonstrate a strong improvement in franchise revenues, which increased by over 200% compared to the second quarter of 2016. Our brand acquisition, completed as of September 30, 2016, contributed the large portion of our franchise fee growth in the second quarter of 2017.

Our franchise division profits increased over 400% to $3.6 million and our profit margin increased from 16.1% in the second quarter of 2016, to 28.6% in the second quarter of 2017. These franchise segment results demonstrate the continued improvement in our franchise segment profit contribution and the importance of the strategic steps taken toward our asset-light business model.

The key factor for driving the growth of our franchise business is adding new franchise contracts to the system. Our development team has been producing against their business brand targets in the second quarter of 2017, and year-to-date. A great job so far this year in this regard. We have executed 44 franchise agreements in the second quarter and 78 agreements year-to-date as compared to 14 deals during the first half of 2016. Based on the number and quality of the deals we are currently working on, we are increasing our guidance for the full year to 100 to 120 new contracts. We are benefiting from the combination of strong new contract growth and low attrition rate of our franchise contract base. Year-to-date, our attrition rate is 2.5% of our contract base, which is well below historical attrition rates for the hotel franchise industry.

We are pleased with the geographic diversity of the franchise agreements. For example, we have executed our first agreement in Texas for a Red Lion Hotel. We recently signed agreements for mid-scale hotels in Pennsylvania, Oregon and Washington State. Subsequent to the end of the quarter, we signed an agreement for a Red Lion Hotel in Arlington, Virginia. We also signed agreements for economy hotel properties in Downtown Augusta, Georgia, and the River Walk of San Antonio, Texas.

We also recently announced exciting technology advances: New check-in, checkout and digital key applications. The goal of these new technology advances is to enhance the guest experience by simplifying and reducing friction in the guest interactions and improving the daily operational efficiencies, which will translate into fewer guest inconveniences. Using mobile technology to enhance the customer experience remains a key focus of RLH Corporation.

We will also begin the deployment of Apple TV in our Hotel RL brand, which will provide a seamless, in-room television experience via a number of different apps combining free-to-guest TV, offering DirecTV, device management, and iTunes user security. The app will also feature content from hotels -- Hotel RL's Living Stage which highlights local speakers, performers and artists on-site across the Hotel RL brand.

Our Hello Rewards app now gives guests the ability to conveniently check-in and checkout right from their smartphone, as well as manage their loyalty membership account and redeem rewards. Hotel RL has now fully integrated digital keys for the first time in the Hello Rewards app, allowing guests to completely bypass the registration desk, and use their smartphone to check in, unlock their door, order food and request service, among many other relate -- guest-related needs.

A great example is our recent solutions to provide valet staff with Apple watches, and to introduce self-service iPad kiosks for lobby areas. Using the new application, valet staff can manage and act on a car retrieval request from their hotel-issued Apple watch, without physically being present at the hotel valet stand. It is equally convenient for the guests, reducing the potential wait period for the car return.

New self-service kiosks will be available for guests at the Hotel RL brand to use for quick and convenient check-in, especially if there are lines at registration. Guests can also contact customer support from the kiosks or the mobile app if they have questions, need assistance or want to submit a room upgrade request.

We recently presented the relaunch of the Signature brand concept as a new upper economy and mid-scale brand, with the lifestyle appeal of a boutique property. The new concept projects a fresh, colorful personality, with a penchant for spontaneity, providing the revival of forgotten assets.

Inspired by the Golden Age of Travel and mid-century esthetics, Signature is a breakthrough concept that aims to bring more developers into the family of RLH Corporation franchisees. We have set out to create a modernized Americana experience that excites guests and allows a solid return on investment to franchise owners. Style and personality do not need to come at a premium, when we can scale the unique offering.

Utilizing stunning visuals and captivating motifs, Signature will bring to life the luster and feel of the Golden Era of Americana, creating a truly memorable stand-alone in the upper economy and mid-scale segments.

With an owner-first mindset, we have evolved Signature as an urban-chic product, designed for consumers in search of an urban economy brand that is distinctive and hip, yet architecturally iconic hotels begging for a new beginning. Signature is designed for conversion of existing assets, even motels or motor lodges, to create a unique experience while benefiting from RLH Corporation's comprehensive distribution, marketing and proprietary yield management systems.

In conclusion, we will continue the careful execution of our business plan in the second half of 2017. We are excited about the continued strong growth of our franchise revenues and further improvements in the franchise operation's profit margins. The growth of the franchise profits will be further supplemented by the new franchise contracts that we will be executing over the remainder of the year.

We continue to see increasing deal momentum, primarily due to the range of brand alternatives we can offer to hotel owners and lenders in combination with the flexibility we can offer the owners on contract structures and common-sense property improvement plan recommendations. Owners are also excited about the demonstrated power and immediate performance advantages provided by our proprietary guest management system, RevPak.

I would now like to turn the call over to Doug Ludwig to discuss the financial outlook for the company.

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

Thanks, Greg. We've executed another very good quarter in the 2017 fiscal year, with better than anticipated EBITDA and profitability. As you review the second quarter results, it is important to carefully consider the business unit results. The most material improvement in operating earnings was contributed by our franchise segment. Franchise revenues increased to $12.4 million as compared to $4.1 million in the second quarter of 2016. This increase was caused by both organic growth of adding new franchise agreements, and by our franchise brands acquisition, which we accomplished late in 2016. The increase in the franchise revenues caused the franchise profit margin to increase to 28.6% in the second quarter of 2017, as compared to 16% in the second quarter of 2016.

As previously disclosed, the entertainment business benefited from strong ticket sales relating to the Book of Mormon in the second quarter of last year. Book of Mormon contributed $800,000 to adjusted EBITDA in the second quarter of 2016, and due to variances in the 2017 show lineup, this could not be replicated in the second quarter of 2017.

If the Book of Mormon impact was eliminated from our results, our second quarter adjusted EBITDA would have increased by 26% versus the 10% increase reported, including the entertainment business. Without this nonrecurring impact of Book of Mormon, our second quarter adjusted net income would have been $1.1 million versus the reported amount of $260,000.

We acknowledge that the entertainment business is volatile and difficult to predict. We expect that on a full year basis, that the entertainment business adjusted EBITDA will be approximately $1 million as compared to 2016, where the entertainment business adjusted EBITDA was $2 million. As the entertainment business has no strategic connection to our hotel ownership or our hotel franchising business, we will consider opportunities to sell that business for the right price.

Moving on to the overall financial results for the quarter. Our second quarter 2017 consolidated revenues were $48.5 million, representing a 7.9% increase over the second quarter of 2016. Our hotel ownership revenues were virtually flat in the second quarter of 2017, as compared to 2016.

Franchise operations revenues tripled in the second quarter of 2017, representing an increase of $8.3 million. As previously mentioned, the entertainment segment revenues declined by $4.3 million or 62% in the second quarter of 2017, because of the success of the Book of Mormon production in the second quarter of last year.

Our total company divisional profit margin for the second quarter of 2017 was 25.1%, representing a 350 basis point improvement from the profit margin of 21.6% in the second quarter of 2016. The increased contribution from the higher-margin franchise segment, represents a fundamental shift to higher profit margins for the company, as franchise operations are benefiting from the first full year of the acquisition of the franchise brands closed in late 2016, as well as from new franchise agreements added year-to-date.

Corporate G&A costs were $4 million in the second quarter of 2017, as compared to $2.7 million in the second quarter of last year. This increase includes $900,000 of G&A costs related to our 2017 brand acquisitions that were not present in the second quarter of 2016. The G&A expense also includes accruals for variable compensation programs estimated based on our improved period-over-period adjusted EBITDA. For the 6 months ended June 30, 2017, adjusted EBITDA has increased by 48%, as compared to the same period last year.

Interest costs for the second quarter of 2017 were $2 million, a $500,000 increase as compared to the second quarter of last year. This increase in interest costs relates to our extensive renovation projects across our portfolio that were completed last year and the acquisition costs of the franchise brands in late 2016. Our consolidated financial statements require 100% consolidation of variable interest entities that we have, which represent the various joint venture entities related to our real estate holdings. We currently have real estate interests in 18 of our properties: 4 of the properties are lease-hold interests; 14 of our real estate investments are joint ventures. Our economic share of the joint ventures is 55%, with the exception of our Baltimore property, which is a 72% economic interest.

For the most recent 4 quarters through June 30, 2017, we have reported consolidated adjusted EBITDA of $22.3 million. This includes 100% of the consolidated results of the company. The company's joint venture partners' pro rata share of this is $6.8 million, and the RLH Corporation's pro rata share is $15.5 million.

Turning to our balance sheet, our consolidated debt is primarily our joint venture debt, which was $111 million as of June 30 2017. Our consolidated debt on a GAAP basis includes 100% consolidation of our variable interest entities, primarily, the noncontrolling minority interest of our joint venture partners. RLH's share of the debt position, based on its share of the joint ventures, is $63.4 million. Please note that the joint venture debt is only recourse to the secured hotel assets and not to RLH Corporation.

Our cash position as of June 30, 2017, was a total of $45.1 million, representing $32.2 million in cash and cash equivalents and $12.9 million in restricted cash, representing cash available for future debt service payments. A majority of the $12.9 million in restricted cash is held by the various JV entities. RLH Corporation's pro forma share of the cash and restricted cash positions, removing on a percentage basis the JV partner share, is approximately $28.0 million and $7.4 million, respectively.

From an economic perspective, we therefore have our share of long-term debt of $63.4 million, which is offset by a cash position of $35.4 million as of June 30, 2017. The strength of our balance sheet gives us substantial capacity to consider future acquisition activity of franchise agreements and minority real estate investments, which secure additional new franchise agreements.

Based on the strong first half of 2017 financial performance, combined with the many new contract additions to RLH and a positive outlook for the second half of the year, we are narrowing our EBITDA guidance from our initial 2017 EBITDA estimate of $21 million to $23 million, to $22 million to $23 million.

This concludes our prepared comments. And we would now be pleased to respond to any questions. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Eric Wold of B. Riley Financial.

Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

Couple of questions. I guess, first on looking at the number of hotels in operation, at least in your system-wide at quarter end. You went from in Q1, you had net additions through Q1 to net, I guess, terminations in Q2. Maybe talk about that, and kind of based on your opening schedule and the visibility, when you expect that to flip back to the other direction?

Aaron Howard

Yes, Eric, this is Aaron. The Q2 terminations were driven mostly in our economy space, and that seems to be more of the seasonality coming into the summer. We anticipate that those will likely move back to a more regular number in the second half of the year. Long term, our pipeline continues to be strong, and we still have a lot of signs that will be opening in the next 6 to 9 months. So we anticipate that we'll continue to have growth through the next 6 to 9 months.

Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

Okay. And then on the attrition rate of 2.5%, I know you mentioned -- you mentioned it's much lower than kind of historical for the industry. How does that compare to what you were experiencing back with kind of legacy Red Lion, prior to Vantage, as well as kind of what Vantage was experiencing? Have you seen the rates overall come down recently, kind of once you've done that combination?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Yes. Eric, this is Greg. We have continued to see below than anticipated, based on historical terminations going -- as we've gone forward. And year-to-date, as we talked about at 2.5%, we're feeling very good about that number, given what we've seen historically. We've seen fewer in our upscale brands and mid-scale brands. As Aaron talked about, we did see a little bit of a spike in the second quarter. Nothing unusual historically, but based on the strong first quarter, definitely a little bit stronger in the economy segment, but we anticipate that to be more of the timing of the year, and as we get through the seasonality, and the season we're in right now, we expect that to come back down.

Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

Okay. And then on the acquisition environment, you talked about, obviously, your strong balance sheet for looking at potential additional acquisitions, but maybe take the opposite direction. With the company hotels and the JVs, what are your thoughts on monetizing those? And if you were to, how does that environment look in terms of being a seller?

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

Yes, I think we've got very good opportunity there to act on a number of our real estate positions. They have performed exceptionally well, most of them are running about 2 years ahead of schedule in getting to what we thought exit values would be. And we've been doing a lot of research in the market, but it also is subject to our joint venture partners' approval to begin those actions. So we're having those discussions now, we'll see how they conclude over the next few weeks or month. So I think good opportunity, the values we're seeing will easily take out the debt that's at the joint venture level. So it provides the opportunity for us to re-purpose that debt capacity from the real estate side to the franchise acquisition side. So I think we're in good shape.

Eric Christian Wold - *B. Riley & Co., LLC, Research Division - Senior Equity Analyst*

Okay. Then just final question for me, just on the P&L. Your franchise costs ticked up a little bit, just from $8.5 million to $8.9 million. Is any of that seasonality? And then, is that -- kind of you expect it to kind of remain in that kind of mid-to high $8 million range, at least near term, based on your plans to support the franchise group?

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

Yes, I mean, basically, what you're seeing is the -- some of the additional costs coming out of the brands that we acquired. They were not part of the cost base in the second quarter of last year. They are now part of the cost base. But as you see, our margins exploded in the quarter, and we expect that trend to continue going forward. So we're demonstrating the high margin capacity of our franchise business.

Operator

Our next question comes from the line of Mark Rosenkranz of Craig-Hallum Capital Group.

Mark Alan Rosenkranz - *Craig-Hallum Capital Group LLC, Research Division - Associate Analyst*

I appreciate the color you guys provided on the adjusted EBITDA, in terms of the trailing 12 months attributable to RLH. Just breaking that down a little further, would you say that kind of, just call it, 70% rate is attributable, kind of going forward throughout the year, especially in relation to your guidance, $22 million to $23 million. Could we expect about the same rate compared to the JV versus the RLH contribution?

Aaron Howard

Yes. Mark, it's Aaron. There is definitely some seasonality involved there when you think about that from an EBITDA perspective. Obviously, Q2 and Q3 are the biggest quarters from the hotel business, for our hotel business. So the larger -- our JV partners' share of the EBITDA is larger in Q2 and Q3 than it would be in the shoulder seasons. We feel like the annual number here that we have provided to give you a feel for what it is on annual basis is a very good approximation, obviously, what happened in the past and going forward.

Mark Alan Rosenkranz - *Craig-Hallum Capital Group LLC, Research Division - Associate Analyst*

Okay. Fair enough. That's helpful. And then switching gears a little bit. For the ABVI side, you recently added the Hello Rewards. I was just wondering if you can give kind of your initial reception on how that's been a benefit to the business going forward? And how has been the response of adding that loyalty program across the system?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

It's been positive and we've actually been seeing a nice inflow without much promotion with Hello Rewards bookings in the ABVIs, and we'll continue to position and market that accordingly. So our first goal, Mark, was really to get this deployed and get them acclimated on how to use this. We're still working through, with probably about 500 of them, to get their PMS situation correct, so that they can fully utilize RevPak in the way that it's meant to be used, along with Hello Rewards. But the early adopters have already started to see bookings come through there, which is a real positive and something that we're excited to see, because we, quite frankly, haven't really marketed it heavily, if at all, in our ABVIs at this point.

Mark Alan Rosenkranz - *Craig-Hallum Capital Group LLC, Research Division - Associate Analyst*

Okay, great. And then last one for me, I guess a congratulations on the headquarter move to Denver. Just wondering if you could discuss the rationale behind that, some of the benefits you expect to achieve kind of shifting geographies there a little bit?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Sure, happy to do that. When -- as we looked at the growth of the organization from when I started just under 4 years ago, we were 55 hotels in 8 states, and primarily up in the Pacific Northwest. We really needed to align our geography more towards the center of the country, and really, in a marketplace that had 2 really distinct things: One is great airlift, which we have in Denver, you can get direct to almost anywhere in the world; as well as having access to the human capital we need to be able to continue to grow and execute on our strategy, and we felt that Denver was really the best location for that. We'll continue to keep satellite offices in Spokane and Coral Springs, and to support those accordingly. But we're very excited about moving our headquarters now officially to Denver and really providing access that a good-size MSA like Denver provides us as we go forward.

Operator

(Operator Instructions) Our next question comes from the line of Ross Taylor of ARS Investment Partners.

P. Ross Taylor - *ARS Investment Partners, LLC - Partner*

When you were in my office a couple of months ago, I told you I was going to ask this question, so I'm going ask it. Since you guys did the secondary, the company, the stock, has lost $34 million or so of market cap in spite of the fact that you added about 12% to the outstanding share count. It's clear as an investor and talking to a lot of your investors, that, that timing of that deal, and the fact that the money was used for really nothing other than putting cash on the balance sheet, has cost the company a tremendous amount of goodwill with your shareholder base. And I understand you have a banker on the phone, so I don't expect you to say evil things about the banker. But what is the plan to rebuild that confidence, other than the kind of standard, yes, yes, of we're going to execute over time? I mean, it's obvious that you're in a space that's done very well, your peers are all up double-digits year-to-date. Red Lion shareholders are looking at a 20-plus% drop year-to-date. You have such a lack of investor confidence, that today in front earnings, the stock sold off 4% on volume that was half of what you were averaging per day before you did the secondary. It's clear there is a problem here, and there's a problem in conference. So what is the plan? You haven't seen -- insiders have not been buying. There's just a lot of these things, that quite honestly, as a long-term shareholder, leave me deeply concerned that the board is either out of touch or has a totally different plan than I do, which is to make money for my clients.

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

You know, I think you started by talking about execution. It is the #1 issue that we have to continue to accomplish and surpass expectations. We're doing that. You're seeing the impact of the acquisition kick in. Unfortunately, we can't undo the secondary offering that was done some time ago, but now, it's just really focusing on getting our margins up, showing you the franchise growth potential on the revenue side and executing additional deals. So we've got to be out there, telling the story, consistently, and explaining the good, bad and ugly of what we are executing. And we'll continue to do that.

P. Ross Taylor - *ARS Investment Partners, LLC - Partner*

Well, I would actually argue you -- you actually can undo the -- you can undo at least part of the secondary. I mean, the stock is trading 15% -- 12%, 15% under the deal price. It does strike me as you have some -- you have the ability to monetize your real estate, you have a property in Baltimore that you've been investing capital in each of the last couple of years, and not an insignificant sum of money on an annual basis. It does seem to me that there are opportunities here to do things that are more direct to rebuild investor confidence. I mean, I have to say that when you were here, I told you that I know at least one shareholder who refers to you guys as the Grinch who stole Christmas, and I think it'd be really nice to actually get a new moniker before the end of this year.

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Rob, you've been a long-term shareholder, and we appreciate that and we appreciate your thoughts. I think as we've discussed a number of times in the past, management is continuing to execute, the board recognizes and understands what your concerns are and we're going to continue to follow through on the commitment that we've identified, which we've been doing for quite some time. And I think if you look over the long term of the company, we have been, if not at 100%, pretty close to 99% execution on what we put out there as our strategy. And when you bring up the rate, that was the fourth quarter of last year. We've moved on and moved past that and now we're focusing on what we can control, and what we can execute against and we're continuing to do that. So thank you.

Operator

Our next question comes from the line of Deanna Ting of Skift.

Deanna Ting

Greg, it's Deanna Ting from Skift. I have just a couple of questions for you, sort of related to some news items that Red Lion has been in the news for lately. The first thing is just to see if there's any update regarding your lawsuit that was filed against Hard Rock?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Yes, we're not talking about any ongoing litigation. I think we put out some clear direction and information in regards to that.

Deanna Ting

Okay, great. And then I also wanted to ask you a little bit if you're at all concerned about HNA Group's investment in Red Lion, given some of the news reports that have mentioned lately regarding HNA and its foreign investments.

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

No, HNA has been a good investor, since entering. We -- they have a board seat on our board. So we're in ongoing communications with them. They are a very large organization, and have many tentacles in many areas and those don't affect us whatsoever. So from our standpoint, they have continued to be a good owner and partner and have continued to meet their obligations and responsibilities and -- so we don't see any issues whatsoever.

Deanna Ting

Okay. And then I just wanted to ask you a little bit about an update on your partnership with Expedia. I think that was announced last August and I had a conversation most recently with your CMO, Bill, about it, and he sort of mentioned or hinted that there might be plans for similar partnerships with online travel agencies. I wanted to ask if that's somehow in the works or if you could give us some color as to how well that Expedia partnership has been as well?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Yes, the Expedia partnership and what we had put together with them has continued to pay dividends in the areas that we discussed, I think, over the past 6 months or so. And we're continuing to see lift in areas, particularly in our loyalty membership, as well as our ability to control and find additional demand for our system. So we've been pleased with the outcome of that. And as Bill indicated, there is a sense out there that we'd like to, if possible and were possible, to duplicate this with some of the other online travel agents, where it makes sense. So we'll continue to investigate those and we'll continue to be proponents of making sure that we're getting our fair share, or at least the share we'd like to see, out of a marketplace that arguably is 50% of the hotel business that's booked in the U.S.

Operator

Our next question comes from the line of Becky Kramer of The Spokesman-Review.

Becky Kramer

My question was also about the move of the company headquarters. I was just curious how many jobs that involved and how many people remain at the Spokane office?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

We haven't put any information out on that at this point, but as it stands right now, we have -- we have not seen any significant changes in the Spokane office.

Becky Kramer

Okay. And what is the total there?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

It's not a number we've disclosed. So -- but again, as I said, we haven't seen any significant changes in the numbers there.

Becky Kramer

Okay. And just one follow-up question. Did I also understand that TicketsWest could be for sale?

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

We're always looking at opportunities and I've discussed in the past that if we got the right price for TicketsWest, then we would look to sell that asset. And at this point, we'll continue to look for opportunities to monetize that at some point.

Operator

Our next question comes from the line of Will Settle of Woodmont.

Will Edwards Settle - *Woodmont Investment Counsel, LLC - Principal and Portfolio Manager*

Could you -- and I appreciate the additional disclosure around the franchise business and just kind of exiting out the JV contribution. But on the franchise, the $3.6 million, I think it was, or $3.4 million of EBITDA in the quarter. Help me understand the seasonality there. And I know with Vantage, it seems the revenue model, the franchise revenue model, the units versus RevPAR hotel revenue. Just help me understand is that $3.6 million will -- is a good run rate, or if that fluctuates based on overall revenue or seasonality.

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Yes, Will, I think that you -- again, we didn't really break it out for you, but what you're seeing is you're seeing a combination of the acquisition of Vantage as well as the organic growth that's occurring in our system. And I think that it's something that we haven't identified and broken it apart, but I think that you can look at that number and assume that a large portion of it is going to be based on the acquisitions, based on what transacted historically.

Will Edwards Settle - *Woodmont Investment Counsel, LLC - Principal and Portfolio Manager*

Right. So that's before. In terms of kind of a go-forward, if we're trying to model quarter-to-quarter, on the franchise front. That was an encouraging number, I thought.

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Yes, no, it's a very encouraging number, and I think as Doug talked about, we're continuing to see that lift in that growth, not only in the revenue, but also in the margin, where we got to 28.6% this year, where I think we were about 16% or 17% last year. So as you look at the -- I think that you're starting to see -- and again, you have got to understand that you have a little bit of mix of the flat fee, which is the acquisition, but you also have the traditional percentage fee business that's kicking into high season. So it's very hard to say, for us to say to you that would be a good run rate. I think you need to kind of go through this year, and when we get to the fourth quarter, I think it'll be very clear for you.

Operator

Our next question comes from the line of Rick Murray with Midwest Advisors.

Richard Murray

Yes, I wanted to follow up on one of the previous questions, and I guess maybe I missed the answer, but what is the plan for the capital that was raised that is just sitting on the balance sheet right now?

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

I mean, it's basically for future franchise acquisition activity. So we're always in the market, we're always looking. We're always considering franchise acquisitions to go along with very strong organic growth that we're putting up this year. So it's just a matter of finding the right value. We're very disciplined on the value front, so we're not going to look at something like at La Quinta at some extraordinary multiple. We're just not going to do that. We're going to buy smartly and integrate smartly. And between the equity raise and the cash position that we currently have, we have good capacity. It will get better as we divest some of the real estate. So we're well-positioned on the M&A front.

Richard Murray

So are there currently perspective targets that you are in discussions with or have identified?

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

Early stages, for sure. And so until we get more advanced, we will not be specific about it, but we're always looking.

Richard Murray

Okay. How long have these early-stage discussions been going on?

Douglas L. Ludwig - *Red Lion Hotels Corporation - CFO, EVP and Treasurer*

Through most of this year, so...

Gregory T. Mount - *Red Lion Hotels Corporation - CEO, President and Director*

Rick, we've continued to be disciplined, and we have stood by what we talked about as part of the raise, is making sure we have the dry gunpowder to execute on a deal if and when it became available. Sometimes those come along sooner and sometimes they come along later. But I can tell you that we remain and continue to be very active, and we continue to be very focused on not only our organic growth, but looking for other opportunities to acquire other franchise systems. And that's gone unchanged.

All right. Well, thank you, everyone for joining us today. We will continue to be active on the Investor Relations front with various calls, meetings and lodging conferences, so that we can discuss our progress and repositioning, and growing our franchise operations, including significant new unit growth. Have a great day.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. A replay of today's conference will be available until August, 17, 2017. You may access the replay by dialing (877) 660-6853 and entering the ID number of 13665266.

And with that, ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time and have a wonderful rest of your day.