**RLHC**
**First Quarter 2017 Earnings Conference Call**
**May-08-2017**
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Operator: Greetings and welcome to RLHC's First Quarter 2017 Earnings Conference Call.

At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Ms. Evelyn Infurna, Investor Relations for RLHC. Thank you, Ms. Infurna. You may now begin.

Ms. Evelyn Infurna: Thank you. Hello and welcome to RLHC's first quarter 2017 earnings conference call. With us today are President and Chief Executive Officer, Greg Mount, and Executive Vice President and Chief Financial Officer, Doug Ludwig. Also joining for Q&A are Aaron Howard, VP of Finance, Planning and Analysis, and David Wright, VP of Accounting, Tax and External Reporting.

Before we get started, I want to remind you that the company's remarks today contain forward-looking information as 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 risk factors are discussed in detail in the annual report filed with the SEC on Form 10-K on March 31st, 2017. The report is available on rlhcco.com or through the SEC website at SEC.gov.

The company will also be referring to a number of non-GAAP measures. The reconciliation of these measures to their comparable GAAP measure are provided in the table to the press release issued today. That release is also available on the investor relations section of our website.

For purpose of the discussion today, the company will be referencing first quarter results on a comparable basis for all periods presented

I will now turn the call over to Greg. Greg?

Mr. Greg Mount: Thank you for joining us today. The lodging backdrop thus far in 2017 has been healthy, supported by broader economic optimism. Based on the strong first quarter financial results and the current outlook for the markets in which the company operates, the company remains confident in our guidance and anticipates it can achieve full year results towards the top of the guidance range.

Our first quarter results demonstrate the shift of our business model to the franchise fee driven revenues of profitability that we've been positioning over the past few years. Overall, first quarter results outpaced our expectations in what has historically been one of the seasonally slower quarters. These results will be further supported in future quarters from our progress to date in signing franchise license agreements, our pipeline of recently signed but yet to be opened hotels and the interest in our brands, which has positioned us well as we move ahead, including our execution of new agreements with 23 expired franchise properties.

For the first quarter 2017, RLHC delivered healthy system-wide same store hotel rev par growth of 2.4 percent, driven by improvements in ADR across all brands. Franchise revenue more than doubled year-over-year, and franchise division profit was 2.4 million with a 21.8 percent margin compared with break even last year, benefiting from our 2016 acquisition activity and the signing, opening and ramp up of rev par of the recently added franchised hotels. This contribution is positioned to grow further, given the 13 upscale and midscale franchise licenses we have signed that have yet to open.

Over the last several months, the--we've been working to stratify our acquired brands and recategorize the number of brands we are supporting based on hotel size, quality and fit. While there is still some work to be done, we've begun to work with our franchisees and will look to complete the process by the end of the year.

Regarding the overall integration, we were able to complete the move of all thousand plus acquired hotels onto the RLAC website two months ahead of plan as well as moving them to our web platform. These improvements allow us to include these hotels in our digital marketing campaign and promotional marketing, improve their system speed and reliability and sell all of these brands through all of our channels.

We also transitioned Managed Rewards members to become Hello Rewards members. These are significant accomplishments because they allow us to grow our capture rate in mass marketplaces and use that share of customer acquisition and then perform more one-to-one marketing that drives increased bookings to our own website. This model works. We've seen our Hello Rewards membership grow over 40 percent with just over 140 hotels. Now, we will be extending rates and availability to over 1,1-- hotels.

At April AAHOA, the Asian American Hotel Owners Association Conference, we also unveiled a new logo and look for the Signature Inn brand. We have evolved Signature Inn as an urban chic product designed for consumers in search of an urban economy brand that is distinctive, hip yet architecturally iconic hotel begging for a new beginning. Signature Inn provides owners a choice to create a unique experience while benefiting from RLHC's comprehensive distribution, marketing and proprietary yield management systems. In addition, we will continue to promote the Country Heart brand as an option for franchisees who are looking for greater flexibility in their franchising agreement. The brand, which will be sold exclusively via the internet as another industry first, allowing owners the flexibility of being independent while benefiting from our reservation system, distribution channels and negotiated deals with online travel agents.

RLHC will continue to collect a flat monthly fee from the hotels in the Country Heart network in return for supplying the guest reservation and distribution infrastructure.

Although the first quarter has historically been our slowest quarter for executing new agreements, we are pleased to announce 34 new executed agreements to the RLHC system.

The 11 agreements for new locations are in seven different states, including two Red Lion Inn and Suites and nine America's Best Value Inns. We expect these new franchise agreements to contribute to our franchise fee revenue in the coming months. In fact, year-to-date, we have opened 22 new franchise hotels while also achieving our business brand targets for new unit growth.

The pipeline of applications that we are reviewing continues to be strong with a cross section of interest across all brand segments. We are seeing more owners with multiple properties exploring RLHC as an option for conversion across our variety of brands offering, and we look forward to sharing additional, uh, progress on these types of opportunities over the course of the year.

On the Hotel RL front, we are exceeding on our expectations with respect to hotels in the system. We started the brand just two years ago and now have 11, of which seven are open. Hotel RL is important to our strategy and can significantly move the needle on profitability for the entire enterprise due to the length of our contracts and the higher fee base. Hotel RL is clearly on the cutting edge, and interesting, the Living Stage, another industry-first concept, is being emulated by others.

We have further work to do with respect to Hotel RL in penetrating major markets and continue to look for ways to expand its footprint, including the deployment of our own equity to help seed expansion. The brand is being well received and generated 4.8 percent rev par growth in the first quarter.

It's still in the early days, but we are encouraged by the progress we have made thus far and guest response to the Hotel RL concept. It's also important to understand that 43 hotels remain to be opened over the next 12 to 18 months with next year's openings marking the completion of three Hotel RL new-builds.

The momentum we are seeing in our pipeline is directly attributable to the flexibility we afford owners in our contract structure, [00:08:40] requirements, and frankly, the power of our proprietary guest management system, RevPAK. Importantly, in the quarter, we have begun deploying a streamlined version of RevPAK or RevPAK Light to the recently acquired brand franchisees. As RevPAK Light becomes an integrated part of their operating procedures, along with the rollout of Hello Rewards across our franchise base, the newest members of the RLHC family will understand firsthand the power of the proprietary platform we build and the benefits of utilizing such a powerful tool to maximize yield, lower reservation cost and drive the profitability of their properties.

Before moving on to our financial results, I want to welcome excellent additions to the RLHC family starting with Doug Ludwig, our new Chief Financial Officer. Doug joined us in early April, and we are very excited to have him on board. Doug brings extensive experience to our FP&A team and strategic insights from his time as a CFO at Four Seasons, which we can benefit from. He has brought new energy to our Finance and Accounting Team, and we look forward to getting Doug out and on the road to meet with our investors and analysts.

In addition, I would like to welcome two new Board members, Bonny Simi, President of JetBlue Technology Ventures, which is JetBlue Airlines' innovation hub and investment incubation firm merging startups focused on technology, travel and hospitality, and Joe Megibow, who is a Board advisor to a number of online companies including Joyus, an online retail, Clicktail, a customer experience platform and Digital Mortar, an in-store analytics platform. We are excited to have Bonny and Joe join us, given RLHC's commitment to leveraging technology innovation across our platform to enhance the profitability of our franchisees as well as elevate our guest experiences across all of our brands. We think the addition of these three individuals to our team will help to advance RLHC's strategic direction.

With that, I'd like to now turn the call over to Doug.

Mr. Doug Ludwig: Thanks, Greg.

I'm very excited to join the RLHC team. I'm looking forward to getting out on the road shortly to meet with everyone.

Now turning to our financial results, RLHC reported system-wide same store hotels rev par growth of 2.4 percent. We saw strength in ADR off all of our brands, and in some cases, we did sacrifice some occupancy for higher rates, which has a greater contribution to overall profitability. On system-wide basis, ADRs rose 4 percent, and we lost roughly 80 basis points in occupancy.

We saw particular strength in revenue growth from our mid-scale franchise group from a year ago based on additional hotel count plus strong rev par performance of the property.

Our company operated same store hotels growth improved by 2.4 percent in ADRs as 2016's expensive renovations have allowed us to achieve higher rates. We expect the comparison of our company operated hotels to improve over the course of the year, given the prior year's disruption from the renovations, particularly during the third quarter, which has historically been the seasonal peak of our hotels, that completed the repositioning program.

Our group bookings base for 2017 continues to be strong with 7 percent growth over the same period in 2016.

With respect to some highlights on our Hotel RL's, Baltimore and Washington D.C. achieved rev par gains of 11 percent and 3.7 percent respectively as compared to the prior year. And as Greg mentioned earlier, the broader hotel group of Hotel RL's achieved a healthy rev par growth of 4.8 percent.

Moving on to the financial results, total consolidated revenue for the quarter was 40 million, up from 32.7 million, reflecting the contribution of our acquisition activities of roughly 7.2 million along with 12 percent growth in our midscale franchise business and a $550,000 improvement from our operational hotels. Our franchise revenues increased significantly by 7.6 million to 10.9 million, driven by the addition of the acquired hotel brands and the significant progress and signing and opening new franchise properties.

Divisional profit also rose significantly to 2.4 million from a loss of $60,000 a year ago, reflecting the contribution of a larger scale franchise network.

Our total company operated hotel revenue rose 2 percent to 24.7 million. Notably, group room revenue was up 14 percent year-over-year. We expect to see overall improvement in the company operated hotel segment subject to continued strength in the lodging sector as we anniversary the disruptive impact from the 2016 renovations.

We think that our franchise operating margin improvement bears mentioning as the margin expanded to 15.2 percent on an organic growth pro-formed basis year-over-year and rose to 21.8 percent when also considering the contribution of the acquired brands.

Fundamental improvements in our franchise operating profit margins demonstrate the importance of our move to focus on the high margin franchise business model. As we achieve the benefits of our franchise unit growth target, our franchise operating margins should continue to improve.

Hotel division profit margin improved by 250 basis points on a combination of improved rev par as well as increased group business and food and beverage revenue. Expense controls due to lower occupancy levels also helped the margin. We expect to have continuing pressure on hotel margins as we enter our stronger seasons and add staff to handle our higher demand period. In addition, we are anticipating wage pressure from the legislated minimum wage increase, particularly those approved in the state of Washington.

Corporate, general and administration expenses in the first quarter rose 20 percent to 3.7 million in the quarter, reflecting the addition of overhead cost associated with running the acquired brands and several key staff positions added in the second quarter of last year. This expense also rose reflecting accruals for variable compensation program associated with our improved year-over-year performance.

We had a $170,000 income tax expense in the quarter. As we have discussed on prior calls, we anticipate maintaining a full valuation allowance against our income tax assets through at least 200--20018. And therefore, our ongoing cash income tax expense will remain minimal during 2017. We expect tax expense in the range of $800,000 to $1 million in 2017, the vast majority of which is deferred and will not result in cash tax payments.

The adjusted debt loss per share for the first quarter of 2017 was 22 cents versus a loss of 28 cents per share in the first quarter 2016. This was a significant improvement of 6 cents per share, and particularly when you consider that RLHC incurred an additional 1 million in incremental deprecation and amortization expense as well as incurring an incremental $500,000 of interest expense because of the recent capital expenditure project.

Consolidated adjusted EBITDA improved to 1.5 million from a loss of 700,000 in the prior year period after consideration for special items including the ongoing market adjustments related to the estimated contingent consideration for the recent acquisition.

Touching on liquidity and balance sheet, as of March 31, 2017, we had approximately 42.4 million in cash, cash equivalents and restricted cash. Our total consolidated outstanding long term debt was 110.5 million. After adjusting for the impact of consolidated accounting for our joint ventures, RLHC's pro rata share of debt is approximately $63 million. The combination of our liquidity position and our modest debt level positions the company well to fund our future growth opportunities.

This concludes our prepared remarks. Operator, can we please open the call for questions?

Operator: Thank you. We will now be conducting a question and answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Eric Wold of B. Riley. Please go ahead.

Mr. Eric Wold: Thank you, and good afternoon. Uh, a couple questions - I guess, one, starting on the pace of the franchise agreements, obviously, uh, you know, signing 34, you know, new renewals is a very solid pace compared to the, uh, 90, 120 guidance for the full year. Can you give a sense of kind of the pipeline, um, right now, um, and kind of maybe how it's spread throughout the various brands, not specific on the brands, but maybe, um, you know, economy versus midscale and maybe just RL to pick one?

And then, uh, second on that is, you know, I know it's still relatively early in the year, um, but how would you characterize, you know, kind of the churn of prior franchisees versus original expectations, um, you know, your ability to get them resigned versus, you know, losing them to other flags?

Mr. Greg Mount: Yeah, hey, Eric, thank you. Uh, you know, look, I think, you know, we haven't given any specific guidance on that, but I will say that the mix of business that we're seeing is what we expected. Uh, we're not seeing anything out of the ordinary as it relates to, uh, the number of franchises that we're securing, both in our Slug [sp] service brands versus our upscale brands. Um, and as we've talked about before, you know, the upscale brands, uh, tend to bring with them, uh, you know, uh, a higher, uh, revenue number.

Uh, you know, as it relates to the overall, you know, to the overall pipeline, uh, again, you know, without giving you specific guidance on it, you know, we feel very comfortable our pipeline continues to, uh, grow and evolve, uh, under the leadership of Roger Bloss, uh, and his team. Uh, they continue to be very successful. We're entering, you know, what arguably is the two busiest quarters from a franchise, uh, agreement execution standpoint. Uh, so, again, we anticipate to be on our guidance, uh, as we move forward throughout the year.

Mr. Eric Wold: And the churn?

Mr. Greg Mount: You know, the churn, uh, you know, the churn for us, you know, we're happy to see that we're actually seeing, uh, less, uh, churn than I think we've seen historically. Um, you know, we've got a team that's very focused on that. Uh, and, you know, the franchisees, particularly the new ones, are already starting to see the benefits of RevPAK. Uh, and I think that you're seeing, uh, fewer of them, uh, taking the opportunity to--you know, whether it be through a change of ownership or through, uh, a termination and making a change.

Mr. Eric Wold: To follow up on that, if I may, on kind of the Vantage, I guess, um, uh, one, I guess a broader question--um, I guess maybe it's two questions, but a broader question - uh, now that you've had Vantage in hand for, you know, six months or so, you know, what have you found to be the most surprising findings, uh, you know, positive or negatively, um, now that you've got your hands around everything? And then kind of going back to the prior question, as you get guys, uh, franchisees into the system, onto RevPAK, out of the website into the loyalty program, as they kind of get, you know, engrained in all that, has there been more discussions not just to keep them under the umbrella but actually move them into other, you know, if you want to call it higher end brands under that umbrella?

Mr. Greg Mount: Yeah, you know, uh, [unintelligible] really for us there really hasn't been any surprises. Uh, I think that, you know, what we anticipated and expected is what we're seeing. Uh, you know, the good news is, as we talked about, we were able to get the Vantage Hotels onto the, uh, website and our other systems pretty immediately. Uh, within days, those hotels were already benefiting from reservations coming directly through Hello Rewards, which I think is exciting to see.

Uh, you know, from a, you know, from an overall standpoint of the systems and what we're providing, I think that you're seeing, uh, you're seeing the Vantage Hotels, uh, benefiting from that, uh, almost immediately, uh, particularly as we get them through, uh, our channel management.

Mr. Eric Wold: Perfect. Thank you, guys.

Operator: Thank you. As a reminder, ladies and gentlemen, it is star, one if you would like to ask a question.

Your next question is from Alex Fuhrman of Craig Hallum. Please go ahead.

Mr. Alex Fuhrman: Thanks for taking my question. Um, you know, would love to follow up a little bit more about some of the franchisee agreements that were signed, um, you know, both in Q1 and last year. Obviously, it's been, uh, a pretty big number of new agreements you've put on. Can you give us a sense of how many of these opening should we expect to actually see, um, you know, hotels being opened over the next couple of quarters? I mean, how many of those do you think come in 2017, uh, versus 2018 and maybe farther out than that? Um, just trying to get a sense of--and if you could give us a little bit of color, I suppose, you know, just within the mix of brands, as well, um, that would be helpful as we try to, you know, figure out how much revenue these agreements are gonna start driving.

Mr. Greg Mount: Yeah, I think that, uh, when we looked at this, as we talked about, uh, in our recent call here, uh, you know, we have 43 executed agreements that we feel will open in the next 12 to 18 months. Uh, and while we haven't given any specific direction or guidance on what brands those will be, again, I think that it follows suit to the mix of business we've talked about, uh, previously and don't see anything unusual there, uh, and will continue to see, you know, continue to see those hotels up.

Um, and again, as we've talked about before, it ranges, you know, it ranges from, you know, some as quick as 30 days and some as long as 12 to 18 months, dependent upon, you know, the level of renovation or whether it's a new construction hotel. Um, uh, but generally, the sweet spot for us is three to six months.

Mr. Alex Fuhrman: Great, that's really helpful. Thanks. Um, and then, you know, just thinking about some of the statistics you guys threw out for Hotel RL, obviously, um, you know, it sounds like the concept has been doing well, um, comping positively on top of the openings for the first couple. Can you give us a sense of how these hotels have tended to open? Has there been a big sort of honeymoon for the first few months as there's a lot of buzz? You know, just trying to get a sense of, you know, how long it takes for the new hotels to settle into a, um, you know, more mature pace of business.

And, you know, just related to the Hotel RL concept, it seems like there's a number of ways it's obviously different from your other hotels, particularly given the, uh, the Coffee Experience and the Living Stage and bringing people really into the hotel. Can you give us a sense of the mix of business within the Hotel RL's you're seeing, how that compares to the rest of the hotels, uh, you know, within the Red Lion system and then more broadly just in terms of food and beverage and entertainment and how that plays into the overall hotel revenue?

Mr. Greg Mount: Yeah, look, I think that, you know, to really kind of address the ramp up period, you know, our folks spend, uh, a lot of time from a pre-opening standpoint really helping these hotels, both owners and operators, to really, uh, get them trained and up to speed on all aspects of not only being, uh, Hotel RL, but also, you know, understanding how to leverage the technology in RevPAK and the things that are very inherent to the program so that they start out as successfully as possible.

Um, you know, for us, it's really, you know, helping them create that culture early on, understanding what the right levers are to pull and the right buttons are to push. And we work very hard to do that.

There's still always gonna be a, uh, fair amount of time it takes them to kind of ramp up and stabilize and really start to get into full swing. You know, if you look at our own hotel, hotel, uh, in Baltimore, for example, you know, I think when we started out, we were, you know, like 150th in the Trip Advisor rankings, and that hotel just recently [unintelligible] the mid 30s, which is, uh, a phenomenal, uh, phenomenal move. And you go out and look at the comments, it really is resonating. And you look at all the components of it from, you know, the small plates

[sp] on the food and beverage to the coffee, uh, availability in the morning to the Living Stage--in fact, the content that's being created on the Living Stages, uh, is something that's gonna create additional opportunities and legs for us, uh, to really kind of extend this brand even further than I think what we thought. Uh, so we're very, very excited about that.

You know, from a performance standpoint, um, you know, the hotels are not ramping up anything not unlike you would see with any other typical, uh, brands. Uh, you know, they, uh, need to work through their, you know, their local business agreements, their group business, etc., uh, and start to stabilize, uh, through those efforts, which you're seeing them do and performing, uh, and really growing their rev par performance and getting to, you know, 100 percent of their fair share.

I think as Doug talked about, you know, overall, our RL's within our system hit a 4.8 percent rev par growth, uh, which is, if you think about it, you know, an exceptional performance, given, you know, kind of the greater marketplace.

Mr. Alex Fuhrman: Absolutely. That's terrific. Thank you very much, Greg.

Mr. Greg Mount: No, thank you. Appreciate it, Alex.

Operator: Thank you. And once again, ladies and gentlemen, please press star, one if you would like to ask a question.

And at this point, I would like to turn the conference back over to Mr. Mount for closing remarks.

Mr. Greg Mount: Great, thank you.

Thanks again for joining us today. We have a promising year of growth ahead of us. Uh, Doug and I look forward to sharing our progress with you all on the next call. Thank you for joining us.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. A replay of today's conference will be available until May 23rd, 2017. You may access the replay by dialing 877-660-6853 and entering the ID number of 13660655. And with that, ladies and gentlemen, this does conclude the conference. You may disconnect your lines at this time, and have a wonderful day.