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INN - Q4 2019 Summit Hotel Properties Inc Earnings Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Summit Hotel Properties Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I'd now like to hand the conference over to your speaker today, Mr. Adam Wudel, Senior Vice President of Finance and Capital Markets. Please go ahead, sir.

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### Adam Wudel - *Summit Hotel Properties, Inc. - SVP - Finance & Capital Markets*

Thank you, Liz, and good morning. I am joined today by Summit Hotel Properties Chairman, President and Chief Executive Officer, Dan Hansen; and Executive Vice President and Chief Financial Officer, Jon Stanner.

Please note that many of our comments today are considered forward-looking statements as defined by federal securities laws. These statements are subject to risks and uncertainties, both known and unknown, as described in our 2019 Form 10-K and other SEC filings.

Forward-looking statements that we make today are effective only as of today, February 26, 2020, and we undertake no duty to update them later. You can find copies of our SEC filings and earnings release, which contain reconciliations to non-GAAP financial measures referenced on this call on our website at [www.shpreit.com](http://www.shpreit.com). Please welcome Summit Hotel Properties Chairman, President and Chief Executive Officer, Dan Hansen.

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### Daniel P. Hansen - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Thanks, Adam, and thank you all for joining us today for our fourth quarter and full year 2019 earnings conference call. We are pleased with our fourth quarter performance, which drove full year RevPAR growth to the high end of our expectations.

For the fourth quarter, we reported pro forma RevPAR decline of 0.2%, which was driven by a 1.1% increase in occupancy, offset by a 1.2% decrease in rate. Our same-store portfolio posted a RevPAR increase of 0.3% in the quarter, driven by a 1.6% increase in occupancy and a 1.3% decrease in rate. The majority of the difference between the performance of our pro forma portfolio and same-store portfolios in the quarter is related to a



softer fourth quarter in the Portland assets we purchased in our joint venture, which was generally in line with our expectations at the time we closed on the transaction.

For the full year, pro forma RevPAR increased 1.0%, which was driven equally by occupancy and rate increases of 0.5%. And our same-store portfolio posted a RevPAR increase of 1.1%, driven by a 0.6% increase in occupancy and a 0.5% increase in rate. RevPAR growth in our portfolio outperformed the industry's full year RevPAR growth of 0.9% and meaningfully outperformed top 25 markets, which reported RevPAR growth of negative 0.5%, and the upscale chain scale, where RevPAR declined 0.2% last year. RevPAR in our competitive sets declined 0.7% in 2019.

Our pro forma portfolio finished the full year with 114.8 RevPAR index, which represents a 170 basis point increase in market share, and we gained over 250 basis points in market share during the fourth quarter, our best performance of the year. Our continued gains in market share showed the benefits we derive from high-quality renovations, our terrific locations and our creative revenue management strategies we utilized throughout the year.

Despite the top and bottom line challenges that persist across the industry, our intense focus on asset management kept our operating margins in check as operating expenses increased by just 1.9% on a per occupied room basis for our pro forma portfolio in 2019, which led to GOP margin contraction of just 65 basis points for the year. Hotel EBITDA margin contracted 78 basis points for the year. However, excluding a nearly 7.0% combined increase in property taxes and insurance, pro forma hotel EBITDA margins contracted by just 34 basis points.

We had several hotels in various markets exceed our expectations going into the year and have seen particularly good results in hotels that have been recently renovated as the capital we invested allowed them to gain significant share even when adjusting from the easier comparison created by the previous year's renovation disruption. Our Marriott Hotel in Boulder had another strong year following a comprehensive renovation in 2018. We continue to benefit from better group demand and penetrate key corporate accounts, while managing through the significant supply growth in recent years. The hotel's 14.1% RevPAR gain outperformed the Boulder submarket increase of 2.8% and its competitive set decline of 1.8%, ending 2019 with a RevPAR index of 152. Adjusting for renovation disruption in 2018, the hotel would still have posted a RevPAR increase of 7.7%, a remarkable 950 basis point increase in market share.

In Louisville, our two hotels posted combined RevPAR growth of 13.7% during the year following the reopening of the Kentucky International Convention Center, which drove a 27.0% increase in city-wide room nights to the market. We successfully shifted away from lower-rated airline crew business, while increasing production in the higher-rated group and retail segments. This shift to segmentation contributed to an 8.9% increase in rate during the year, which outpaced the competitive sets combined growth of 2.4%. RevPAR growth at our hotels outpaced the overall Louisville market, the downtown submarket and our respective competitive sets, gaining 580 basis points of market share on average.

Our four Phoenix hotels posted a combined RevPAR increase of 9.8% for the year compared to the Phoenix market growth of 4.5% and the competitive sets combined increase of 3.3%. Our Phoenix hotels ended the year with an average RevPAR index of 125.7, which represents a year-over-year market share gain of 630 basis points. The Courtyard and Springhill Suites in north Scottsdale drove much of the growth during the year, posting a combined RevPAR gain of 16.0% following comprehensive renovations in 2018. Additionally, the renovation at the Courtyard included a new indoor/outdoor bar experience, which drove a 28.0% increase in non-rooms revenue during the year and is just one of the many examples of how we continue to find ways to uniquely reconfigure existing space to enhance overall returns.

As expected, our San Francisco hotels had a strong year, posting a combined RevPAR increase of 8.5%, which outpaced the overall market by 425 basis points and represents an average market share gain of 357 basis points versus our respective competitive sets. Outperformance was driven by favorable year-over-year renovation comparisons at the Holiday Inn Express Fisherman's Wharf and the Four Points San Francisco Airport, with significant increases in convention business due to the reopening of the renovated Moscone Center. That resulted in a 41.0% increase in city-wide room nights.

As host of the 2019 Super Bowl, Atlanta posted predictably strong performance as RevPAR at our four hotels increased 7.8% for the full year, which outpaced the Atlanta markets increase of 3.4% and the competitive sets increase of 5.6%. While much of the growth was driven by the Super Bowl in the first quarter, a robust convention calendar that produced a 12.0% year-over-year increase in city-wide room nights as well as strong group and corporate demand trends drove RevPAR growth in the second and third quarters.



We continued to make progress on our capital recycling efforts during 2019 as we completed the sale of 10 hotels for an aggregate sales price of \$168.4 million, including the previously announced sale of our two hotels in Birmingham, Alabama that closed in the fourth quarter. In addition, we closed on the acquisition of five hotels and land for future development for a total purchase price of \$276.9 million through our joint venture with GIC. During 2019, we invested \$59.3 million into our portfolio on items ranging from common space improvements to complete guestroom renovations, including comprehensive renovations at our Courtyard in Downtown Fort Worth, Texas; and our Hampton Inn Suites hotels in downtown Austin, Texas; and the Ybor City submarket of Tampa, Florida.

Over the last six years, we have invested nearly \$300 million into our portfolio, and the 72 hotels that we own today have an average effective age of approximately 3.2 years, continued proof of our commitment to provide the most updated offering and a best-in-class guest experience. While much of the attention of our industry is focused on today's challenging fundamental operating environment, I want to be sure the great work at Summit to expand on the operating platform for long-term growth does not get overshadowed. I'm extremely proud of the progress we made as a company in 2019. Our market share gains and expense control initiatives exemplify the outstanding work of our best-in-class operating team.

We further demonstrated our ability to thoughtfully recycle capital by selling 10 hotels with lower RevPAR, lower margins and lower-growth profiles, and redeployed those proceeds into five assets located in significantly higher-growth markets with higher RevPAR and margins at better going in yields. We acquired these assets through a joint venture with one of the real estate industry's most respected investors, which not only will enhance our overall return on those investments, but also provide another validation of our investment strategy in the platform we've built at Summit.

In closing, I've never been more optimistic about the future of our company and the team we have assembled. With that, I'll turn the call over to our CFO, Jon Stanner.

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**Jonathan P. Stanner** - Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer

Thanks, Dan, and good morning, everyone. For the full year 2019, we reported pro forma hotel EBITDA of \$215.4 million, a decrease of 0.3% from 2018, and margin contraction of 78 basis points to 37.6%. Margin contraction was primarily the result of rising labor costs, a 4.7% increase in property taxes driven by recent investment activity, a 20.5% increase in insurance expense and approximately 35 basis points of displacement from the renovation activity, Dan just described. Despite these challenges, operating expenses were very well contained in the year, increasing just 1.9% on a per occupied room basis. This is particularly important as we continue to operate in a low RevPAR growth environment, and we believe our business model is particularly well positioned to mitigate margin erosion. Adjusted EBITDAre was \$185.3 million, a decrease of 5.7% from 2018, and adjusted FFO per share decreased 7.5% to \$1.25 per share, both primarily driven by timing of 2019 transaction activity.

In the fourth quarter, our pro forma hotel EBITDA decreased 5.9% to \$46.4 million compared to the fourth quarter of 2018. As a result, pro forma hotel EBITDA margin contracted by 218 basis points to 34.7%. During the fourth quarter, our adjusted EBITDAre decreased 9.1% to \$40.9 million, and adjusted FFO per share decreased 14% to \$0.26 per share, again, driven by disposition activity within the year.

As Dan mentioned, 2019 was another active year for Summit, as we sold 10 hotels and bought five hotels and land for potential future development in our recently formed joint venture with GIC. The cumulative sale price of the 10 hotels sold during the year represents a weighted average cap rate of 6.7% on the hotel's trailing 12-month net operating income, including estimated CapEx for brand-mandated PIP items. The average trailing 12-month RevPAR of \$102 for the 10 sold hotels is 20.0% lower than our pro forma portfolio. And hotel EBITDA margin of 32.3% is 530 basis points lower than our pro forma portfolio.

The purchase price for the five hotels acquired in 2019 represents an average cap rate of 7.9% on 2019 actual results. These hotels posted combined 2019 RevPAR of \$159, which is approximately 25.0% higher than our pro forma portfolio. An average hotel EBITDA margin of 47.5%, which is nearly 10 full percentage points higher than our pro forma portfolio. These statistics are all property level figures and do not include any fee income we will earn as the joint venture's general partner and asset manager.

Our balance sheet continues to be very well positioned with approximately \$365 million of current liquidity, no maturities until the end of 2022 and an average remaining term of more than four years. As of December 31, we had pro rata outstanding debt of \$954 million, with a weighted average interest rate of 3.95%. On a pro rata basis, our current pro forma net debt to trailing adjusted EBITDAre is approximately 4.8x. Subsequent

to quarter end, we modified our existing 7-year term loan, which lowered the interest rate to 150 basis points plus LIBOR based on the company's current pricing levels, which represents a reduction of 40 basis points. We expect to realize approximately \$900,000 of annual interest expense savings as a result of the transaction. And all other terms remain unchanged, including the maturity date. To date, more than 87% of our hotel EBITDA is unencumbered as we continue to assemble a highly flexible balance sheet.

On January 31st, we declared a quarterly common dividend for the fourth quarter of 2019 of \$0.18 per share or an annualized \$0.72 per share. The annualized dividend results in an attractive dividend yield of 6.4% based on the closing stock price as of February 21st and a manageable AFFO payout ratio of approximately 60 percent at the midpoint of our 2020 outlook.

In our press release, you will see that we provided full year 2020 guidance for adjusted FFO of \$1.15 to \$1.27 per share, pro forma and same-store RevPAR growth of negative 2.0% to positive 1.0% and adjusted EBITDA guidance of \$177.6 million to \$190.4 million. As a reminder, we've faced particularly difficult comparisons in our portfolio in the first quarter as our hotels in Atlanta were significant beneficiaries of the city hosting the 2019 Super Bowl as well as a strong city-wide convention calendar. Convention pace in San Francisco was also well behind in the first quarter, creating meaningful headwinds in 2 of our 3 largest markets. Our guidance range incorporates the softness we have seen year-to-date related to the Coronavirus, but does not make any forward-looking estimate on its effects across our portfolio.

We have incorporated capital improvements of \$50 million to \$70 million on a consolidated basis, which results in capital improvements of \$45 million to \$65 million on a pro rata basis as we expect to invest approximately \$10 million of capital into hotels owned by the joint venture. This capital expenditure activity is forecasted to result in RevPAR displacement of approximately 40 basis points for the full year 2020. No additional acquisitions, dispositions, equity raises or debt transactions beyond those previously mentioned are assumed in the full year 2020 guidance.

With that, I will turn the call back over to Dan.

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Thanks, John. In summary, we are pleased with our fourth quarter and full year performance and our continued ability to identify and execute on opportunities that we believe position our portfolio for future outperformance.

And with that, we'll open the call to your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Michael Bellisario with Baird.

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**Michael Joseph Bellisario** - *Robert W. Baird & Co. Incorporated, Research Division - VP & Senior Research Analyst*

Dan, given the more challenging outlook today, how are you thinking about incremental capital investment today? And then has anything changed in the way you're underwriting potential investments, whether it's acquisition, development deals, mez loans, whatever it may be?

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

What I'd say is that our ability to shift capital investment is very flexible. I mean we've invested roughly \$300 million over the last six years in our portfolio. So our portfolio is in really good shape. There's probably 25.0% of our CapEx budget that is fairly easy to push off, and maybe another 10.0% that we could push off without affecting our team's ability to deliver the same high-quality experience we have in the past.



Beyond that, we would have to start to take a look at some fairly draconian cuts to push anything more of, which we can do as, again, our portfolio is in great shape. But a lot of that is fluid, a lot of our projects are in planning and a lot of that money gets spent later in the year, so that gives us a lot of flexibility to move that around. On your second part of your question, I believe, on acquisitions, We've always, at least, specifically over the last couple of years, been underwriting a higher amount of CapEx needed for many of these hotels. One of the strategies we've had over the year been kept trying to find things that are brand-new or broken. And those broken assets tend to have CapEx needs that kind of go beyond what would just make them competitive. And the more comprehensive renovation, as we've outlined in some of the prepared comments, I think, produces great returns. So I think it is a big part of our thought process. But the takeaway really should be that we've got a lot of flexibility on our CapEx for the year.

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**Michael Joseph Bellisario** - *Robert W. Baird & Co. Incorporated, Research Division - VP & Senior Research Analyst*

Got it. That's helpful. And then, maybe, one more for Jon, on guidance. What are you guys underwriting for total expense growth and kind of same-store hotel EBITDA growth in 2020?

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**Jonathan P. Stanner** - *Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer*

Sure. Yes. We've underwritten between 2.5% and 3% operating expense growth for the year. That translates into roughly flat same-store EBITDA growth year-over-year. And our margin implies EBITDA margins contracting between 100 and 200 basis points at the high and low end of our ranges.

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**Operator**

Our next question comes from Bill Crow with Raymond James.

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**William Andrew Crow** - *Raymond James & Associates, Inc., Research Division - Analyst*

Let me just follow-up where Mike left off. The 2.5% to 3.0% expense growth that you're assuming, what does that equate to for labor and benefits?

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**Jonathan P. Stanner** - *Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer*

Yes. The labor's clearly is the higher end of that, bill. We've got labor growing somewhere between 4.0% and 5.0%. The other headwind, I think, as we mentioned in the prepared remarks, are really in insurance and property taxes, and that's offset by lower growth or holding some of the other expenses across the P&L flat for the year.

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**William Andrew Crow** - *Raymond James & Associates, Inc., Research Division - Analyst*

All right. Adjusting for some of the tough comps, what were you seeing in January that -- was there anything encouraging? We heard from -- we have heard from some of your peers that we saw an acceleration in demand in November, December and really right through January up until kind of some of these Coronavirus headlines came on. Are you seeing that? Were you seeing that?

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

This is Dan. I'll -- Jon and I will probably share this question a little bit. As demonstrated in our results, we're very pleased with Q4. I think our revenue management team did a great job of strategically signing opportunities. I would say so far this year, particularly in January, it's been spotty. I mean -- I think there's properties we have that -- coming off of renovation that are able to compete very nicely with the properties in the competitive set,



and we continue to gain market share as we have in the past. But I wouldn't say that there's anything that would stick out from a broad-based demand perspective that I would point to.

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**Jonathan P. Stanner** - *Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer*

Yes. I think the other thing that I'd add, Bill, is certainly, November and December performed better, as we've talked about, and I think has been fairly across the industry. January, for us, never set up particularly well from a comparison perspective, and we've talked a lot about difficult comparisons in the first quarter, but it certainly held true in January. Markets like Atlanta, where not only you have difficult Super Bowl comp late in the month and early in February, you had a very difficult convention calendar comp. Louisville was a market, Minneapolis were all markets where we had really challenging comparisons to what was a fairly strong both January and first quarter of 2019. So I think we definitely saw the strength in November and December. I think we always knew going into January, we are going to have a challenging comp year-over-year.

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**William Andrew Crow** - *Raymond James & Associates, Inc., Research Division - Analyst*

Yes. One more for me. Could you comment, at all, about the acquisition pipeline for the joint venture? And whether some of these headlines out of New York City on mortgage defaults has got your attention?

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Sure. Bill, it's Dan. I think anytime there's a headline on anything that is displaced, it does raise our attention. Our partnership with GIC, I'm very excited about. We're trying to be as active as we can underwriting and identifying opportunities. I don't think there's anything that has risen to the level that there's an immediate need to be acted upon, and we do spend a lot of time underwriting. As we've telegraphed before, I think, the ability to transact further will be limited by our balance sheet and the sale of assets to fund our portion of any further acquisitions. So I would say, all these developments are always interesting, but I wouldn't say it's created any sense of urgency for us.

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**Operator**

Our next question comes from Austin Wurschmidt with KeyBanc Capital Markets.

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**Austin Todd Wurschmidt** - *KeyBanc Capital Markets Inc., Research Division - VP*

So kind of in a similar vein as Bill was just driving at. You mentioned being a net seller in the near term to build capacity and reinvest in the joint venture or otherwise. But I'm curious if any of this volatility in the capital markets of late has bled over in any way into the transaction market from what you can tell or caused some skittishness from potential buyers?

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**Jonathan P. Stanner** - *Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer*

Yes. Austin, it's Jon. Look, I think in part, it's too early to tell. This is all kind of happening real time. And I'm not sure we've seen a tremendous amount of trades yet that would reflect any type of gapping out in cap rates. It still feels like there's strength on the sell side. As we've talked about a lot of last year, it felt more like a sellers' market. I think one of the shifts that we did see last year is there was, at one point, probably a portfolio premium. I think today, certainly, where we had more success in 2019 selling assets was a little more targeted, one or two type of smaller portfolios to local buyers. But it's certainly something that we'll keep our eye on both from the sell and the buy side. I don't know that we've seen any significant distress or dislocation in the markets. But again, this is all kind of happening real time, and I'm not sure we've seen a lot of trades to justify any type of gapping out of cap rates at this point.



**Austin Todd Wurschmidt** - KeyBanc Capital Markets Inc., Research Division - VP

Fair enough. I know you guys aren't giving quarterly guidance anymore. But with the headwinds you mentioned early in the year, I mean, is the low end of the full year range a reasonable guidepost early in the year as we think about kind of the trajectory of how the year might play out?

**Jonathan P. Stanner** - Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer

Yes. Austin, it's Jon. Look, again, without giving first quarter guidance, all I would say is even pre some of the noise that we've seen over the last couple of weeks with the virus, I think we always knew the first quarter was going to be the most challenged. That was -- a lot of that was driven by Atlanta and the Super Bowl comp and the strong city-wide calendar we had in the first quarter, and some of that was driven by San Francisco in the Bay Area with the difficult city-wide comparison. Those markets are obviously going to feel the effects of the virus. So I'm not sure that fully answers your question. But I think without a doubt, we always knew going into the first quarter was going to be most difficult. We're also coming off of a 2019 first quarter of 3.3% RevPAR growth. So we really did have a strong year in the first quarter of last year.

**Austin Todd Wurschmidt** - KeyBanc Capital Markets Inc., Research Division - VP

Okay. And then just last one for me, a little bit longer-term question. But you talked about investments in the platform, Dan. And I'm just curious, as you sit here today, how much do you think you could scale the platform without really adding too many additional resources?

**Daniel P. Hansen** - Summit Hotel Properties, Inc. - Chairman, President & CEO

That's a great question. We spend a fair amount of time structurally trying to make sure that we have the capacity to grow. And I think I can sit here today and say that we could be 50% bigger without having to add any material resources. Beyond that, I think it would -- we would have to kind of reevaluate. But our level of intensity on whether it is revenue management, asset management, purchasing, design, construction, it's -- there is a significant amount of work that goes in to drive this extra value. So I do think we've got capacity, and given the right opportunities and the right backdrop, I think we could scale and take advantage of unique opportunities very quickly.

**Operator**

Our next question comes from the line of Wes Golladay with RBC Capital Markets.

**Wesley Keith Golladay** - RBC Capital Markets, Research Division - VP & Equity Research Analyst

Looking at the city-wides for the balance of the year, excluding the first quarter, how do those set up?

**Jonathan P. Stanner** - Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer

Yes. Wes, it's Jon. I think we see better city-wide calendars this year in Chicago, notably, Portland and Kansas City. Obviously, San Francisco is the weak spot. I think second and third quarter are our strongest quarters from a city-wide perspective. First quarter being the most difficult comp, which we, again, have talked about quite a bit on it already.

**Wesley Keith Golladay** - RBC Capital Markets, Research Division - VP & Equity Research Analyst

Okay. And then going back to the expense and EBITDA. Did you call for flat EBITDA growth this year, with the expenses 2.5% to 3.0%? Just wanted to clarify that. And then if so, what -- is it other revenue and F&B driving the revenues this year?



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**Jonathan P. Stanner** - *Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer*

Yes. But I would say flat to slightly down from a same-store EBITDA growth perspective year-over-year based on expense growth of 2.5% to 3.0%. So that obviously implies non-rooms revenue growth exceeding rooms revenue growth for the year.

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**Operator**

Our next question comes from Neil Malkin with Capital One.

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**Neil Lawrence Malkin** - *Capital One Securities, Inc., Research Division - Analyst*

There's been a lot of increase in loyalty at the brand as they pushed to do more direct booking, et cetera. Could you just talk about the economics, generally, about what it looks like from a total, I guess, guest acquisition or net RevPAR impact from, I guess, booking through brand.com or the hotel website versus a loyalty member doing the same thing versus OTA?

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Sure. Wes (sic) [Neil], this is Dan. There has been some talk clearly and continues to be talk about acquisition costs and rising and relationships with the brands. And we, in particular, at Summit have had strong relationships with the brand. And it's challenging right now in this type of low-growth environment, but we're hopeful that they'll recognize the value of the partnership with the owners. And we have had productive conversations with all of them, some clearly better than others. But there is this dynamic where the continued growth of the loyalty program brings in members through the loyalty program that can book at rates lower than what they may have booked at by not being loyalty members. So I think the thesis by the brands is that, that continues to drive incremental reservation contribution. It's not as simple as that. I think we could -- we look at our reservation contributions from the brands, very pleased with it, in general. I think that the loyalty programs are clearly what they're putting all their money behind. And I don't know that we'll know for certain, as the years go by, how much that will really have driven profitability. There is additional cost involved in that, and there -- it sure does feel like we're bearing part of that. But it's not a simple equation to look at that. But I could say, after having said all that, that acquisition costs clearly have gone up, and it's one of the things that adds to the challenging environment for us.

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**Neil Lawrence Malkin** - *Capital One Securities, Inc., Research Division - Analyst*

Okay. And then just in the context of leverage, the GIC portfolio and then the mez loan purchase auctions you have. Just given the low rate environment, a lot of capital out there, and I've heard from several brokers that select service-assets sort of non-close to market very hot. What's your appetite or willingness or interest to really ramp up the disposition program to bring down some leverage and create liquidity for potential GIC investment and the eventual take out of those 90.0% purchase options?

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Sure. It's Dan. Clearly, we have a bias towards dispositions. We have telegraphed over the last -- basically the whole cycle that we have a range that we like to stay in. And when we get to the top end of the range, you should expect more sales, and at the bottom end of the range, you should expect more buys. So we're clearly at the high end of our range. And I feel like, as described earlier, it's still a very strong sellers' market. With the current environment and challenges and volatility, perhaps it slows things down a little bit, kind of remains to be seen. But no issues for us in whether we're interested in selling or not. I think we've been a capital recycler since the very beginning when we went public. If you look all the way back to our IPO at 65 assets, we now have 72, and there's only five of the original hotels that are left. So we've clearly been a leader in recycling of capital. And this environment, while challenging, shouldn't be any different.



**Neil Lawrence Malkin** - *Capital One Securities, Inc., Research Division - Analyst*

Okay. And then last one for me. I know that there's -- with typical group of events, there are cancellation attrition costs associated. What is the strategy or your view on that or policy with companies that have or potentially will cancel group events because of Coronavirus fears? Are you sort of laying them off because of this exiting circumstance? Or how are you looking at that?

**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Our attrition fees were up a little over \$1 million last year. So clearly, it's been a positive for us. I think each one is a little bit more of a case-by-case basis. You want to maintain strong relationships. But as evidenced by our increase last year, there are definitely opportunities where we can get some cancellation revenue.

**Operator**

Our next question comes from the line of Chris Woronka with Deutsche Bank.

**Chris Jon Woronka** - *Deutsche Bank AG, Research Division - Research Analyst*

Dan, I want to ask you, as you look back last several years, and I guess, this would go for stuff you've acquired as well as your existing hotels. Has the impact of supply been better -- worse than you expected about -- as you expected or not as bad? Is there any way you guys kind of internally measure that on a look back basis?

**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Yes. We've got a pretty scientific method we've used and we came up with. It's been much worse. And in all seriousness, the proliferation of brands and the blurring of lines and the similarity between offerings is one of the things that's creating a lot of frustration out there. It just exacerbates some of the challenges we have in pushing rate. So clearly, we've been -- I miss -- really missed the continued higher end of supply over the last couple of years. And I've been, quite frankly, surprised because many of the projects don't seem to make sense on paper. So there is a whole new group of new developers and I believe that good projects and good market that can add value and have a more modern and clean and vibrant and authentic offering will still make sense. But I do think there's a lot of supply that has been approved and started and constructed that is going to struggle. So yes, I think, I clearly felt like we would not have had as much supply as we've had over the last couple of years, this year in particular. So yes, it's been much worse than expected to circle all the way back to the original question.

**Chris Jon Woronka** - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. That's helpful. And then I know you guys have a few hotels in resort markets, and you obviously have a select-service, focused orientation for your portfolio. I mean based on kind of what we're seeing out of top 25 markets versus resort markets, suburban, airport, et cetera, does that make you lean in more towards wanting to acquire in resort markets with your capacity going forward?

**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Chris, it's Dan. It actually doesn't. I think we underwrite every hotel on its own. If there is a dynamic and a growth potential because it is in the resort market or close by, clearly, we can underwrite that. And something that is, maybe, outside of that doesn't have that, maybe has to have be put on a little bit different lens. As we look at everything, they're unique set of demand drivers that we hopefully identify along with operational drivers. And I think we've been successful with finding opportunities, even in some of these markets that have had exceptionally high supply. I mean back to your first question, albeit higher supply in a market like Austin, Texas, we've performed very well. So there are markets where despite supply



you can manage through it and have some great total returns. And I think that's the dynamic that we focus on, not specifically which type of market it is. But there is an entry point and a balance of both operating drivers and demand drivers that I think get us to a level where we have a high degree of confidence to move forward on an acquisition.

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**Operator**

The next question comes from the line of Bill Crow with Raymond James.

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**William Andrew Crow** - *Raymond James & Associates, Inc., Research Division - Analyst*

Any success in appealing the real estate tax increases, given industry dynamics right now?

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**Jonathan P. Stanner** - *Summit Hotel Properties, Inc. - Executive VP, CFO & Treasurer*

Yes. Bill, it's Jon. Yes, again, I'm not sure how much of it's changed just from kind of the recent industry dynamics, but I think we appeal almost every single property tax bill that we get. We do have success doing it. We particularly had some success late in the year last year in a couple of markets, particularly when you -- we've gotten as acquisitive as we've been and transaction-oriented as we've been. Obviously, that often comes with a reassessment, and that's almost always challenged to some level. So we have had some success. Again, it's probably too early to say that's really driven by the more recent dynamics in the industry, but we're pretty active in challenging reassessments as they come in.

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**Operator**

And I'm not showing any further questions in queue at this time. I'd like to turn the call back to Mr. Hansen for closing remarks.

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**Daniel P. Hansen** - *Summit Hotel Properties, Inc. - Chairman, President & CEO*

Well, thank you all for joining us today. Our goal of creating long-term shareholder value through opportunistic capital investment and relentless asset management remains unchanged. And our portfolio is in the best shape ever and well positioned for the future. I look forward to talking to you all soon. Thanks.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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