The Evolution of FelCor

**An Interview with Richard A. Smith,
President and Chief Executive Officer, FelCor**

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EDITORS' NOTE *Richard Smith joined FelCor in November 2004 as Executive Vice President and Chief Financial Officer. Prior to FelCor, he was with Wyndham International as Executive Vice President and Chief Financial Officer. Smith joined Wyndham in 1999 as Senior Vice President and Treasurer. He also has previously worked with Starwood Hotels & Resorts, Worldwide, Inc., Atlantic Richfield Company, and Coopers & Lybrand. Smith is a certified public accountant. He graduated from the University of Tennessee, where he received a Bachelor of Science degree in Accounting and Business Law.*

COMPANY BRIEF *FelCor (felcor.com), a real estate investment trust, owns a diversified portfolio of primarily upper-upscale and luxury hotels that are located in major and resort markets throughout the U.S. FelCor partners with leading hotel companies to operate its hotels, which are flagged under globally renowned names and premier independent hotels.*

Would you touch on the history and heritage of FelCor and your vision for the company?

FelCor started out in the 1990s with a focus on suite properties. In 1998, the company bought Bristol, which created some issues. While there were some good assets in the portfolio, there were also too many secondary and tertiary market hotels, which had no barriers to entry. In certain cases, you can do well with assets like that. If you buy them in the downturn, clean them up and run them lean, and then flip them in the top-end of the cycle. It is more problematic for a long-term holder such as a REIT however, due to the effect new supply has on the value of hotels in those types of markets.

I saw a great opportunity because of where we were coming from. There was a tremendous opportunity to improve the company in various ways, all of which created a means to move the needle more than our peers. There were two big issues hanging over us: one was overall quality of portfolio; the other was the balance sheet, which was too highly levered. Rectifying these issues would position the company for tremendous growth that the other REIT's just could not achieve because they were stabilized to start.

We had to sell a number of the hotels – we started with about 125. We're going to have 40 at day's end and we have added some, so approximately 90 hotels are going to be gone because they were the types of problem properties I described earlier. By virtue of doing this, it created a lot of capacity for us to do the things we needed to do.

I also found that, from a capital standpoint, our hotels weren't in very good shape – even those we were going to keep. We spent half a billion dollars to get those core hotels where they needed to be. When you approach capital the way it was being approached before, every dollar you spend is a wasted dollar – you're never going to get any bang for your buck. More importantly, you're not giving the guys in the field the tools they need to actually compete in their submarkets.

All of our hotels are now one or two out of five in quality across the board and we compete very well, which is reflected in market share, which we watch very closely and which has improved tremendously.

From an operating standpoint, it wasn't a very productive system. We had asset managers handling 30 to 40 hotels each, aligned by brand. Their hotels were all over the country and they weren't in their markets often enough.

You can manage the cost side of the P&L that way, but you are greatly limited on managing the revenue side. To truly manage the revenue side, you have to understand demand generators, key feeder cities, and how you stack up against your competitors from a quality and location standpoint in that submarket. That allows you to fully understand the business that is actually available in the market, as well as the share you should be getting.

This allows you to manage your customer mix effectively and that is the key to this business.

We had a ton of changes that had to happen from 2006 to 2008. Tom (Corcoran, Chairman) wanted me to spend a year as the CFO because he wanted to make sure I was a fit with the culture. However, the one thing that didn't have to change was the culture since it was phenomenal and still is. I have tried to build on that rather than change anything. We have virtually no turnover.

During 2005, when I was the CFO, we put our business plan together and, once the transition happened, I started implementing it immediately. Tom was phenomenal during the transition. Here I was, coming in and virtually changing everything. It would have been a train wreck were it not for Tom's support. It was a great transition, and we're pretty much done now.

The credit crisis set us back some. We had all the operational changes done. We also had all of the capital in place. We got the first phase of the asset sales done. The second phase of asset sales was slated to happen in 2008 and 2009. I had never seen such a short up-cycle, so we got caught in that before we were able to sell the second phase of assets and finalize the balance sheet restructure. This basically set us back five years.

In 2011, we started the process again. We are down to the last eight hotels and after they are sold, all the clean-up will be done and we will have improved everything dramatically.

Do you take some time to appreciate what this company has become or are you always looking at what is next?

I think you have to do both. I appreciate what we have been able to accomplish and where the company stands now. Everyone in the company has worked very hard to get us to this point and I greatly appreciate that. This is part of the culture that Tom built and I try to strengthen it further.

The company is in far better shape from an investor perspective as well. As a REIT, investors are our customers and our number one goal has always been to create greater value for our customers.

At the same time, we're always modeling every opportunity coming down the road. As we start 2015, the road ahead is going to be about those next steps. The great thing going forward is that we can be opportunistic. Where everything in the clean-up phase had to be very strictly adhered to, we are now in a position to underwrite every opportunity and prioritize based on what will drive shareholder value. We still have opportunities to accomplish things that will move the needle more than our peers and we look forward to executing that plan going into 2015. ●

