

Choice Hotels Reports 3rd Quarter Net Income Up 6%; Diluted EPS Increases 12%

PRNewswire
SILVER SPRING, Md.

Choice Hotels International, Inc. today reported third quarter 2000 net income of \$19.4 million, or \$0.37 diluted earnings per share (EPS), increases of 5.8% and 12.1% respectively, over the \$18.3 million in net income and \$0.33 diluted EPS reported for third quarter 1999.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased to \$35.5 million for the quarter, an increase of 11.3% over the \$31.9 million for the third quarter of 1999. EBITDA margins increased to 71.3% for the quarter from 67.7% for the third quarter of 1999.

"As a result of a very strong summer season, our franchised hotels delivered a robust performance this quarter," said Charles A. Ledsinger, Jr., president and chief executive officer. "The continued improvement in our brands' quality and amenities helped attract more guests, resulting in improved room rates. RevPAR gains, improvement in effective royalty rates, successful cost control and room supply additions resulted in solid EBITDA growth and expanding EBITDA margins."

"Revenue on bookings through our central reservations system is up 9% for the year to date, with revenue from global distribution sources up 21% and from our proprietary Internet site up 124%," he added. "Our Web site volume has doubled in the past year, and now represents more than 6% of our bookings, generated almost \$75 million in revenue through September."

He continued, "Looking ahead, the recently announced restructuring of our note from Sunburst Hospitality, under which Choice will receive approximately \$76 million in cash, will significantly strengthen an already solid balance sheet. Choice will be better positioned to take advantage of new growth opportunities and to continue to buy back stock at accretive valuations."

The company reported royalty revenues of \$43.4 million for third quarter 2000, compared to \$40.5 million for third quarter 1999, an increase of 7.2%. The system-wide domestic effective royalty rate also increased from 3.82% in third quarter 1999 to 3.88% for the third quarter of 2000. Domestic revenue per available room (RevPAR) increased 5.6% from \$43.42 in third quarter 1999 to \$45.85 in the quarter just ended.

For the first nine months of 2000, Choice reported recurring net income of \$43.6 million or \$0.82 recurring diluted EPS, increases of 2.8% and 7.9% respectively, over the \$42.4 million and \$0.76 recurring diluted EPS reported for the first nine months of 1999.

Royalty revenues for the first three quarters of 2000 increased 7.4% to \$102.6 million from the \$95.5 million for the same period a year ago. The system-wide domestic effective royalty rate increased 6 basis points for the first nine months of 2000 to 3.84% from 3.78% for the same period a year ago. Domestic RevPAR also was up 4.3% from \$35.24 for the first three quarters of 1999 to \$36.76 for the first nine months of 2000.

System Growth

As of September 30, 2000, the total number of Choice domestic hotels on-line grew 3.6% to 3,234 from 3,121 as of the same date a year ago. This represents an increase of 2.7% in the number of domestic rooms open of 265,906 from 258,892. At the end of the third quarter of 2000, Choice had 488 hotels under

development in its domestic hotel system, representing 39,530 rooms.

At the end of the first nine months of 2000, the total number of Choice hotels worldwide on-line grew 4.6% to 4,371 from 4,179 as of the same period a year ago. As of September 30, 2000, the total number of rooms worldwide increased 4.1% to 349,392 from 335,524 as of the same date a year ago.

As of September 30, 2000, the company had 694 franchised hotels with 61,244 rooms either in design or under construction in its worldwide hotel system.

Sunburst Agreement

Choice and Sunburst Hospitality Corporation reached agreement on September 20, 2000 on the terms of a proposed restructuring of a \$136 million note. Contingent on the closing of Sunburst's announced recapitalization, Choice will receive a cash payment of approximately \$76 million plus additional interest accruing from the date of the agreement until closing.

In addition, Choice will receive a newly issued 11-3/8% seven-year senior subordinated note in the amount of \$60 million, which will contain standard and customary high-yield loan terms and conditions. This new note will contain, among other things, a cash pay interest feature that begins 18 months from issuance.

Friendly Investment

Choice continues to review its strategic options with respect to its investment in Friendly Hotels plc, the company's master franchisor for the United Kingdom, Ireland and continental Europe. Such options may include discussions with the board of Friendly, which may lead to a capital restructuring of Friendly and amendments to the master franchise agreement with Choice.

It is possible that such actions could result in a write down or deferral of certain amounts due to Choice and other Choice assets related to Friendly, which currently represent a total net investment of approximately \$45 million. Any write down or deferral so made is not expected to be material to Choice's cash flow or financial condition.

Notable Events

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

- * Appointed Wayne Wielgus as senior vice president, marketing, and Gary Thomson, senior vice president and chief information officer.

- * Named Don Brockway, vice president, worldwide reservations operations, and Janna Morrison, vice president, property systems, as officers of the company.

Choice Hotels International is the second-largest hotel franchisor in the world with 4,371 hotels open, representing 349,392 rooms, and another 694 hotels under development, representing 61,244 rooms, in 41 countries, as of September 30, 2000. Its Comfort, Quality, Clarion, Sleep Inn, Econo Lodge, Rodeway Inn and MainStay Suites brands serve guests worldwide.

Certain matters discussed in this press release may constitute forward- looking statements within the meaning of the federal securities law. Such statements are based on management's beliefs, assumptions

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | Sept. 30, | Sept. 30, | Sept. 30, | Sept. 30, |
| Revenues | 2000 | 1999 | 2000 | 1999 |
| Royalty fees | \$43,390 | \$40,472 | \$102,603 | \$95,545 |
| Initial franchise fees and relicensing | | | | |

| | | | | |
|-------------------------|--------|--------|---------|---------|
| fees | 3,279 | 3,300 | 10,061 | 9,893 |
| Partner service revenue | 2,131 | 2,354 | 6,517 | 6,162 |
| Other | 979 | 1,001 | 3,408 | 3,148 |
| Total revenues | 49,779 | 47,127 | 122,589 | 114,748 |

Operating expenses

| | | | | |
|-------------------------------------|--------|--------|--------|--------|
| Selling, general and administrative | 14,290 | 15,192 | 40,591 | 38,808 |
| Depreciation and amortization | 2,770 | 1,690 | 8,325 | 4,993 |
| Total operating expenses | 17,060 | 16,882 | 48,916 | 43,801 |

| | | | | |
|------------------------------|--------|--------|--------|--------|
| Operating income-franchising | 32,719 | 30,245 | 73,673 | 70,947 |
|------------------------------|--------|--------|--------|--------|

| | | | | |
|------------------|----|----|----|----|
| Hotel operations | 83 | -- | 83 | -- |
|------------------|----|----|----|----|

Other

| | | | | |
|------------------------------------|---------|---------|----------|----------|
| Interest and dividend income | (5,094) | (5,259) | (15,213) | (15,103) |
| Interest expense and other | 6,084 | 5,108 | 17,650 | 15,171 |
| Equity (gain)/loss-Friendly Hotels | (109) | 15 | 1,780 | 205 |
| Loss on early prepayment of note | -- | -- | 4,100 | -- |
| Gain on sale of stock | -- | -- | -- | (1,260) |
| Total other | 881 | (136) | 8,317 | (987) |

Income before

| | | | | |
|--------------|----------|----------|----------|----------|
| income taxes | 31,921 | 30,381 | 65,439 | 71,934 |
| Income taxes | 12,449 | 12,043 | 25,521 | 28,787 |
| Net income | \$19,472 | \$18,338 | \$39,918 | \$43,147 |

Recurring net

| | | | | |
|------------|----------|----------|----------|----------|
| income (a) | \$19,404 | \$18,338 | \$43,586 | \$42,397 |
|------------|----------|----------|----------|----------|

Weighted average

| | | | | |
|--------------------|--------|--------|--------|--------|
| shares outstanding | 52,768 | 54,619 | 52,874 | 55,174 |
|--------------------|--------|--------|--------|--------|

Diluted shares

| | | | | |
|-------------|--------|--------|--------|--------|
| outstanding | 53,119 | 55,501 | 53,324 | 55,898 |
|-------------|--------|--------|--------|--------|

Diluted earnings

| | | | | |
|-----------|--------|--------|--------|--------|
| per share | \$0.37 | \$0.33 | \$0.75 | \$0.77 |
|-----------|--------|--------|--------|--------|

Diluted recurring

| | | | | |
|--------------------|--------|--------|--------|--------|
| earnings per share | \$0.37 | \$0.33 | \$0.82 | \$0.76 |
|--------------------|--------|--------|--------|--------|

(a) Recurring net income excludes the impact of the equity (gain)/loss-Friendly Hotels and the loss on early prepayment of note.

CHOICE HOTELS INTERNATIONAL SUPPLEMENTAL OPERATING INFORMATION BY BRAND DOMESTIC HOTEL SYSTEM (UNAUDITED)

| | For the Quarter Ended | | Nine Months Ended | |
|--|-----------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2000 | 1999 | 2000 | 1999 |

COMFORT INN

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 1,284 | 1,244 | 1,284 | 1,244 |
| Rooms | 100,557 | 97,506 | 100,557 | 97,506 |
| Avg. Daily Rate (ADR) | \$66.86 | \$63.47 | \$62.03 | \$59.13 |
| Occupancy % | 74.0% | 74.8% | 63.1% | 64.2% |
| RevPAR | \$49.46 | \$47.47 | \$39.14 | \$37.96 |

COMFORT SUITES

| | | | | |
|--------|--------|--------|--------|--------|
| Hotels | 267 | 220 | 267 | 220 |
| Rooms | 21,188 | 17,891 | 21,188 | 17,891 |

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Avg. Daily Rate (ADR) | \$74.73 | \$72.18 | \$72.02 | \$69.91 |
| Occupancy % | 73.8% | 74.2% | 66.2% | 67.0% |
| RevPAR | \$55.13 | \$53.55 | \$47.68 | \$46.82 |

QUALITY

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 433 | 436 | 433 | 436 |
| Rooms | 49,286 | 50,330 | 49,286 | 50,330 |
| Avg. Daily Rate (ADR) | \$69.20 | \$65.90 | \$64.37 | \$62.01 |
| Occupancy % | 67.6% | 67.0% | 57.5% | 58.1% |
| RevPAR | \$46.79 | \$44.13 | \$37.02 | \$36.01 |

CLARION

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 115 | 115 | 115 | 115 |
| Rooms | 18,542 | 19,388 | 18,542 | 19,388 |
| Avg. Daily Rate (ADR) | \$84.03 | \$75.65 | \$81.56 | \$73.82 |
| Occupancy % | 66.3% | 64.3% | 59.0% | 59.0% |
| RevPAR | \$55.69 | \$48.60 | \$48.12 | \$43.53 |

SLEEP

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 257 | 220 | 257 | 220 |
| Rooms | 19,857 | 16,847 | 19,857 | 16,847 |
| Avg. Daily Rate (ADR) | \$58.70 | \$56.33 | \$55.82 | \$53.98 |
| Occupancy % | 68.5% | 69.1% | 59.8% | 60.4% |
| RevPAR | \$40.19 | \$38.95 | \$33.35 | \$32.58 |

MAINSTAY

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 34 | 27 | 34 | 27 |
| Rooms | 3,099 | 2,506 | 3,099 | 2,506 |
| Avg. Daily Rate (ADR) | \$66.10 | \$60.95 | \$62.91 | \$58.37 |
| Occupancy % | 77.2% | 74.7% | 70.0% | 64.7% |
| RevPAR | \$50.99 | \$45.50 | \$44.03 | \$37.78 |

ECONO LODGE

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 692 | 690 | 692 | 690 |
| Rooms | 43,405 | 43,778 | 43,405 | 43,778 |
| Avg. Daily Rate (ADR) | \$50.83 | \$49.22 | \$46.51 | \$45.06 |
| Occupancy % | 63.7% | 64.7% | 52.8% | 54.1% |
| RevPAR | \$32.37 | \$31.85 | \$24.57 | \$24.37 |

RODEWAY

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 152 | 169 | 152 | 169 |
| Rooms | 9,972 | 10,646 | 9,972 | 10,646 |
| Avg. Daily Rate (ADR) | \$55.55 | \$50.56 | \$48.77 | \$45.86 |
| Occupancy % | 60.2% | 60.6% | 50.1% | 50.2% |
| RevPAR | \$33.44 | \$30.61 | \$24.45 | \$23.01 |

TOTAL CHOICE - DOMESTIC

| | | | | |
|-----------------------|---------|---------|---------|---------|
| Hotels | 3,234 | 3,121 | 3,234 | 3,121 |
| Rooms | 265,906 | 258,892 | 265,906 | 258,892 |
| Avg. Daily Rate (ADR) | \$65.73 | \$62.15 | \$61.57 | \$58.48 |
| Occupancy % | 69.8% | 69.9% | 59.7% | 60.3% |
| RevPAR | \$45.85 | \$43.42 | \$36.76 | \$35.24 |

SOURCE: Choice Hotels International

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