CHOICE HOTELS INTERNATIONAL INC /DE
Form 10-K
February 27, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-13393

CHOICE HOTELS INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	52-1209792
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1 Choice Hotels Circle, Suite 400, Rockville, Maryland	20850
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (301) 592-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer, accelerated filer and smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer x	Accelerated filer o	Smaller reporting company o	Non-accelerated filer o (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act)
Yes ¨ No ý

The aggregate market value of common stock of Choice Hotels International, Inc. held by non-affiliates was $1,582,842,609 as of June 30, 2016 based upon a closing price of $47.62 per share.

The number of shares outstanding of Choice Hotels International, Inc.’s common stock at February 16, 2017 was 56,280,477.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE.

Certain portions of our definitive proxy statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the Annual Meeting of Shareholders to be held on April 21, 2017, are incorporated by reference under Part III of this Form 10-K.

Table of Contents

CHOICE HOTELS INTERNATIONAL, INC.
Form 10-K
Table of Contents

Table of Contents

PART I

Throughout this report, we refer to Choice Hotels International, Inc., together with its subsidiaries as "Choice," "we," "us" or the "Company".

Forward-Looking Statements

Certain matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, our use of words such as "expect," "estimate," "believe," "anticipate," "should," "will," "forecast," "plan," "project," "assume" or similar words of futurity identify such forward-looking statements. These forward-looking statements are based on management's current beliefs, assumption and expectations regarding future events, which in turn are based on information currently available to management. Such statements may relate to projections of the Company’s revenue, expenses, earnings and other financial and operational measures, Company debt levels, ability to repay outstanding indebtedness, payment of dividends, and future operations, among other matters. We caution you not to place undue reliance on any such forward-looking statements. Forward-looking statements do not guarantee future performance and involve known and unknown risks, uncertainties and other factors.

Several factors could cause actual results, performance or achievements of the Company to differ materially from those expressed in or contemplated by the forward-looking statements. Such risks include, but are not limited to, changes to general, domestic and foreign economic conditions; changes in law and regulation applicable to the lodging and franchising industries; foreign currency fluctuations; operating risks common in the lodging and franchising industries; changes to the desirability of our brands as viewed by hotel operators and customers; changes to the terms or termination of our contracts with franchisees and our relationships with our franchisees; our ability to keep pace with improvements in technology utilized for marketing and reservations systems and other operating systems; the commercial acceptance of our SkyTouch division's products and services; our ability to grow our franchise system; exposure to risks relating to development activities; fluctuations in the supply and demand for hotels rooms; our ability to realize anticipated benefits of acquired businesses; the level of acceptance of alternative growth strategies we may implement; cyber security and data breach risks; operating risks associated with our international operations; the outcome of litigation; and our ability to effectively manage our indebtedness. These and other risk factors are discussed in detail in Item 1A. "Risk Factors" of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public over the internet at the SEC’s web site at http://www.sec.gov. Our SEC filings are also available free of charge on our website at http://www.choicehotels.com as soon as reasonably practicable following the time that they are filed with or furnished to the SEC. You may also read and copy any document we file with the SEC at its public reference room located at 100 F Street, NE Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on its public reference room. Information on or connected to our website is neither part of nor incorporated by reference into this annual report on Form 10-K or any other SEC filings.

Item 1. Business.

Overview

We are one of the largest hotel franchisors in the world with 6,514 hotels open and 775 hotels under construction, awaiting conversion or approved for development as of December 31, 2016 representing 516,122 rooms open and 62,547 rooms under construction, awaiting conversion or approved for development in 50 states, the District of Columbia and over 40 countries and territories outside the United States. Choice franchises lodging properties under the following proprietary brand names: Comfort Inn®, Comfort Suites®, Quality®, Clarion®, Sleep Inn®, Econo

Lodge®, Rodeway Inn®, MainStay Suites®, Suburban Extended Stay Hotel®, Cambria® hotels & suites, and Ascend Hotel Collection® (collectively, the "Choice brands").

The Company's primary segment is the hotel franchising business, which represents over 99% of the Company's total revenues. The Company's domestic franchising operations are conducted through direct franchising relationships while its international franchise operations are conducted through a combination of direct franchising and master franchising relationships. With a focus on hotel franchising instead of ownership, we benefit from the economies of scale inherent in the franchising business. The fee and cost structure of our business provides opportunities to improve operating results by increasing the number of franchised hotel rooms and effective royalty rates of our franchise contracts resulting in increased initial and relicensing fee revenue, ongoing royalty fees and procurement services revenues. In addition to these revenues, we also collect marketing and reservation system fees to provide support activities for the franchise system. Our operating results can also be improved through our company-wide efforts related to improving property level performance.

The principal factors that affect the Company’s franchising results are: the number and mix of franchised hotel rooms in the various hotel lodging price categories; growth in the number of hotel rooms under franchise; occupancy and room rates achieved by the hotels under franchise; the effective royalty rate achieved; the level of franchise sales and relicensing activity; and our ability to manage costs. The number of rooms at franchised properties and occupancy and room rates at those properties significantly affect the Company’s results because our royalty and marketing and reservation system fees are primarily based upon room revenues or the number of rooms at franchised hotels. The key industry standard for measuring hotel-operating performance is revenue per available room ("RevPAR"), which is calculated by multiplying the percentage of occupied rooms by the average daily room rate realized. Our variable overhead costs associated with franchise system growth of our established brands have historically been less than incremental royalty fees generated from new franchises. Accordingly, continued growth of our franchise business should enable us to realize benefits from the operating leverage in place and improve operating results.

We are contractually required by our franchise agreements to use the marketing and reservation system fees we collect for system-wide support activities. These expenditures help to enhance awareness, increase consumer preference for our brands and deliver guests to our franchisees. Greater awareness and preference promotes long-term growth in business delivery to our franchisees and increases the desirability of our brands to hotel owners and developers, which ultimately increases franchise fees earned by the Company.

Our Company articulates its mission as a commitment to our franchisees’ profitability by providing them with hotel franchises that strive to generate the highest return on investment of any hotel franchise. We have developed an operating system dedicated to our franchisees’ success that focuses on delivering guests to our franchised hotels and reducing costs for our hotel owners.

Our capital allocation decisions, including capital structure and uses of capital, are intended to maximize our return on invested capital and create value for our shareholders. We believe our strong and predictable cash flows create a strong financial position that provides us a competitive advantage. We maintain a capital structure that generates high financial returns and use our excess cash flow to provide returns to our shareholders primarily through share repurchases, dividends or investing in growth opportunities.

Historically, we have returned value to our shareholders in two primary ways: share repurchases and dividends. In 1998, we instituted a share repurchase program which has generated substantial value for our shareholders. Since the program's inception through December 31, 2016, we have repurchased 48.7 million shares (including 33.0 million prior to the two-for-one stock split effected in October 2005) of common stock at a total cost of $1.3 billion. Considering the effect of the two-for-one stock split, the Company has repurchased 81.7 million shares at an average price of $15.38 per share. In December 2016, the Company's board of directors approved increasing the number of shares authorized for repurchase. As a result, at December 31, 2016, the Company had 4.0 million shares remaining under the current share repurchase authorization. We currently believe that our cash flows from operations will support our ability to complete the current board of directors repurchase authorization and upon completion of the current authorization, our board of directors will evaluate the advisability of additional share repurchases.

The Company commenced paying quarterly dividends in 2004 and in 2012 the Company elected to pay a special cash dividend totaling approximately $600 million. The Company currently maintains the payment of a quarterly dividend on its common shares outstanding; however the declaration of future dividends is subject to the discretion of the board of directors. In the fourth quarter of 2016, the board of directors announced a 5% increase to the quarterly cash dividend rate to $0.215 per share, beginning with the dividend payable in the first quarter of 2017. The projected annual dividend in 2017 is $0.86 per share. We expect to continue to pay dividends in the future, subject to quarterly declaration by our board of directors as well as future business performance, economic conditions, changes in income tax regulations and other factors.

The Company also allocates capital to exploring growth opportunities in business areas that are adjacent or complementary to our core hotel franchising business, which leverage our core competencies and are additive to our franchising business model. The timing and amount of these investments are subject to market and other conditions.

Our direct lodging property real estate exposure is limited to activity in the United States and consists of four parcels of real estate that the Company has acquired and intends to resell to incent franchise development in strategic markets or to pursue hotel development through joint ventures. In addition, our development activities that involve financing, equity investments and guaranty support to hotel developers create limited additional exposure to the real estate markets.

The Company was incorporated in 1980 under the laws of the State of Delaware.

Table of Contents

The Lodging Industry

Companies participating in the lodging industry primarily do so through a combination of one or more of the three primary lodging industry activities: ownership, franchising and management. A company's relative reliance on each of these activities determines which drivers most influence its profitability.

- Ownership requires a substantial capital commitment and involves the most risk but offers high returns due to the owner's ability to influence margins by driving RevPAR, managing operating expenses and financial leverage. The ownership model has a high fixed-cost structure that results in a high degree of operating leverage relative to RevPAR performance. As a result, profits escalate rapidly in a lodging up-cycle but erode quickly in a downturn as costs rarely decline as fast as revenue. Profits from an ownership model increase at a greater rate from RevPAR growth attributable to average daily rate ("ADR") growth, than from occupancy gains since there are more incremental costs associated with higher guest volumes compared to higher pricing.
- Franchisors license their brands to a hotel owner, giving the hotel owner the right to use the brand name, logo, operating practices, and reservations systems in exchange for a fee and an agreement to operate the hotel in accordance with the franchisor's brand standards. Under a typical franchise agreement, the hotel owner pays the franchisor an initial fee, a percentage-of-revenue royalty fee and a marketing/reservation fee. A franchisor's revenues are dependent on the number of rooms in its system and the top-line performance of those hotels. Earnings drivers include RevPAR increases, unit growth and effective royalty rate improvement. Franchisors enjoy significant operating leverage in their business model since it typically costs little to add a new hotel franchise to an existing system. Franchisors normally benefit from higher industry supply growth, because unit growth usually outpaces lower RevPAR resulting from excess supply. As a result, franchisors benefit from both RevPAR growth and supply increases which aids in reducing the impact of lodging industry economic cycles.
- Management companies operate hotels for owners that do not have the expertise and/or the desire to self-manage. These companies collect management fees predominately based on revenues earned and/or profits generated. Similar to franchising activities, the key drivers of revenue based management fees are RevPAR and unit growth and similar to ownership activities, profit based fees are driven by improved hotel margins and RevPAR growth.

Similarly to other industries, lodging experiences both positive and negative operating cycles. Positive cycles are characterized as periods of sustained occupancy growth, increasing room rates and hotel development. These cycles usually continue until either the economy sustains a prolonged downturn, excess supply conditions exist or some external factor occurs such as war, terrorism or natural resource shortages. Negative cycles are characterized by hoteliers reducing room rates to stimulate occupancy and a reduction of hotel development. Industry recovery usually begins with an increase in occupancy followed by hoteliers increasing room rates. As demand begins to exceed room supply, occupancies and rates continue to improve. These factors result in increased hotel development.

Hotel room supply growth is cyclical as hotel construction responds to interest rates, construction and material supply conditions, capital availability and industry fundamentals. Historically, the industry has added hotel rooms to its inventory through new construction due largely to favorable lending environments that encouraged hotel development. Typically, hotel development continues during favorable lending environments until the increase in room supply outpaces demand. The excess supply eventually results in lower occupancies, which results in hoteliers reducing room rates to stimulate demand, and reduced hotel development. Over time, the slow growth in hotel supply results in increased occupancy rates and allows hotels to again raise room rates. The increase in occupancy and room rates serves as a catalyst for increased hotel development.

Table of Contents

The following chart demonstrates these trends over the last fifteen years:
US Lodging Industry Trends: 2002 - 2016

Year	Occupancy Rates	Average Daily Room Rates (ADR)	Change in ADR Versus Prior Year	Change in CPI Versus Prior Year	Revenue Per Available Room (RevPAR)	New Rooms Added (Gross)
2002	59.2 %	$83.15	(2.0)%	1.6 %	$49.22	86,366
2003	59.1 %	$83.19	0.1 %	2.3 %	$49.20	65,876
2004	61.3 %	$86.41	3.9 %	2.7 %	$52.93	55,245
2005	63.1 %	$90.84	5.1 %	3.4 %	$57.34	65,900
2006	63.4 %	$97.31	7.1 %	3.2 %	$61.69	73,308
2007	63.1 %	$104.04	6.9 %	2.8 %	$65.61	94,541
2008	60.3 %	$106.96	2.8 %	3.8 %	$64.49	146,312
2009	54.5 %	$98.17	(8.2)%	(0.4)%	$53.50	142,287
2010	57.5 %	$98.06	(0.1)%	1.6 %	$56.43	73,976
2011	59.9 %	$101.85	3.9 %	3.2 %	$61.02	38,409
2012	61.3 %	$106.25	4.3 %	2.1 %	$65.15	43,879
2013	62.2 %	$110.30	3.8 %	1.5 %	$68.58	54,020
2014	64.4 %	$114.92	4.2 %	0.8 %	$74.04	63,346
2015	65.4 %	$120.30	4.7 %	0.7 %	$78.68	85,596
2016	65.5 %	$123.97	3.1 %	2.1 %	$81.19	100,757

(Source: Smith Travel Research and US Department of Labor)
As a franchisor, we believe we are well positioned in any stage of the lodging cycle as our fee-for-service business model has historically delivered predictable, profitable, long-term growth in a variety of lodging and economic environments. We have historically benefited from both the RevPAR gains typically experienced in the early stages of recovery, as our revenues are based on our franchisees’ gross room revenues, and the supply growth normally occurring in the later stages as we increase our portfolio size.
The Company’s portfolio of brands offers both new construction and conversion opportunities. Our new construction brands typically benefit from periods of supply growth and favorable capital availability and pricing. Our conversion brands also benefit from periods of supply growth as the construction of hotels increases the need for existing hotels to seek new brand affiliations as their product moves through the hotel life cycle. Furthermore, the Company's conversion brands benefit from lodging cycle downturns as our unit growth has been historically driven from the conversion of independent and other hotel chain affiliates into our system as these hotels endeavor to improve their performance.

Table of Contents

The lodging industry can be divided into chain scale categories or groupings of generally competitive brands as follows:

Chain Scale	Brand Examples	Room Count	% of Total	Avg. No. of Rooms Per Hotel
Luxury	Four Seasons, Ritz Carlton, W Hotel, JW Marriott	112,286	2.2 %	334.2
Upper Upscale	Marriott, Hilton, Hyatt, Sheraton	591,054	11.6%	353.7
Upscale	Cambria hotels & suites, Courtyard, Residence Inn, Hilton Garden Inn	706,653	13.8%	150.7
Upper Midscale	Comfort Inn, Holiday Inn Express, Hampton Inn, Fairfield Inn	922,503	18.0%	97.9
Midscale	Quality Inn, Sleep Inn, La Quinta, Baymont	475,256	9.3 %	83.7
Economy	Econo Lodge, Super 8, Days Inn, Motel 6	782,220	15.3%	75.7
Sub-Total Brand Affiliated		3,589,972	70.2%	111.8
Independents		1,523,362	29.8%	67.8
Total All Hotels		5,113,334	100 %	93.7

According to Smith Travel Research, the lodging industry consisted of approximately 54,600 hotels representing approximately 5.1 million rooms open and operating in the United States at December 31, 2016. During the year ended December 31, 2016, the industry added approximately 101,000 gross rooms to the industry supply and net room growth was approximately 2.0%. Approximately, 49% of the new rooms opened during the year were positioned in the Upper Midscale, Midscale and Economy chain scale segments in which we primarily operate.

The lodging industry consists of independent operators of hotels and those that have joined national hotel franchise chains. Independent operators of hotels not owned or managed by major lodging companies have increasingly joined national hotel franchise chains as a means of remaining competitive with hotels owned by or affiliated with national lodging companies. Over the years, the industry has seen a significant movement of hotels from independent to chain affiliation, with affiliated hotels increasing from 46% of the rooms in the market in 1990 to 70% of the market in 2016. However, the pace of this increase has moderated over the last several years and in 2016 the percentage of rooms in the market affiliated with a chain increased by approximately 60 basis points from 69.6% to 70.2%.

Due to the fact that a significant portion of the costs of owning and operating a hotel are generally fixed, increases in revenues generated by affiliation with a franchise lodging chain can improve a hotel's financial performance. The large franchise lodging chains, including us, generally provide a number of support services to hotel operators designed to improve the financial performance of their properties including central reservation and property management systems, marketing and advertising programs, training and education programs, revenue enhancement services and relationships with qualified vendors to streamline purchasing processes and make lower cost products available. We believe that national franchise chains with a large number of hotels enjoy greater brand awareness among potential guests than those with fewer hotels, and that greater brand awareness can increase the desirability of a hotel to its potential guests. Furthermore, we believe that hotel operators choose lodging franchisors based primarily on the perceived value and quality of each franchisor's brand and its services, and the extent to which affiliation with that franchisor may increase the hotel operator profitability.

Choice's Franchising Business

Choice operates primarily as a hotel franchisor offering 11 brands. This family of well-known and diversified new construction and conversion brands competes at various hotel consumer and developer price points.

Economics of Franchising Business. The fee and cost structure of our business provides opportunities for us to improve operating results by increasing the number of franchised hotel rooms, improving RevPAR performance and increasing the effective royalty rates of our franchise contracts. As a hotel franchisor, we derive our revenue primarily from various franchise fees. Our franchise fees consist primarily of an initial fee and ongoing royalty, marketing and reservation system fees that are typically based on a percentage of the franchised hotel's gross room revenues. The initial fee and on-going royalty portion of the franchise fees are intended to cover our operating expenses, such as expenses incurred in business development, quality assurance, administrative support, certain franchise services and to provide us with operating profits. The marketing and reservation system fees are used for the expenses associated with marketing, media, advertising, providing a central reservation system, property management systems, e-commerce initiatives and certain franchise services.

Table of Contents

Our fee stream depends on the number of rooms in our system, the gross room revenues generated by our franchisees and effective royalty rates under our franchise contracts. We enjoy significant operating leverage since the variable operating costs associated with the franchise system growth of our established brands have historically been less than incremental royalty fees generated from new franchises. We believe that our business is well positioned in the lodging industry since we benefit from both increases in RevPAR and unit growth from new hotel construction or conversion of existing hotel assets into our system. In addition, improving business delivery to our franchisees should allow us to improve the effective royalty rate of our franchise contracts.

Our family of well-known and diversified brand offerings positions us well within the lodging industry. Our Cambria hotel and suites, Comfort Inn, Comfort Suites, Sleep Inn, Suburban Extended Stay Hotel and MainStay Suites are primarily new build brands which offer hotel developers an array of choices at various price points for transient and extended stay business during periods of supply growth. Our Ascend Hotel Collection, Clarion, Quality, Econo Lodge and Rodeway Inn brands offer conversion opportunities during both industry contraction and growth cycles to independent operators and non-Choice affiliated hotels who desire to affiliate with our brands and take advantage of the services we have to offer.

Strategy. Our mission is a commitment to franchisee profitability by providing our franchisees with hotel franchises that strive to generate the highest return on investment of any hotel franchise. Our business strategy is to create franchise system growth by leveraging Choice’s large and well-known hotel brands, franchise sales capabilities, effective marketing and reservation delivery efforts, training and education programs, RevPAR enhancing services and technologies and financial strength created by our significant free cash flow. We believe our brands’ growth will be driven by our ability to create a compelling return on investment for franchisees. Our strategic objective is to improve profitability of our franchisees by providing services which increase business delivery, enhance RevPAR, reduce hotel operating and development costs, and/or improve guest satisfaction. Specific elements of our strategy include: building strong brands, delivering exceptional services, reaching more consumers and leveraging our size, scale and distribution to reduce costs for hotel owners. We believe that by focusing on these elements we can increase the gross room revenues generated by our franchisees by increasing the business delivered to existing franchisees and expanding our market share of franchised hotels in the chain scale segments in which we operate or seek to operate. Improving the desirability of our brands should also allow us to continue to improve the effective royalty rate of our contracts.

Building Strong Brands. Each of our brands has particular attributes and strengths, including awareness with both consumers and developers. Our strategy is to utilize the strengths of each brand for room growth, RevPAR gains and royalty rate improvement that create revenue growth. We believe brand consistency, brand quality and guest satisfaction are critical in improving brand performance and building strong brands.

We have multiple brands that are positioned to meet the needs of many types of guests. These brands can be developed at various price points and are suitable for both new construction properties and existing hotels. This flexibility ensures that we have brands suitable for creating room growth in various types of markets, with various types of customers, and during both industry contraction and growth cycles. During times of lower industry supply growth and tighter capital markets, we can target conversions of existing non-Choice affiliated hotels seeking the awareness and proven performance provided by our brands. During periods of strong industry supply growth, we expect a greater portion of our room growth to come from our new construction brands. We believe that a large number of markets can still support our hotel brands and that the growth potential for our brands remains strong.

We strive to maintain the strength of our brands by enhancing product consistency and quality. We attempt to achieve consistency and quality for new entrants into the franchise system by placing prospective hotels in the appropriate brand based on the physical characteristics, performance and amenities of the hotel and by requiring property improvement plans, when necessary, to ensure the new hotel meets the quality standards of the brand. Furthermore, we may require hotels currently in our franchise system to execute property improvement plans at specified contractual windows to ensure that they continue to maintain the product consistency and quality standards of the brand.

We believe each of our brands appeals to targeted hotel owners and guests because of unique brand standards, marketing campaigns, loyalty programs, reservation delivery, revenue enhancing programs, service levels and pricing.

Delivering Exceptional Services. We provide a combination of services and technology based offerings to help our franchisees improve performance. We have field services staff members located nationwide that help franchisees improve RevPAR performance and guest satisfaction. In addition, we provide our franchisees with education and training programs as well as revenue management technology and services designed to improve property level performance. These services and products promote revenue gains for franchisees and improve guest satisfaction which translate into both higher royalties for the Company and improved returns for owners, leading to further room growth by making our brands even more attractive to prospective franchisees. We develop our services based on customer needs and focus on activities that generate high return on investment for our franchisees.

Reaching More Consumers. We believe hotel owners value and benefit from the large volume of guests we deliver through a mix of activities including brand marketing, reservation systems, account sales (corporate, government, social, military, educational and fraternal organizations), and the Company’s loyalty program, Choice Privileges®. Our strategy is to maximize the effectiveness of these activities in delivering both leisure and business travelers to Choice-branded hotels.

The Company intends to continue to increase awareness of its brands through its national marketing campaigns and its Choice Privileges loyalty program promotions. These campaigns are intended to generate a compelling message to consumers to create even greater awareness for our brands with the ultimate goal of driving business through our central reservation system. Local and regional co-op marketing campaigns will continue to be utilized to leverage the national marketing programs to drive business to our franchised properties at a local level. We expect our efforts at marketing directly to individual guests and corporate customers will continue to be enhanced through the use of our customer relationship management technology and programs; as well as, our field based sales agents that are focused on increasing our share of business travelers. Our continued focus on overall brand quality coupled with our marketing initiatives is designed to stimulate room demand for our franchised hotels through improved guest awareness and satisfaction.

Our central reservations system is a critical technology used to deliver guests to our franchisees through multiple channels, including our call centers, proprietary web and mobile sites, global distribution systems (e.g., SABRE and Amadeus), on-line travel agents ("OTAs") (e.g. Expedia and Bookings.com) and internet referral or booking services (e.g., Kayak and Trip Advisor). We believe our well-known brands, combined with our relationships with many internet distribution web sites benefits our franchisees, by facilitating increased rate and reservations delivery, and reducing costs and operational complexity.

Leveraging Size, Scale and Distribution. We continually focus on identifying methods for utilizing the significant number of hotels in our system to reduce costs and increase returns for our franchisees. For example, we create relationships with qualified vendors to: (i) make low-cost products available to our franchisees; (ii) streamline the purchasing process; and (iii) maintain brand standards and consistency. We plan to expand these relationships and identify new methods for decreasing hotel-operating costs by increasing penetration within our existing franchise system and enhancing our existing vendor relationships and/or creating new vendor relationships. We believe our efforts to leverage the Company’s size, scale and distribution benefit the Company by enhancing brand quality and consistency, improving our franchisees returns and satisfaction, and creating procurement services revenues.

Domestic Franchise System

Our standard domestic franchise agreements grant franchisees the non-exclusive right to use certain of our trademarks and receive other benefits of our franchise system to facilitate the operation of their franchised hotel at a specified location. The majority of our standard domestic franchise agreements are 10 to 20 years in duration with certain rights for each of the franchisor and franchisee to terminate their franchise agreement, such as upon designated anniversaries of the agreement, before the 20^{th} (or 10^{th}, as applicable) year. Our franchisees operate domestically under one of eleven Choice brand names: Comfort Inn, Comfort Suites, Cambria hotels and suites, Quality, Clarion, Ascend Hotel Collection, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites and Suburban Extended Stay Hotel.

Table of Contents

The following table presents key statistics related to our domestic franchise system over the five years ended December 31, 2016.

COMBINED DOMESTIC FRANCHISE SYSTEM

	As of and For the Year Ended December 31,				
	2012	2013	2014	2015	2016
Number of properties, end of period	5,083	5,180	5,221	5,276	5,362
Number of rooms, end of period	396,102	400,585	398,661	400,372	404,498
Royalty fees ($000)	$236,336	$242,887	$262,675	$281,100	$300,383
Average royalty rate(1)	4.33 %	4.33 %	4.28 %	4.30 %	4.41 %
Average occupancy percentage(1)	55.6 %	56.4 %	59.5 %	61.1 %	61.7 %
Average daily room rate (ADR)(1)	$73.69	$74.76	$77.03	$79.86	$82.64
Revenue per available room (RevPAR)(1),(2)	$40.94	$42.20	$45.80	$48.78	$51.00

(1) 2012 through 2015 amounts exclude operating statistics from Cambria hotel and suites properties open during these periods as the operating statistics are not representative of a stabilized brand which the Company defines as having at least 25 units open and operating for a twelve month period.

(2) The Company calculates RevPAR based on information as reported to the Company by its franchisees.

Currently, no individual domestic franchisee accounts for more than 1% of the Company's total revenues.

Industry Positioning

Our brands offer consumers and developers a wide range of options, including economy hotels, mid-scale, upper mid-scale and lower upscale properties. Our brands are as follows:

Cambria hotels and suites: Cambria hotels and suites is predominantly a new construction select service hotel chain that operates in the upscale lodging category, targeting primary market locations. The brand has recently expanded to target growth through conversions and adaptive reuse projects in markets where new construction has an extremely high barrier to entry. For medium frequency business travelers who seek an upscale, yet reasonably priced hotel experience, Cambria treats every guest as a high value guest by offering options for guests to personalize their stay, and unexpected service delighters through "approachable indulgences" throughout their travel journey. The brand is designed to provide guests with the freedom to explore and unveil the potential to create new memories. The environment is intended to match guests' casual lifestyle but tailored to their business traveler needs. Public spaces are designed with options that invite guests to hang out and connect, including a restaurant and bar, which focuses on simple, yet interesting food and craft beers. Cambria offers guest rooms that "feel like an upgrade." In-room amenities include pillow top mattresses, flat screen TV(s), mini-refrigerators and microwaves. Principal competitor brands include Courtyard by Marriott, Aloft, Hotel Indigo and Hilton Garden Inn. The Cambria hotels and suites brand was launched in January 2005 and the first properties opened during 2007.

Ascend Hotel Collection: Ascend Hotel Collection is an innovative membership program that is not positioned as a traditional franchise concept. Ascend includes individual hotels that are historic, boutique and/or unique and desire to retain their independent brand identity but have access to Choice's marketing and distribution channels. Ascend Hotel Collection offers the best of both worlds: independence backed up by a powerful global distribution network. Principal competitors include Sterling Hotels, Summit Hotel & Resorts, Small Luxury Hotels and Historic Hotels of America. The Ascend membership was launched in October 2008.

Comfort Inn: Comfort Inn and Comfort Inn and Suites hotels are primarily upper mid-scale limited service hotels that offer a warm and welcoming guest experience designed to help travelers feel refreshed and ready to take on the day. One of the original brands in the limited service category, Comfort Inn has built a reputation for consistent high-value accommodations for both business and leisure travelers. Comfort Inn hotels offer complimentary hot breakfast with hearty and healthy options, a swimming pool and/or fitness center, and free high-speed internet access. Comfort Inn has joined Comfort Suites in going 100% smoke-free, making Comfort the largest smoke-free hotel brand in the United States and Canada. Principal competitor brands include Holiday Inn Express and Country Inn & Suites.

Comfort Suites: An extension of the Comfort Inn brand, Comfort Suites hotels deliver all the extras to help guests feel refreshed and ready to take on the day. All hotels are 100% smoke-free with oversized suites featuring separate areas for working and relaxing to meet the demands of today's business traveler. In addition, each suite has a sleeper sofa, refrigerator and microwave. Comfort Suites hotels offer a complimentary hot breakfast with healthy and hearty options, fitness center and

Table of Contents

swimming pool, business center, marketplace and free high-speed internet access. The brand competes with Hampton, Holiday Inn Express, and Fairfield Inn & Suites.

Sleep Inn: Sleep Inn is a new construction brand that operates in the moderate tier of the mid-scale lodging category, offering developers a lower cost to build with competitive mid-scale average daily rates. Sleep Inn delivers a simply stylish, contemporary guest experience, providing both business and leisure travelers with free high-speed internet access, a complimentary Morning Medley hot breakfast, and an exercise room and/or pool. Sleep Inn’s competitors include Microtel and La Quinta.

Clarion: Clarion helps owners of existing mid-scale assets with food and beverage capabilities achieve strong returns with reasonable investment. Clarion allows a more focused and efficient food and beverage operational model that works well with a variety of conversion property configurations. Clarion helps business and leisure guests "get together" by providing meeting/banquet facilities with catering, hot breakfast, a simplified menu of basic evening meals and lounge with at least beer and/or wine selections. Amenities include free high-speed internet access, a pool or fitness center, and a business center. Principal competitor brands include Four Points by Sheraton and Radisson.

Quality: Quality helps both guests and owners "get your money's worth" in the mid-scale category. Quality hotels provide clean, comfortable, and affordable accommodations, as well as the "Value Qs:" Q Bed, Q Breakfast, Q Shower, Q Service, and the Q Essentials including free high-speed internet access, coffee, local phone calls, and a daily newspaper. Principal competitor brands include Best Western and Ramada.

MainStay Suites: MainStay Suites competes in the mid-scale extended stay category. Complete with a "feels like home guest experience" and value-added amenities, the MainStay brand is designed as a more practical lodging option for guests whose stays are longer than a few nights. Typically, longer hotel stays involve relocation, training, or temporary job assignments. MainStay guest rooms feature free high-speed internet access, fully equipped kitchens with a two-burner range, dishes, utensils, dishwasher, sink with disposal, microwave, and full size refrigerator. All suites include a sleeper sofa, comfortable work area with ergonomic chair and large walk-in closets. MainStay Suites' principal competitors include TownePlace Suites and Candlewood Suites.

Suburban Extended Stay Hotel: Suburban Extended Stay Hotel suites are built with today’s value-conscious extended stay guest in mind. All suites provide well-equipped kitchens, internet connections, and access to on-site laundry facilities. Suburban’s “just what you need” philosophy matches attractive weekly pricing with weekly housekeeping to provide extended stay guests with the all-suite accommodations they want without the cost of services they do not need. All hotels offer complimentary high-speed internet access. Principal competitors include Extended Stay America, InTown Suites, Studio 6 and WoodSpring Suites.

Econo Lodge: Econo Lodge is the premier brand in the economy hotel category that is an easy stop on the road for value-oriented travelers. Free high speed internet, a premium movie channel and complimentary continental breakfast are just some of the amenities that position Econo Lodge as a great value in the economy category. The brand competes primarily with Days Inn, Super 8 and Red Roof Inn.

Rodeway Inn: Rodeway Inn is a brand that also serves the economy segment and offers sensible lodging for travelers on a budget. Rodeway offers a welcoming environment at an affordable rate. With free coffee to get guests started in the morning, free high-speed internet and a free premium movie channel, Rodeway is a great option for practical travelers. Principal competitor brands include Americas Best Value Inn and Motel 6.

The following table presents key statistics related to the domestic system for our brands over the five years ended December 31, 2016:

	As of and For the Year Ended December 31,				
	2012	2013	2014	2015	2016
COMFORT INN DOMESTIC SYSTEM					
Number of properties, end of period	1,349	1,302	1,240	1,156	1,113
Number of rooms, end of period	105,471	101,673	95,862	89,545	86,310
Royalty fees ($000)	$90,360	$88,774	$93,630	$96,546	$96,497
Average occupancy percentage	59.5 %	60.1 %	63.3 %	65.0 %	65.6 %
Average daily room rate (ADR)	$81.70	$83.27	$86.08	$89.68	$92.56

RevPAR	$48.60	$50.05	$54.50	$58.25	$60.70

Table of Contents

COMFORT SUITES DOMESTIC SYSTEM					
Number of properties, end of period	597	589	577	569	565
Number of rooms, end of period	46,045	45,451	44,632	43,949	43,610
Royalty fees ($000)	$44,835	$44,717	$48,278	$51,114	$53,057
Average occupancy percentage	61.9 %	62.9 %	66.5 %	68.3 %	69.3 %
Average daily room rate (ADR)	$85.58	$86.99	$90.24	$93.89	$96.32
RevPAR	$52.96	$54.75	$60.01	$64.16	$66.74
QUALITY DOMESTIC SYSTEM					
Number of properties, end of period	1,152	1,223	1,284	1,379	1,447
Number of rooms, end of period	98,078	101,143	104,454	110,116	114,582
Royalty fees ($000)	$42,409	$47,471	$52,589	$59,554	$69,799
Average occupancy percentage	51.6 %	53.1 %	56.1 %	58.2 %	59.1 %
Average daily room rate (ADR)	$69.45	$70.22	$71.98	$75.06	$77.80
RevPAR	$35.86	$37.27	$40.39	$43.69	$45.99
CLARION DOMESTIC SYSTEM					
Number of properties, end of period	191	190	178	175	167
Number of rooms, end of period	27,441	27,501	25,049	24,449	22,941
Royalty fees ($000)	$10,369	$10,953	$11,480	$11,479	$12,137
Average occupancy percentage	49.6 %	51.2 %	54.5 %	57.2 %	58.3 %
Average daily room rate (ADR)	$74.99	$75.15	$77.65	$79.85	$82.35
RevPAR	$37.18	$38.46	$42.34	$45.63	$48.01
SLEEP INN DOMESTIC SYSTEM					
Number of properties, end of period	387	382	371	377	379
Number of rooms, end of period	28,087	27,623	26,811	27,047	27,097
Royalty fees ($000)	$17,202	$17,447	$18,914	$20,226	$21,925
Average occupancy percentage	56.6 %	58.7 %	62.5 %	63.9 %	65.1 %
Average daily room rate (ADR)	$72.54	$74.39	$77.13	$80.41	$82.08
RevPAR	$41.03	$43.66	$48.24	$51.41	$53.47
MAINSTAY SUITES DOMESTIC SYSTEM					
Number of properties, end of period	41	43	45	52	56
Number of rooms, end of period	3,165	3,331	3,568	3,846	4,108
Royalty fees ($000)	$2,218	$2,259	$2,608	$2,693	$2,909
Average occupancy percentage	70.1 %	68.1 %	71.4 %	67.1 %	65.2 %
Average daily room rate (ADR)	$69.73	$72.44	$74.82	$77.02	$76.29
RevPAR	$48.84	$49.36	$53.40	$51.71	$49.70
ECONO LODGE DOMESTIC SYSTEM					
Number of properties, end of period	817	830	856	856	857
Number of rooms, end of period	49,951	50,694	52,878	52,978	52,791
Royalty fees ($000)	$16,539	$17,189	$18,896	$20,784	$22,598
Average occupancy percentage	48.5 %	48.8 %	51.6 %	53.5 %	54.1 %
Average daily room rate (ADR)	$55.89	$56.51	$57.85	$59.61	$61.41
RevPAR	$27.11	$27.55	$29.86	$31.90	$33.22
RODEWAY INN DOMESTIC SYSTEM					
Number of properties, end of period	410	438	474	513	565
Number of rooms, end of period	23,370	24,677	26,172	28,880	32,515
Royalty fees ($000)	$5,129	$5,357	$5,532	$6,006	$7,010
Average occupancy percentage	50.7 %	51.9 %	55.1 %	56.3 %	55.7 %
Average daily room rate (ADR)	$53.41	$54.28	$56.68	$59.75	$63.04
RevPAR	$27.08	$28.14	$31.25	$33.64	$35.08

13

Table of Contents

SUBURBAN EXTENDED STAY HOTEL DOMESTIC SYSTEM					
Number of properties, end of period	63	63	65	62	59
Number of rooms, end of period	7,291	7,167	7,198	6,994	6,561
Royalty fees ($000)	$2,709	$2,832	$3,111	$3,395	$3,511
Average occupancy percentage	69.9 %	70.2 %	71.8 %	75.5 %	75.5 %
Average daily room rate (ADR)	$41.71	$42.67	$45.25	$47.61	$49.96
RevPAR	$29.14	$29.96	$32.51	$35.95	$37.72
CAMBRIA DOMESTIC SYSTEM (1)					
Number of properties, end of period	19	18	22	25	27
Number of rooms, end of period	2,221	2,119	2,642	3,113	3,503
Royalty fees ($000)	$2,102	$2,147	$2,687	$3,745	$4,955
Average occupancy percentage(1)	N/A	N/A	N/A	N/A	76.3 %
Average daily room rate (ADR)(1)	N/A	N/A	N/A	N/A	$131.73
RevPAR(1)	N/A	N/A	N/A	N/A	$100.46
ASCEND HOTEL COLLECTION DOMESTIC SYSTEM					
Number of properties, end of period	57	102	109	112	127
Number of rooms, end of period	4,982	9,206	9,395	9,455	10,480
Royalty fees ($000)	$2,464	$3,741	$4,950	$5,558	$5,985
Average occupancy percentage	64.8 %	64.0 %	60.3 %	58.5 %	58.1 %
Average daily room rate (ADR)	$				