

LA QUINTA HOLDINGS INC.

NYSE:LQ

Analyst: JACKY CHENG

Sector: SERVICES

BUY

Price Target: \$26.00

Key Statistics as of 4/10/2015

Market Price:	\$23.15
Industry:	Resorts & Casinos
Market Cap:	\$3.06 B
52-Week Range:	\$16.01-24.38
Beta:	NA

Thesis Points:

- Recent IPO with strong RevPAR and adjusted EBITDA
- Growing Free Cash Flow
- Growing Pipeline/International Expansion
- Decrease in Net Debt

Company Description:

La Quinta Holdings Inc. is one of the largest owners, operators, and franchisors of select-service hotels. It owns, operates, and franchises select-service hotels under the La Quinta brand. It serves the upper-midscale and midscale segments. As of February 24, 2015, the company owned and franchised portfolio consisted of 850 La Quinta Inn & Suites, and La Quinta Inn branded hotels with approximately 86,000 rooms located in 47 states, as well as in Canada and Mexico. The company was founded in 1968 and is headquartered in Irving, Texas.

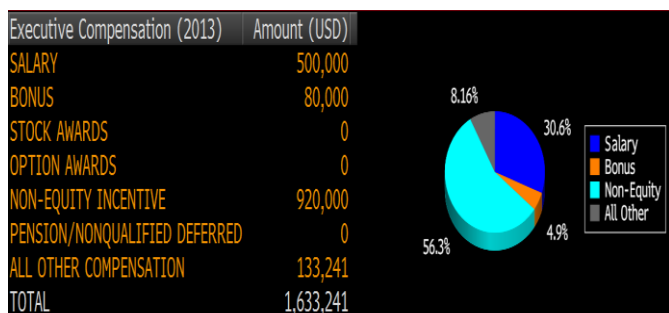


Thesis

La Quinta Holdings is the leading owner, operator and franchisor of select-service hotels with a national footprint. Recently going IPO last April, the company has witnessed growth in revenue and EBITDA along with growing free cash flow while paying off net debt at a steady pace. As the company continues to grow its pipeline to other places, it is expected that revenue and EBITDA will keep growing at a steady pace. With increasing free cash flow, it is expected that management will compensate its investors by possibly starting dividend payments.

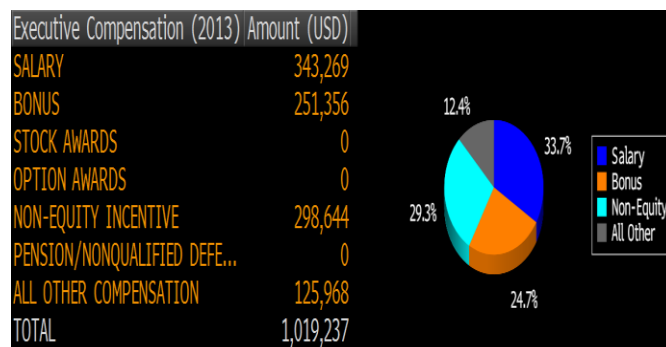
Management

Wayne Goldberg is the President & CEO of La Quinta Holdings since 2006. Wayne brings over 36 years of experience to the table in the select-service lodging industry as he took on other executive positions BridgeStreet Accommodations, a worldwide corporate housing provider, and Red Roof Inns, Inc.



**Above is Wayne Goldberg's Compensation.*

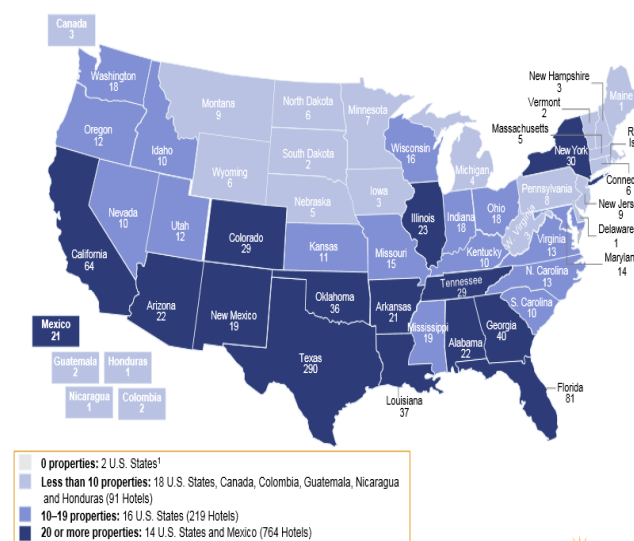
Keith Cline is the EVP & CFO of La Quinta Holdings since 2013. Cline has more than 22 years of financial leadership experience across a variety of industries, including over 13 years of public company experience and significant experience with consumer brand companies.



**Above is Keith Cline's Compensation.*

Expansion

La Quinta has been increasing its pipeline and expanding internationally, making a presence in Mexico and Central and South America. The company has opened 14 franchised hotels with over 1000 rooms in Q4 which contributed to the RevPAR (Revenue Per Available Room) growth of 8.4%. This has increased the pipeline to 207 totaling over 17,000 rooms.



**The map above shows the geographical location of La Quinta properties.*

La Quinta has been dedicated to expanding its presence in Latin America and South America. The improving economy, increase in middle class, and lack of select-service hotels makes Latin America an attractive market. There are plans to open several hotels in Mexico and one in Honduras this year.

midscale segment.

The adjusted EBITDA has increased 10.4% from the prior year and the EBITDA margin increased 60 basis points to 38%. Breaking the adjusted EBITDA down to the two segments, the franchise increased 11.6% from the prior year, increasing the franchise base by 8% including opening its 500th franchise property. With the owned property, the adjusted EBITDA increased 11.6% from the prior year.

	Combined Historical			
	2011A	2012A	2013A	2014A
Pro Forma Net income (loss) attributable to the Company	\$69	(\$31)	\$9	(\$333)
Interest expense	54	105	150	121
Income tax expense	2	3	7	29
Recognition of net deferred tax liabilities upon C-corporation conversion	-	-	-	321
Depreciation & amortization	170	177	171	175
Net (income) loss attributable to non-controlling interests	(5)	(5)	-	4
Fixed assets impairment loss	-	53	-	5
Loss / (Gain) on the retirement of assets	2	2	-	-
Loss / (Gain) on the extinguishment of debt	(18)	(1)	-	2
Income from discontinued operations	(14)	(13)	-	-
Loss / (Gain) on casualty disasters	(3)	5	-	(7)
Equity based compensation	-	-	-	58
Other	7	10	3	1
Pro forma Adjusted EBITDA	\$264	\$305	\$340	\$376

With the additional franchises added this year, La Quinta saw an 8% increase in RevPAR and 8% growth in franchise unit base. This also resulted in a 4.4% increase in average daily rate (ADR).

Future Outlook

For FY 2015, La Quinta anticipates RevPAR in increase between 5.5 and 7 percent compared to 2014 as an expectation to open between 50-55 new properties, and foresees meaningful growth in adjusted EBITDA. Along with these growing aspects, La Quinta is wisely using its free cash flow to pay off leverage and will continue to do so to optimize capital structure. It is foreseen that dividend payments could start this year or next year the latest. With its past strong performance and plans for expansion, it is a reasonable projection and assumption to make as they will grow in many aspects in their financials in the long run.

Conclusion

With strong performance since going public, La Quinta Holdings has performed its best ever, with nothing but success in the future. The maturity stage for this company is nowhere close in the short term as they are continuously expanding domestically and internationally. With expectations of lowering the company's debt



*The map above shows the geographical locations of La Quinta's pipelines undergoing construction in Central and South America.

Financials

Decrease in Leverage

Since the IPO, La Quinta Holdings was able to generate strong free cash flows. With the \$700 million they have generated in net proceeds, the company was able to do a myriad of items including paying off \$205 million of debt, with \$195 million that was voluntary. This improved net debt/adjusted EBITDA to 4.7x. Management plans on bringing the net debt/adjusted EBITDA down to 4.0x which they anticipate that it will happen this year where management will evaluate a market-appropriate return of capital to our shareholders.

	At IPO ²		Debt Pay Down ³		Quarter-End 12/31/14	
	\$	%	\$	%	\$	%
New \$250M Revolving Credit Facility	0	0%	0	0	0	0%
1st Lien Term Loan ¹	2,090	100%	(205)		1,885	100%
Existing Debt	0	0%	0	0	0	0%
Total Debt	2,090	100%	(205)		1,885	100%
Less: Cash	(134)				(110)	
Total Net Debt	1,956				1,775	
Credit Metrics	Q1'14		Q4'14			
TTM EBITDA	\$347		\$376			
Total net debt / TTM pro forma Adj. EBITDA	5.6 x		4.7 x			
TTM pro forma Adj. EBITDA to Interest Coverage ⁴	3.8 x		4.1 x			

Consistent Growth

La Quinta has been impressive with growth in its financials. With the strong demand in the upper-midscale and midscale segments exceeding supply, this drives the RevPAR growth up. In 2013, the RevPAR growth went up 4.2% in the upper-midscale segment and 4.1% in the

significantly by the end of this year with the cash generated and eventually repaying its shareholders. With the management's aggressive approach to maximize efficiencies which in turn cuts costs and boosts profitability, La Quinta Holding is a BUY.

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La Quinta Holdings Inc.		LQ	Analyst JACKY CHENG	Current Price \$23.10	Intrinsic Value \$24.88	Target Value \$26.55	Divident Yield 0%	Target Return 1-y Return: 14.93%	NEUTRAL						
General Info		Peers	Market Cap.	Professional		Management									
Sector	Consumer Discretionary	Choice Hotels International Inc.	\$3,585.99	Goldberg, Wayne	Chief Executive Officer, P	\$	3,162,263.00	\$	1,633,241.00	\$	26,739,908.00				
Industry	Hotels, Restaurants and Leisure	Extended Stay America, Inc.	\$4,010.58	Cline, Keith	Chief Financial Officer and	\$	-	\$	1,019,237.00	\$	6,399,937.00				
Last Guidance	Feb-24-2015	Marriott International, Inc.	\$22,185.58	Lombardi, Angelo	Chief Operating Officer and	\$	1,214,766.00	\$	883,005.00	\$	7,436,932.00				
Next earnings date	4/29/2015	Starwood Hotels & Resorts Worl	\$14,463.33	Chloupek, Mark	Executive Vice President,	\$	-	\$	-	\$	5,432,457.00				
Market Data		Hyatt Hotels Corporation	\$8,821.09	Trivedi, Rajiv	Chief Development Officer	\$	1,245,266.00	\$	-	\$	7,591,030.00				
Enterprise value	\$4,810.92	Diamond Resorts International, Ir	\$2,363.27	Forson, James	Chief Accounting Officer,	\$	-	\$	-	\$	-				
Market Capitalization	\$453.51	Hilton Worldwide Holdings Inc.	\$30,709.57	10y-Median Performance											
Daily volume	0.41	Intercontinental Hotels Group plc		\$6,535.73	LQ		Peers		Industry		All U.S. firms				
Shares outstanding	130.86	Current Capital Structure			Growth	5.4%	7.2%	6.8%	7.4%						
Diluted shares outstanding	126.16	Total debt/market cap	62.19%	NOPLAT Margin	16.6%	14.8%	10.4%	10.4%							
% shares held by institutions	73.98%	Cost of Borrowing	5.39%	REV./Invested Capital	32.3%	48.5%	86.0%	137.4%							
% shares held by insiders	1.54%	Interest Coverage	92.57%	Excess Cash/Rev.	N/A	12.6%	13.5%	12.9%							
Short interest	3.77%	Altman Z	0.93	Total Cash /Rev.	11.5%	13.2%	12.3%	15.2%							
Days to cover short interest	3.61	Debt Rating	C	Unlevered Beta	1.03	1.15	0.95								
52 week high	\$24.38	Levered Beta	3.75	TEV/REV	4.9x	3.2x	2.5x								
52-week low	\$16.01	WACC (based on market value w	8.96%	TEV/EBITA	0.0x	31.1x	17.5x	13.1x							
5y Beta	0.00				PE	36.1x	29.9x	26.7x	23.5x						
6-month volatility	25.87%				P/EV	0.0x	5.9x	2.2x	2.2x						
Past Earning Surprises				Non-GAAP Adjustments in estimates computations											
Revenue		EBITDA		Norm. EPS		Operating Leases Capitaliza		Straightline		10 years					
Last Quarter	1.9%	2.3%		60.0%		R&D Exp. Capitalization		Straightline		10 years					
Last Quarter-1	2.9%	5.7%		-5.9%		Expl./Drilling Exp. Capitalizal		N/A		N/A					
Last Quarter-2	1.3%	5.2%		0.0%		SG&A Capitalization		30%		Straightline		10 years			
Last Quarter-3	-2.8%	0.0%		0.0%											
Last Quarter-4	0.0%	0.0%		0.0%											
Proforma Assumptions				Rev. Growth		Adj. Up. Cost/Hev		Invested Capital		Forecast					
				\$		-		NUPLA 1 Margin		HUILC		WACC			
Money market rate as of today	0.52%	LTM		60.9%		\$2,957.01		17%		5.4%		9.0%			
Annual increase (decrease) in inte	0.1%	NTM		55.4%		\$2,808.18		21%		7.4%		8.6%			
Yield Spread acceleration	1.2	NTM-1		8.3%		\$2,976.49		23%		9.2%		8.5%			
Marginal Tax Rate	37.5%	NTM-2		7.4%		\$3,149.58		24%		9.8%		8.6%			
Risk-Free rate	2.5%	NTM-3		7.0%		\$3,300.18		25%		10.2%		8.6%			
Tobin's Q	1.00	NTM-4		6.7%		\$3,426.36		25%		10.6%		8.7%			
Op. Cash/Rev.	2%	NTM-5		6.6%		\$3,576.52		26%		11.3%		8.8%			
Growth in PPE	NPPE Growth tapers to zero until continuing period	NTM-6		6.6%		\$3,754.88		26%		11.6%		8.8%			
Long term Growth	6.5%	NTM-7		6.5%		\$3,953.33		27%		12.0%		8.9%			
Long term EBITDA Margin	50.0%	NTM-8		6.5%		\$4,181.40		27%		12.3%		8.9%			
Long term NOPLAT Margin	10.4%														
Long term ROIC	12.0%														
Most recent Unlevered Beta															
Long term Unlevered Beta	1.03														
				Valuation		Other claims		Equity Value		WACC		Weighted Price Pe			
				Invested Capital x (HUILC-WACC)		UFCF Valuation		UFCF Valuation		Relative Valuation		Weighted Price Pe			
LTM	-\$106.56	\$5,694.73		\$1,885.70		-\$5.01		\$3,814.04		\$28.80		\$16.99		\$25.84	
NTM	-\$35.21	\$5,877.09		\$2,143.64		\$86.49		\$3,646.96		\$28.88		\$22.55		\$27.30	
NTM-1	\$20.58	\$6,340.33		\$2,156.64		\$90.08		\$4,093.61		\$32.18		\$25.71		\$30.56	
NTM-2	\$37.22	\$6,787.56		\$2,156.86		\$94.87		\$4,535.83		\$35.53		\$28.78		\$33.84	
NTM-3	\$53.86	\$7,200.62		\$2,165.14		\$99.25		\$4,976.22		\$39.03		\$32.25		\$37.34	
NTM-4	\$66.59	\$7,600.26		\$2,165.14		-\$26.91		\$5,462.03		\$42.94		\$36.22		\$41.26	
NTM-5	\$89.29	\$8,037.56		\$2,165.14		-\$115.92		\$5,988.34		\$46.91		\$40.38		\$45.27	
NTM-6	\$104.69	\$8,506.07		\$2,165.14		-\$205.59		\$6,546.52		\$51.26		\$44.74		\$49.63	
NTM-7	\$119.84	\$9,008.27		\$2,165.14		-\$306.34		\$7,149.47		\$55.95		\$49.41		\$54.32	
NTM-8	\$4,965.11	\$9,546.61		\$2,165.14		-\$411.49		\$7,792.96		\$59.55		\$54.35		\$58.25	
				Monte Carlo Simulation Assumptions				Monte Carlo Simulation Results							
				Base		Stdev		Min		Max		Distribution		Mean est.	
				0		10%		N/A		N/A		Normal		\$25.84	
				Op. Costs Variation		10%		N/A		N/A		Normal		σ(€)	
				Country Risk Premium		N/A		5%		7%		Triangular		3 σ(€) adjusted price	
				Long term Growth		N/A		2%		7%		Triangular		Current Price	
														Analysts' median est.	
														\$23.10	
														\$26.55	
														\$25.93	