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HOTELS

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An Overnight Success

Longtime Hotel Family Widens its Inland Empire

They parlayed an old railroad coal yard on the Spokane River into a chain of hotels twining through the Pacific Northwest.

It started more than 20 years ago, when the Spokane real estate management and development firm Goodale & Barbieri joined with Burlington Northern Land Development to build a hotel downtown.

That hotel, Cavanaugh's River Inn, was the first link in the chain that now numbers 13 hotels and stretches from Kalispell, Mont., to Portland, Ore.

Today, the empire begun by the late Lou Barbieri also boasts an entertainment service and a rental division that manages more than 3 million square feet of office and retail space in the region.

Under a new name, Cavanaugh's Hospitality Corp. is planning a public offering and harboring ambitions to become the dominant hotel chain in the Northwest. Two weeks ago, the company announced its intent to offer new investors 5.18 million of 12.27 million shares at \$12 to \$14 a share.

Cavanaugh's also is looking to buy full-service hotels in the Northwest's key cities, aiming as far as northern California and Canada.

The company is arming itself with a potential \$80 million in revolving loans and possibly \$60 million in stock revenues. And it's riding the momentum of a volatile time of sales, acquisitions and mergers in the U.S. lodging industry.

The company, which remains based in Spokane, has a strong management team and a cadre of Barbieri heirs ready to help run the business.

In taking the large step from local hotelier to regional leader, the timing might never be better.

A place on the stock exchange

Cavanaugh's' strategy includes applying for a place on the New York Stock Exchange.

"The public hotel companies right now have really become the sweetheart of Wall Street," said Marni Dacy, spokesperson for the American Hotel and Motel Association.

The offering of 5.18 million shares of stock could bring as much as \$61.7 million to the company, after expenses, according to the offering.

That money would help Cavanaugh's pay off some of the \$100.8 million in debt the company lists in its public offering application. At the end of 1997, the company's assets were listed at \$124.4 million.

Buying down the debt will allow Cavanaugh's to pursue another part of its strategy: building its presence in the Northwest. Cavanaugh's plans to add properties in Washington, Oregon, Idaho, Montana, Northern California, Utah and Canada, according to its filing with the Securities and Exchange Commission.

Concentrating on one region is the right strategy, hotel consultants say.

"They could be like a young Red Lion," said Andrew Olson, managing director of Chambers Inc., a hospitality industry consulting firm in Seattle.

Once a major regional chain, Red Lion operated out of the Portland-Vancouver area, where it had a base of hotels in the 1970s. It widened its presence by opening hotels in strategic cities such as Spokane, Boise and Seattle. Last year, most of the chain of nearly 60 properties was sold to Doubletree for \$1.2 billion.

"Cavanaugh's is fortunate that they have a good critical mass from which to grow," Olson said in reference to the five hotels in the Spokane area.

According to national accounting firm Coopers and Lybrand, the domestic lodging industry reaped record profits for the past three years. In 1998, the industry can expect another lucrative year with a 2.2 percent growth in demand for hotel rooms, according to the firm.

Firm began in 1937

Family patriarch Lou Barbieri, the son of Italian immigrants, started the real estate management company with his friend Fred Goodale in 1937.

Armed with a business degree from Gonzaga University, Barbieri saw a niche in property management and development in Spokane. When his son Don joined the company in 1968, it had only a handful of employees. Today, it has 1,900.

Although Lou Barbieri died last July at 82, the business hasn't slowed.

The family is deep into the process of building, acquiring and improving hotels. None of the company's officers could comment for this story because of a "quiet period" required by the SEC during a proposed public offering.

If Cavanaugh's goes public, Don Barbieri, the 52-year-old president and CEO, would continue at the helm. Serving as senior vice presidents would be his brothers Richard, 55, and Thomas, 40, and brother-in-law David Bell, 47.

Barbieri's right-hand man and the company's chief financial officer is Art Coffey, 42, an employee of the company since 1981. After Barbieri, Coffey would earn the second-biggest paycheck as executive vice president.

The Barbieri family would own about 57 percent of the stock and continue to control Cavanaugh's.

"I'm very impressed with them," said Hartly Kruger of the Spokane Area Convention and Visitors Bureau. "They're very focused. They're bottom-line oriented."

Kruger frequently works with the Barbieris to attract convention business to the area.

"They're young and excellent business people," said Peter Stanton, president of Washington Trust Bank in Spokane. "I think this (public offering and development strategy) is a great challenge for them."

The Barbieris have asked Stanton to join Cavanaugh's board of directors if the public offering is approved.

But they haven't waited for outside approval to start building their hotel empire. They recently acquired the 167-room Templins Resort in Post Falls and the West Bank Holiday Inn in Idaho Falls.

Cavanaugh's latest Spokane acquisition, the 92-year-old Ridpath Hotel, came last fall when the company offered Seattle and Portland-based Dunson Ridpath Hotel Ltd. Partnership a deal to lease the downtown hotel.

"We're still going to have money invested in the hotel," said Gordon Sondland, spokesman for Dunson-Ridpath. "They're the hometown people. We will benefit from their knowledge of the market."

Cavanaugh's lease on the Ridpath runs until November 1999, with an option to buy the hotel for between \$11.5 million and \$12.5 million.

The Ridpath's employees have labor representation. That's unusual for Cavanaugh's, which has no other union workers.

However, "a contract is being negotiated, and they recognize us," said Joe Massimino, president of the Hotel and Restaurant Employees Union. "Nobody's getting hurt."

In fact, union or not, Cavanaugh's employees would benefit from the public offering, which includes a 401K plan and stock options.

Since Jan. 1 the company has added five hotels to its portfolio. The company's contract on the Best Western Outlaw Inn in Kalispell, Mont., is another sign of aggressive growth.

"We weren't actively looking to sell," said Dick Dasen, owner of the Outlaw Inn. "But Cavanaugh's approached us. They made an offer that was reasonable."

The company already owns the Cavanaugh's at Kalispell Center, which it built in 1986 in conjunction

with the Kalispell Center Mall. With two hotel properties in town, it has 350 rooms and a handle on the major conference and meeting bookings in Western Montana.

According to Cavanaugh's prospectus, the company offered \$9.9 million for the Outlaw Inn, contingent upon completion of the public offering.

"With the two properties, I believe they'd have the upper hand in the market here, convention-wise," Dasen said.

While the public offering includes nearly everything that Goodale & Barbieri controlled, the family is keeping a few properties to itself, including land at Huckleberry Bay on Priest Lake.

Not all the company's ventures have succeeded. One of Goodale & Barbieri's first hotel properties, Cavanaugh's Motor Inn in Moscow, Idaho, was cut from the chain in 1991 when the town became bloated with hotel rooms. The University of Idaho bought the building and turned it into student housing and offices.

Even so, with the region's growing convention business and the current hotel and motel market, Cavanaugh's appears to be at the crest of the wave.

The rumor among industry experts is that the chain is seeking its first hotels in Boise.

"The last year and a half has been absolutely staggering," consultant Olson said of the flurry of hotel buying and selling in the Northwest.

"The condition and the operation of Cavanaugh's hotels is great," he said. "They've got a strong management team. Often when you've got all that, it's time to grow."

Cavanaugh's growing chain

Property owned	location	year built, leased, or purchased	rooms	occupancy
Cavanaugh's River Inn	Spokane	1976	245	74.2
Cavanaugh's at Columbia Center	Kennewick	1978	162	58.9
Cavanaugh's Inn at the Park	Spokane	1983	402	61.1
Cavanaugh's at Kalispell Center	Kalispell	1986	132	63.2
Cavanaugh's Fourth Avenue	Spokane	1991	153	51.7
Cavanaugh's at Yakima Center	Yakima	1991	155	63.3
Cavanaugh's on Fifth Avenue	Seattle	1996	297	64.9
Cavanaugh's Gateway Hotel	Yakima	1997	172	57.9
Cavanaugh's Ridpath Hotel	Spokane	1998	342	57.3
Cavanaugh's on the Falls	Idaho Falls	1998	142	60.1
Cavanaugh's Templins Resort	Post Falls	1998	167	58.2
Cavanaugh's Outlaw Hotel	Kalispell	1998	220	43.4
Cavanaugh's Hillsboro Hotel	Portland	1998	123	69.3