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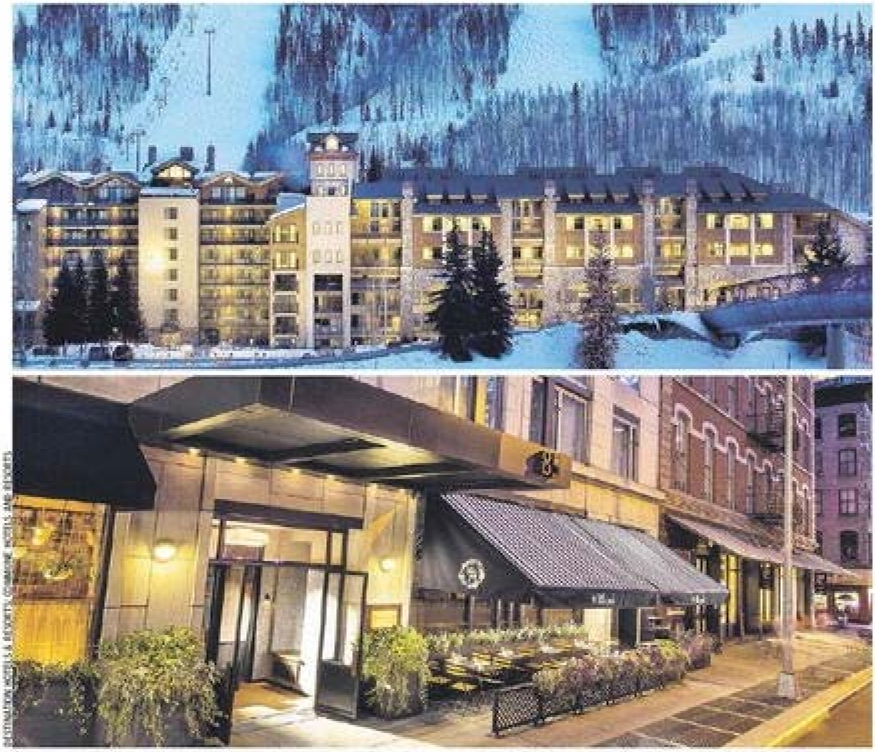
DJIA 16093.51 ▲ 210.83 1.33% S&P 1906.90 ▲ 2.03% NASDAQ 4591.18 ▲ 2.66% 10-YR. TREAS. ▼ 9/32, yield 2.052% OIL $32.19 ▲ $2.66 EURO $1.0799 YEN 118.77 See more at WSJMarkets.com



Destination Hotels operates resort locations, such as in Vail, Colo., top, while Commune is largely in cities, including New York.

Hotels Ramp Up Mergers

Deal activity picks up in the sector as owners look to push back against rivals such as Airbnb

By Craig Karmin and Dana Mattioli

Hotel companies are ramping up their merger activity, hoping a broader reach will help them regain ground lost to upstart home-rental companies and online travel agents.

Commune Hotels & Resorts and Destination Hotels are the latest hospitality companies to merge. The two privately held firms on Friday announced they completed a deal to create the largest independent operator of boutique hotels—properties that focus on design and often appeal to a younger crowd.

The combined company has 92 hotels in seven countries and $2 billion in property-management revenue.

In a cross-border transaction last month, French lodging giant **Accor SA** agreed to acquire **FRHI Holdings Ltd.**, the Toronto-based parent company of Fairmont, Raffles and Swissotel brands. The deal valued the company at more than $3 billion.

Driving much of the deal activity is the negotiating power that comes with mass scale, which could be the most effective way for hotel operators to fend off rising competition from tech-oriented companies that have been eating into hotel profits over the past decade, analysts say.

Online travel agents like Expedia Inc. and Priceline Group Inc.'s Booking.com account for about 17% of U.S. hotel book-

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Philips Nixes Deal Rebuffed by U.S.

By Maarten van Tartwijk

AMSTERDAM—U.S. regulators strike again.

Royal Philips NV said Friday that it terminated the planned $2.8 billion sale of most of its lighting components and automotive-lighting unit to a Chinese investor, after the powerful **Committee on Foreign Investment in the U.S.** blocked the deal on national-security grounds.

The move comes just weeks after U.S. Justice Department concerns about competition scuttled another European deal: **General Electric Co.**'s $3.3 billion sale of its appliance business to Sweden's **Electrolux AB**. After pulling out of that deal in the face of a Justice Department lawsuit, GE agreed to sell the business to China's **Haier Group** for $5.4 billion.

Philips in March struck a deal to sell a 80% stake in its Lumileds business to GO Scale Capital, an investment fund led by Chinese venture-capital firm GSR Ventures. The proposed transaction, however, raised concerns of the Committee on Foreign Investment in the U.S., known as CFIUS, an interagency group led by the Treasury Department that examines international transactions for their impact on national security. Philips warned in October that the deal could collapse.

The news comes as CFIUS has increased scrutiny of technology deals in the U.S. involving Chinese buyers. Last year, Chinese state-owned chip maker Tsinghua Unigroup Ltd. tried unsuccessfully to buy

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Market 'Capitulation' Not in Sight (So Far)

THE INTELLIGENT INVESTOR
JASON ZWEIG

There is nothing like a 10% drop in the stock market in the first few days of the year to rev up Wall Street's myth-making machine.

Although stocks rebounded late in the week, the usual clichés about "panic" and "capitulation" have been flying—and investors should take a moment to winnow fact from fiction.

Myth No. 1 is that individual investors are especially prone to panic. While some individual investors have undoubtedly been selling, the overall picture suggests patience.

This past Wednesday, when the Dow Jones Industrial Average dropped more than 500 points before closing down by 1.6%, was one of the 10 busiest retail trading days ever at **Fidelity Investments**, says Fidelity spokesman Robert Beauregard.

But, as they have done consistently this year, the firm's individual clients added more to their accounts than they withdrew, he says. Through Jan. 19, customers of the brokerage arm of the Boston-based financial firm invested seven

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HOTELS

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ings, according to a study from research firm Phocuswright. These booking channels charge fees of about 12% to 25% of room revenue, and the brands boasting the largest room inventory extract the most favorable terms.

Among other recent deals, privately-held Carlson is exploring strategic alternatives, including a possible sale or merger, for its hotel company with about 174,000 hotel rooms and the Radisson brand, said people briefed on the matter.

In one of the largest transactions ever for the industry, Marriott International Inc. in November agreed to pay $12.2 billion to acquire Starwood Hotels & Resorts Worldwide Inc. The deal would create the world's largest hotel company with more than one million rooms and 30 brands.

Much of the industry also is feeling the effects of home-rental company Airbnb Inc., which will account for 5.4% of total U.S. room supply in 2016, up from 3.6% last year, according to an estimate from Goldman Sachs Group Inc. Only five hotel operators have a market share greater than 5%, Goldman said.

Marriott Chief Executive Arne Sorenson referred to home-rental companies and Google Inc., which offers hotel reviews and panoramic views of properties from its site, on an analyst call when the merger was announced.

"We became more convinced that strategically we could drive better value and compete better by being bigger," he said.

Bigger hotel operators have greater brand recognition, expanded loyalty programs and more robust marketing budgets, analysts said. At a time when most major hotel companies own few of the properties they manage or franchise, those attributes make a brand more attractive to owners.

Part of the hotel merger momentum also might be tied to the business cycle. After years when hotels were able to charge more for their rooms and to grow revenue rapidly, the hotel business cycle is slowing from weaker global economic growth and new supply coming on in the U.S.

"Companies that are finding it hard to grow organically are starting to grow through acquisition," Destination Hotels President Jamie Sabatier said in an interview Friday.

Other operators view deals as a way to plug holes in a brand portfolio. Accor picked up three luxury brands in its acquisition of FRHI, boosting to 35% from 20% of its hotel management revenue derived from high-end hotels, the company said.

Hospitality deals worldwide totaled $58.9 billion last year, the industry's strongest since 2007, according to Dealogic. But that consisted mostly of many smaller deals and represented a tiny fraction of the trillions of dollars in overall deal activity.

Overall mergers-and-acquisition activity has been muted so far this year after reaching an all-time record in 2015. There have been $114.2 billion in deal announcements to date, down 33% from the same period last year, according to data provider Dealogic.

Some hotel experts think the Marriott deal, which caught the market by surprise after earlier indications from the company that it wasn't interested in a major transaction, has motivated boards to look more aggressively at takeover prospects.

"The Starwood-Marriott transaction created momentum," said Phil Zriben, a managing director specializing in the hospitality sector for investment bank Houlihan Lokey Inc.

DESTINATION HOTELS & RESORTS

Destination Hotels' Terranea Resort in southern California.

AmEx Sheds Activist, Not Problems

BY ROBIN SIDEL AND DAVID BENOIT

American Express Co. has shed its activist investor but now the firm may have bigger problems to worry about.

AmEx shares tumbled on Friday, one day after it provided a disappointing financial outlook to investors who had hoped the card company was on the road to recovering from recent struggles.

In addition, a longtime analyst who follows the company downgraded shares of AmEx for the first time in more than six years.

The stock ended down $7.59 at $55.05. Shares hit an intraday low of $54.14, the lowest level since late 2012, according to FactSet.

While AmEx Chief Executive Kenneth Chenault on Thursday said the company was "taking significant actions to change the trajectory of our business," that pledge also was called into question on Friday.

ValueAct Capital Management LP, which took a roughly $1 billion stake in AmEx last summer, sold the position in November after discussions with the company's management left the hedge fund with the impression that the company wasn't prepared to make changes that were needed, according to people familiar with the matter. The extent of those changes wasn't immediately clear.

> Shares of AmEx hit an intraday low of $54.14, their lowest since late 2012.

ValueAct's exit was reported Friday by CNBC.

AmEx late Thursday reported fourth-quarter earnings fell more than 30% and revenue declined nearly 8% for the period. Analysts were especially concerned that the company's outlook for 2017 had dimmed from recent expectations.

AmEx has been struggling to propel its revenue growth, which has continued to fall short of the company's internal targets. The company is dealing with assorted challenges, ranging from declines in corporate travel budgets and a stronger dollar to more competition from other card companies.

The revenue picture will be especially difficult this year because of AmEx's loss of its 16-year card relationship with Costco Wholesale Corp., which expires at the end of March.

Sanjay Sakhrani of Keefe, Bruyette & Woods, who has long been bullish on AmEx, downgraded the credit-card company from a buy to a neutral "market perform" rating amid the "disappointing" 2017 outlook. A proponent of the stock because of its "strong assets" and "unparalleled brand," Mr. Sakhrani acknowledged that "clearly, more recently this has been the wrong call."

AmEx on Thursday said that its plan to address the company's performance included cutting $1 billion in costs by the end of next year.

ValueAct, run by Jeffrey Ubben, first disclosed a position in August, after buying 11.1 million shares in the second quarter. It then added slightly to the position in the third quarter to bring it to 11.3 million shares, or 1.2% of the outstanding stock.

While worth more than $800 million at the time, the stake was always a smaller holding for ValueAct, which manages around $20 billion in assets.

As of the end of September, its most recent quarterly disclosure, American Express ranked 11th in ValueAct's portfolio by dollar size behind eight companies in which it had put more than $1 billion.

Storm Boosts Natural-Gas Producers

BY RYAN DEZEMBER AND TIMOTHY PUKO

The blizzard barreling toward the East Coast may be terrible news for travelers, but it is a rare bit of respite for beleaguered natural-gas producers.

Expectations of freezing temperatures and a blanket of snow from Nashville to New York have pushed local natural-gas prices above $5 per million British thermal units in parts of the Northeast for the first time since last winter. That has heated up shares of companies that drill in nearby Pennsylvania, Ohio and West Virginia.

Through Friday's close, only seven of 79 U.S.-listed energy exploration-and-production companies had stocks that were in positive territory so far this year. All but one of the gainers drill for gas in Appalachia.

It is a major reversal of fortune for these companies—at least for now.

Southwestern Energy Co. is the S&P 500's top performer in 2016, up 23% through Friday. Last year it fell 74%, the third worst in the stock index. Antero Resources Corp., which lost 46% last year, has risen 10%. Winter Storm Jonas helped lift Eclipse Resources Corp. 63% this past week and out of penny-stock territory.

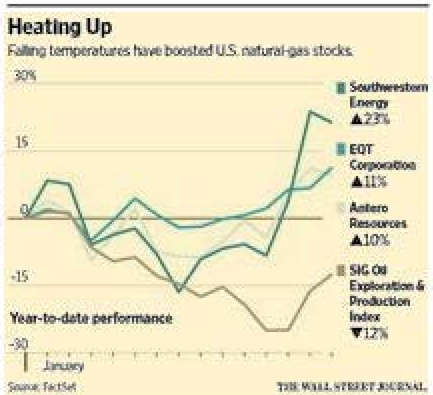
Winter Storm Jonas itself is unlikely to create enough demand to broadly boost U.S. gas prices too much. And it could even reduce demand for the fuel if it knocks out power in big cities. Yet its arrival has given hope to gas producers that homeowners might finally start burning off some of the heating fuel that has filled the country's storage facilities to historic levels this winter.

"Winter did come. It may be weak, but there's some of it," said Craig Bethune, senior portfolio manager at Manulife Asset Management in Toronto. "There's a less dire situation."

U.S. energy producers, led by Appalachian drillers, extracted record volumes of gas last year despite commodity prices that often didn't cover the cost of drilling wells. Oversupply and unusually warm weather at the end of the year, thanks to the El Niño weather phenomenon, pushed U.S. natural-gas futures below $2 to 14-year lows in December.

Natural gas heats roughly half of U.S. homes, making winter weather the market's biggest driver of demand. If the mild weather that has marked much of this winter were to continue, gas prices could come under severe pressure in spring when producers typically begin pumping new gas into storage as heating demand disappears.

The U.S. Energy Information Administration on Thursday reported the largest weekly withdrawal of gas from storage this winter as temperatures dropped below freezing in Chicago and New York. Still, stockpiles ended last week 24% above the same point a year ago and 17% larger than the five-year average, the agency said.



U.S. natural-gas futures rose on the government report, but at about $2.15 remain too low to entice producers to drill many new wells. The number of rigs drilling for gas in the U.S. has fallen by more than half in the past year to 127, the fewest since at least 1987, according to oil-field-services company Baker Hughes Inc.

It may not take many new rigs to add supply should cold weather persist, though.

In recent years, the combination of sideways drilling done miles beneath the surface with a rock-cracking process called hydraulic fracturing has given access to vast reserves of natural gas beneath Pennsylvania and parts of Ohio and West Virginia. As prices fell and explorers rushed to lock in leases on land above the region's prolific Marcellus and Utica shale formations, producers held off on the step that gets gas flowing to save money until prices improved.

That means there are hundreds of wells that could be brought on line quickly should prices rise. In addition, producers have choked back a number of other wells to a trickle to save the gas for times when it will fetch better prices.

In effect, the region has "just-in-time inventory" ready to bring online whenever prices warrant, said Pearce Hammond, managing director at Simmons & Co. International in Houston. "The Northeast has the ability to respond to the market reasonably quickly," he said.