**Financial Analysis: Marriott International, Inc. Class A (MAR)**

The following report compares and analyzes the financials trailing five years, 2011-2007, of Marriott International with several other firms in the hotel and lodging industry. The other firms include Starwood, Wyndham, and Hyatt.

Marriott International is among the top firms in the hotel and lodging industry. The company is primarily a management group, with 98% of its hotels being franchised or strictly managed, differing from the others in the industry. Marriott International includes corporate, franchise and timeshare resorts with its 18 various brands. Locations are ranging from iconic luxury hotels like the Ritz Carlton and Ritz Carlton Destination Club to extended stays like the Residence Inn or TownePlace suites. The company is versatile in the industry covering low end residences to high end vacation resorts. They are extended internationally, with more than 3700 properties in 74 countries. Although the recent recession (08/09) created problems for the entire industry, nearly 80% of their revenues are still generated in North America. In 2011 the corporation completed a spin off of Marriott Vacation Club International (MVCI), or timeshare business, into a separate entity causing a reduction in the financial ratios 2010 to 2011. Despite this Marriott International reported total revenues of 12.3 billion for 2011. Year to date Marriott International’s stock price has risen 33%; they are maintaining a strong presence among the leaders of the industry and are continuing to make improvements.

**Ratio Comparisons**

Debt Ratios

Marriott International has slightly higher debt ratios than all the other firms in this industry. Although they are not far from the average; indicating that Marriott, like other firms in the industry rely upon similar levels of leverage and financing. As noted before only 2% of the company’s properties are owned or leased, having a higher debt/equity ratios indicates that Marriott is using leverage, mostly short term debt, to help management properties and franchises. These account for the other 98% of their business. Since the spin off, Marriott has been trying to increase the number of properties, thus taking on more debt. Having the highest total debt, debt/equity, and equity multiplier nearly each of the five years, and possessing the largest long term debt only in 2011. Marriott’s debt ratios remained about the same until 2010, and then have drastic changes in 2011. The 2011 reports revealed that total debt and long term debt increased by 0.31 and 0.48 respectively, while debt equity plummeted to negative 8.57, a drop of 13.23. The debt ratios are all consistent with each other until 2011 when Marriott completed the spinoff of its timeshare business. Causing a reduction in shareholder investments and total equity reported on the company’s financial statements. I feel that the transfer of assets in the spinoff caused the drastic changes for Marriott in 2011.

Coverage Ratios

Marriott’s ratios (TIE and cash coverage) are within the mid-range for the industry, averaging 3.41 and 4.57 respectively. Industry competitors’ average: 2.71, 4.14 Starwood, 3.87, 8.6 Hyatt, and 2.78, .45 Wyndham. Hyatt and Wyndham appear to hold more cash than Marriott or Starwood, logically because they are younger firms. The industry clearly took a hit due to the recession. Marriott, Starwood and Hyatt all take this reduction in 2009, and Wyndham is affected the in 2008. The Cash Coverage is on the lower end for the industry due to their slightly higher reliance on financing and long term debt. Over all Marriott appears to have good coverage and ability to meet financial obligations and is closely comparable to the other firms in the industry.

Liquidity Ratios

Marriott has mid-range ratios when compared to the industry. In 2011 they have significantly lower current, quick, and cash ratios; the lowest in the industry. This is the only year where Marriott’s liquidity ratios fall below one, suggesting that the firm is overleveraged and would be unable to pay of its obligations if they were called. Their turnover periods do not indicate that they are having problems converting money, however all of their liquidity ratios are low in 2011. We can see the major effect that the spinoff from the timeshare industry has had on the company. In 2011 total assets decreased by just over 3 billion dollars, current assets by just over 2 billion. Current liabilities rose about 580 thousand; these drastic changes are the reason for the skewed current ratio. Most likely caused by the spinoff, and increased obligations by trying to expand managed and franchised operations. Inventory was reduced to only 11 million from over 1 billion the previous year. Cash was reduced in this same year by about 400 million dollars. Many of these reductions were caused by the transfer of the timeshare holdings to the separate entity which is not part of Marriott International.

Turnover Ratios

Marriott has the second highest receivables turnover, implying that they are effective in extending credit to customers and that they are also able to collect on that. Although the second highest in the industry the ratios comparable with the exception of the Wyndham. The Wyndham has considerably lower receivables than the other firms. Marriott’s receivables period is about a month, similar to the Hyatt; however Starwood and Wyndham have much longer periods in 2011 being 127, and 78 days respectively. It is logical that Marriott’s period would be this length because many of the revenues generated in this industry are either paid by credit card, or are on a business account typically paid at the end of a month or quarterly.

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Marriott’s inventory turnover is on the low end of the comparison, implying excess inventory in relation to other firms. However the inventory in the hotel business is a bit fuzzy and is not the most liquid. 2011’s inventory is an outlier; this drastic change is a result of the time share business spin off. This spinoff transferred a tremendous amount of inventory, reducing its inventory by over 900 million from the previous year, increasing the ratio.

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| Inventory Turnover | | | | | |
|  | 12/30/2011 | 12/31/2010 | 01/01/2010 | 01/02/2009 | 12/28/2007 |
| Marriott | 1071.91 | 7.38 | 7.66 | 6.10 | 7.58 |
| Starwood | 39.91 | 40.16 | 38.81 | 37.14 | 39.51 |
| Hyatt | 77.99 | 65.59 | 47.35 | 39.39 | 43.28 |
| Wyndham | 5.07 | 4.56 | 4.24 | 3.92 | 2.97 |

Payables turnover for Marriott is consistently higher for the five year period than the other firms. Hyatt was the only other firm to have double digit figures, 10.19 in 2011 and 10.3 in 2010. In reviewing the company’s financials it is clear that Marriott has a larger accounts payable than the other firms. In 2011 it was 270 million higher than the next largest among the industry and it was a reduction from the previous year. In 2011 operating expenses increased by almost 90 million dollars. This renders Marriott International’s reliance of financing and greater use of debt than the other firms. Another indicator is Marriott’s debt ratios being consistently higher than other firms (with the exception of 2011 due to the spinoff). Having utilized available financing resources to cover the increased expenses, it is understandable that they would have a larger short term obligations than the other firms. Despite having the highest payables turnover, their payables period of 16 days is the lowest for all of the firms. They are comparable to those of Starwood roughly 20 days. Hyatt and Wyndham are having a little more trouble converting with payables periods of 35 and 56 days respectively. The low ratio for Marriot implies that they are able to cover their short term debts which are greater than those of other firms.

Cash Conversion & Total Asset Turnover

The cash conversion cycle for Marriott is the lowest across the firms in the industry for the entire 5 year period. There is a decrease in 2011 that is considerable from that of prior years. This change is due to the transfer of cash and other assets to the spinoff MVCI. The record of low cash conversion indicates that the company is efficient in collecting and covering short term expenses. On the other hand, Marriott’s total asset turnover is the highest across the 5 year period, with an increase in 2011. These ratios are considerably higher than the others across the industry indicating that Marriott is effective in using its assets to generate revenues. Further analysis shows that the low profit margins for the corporation, in comparison across the industry, indicate that their total asset turnover would be higher than those in the industry. The reduction in assets, from the MCVI spinoff in 2011, is also a contributing factor to the increase.

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| Cash Conversion & Total Asset Turnover | | | | | | | | | | | | | | | |
|  | 12/30/2011 | | | 12/31/2010 | | | 01/01/2010 | | | 01/02/2009 | | | 12/28/2007 | | |
| Marriott | 9.31 | 2.08 | | 57.67 | 1.3 | | 57.15 | 1.38 | | 63.99 | 1.45 | | 56.01 | 1.45 | |
| Starwood | 144.92 | 0.59 | | 153.20 | 0.52 | | 153.42 | 0.54 | | 144.06 | 0.61 | | 100.38 | 0.64 | |
| Hyatt | (7.93) | | 0.49 | (7.74) | | 0.49 | (15.15) | | 0.47 | (35.04) | | 0.63 | (31.03) | | 0.6 |
| Wyndham | 93.30 | | 0.47 | 102.8 | | 0.41 | 104.81 | | 0.4 | 96.31 | | 0.45 | 115.24 | | 0.42 |

Profitability Ratios

The Profitability ratios for Marriott International are on the lower end for the industry. The negative are not as large of a concern for the 2009 year, because out of the firms analyzed only Starwood and Wyndham has positive figures. However, Starwood’s were only slightly above 1, and Wyndham has negatives across these ratios for the prior year suggesting that the effects of the recession affected them more quickly than the other firms. In 2011 Marriott has the lowest profit margins for the industry and a negative return on equity. This same year net income decreases by 287 million, and equity decreased by over 2 billion to negative 781 million. I do not know the exact allocation or how this was reported however the spinoff of MVCI transferred a lot of assets and equity from Marriott international to a separate entity. While the profitability does not appear to be high the ratios are over the 5 year period are comparable with those from other firms. While it appears that there was a massive decline, the company still reported earnings over 12 billion dollars, and their financials do not account for the allocations to the spinoff company MVCI.

**Beta Calculation**

Marriott’s beta regression which calculated to have a beta of 1.49 implies that they are more volatile than the market. Starwood’s is 2.08, Hyatt’s 1.25, and Wyndham 2.92. These are comparable, with Hyatt having the least risk followed by Marriott, Starwood, and then Wyndham. The price range for Marriott over the five years was from a low of 29.17 in 2011 to a high of 41.54 in 2010. Marriott’s year to date price at 38.39 it’s up about 33% which clearly shows the volatility. The company’s beta over one indicates that the returns can be higher than the market; however this comes with a risk trade off. Given the spinoff, and increased management and franchise properties, the company is changing itself, while this is predicted to pay off returning to the previously high returns on capital and improving, it is uncertain. Look at the recession for instance and how it devastated this industry across the board. The industry as a whole is risky; there are a lot of dependent factors that the industry relies upon. The majority of business comes from other business travelers, and if they cut back then the hotels are limited.

**Corporate Governance**

Marriott International like many other mature firms has an understanding and commitment to the interests of the shareholders. They’re main focus is on their responsibility to associates, customers, suppliers, the community, and the stakeholders. They have a strong emphasis on the importance of their own and what they bring to the organization. Arne Sorenson the former COO recently replaced JW Marriott Jr. the long time CEO. Arne and Marriott Jr. are members on the board, JW is the executive chairman, and chairman, John W Marriott III is the vice chairman, Arne is the president. The other seven board members and two directors are all independent of the company. The Shareholders annually elect a board of directors to oversee the upper management and that cohesively works with independent committees to help with Marriott’s strategic plans. The board and committees work together to appoint the corporate officers along with the independent auditor approve executive compensation, decide upon dividends, investments and other matters.

Works Cited

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www.marriott.com

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