COMPANY PROFILE

Marriott International Inc

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COMPANY OVERVIEW

Marriott International, Inc. (Marriott) is a hospitality service provider that operates hotels and restaurants. It operates, franchises and licenses hotels, residential and timeshare properties under several luxury, premium and select brand names. Its brands include the Ritz-Carlton, JW Marriott, St. Regis, Westin, Renaissance, Marriott Hotels, Le Meridien, Gaylord Hotels, Marriott Executive Apartments, Delta Hotels, Tribute Portfolio, Design Hotels Residence Inn, Courtyard and SpringHill Suites. It offers accommodation, hotel reservations, timeshare vacations, flight and hotel packages, and car rentals services. It also operates loyalty programs, including Marriott Rewardsand Starwood Preferred Guest. The company's operations are spanned across North America, Europe, the Middle East, Africa, Asia-Pacific, Caribbean and Latin America. Marriott is headquartered in Bethesda, Maryland, the US.

The company reported revenues of (US Dollars) US$22,894 million for the fiscal year ended December 2017 (FY2017), an increase of 34.1% over FY2016. In FY2017, the company's operating margin was 10.3%, compared to an operating margin of 8% in FY2016. In FY2017, the company recorded a net margin of 6%, compared to a net margin of 4.6% in FY2016.

KEY FACTS

Head Office	Marriott International Inc 10400 Fernwood Road Bethesda Maryland Bethesda Maryland USA
Phone	1 301 3803000
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Web Address	www.marriott.com
Revenue / turnover (USD Mn)	22,894.0
Financial Year End	December
Employees	177,000
NASDAQ Ticker	MAR

SWOT ANALYSIS

Marriott International, Inc. (Marriott) is a global hospitality company. It operates and manages franchises hotels and lodging facilities. Strong brand portfolio, cost efficiency and operational network are its major strengths, even as its increasing trade receivables remains an area of concern. The company could benefit from strategic initiatives, business expansion, growing global travel and tourism industry and positive outlook for accommodation sector in the US. However, unforeseen circumstances, competitive lodging industry and increasing manpower costs in the US could pose challenges to the company.

Strength Operational Network Brand Portfolio Cost Efficiency	**Weakness** Increasing Trade Receivables
Opportunity Strategic Initiatives Business Expansion Growing Global Travel and Tourism Industry Positive Outlook for Accommodation Sector in the US	**Threat** Competitive Lodging Industry Unforeseen Circumstances Increasing Manpower Costs in the US

Strength

Operational Network

The company's strong operational network enables it to serve more number of clients and enhances its over financial performance. Marriott is a multinational diversified hospitality company that operates, franchises and licenses a portfolio of hotels, residential and timeshare properties in 127 countries and territories across North America, Europe, the Middle East, Africa, Asia-Pacific, the Caribbean and Latin America. As on December 31, 2017, the company operated 6,520 properties with 1,257,666 rooms worldwide, comprising 847,974 properties in North America, 190,663 properties in Asia Pacific, 110,217 properties in Europe, 56,243 properties in the Middle East and Africa, and 52,569 properties in Caribbean & Latin America. It had 1,892 managed properties with 536,373 rooms, 4,432 franchised or licensed properties with 685,365 rooms, 67 owned or leased properties with 18,269 rooms, and 129 other properties with 17,659 rooms. In FY2017, the company added more than 76,000 rooms, of which approximately 11,000 rooms converted from competitor brands and around 30,000 rooms in international markets. Also, its development pipeline increased to around 2,700 hotels and over 460,000 rooms in FY2017, of which 80% percent are in the upscale, upper upscale or luxury brands. Furthermore, Marriot is planning to increase its number of rooms by 7% and rooms deletions will range between 1 to 1.5% in 2018.

Brand Portfolio

Strong brand portfolio helps the company maintain its loyal customer base and also attract new customers, which results in increase in revenue. Marriott operates, franchises and licenses its hotels, residential and timeshare properties under luxury, premium and select brand names across the world. As on December 31, 2017, Marriott operated its properties under 30 brand names. Its luxury brands include The Ritz-Carlton, JW Marriott, The Luxury Collection, W Hotels, EDITION, St. Regis, and Bulgari. Premium brands of the company comprise Westin, Renaissance, Marriott Hotels, Sheraton, Le Meridien, Gaylord Hotels, Marriott Executive Apartments, Autograph Collection, Delta Hotels, Tribute Portfolio, Marriott Vacation Club, and Design Hotels. Its select brand include Residence Inn, Courtyard, SpringHill Suites, Fairfield Inn & Suites, Aloft, AC Hotels by Marriott, Four Points, TownePlace Suites, Element, Protea Hotels, and Moxy.

Cost Efficiency

Marriott reported improvement in its cost efficiency in FY2017. During FY2017, its operating cost as a percentage of sales ratio improved to 89.7% from 91.9% in FY2016. The improvement was due to strong growth in revenue. Its revenue grew by 34.1% to US$22,894 million in FY2017, from US$17,072 million in FY2016. Growth in revenue was due to increase in base management fees by 36.7%; franchise fees by 38.4%; incentive management fees by 42.8%; owned, leased, and other revenue by 60%; and cost reimbursements by 31.1% in FY2017. The improvement in cost to sale ratio resulted in improvement in operating margin. The operating margin increased to 10.3% in FY2017 from 8% in FY2016. In addition, its operating income increased by 72.4%, from US$1,368 million in FY2016, to US$2,359 million in FY2017.

Weakness

Increasing Trade Receivables

Marriott’s increasing accounts receivable (consist of amounts due from hotel owners to whom the company has management and franchise agreements) may affect its competitiveness and profitability. The company’s accounts receivable increased by 17.5% to US$1,991 million in FY2017 from US$1,695 million in FY2016. Its accounts receivable increased at a compound annual growth rate of 16.5% during FY2013-3017. In the FY2017, the company’s accounts receivable accounted for 72.5% of its current assets. Such increasing accounts receivable could be an indication of inefficient credit management by the company.

Opportunity

Strategic Initiatives

The company is taking various strategic initiatives to drive its business. For instance, in December 2017, the company entered into co-brand credit card agreements with JPMorgan Chase and American Express. This new initiative will help the company to extend its relationship with card issuers and cover the Marriott Rewards and Ritz-Carlton Rewards Visa credit cards from JPMorgan Chase, as well as the Starwood

Preferred Guest (SPG) credit cards from American Express. It will also strengthen its customer offerings, offer higher branding fees and generate significant benefits for its owners and franchisees. In August 2017, the company established a joint venture with Alibaba to enhance the travel experience for Chinese travelers. This joint venture will integrate Marriott's wide range of services and hospitality expertise with Alibaba's digital retail expertise. It will help it to reach more than 500 million mobile monthly active users through the platforms.

Business Expansion

The company's business expansion initiatives will help in boarding its customer and revenue base. For instance, iIn February 2018, the company in collaboration with Witkoff, a global development firm, announced its plans to open a new resort, The Drew Las Vegas, at 2755 Las Vegas Boulevard South, the US. This new resort includes more than 500,000 square feet of convention and meeting space and approximately 4,000 rooms and suites and is expected to open by end of 2020. In the same month, the company entered into an agreement with Jinshan Investment Group for establishment of Le Meridien brand hotel in Melbourne by 2020. Le Meridien hotel includes 235 rooms, 70-seat bar, M Salon and 50-seat Latitude Bar, which will provide light bites and illy coffee. It will also have a 90-seat all day dining restaurant, a heated swimming pool, 210 square meter function space and three breakout rooms, and large fitness centre.

Growing Global Travel and Tourism Industry

The company is likely to benefit from the positive outlook for global T&T industry. According to the World Travel & Tourism Council (WT&TC), the direct contribution of T&T industry to the world's GDP, is expected to increase by 4% per annum during the forecast period (2017-2027), to reach US$3,537.1 billion in 2027. Moreover, the industry's total contribution to GDP may increase to US$1,512.9 billion in 2027. Vistors exports are expected grow by 4.3% per annum, from 2017-2027, to reach USD2,221.0 billion in 2027. Furthermore, rise in investments in T&T industry to US$1,307.1 billion in 2027, is likely to boost activities within the T&T industry.

Positive Outlook for Accommodation Sector in the US

The company is expected to benefit from positive outlook for accommodation sector in the US. According to in-house research, the total number of accommodation outlets in the US stood at 84,240 in 2016 and is expected to grow at a forecast period (2016-2021) CAGR of 0.7%. The accommodation foodservice sales value stood at US$39,686 million in 2016 and is expected to increase at a forecast period CAGR of 3.3%. The accommodation transactions for 2016 were 2,417 million and are expected to grow at a CAGR of 2.0%. Growth in accommodation sector is expected to be driven by increasing domestic and international business and leisure travel.

Threat

Competitive Lodging Industry

The company faces a strong competition both as a lodging operator and as a franchisor. The US lodging market is highly crowded with more than 1,100 lodging management companies. These operators are primarily private management firms, but also include several large national chains that own and operate their own hotels and also franchise their brands. Each of the Marriott’s hotel brands competes with major hotel chains, home and apartment sharing services, in national and international venues and with independent companies in regional markets. The major competitive factors include quality, value, efficiency of lodging products and services such as loyalty programs, and consumer-facing technology platforms and services. The company faces strong competition from AccorHotels, Best Western International, Choice Hotels International, Hilton Worldwide Holdings, and InterContinental Hotels Group in most of the markets. The intense competition results in a high demand for property space causing the increase in real asset prices. Marriott, known for its luxurious spacing and large hotels, have to undertake heavy capital outlay to acquire such properties. Moreover, intense competition fuels price war, which makes Marriott's luxurious brands noncompetitive resulting in low market penetration opportunities for the company.

Unforeseen Circumstances

The company’s operations may be adversely affected by unfavorable events. Occurrences of ebola virus, swine flu, SARS, mad cow disease and bird flu resulted in a decline in tourist arrivals in the affected countries. Precautionary measures such as flight suspensions impacted the leisure market. Moreover, natural disasters such as, flooding in India and the US in August 2017 and in China in June 2017, and the 2016 earthquake in Ecuador eroded the revenue of industry operators. Similar incidents may also lead to people reducing their travel frequency to certain countries. In addition, terrorist attack in Spain in August 2017, in the UK in June 2017, and in Jordan and Turkey in December 2016 and the rise of new terrorist groups such as Islamic State of Iraq and Syria (ISIS) raised security concerns worldwide.

Increasing Manpower Costs in the US

Increasing manpower costs may have a negative effect on the company’s operating costs and adverse effect on their profits. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs. The federal minimum wage rate in the US, which remained at US$5 per hour since 1997 reached US$7.25per hour in January 2018. From January 2018, 18 states and 20 cities, including New York City, Washington, D.C., and California cities announced to increase their minimum wage to US$12 and above. Arizona and California increased their minimum wage by US$0.5 per hour to US$9.80 and US$11 per hour respectively; and Alaska increased their minimum wage by US$0.04 to US$9.84. Colorado, Florida, Hawaii, Maine and Michigan increased their minimum wages to US$10.2, US$8.25, US$10.10, US$10 and US$9.25 respectively. Moreover, New Jersey, Ohio, Washington and Rhode Island increased their minimum wages to US$8.6, US$8.3, US$11.5 and US$10.1 respectively.