Hospitality Industry & Marriott International

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Agenda

• Introductions
• Hospitality Industry Analysis
• Firm Analysis – Marriott International
• Forecasts, Projections & Recommendations
• Economic Environment
• Macro Summary
Description of Hospitality Industry

- Globally a $3.5 Trillion Industry
- Employing 13 M people in U.S. (8.7% of total workforce)

U.S. Hospitality Industry

- Lodging
  - Employing 1.8 M people within 62,000 establishments
  - Examples: Hotels, Inns, Conference Centers and Resorts

- Food
  - Employing 9.4 M people within 500,000 establishments
  - Examples: Restaurants, Coffee Shops, Bars and Nightclubs

- Tourism
  - Examples: Travel Agents, Travel Technology, Transportation

- Other
  - Casinos, Recreation and Entertainment Venues

Source: U.S. Bureau of Labor Statistics
# Brands by Pricing Categories

<table>
<thead>
<tr>
<th>LUXURY</th>
<th>UPPERCASE (cont)</th>
<th>MID W/O F&amp;B (cont)</th>
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<tbody>
<tr>
<td>Ritz-Carlton</td>
<td>Hilton</td>
<td>Wingate Inn</td>
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<tr>
<td>Fairmont</td>
<td>Sheraton</td>
<td>Country Inn &amp; Suites</td>
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<tr>
<td>Shangri-La</td>
<td>Walt Disney Resorts</td>
<td>Fairfield Inn &amp; Suites</td>
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<tr>
<td>Four Seasons</td>
<td>Crowne Plaza</td>
<td>La Quinta</td>
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<tr>
<td>St. Regis</td>
<td>Wyndham</td>
<td>Holiday Inn</td>
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<tr>
<td>Edition</td>
<td>Radisson</td>
<td>Comfor Inn/Suites</td>
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<table>
<thead>
<tr>
<th>UPPER UPPERCASE</th>
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<th>ECONOMY</th>
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<tbody>
<tr>
<td>Renaissance</td>
<td>Homewood Suites</td>
<td>Sleep Inn</td>
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<tr>
<td>Mandarin</td>
<td>Courtyard by Marriott</td>
<td>Microtel</td>
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<tr>
<td>Le Meridien</td>
<td>Ramada</td>
<td>Extended Stay America</td>
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<tr>
<td>JW Marriott</td>
<td>Howard Johnson</td>
<td>Red Roof Inn</td>
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<table>
<thead>
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</thead>
<tbody>
<tr>
<td>Clarion</td>
<td>SpringHill Suites by Marriott</td>
<td>Super 8</td>
</tr>
<tr>
<td>Embassy Suites</td>
<td>Hilton Garden Inn</td>
<td>Motel 6</td>
</tr>
<tr>
<td>Westin</td>
<td>Hyatt Place</td>
<td>Econo Lodge</td>
</tr>
<tr>
<td>Marriott</td>
<td>TownePlace Suites by Marriott</td>
<td>Days Inn</td>
</tr>
<tr>
<td>Omni</td>
<td>Hampton Inn</td>
<td>Travelodge</td>
</tr>
<tr>
<td>DoubleTree</td>
<td>Residence Inn by Marriott</td>
<td></td>
</tr>
<tr>
<td>Hyatt</td>
<td>Hawthorn Suites</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Smith Travel Research & Hotel Equities*
Total United States
Room Supply/Demand Percent Change
Twelve Month Moving Average – 1989 to October 2007
Demand Generators

- Business: convention and conference centers, medical facilities, colleges and universities, regional malls, and class “A” office buildings
- Leisure: sports facilities, entertainment venues, recreational facilities, regional malls, family gatherings, and major interstates.
- 60% Business – 40% Leisure
Building Construction Costs

Source: 2007 PKF GHLA Presentation
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SpringHill Suites

- Marriott’s newest brand is a mid-priced lodging targeting both business and leisure traveler
- All suite rooms 25% larger than traditional hotel rooms
- All rooms have microwaves, refrigerators, oversized desks and pull-out sofas.
Competitive Advantage

Marriott’s profitability depends on:
• Creating differentiation by branding to capture specific market segments
• Efficient operations
• Effective marketing
• Economies of scale in operations
Combined measure of productivity is RevPAR, Revenue Per Available Room, which is occupancy rate times hotel’s average daily rate.
Marriott Work Environment

• #72 of Fortune Magazine’s 100 best companies to work for
• Ten years running in the Fortune Magazine top 100
• Marriott’s turnover rate is among the lowest in field at 18%.
• 123,203 U.S. employees; 16,478 International employees
• Average Annual Salaried Position: $56,382
• 2006 revenues: $12.2 Billion.

Source: “100 Best Companies to Work For”, FORTUNE magazine, February 4, 2008
www.fortune.com/bestcompanies
Marriott Goes Green

- First LEED certified hotel and conference center in the U.S. located at the University of Maryland

ENERGY SAVINGS 30%
CARBON SAVINGS 35%
WATER USE SAVINGS 30-50%
WASTE COST SAVINGS 50-90%

Source: Marriott’s Green Hotels
http://www.marriott.com/marriott.mi?page=greenHotels
Benefits of Going Green

• Reduce variable costs of energy, water, and waste management
• Positively shift demand curve by adding value to guest experience
• Create a better environment for labor force and hotel guests
• Environmentally and Economically friendly

Source:
Saving Energy, One Step at a Time
By Michael S. Rosenwald
Washington Post Staff Writer
Monday, November 26, 2007; D05
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Forecasted Trends

• Continuing to Create Partnerships
• Maximizing Usage of Clubs and Rewards Systems
• Focus on BRIC & International Expansion

By the year 2050 the ‘E7’ economies (China, India, Brazil, Russia, Indonesia, Turkey and Mexico) will have outstripped the current G7 (United States, Japan, Germany, UK, France, Italy and Canada) by between 25%, when comparing Gross Domestic Product and 75% when using purchasing power parity.

PricewaterhouseCoopers’ Macroeconomic Forecast

Marriott Partners With USDA to Provide Assistance to Minority Farmers.

Published on: June 1, 2007
Recommendations

- Target fast growing niche market of eco-savvy professionals
- Locate in gateway cities in need of product differentiation
- Reduce operational costs to maximize profits
- Create specialty boutique hotel experience

Source: Confidential discussions at CG Inc. Quarterly Board Meeting Jan. 2008
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### Historical Economic Environment 1998 - 2001

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
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<tbody>
<tr>
<td><strong>GDP ($ Billions)</strong></td>
<td>8,747</td>
<td>9,268</td>
<td>9,817</td>
<td>10,128</td>
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<tr>
<td><strong>GDP growth</strong></td>
<td>4.2</td>
<td>4.4</td>
<td>3.7</td>
<td>0.8</td>
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<tr>
<td><strong>Net Exports ($)</strong></td>
<td>-160</td>
<td>-261</td>
<td>-380</td>
<td>-367</td>
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<tr>
<td><strong>Gov’t Purchases ($)</strong></td>
<td>1,518</td>
<td>1,621</td>
<td>1,722</td>
<td>1,826</td>
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<tr>
<td><strong>Unemployment(%)</strong></td>
<td>4.5</td>
<td>4.2</td>
<td>4</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Inflation Rate (%)</strong></td>
<td>1.5</td>
<td>2.2</td>
<td>3.4</td>
<td>2.8</td>
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*Source: U.S. Department of Commerce – Bureau of Economics Analysis*
# Current Economic Environment

## 2002 - 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP ($ Billions)</th>
<th>GDP Growth</th>
<th>Net Exports ($)</th>
<th>Gov’t Purchases ($)</th>
<th>Unemployment (%)</th>
<th>Inflation Rate (%)</th>
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<tbody>
<tr>
<td>2002</td>
<td>10,469</td>
<td>1.6</td>
<td>-424</td>
<td>1,961</td>
<td>5.8</td>
<td>1.6</td>
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<td>2003</td>
<td>10,960</td>
<td>2.5</td>
<td>-499</td>
<td>2,093</td>
<td>6</td>
<td>2.3</td>
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<td>2004</td>
<td>11,685</td>
<td>3.6</td>
<td>-615</td>
<td>2,217</td>
<td>5.5</td>
<td>2.7</td>
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<tr>
<td>2005</td>
<td>12,433</td>
<td>3.1</td>
<td>-715</td>
<td>2,364</td>
<td>5.1</td>
<td>3.7</td>
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<td>2006</td>
<td>13,194</td>
<td>2.9</td>
<td>-762</td>
<td>2,523</td>
<td>4.6</td>
<td>3.2</td>
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*Source: Economic Forecast of the Nation; Dr. Rajeev Dhawan*
## Economic Forecast 2007 - 2009

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<td>14,386</td>
<td>15,053</td>
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<td>2.3</td>
<td>2.7</td>
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<td>Net Exports ($)</td>
<td>-716</td>
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<td>Govt Purchases ($)</td>
<td>2,689</td>
<td>2,836.10</td>
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Macro Summary

Demand of business and tourist travel closely linked to the state of the economy

Revenue is seasonal (cyclical) and depends on the health of both the local and national economy

Source: Careerbeam; First Research Industry Profile
**Nation and Hospitality Industry**

**Could Be Worse!**

- Inflation Under Control-Core Inflation Running 2.1%
- Unemployment Rate Below 5%
- 4.9% GDP growth in 3\textsuperscript{rd} quarter 2007

### Economic Forecast 2007 - 2009

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*Source: Fortune, The Economy in crisis, Shawn Tully, January 21, 2008*

*Source: Economic Forecast of the Nation; Dr. Rajeev Dhawan*
Global & National Hospitality Industry

Challenges & Threats

• Crisis of Confidence
  – Corporate Sector—may develop negative mindset due to current housing market and credit squeeze which could affect conference and convention bookings
  – Tourist Sector—Rising gasoline and declining housing prices could negatively affect travel—PwC has calculated that when real gasoline prices increase by 10%, lodging demand declines by 0.41% 

• Terrorism concerns may impact future growth
• Profitability highly sensitive to rising oil prices
• Video conferencing technology may negatively affect travel

Source: Forecast of Georgia & Atlanta; Dr. Rajeev Dhawan
Source: 2007 PricewaterhouseCoopers LLP
Nation and Hospitality Industry
Regional Outlook
Georgia and Atlanta

• Drought & Water Restrictions
  – Could affect hotel convention business
  – Could lead to severe building restrictions

• Rising Oil Prices
  – Delta Airlines - leading private employer in the Atlanta metro
  – Delta’s financial stability is crucial to economic growth in region

• Regional Economy Continues to be Resilient
  – Unemployment down and better than national average
  – Housing sales continue to be better than national trends

Source: Forecast of Georgia & Atlanta; Dr. Rajeev Dhawan
Source: Alpharetta Neighbor, January 16, 2008
Source: USA Today, January 29, 2008
Marriott’s Reaction to Macro Changes

Maneuvering in the face of a Recession

• Marriott’s current supply growth is under control
• In tough economic times, Marriott is still able to grow through conversions of existing hotels

• Marriott has several brands that operate in different or overlapping segments

• Marriott is growing dramatically overseas, particularly in Asia and Europe

Source: The Washington Post; Michael Rosenwald
World Economy & International Expansion

- Growth of the Hospitality market is accelerating on a global scale.
- International travel expected to increase from 18% to 24% over the next decade.
- As incomes in emerging markets rise, so does the demand for travel.
- Growth of China outbound travel alone is expected to generate 100 million outbound tourists by 2020, up from less than 15 million currently.

Source: Building Design & Construction, Focus on Market Reinvention, Jay W. Schneider
Source: Hospitality Net, Top ten Issues in the Hospitality Industry for 2007, By International Society of Hospitality Consultants (ISHC)
Appendix: Supporting Slides
Hotel Industry

• Hotel Demand is Cyclical
  – Tracks Closely Local US and Global Economies
  – Lag between occupancy $\Delta$ and ADR $\Delta$
  – Construction takes time and outlook difficult to predict
Hotel Predictions

• CAP Rates appear Counter-Cyclical
  – ADR & RevPAR growth reach levels that make debt & equity financing of hotel development feasible
  – Market pricing makes it profitable to build and sell hotels
  – Subject to interest-rate movement
Cycle Trends and Indicators

- ADR (Average Daily Rate)
- Occupancy
- Real ADR

Graph showing trends over time:
- Peak of previous cycle, 1998
- Peak of current cycle (?)
- Equilibrium ADR
- Natural occupancy percentage
- Occupancy percentage
- Trough of current cycle, 2002

Short Run:
- Existing supply
- Rent/Unit

Long Run:
- Long-run supply
- Rent/Unit

Market:
- Cap Rate
- Market price/Unit
- Rent/Unit

Space Market
- Unsecuritized Asset Market
- Securitized Asset Market

Supply (S_a), Supply (S_b), Supply (S_c) vs. Time (t, t+1, t+2)

GDP vs. Supply (S_a), Supply (S_b), Supply (S_c)
## Summary of Hotel Market Processes

<table>
<thead>
<tr>
<th>Market Condition</th>
<th>Demand Response</th>
<th>Occupancy</th>
<th>ADR</th>
<th>Supply</th>
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</thead>
<tbody>
<tr>
<td>Upward movement toward peak</td>
<td>Normal rate of increase</td>
<td>Immediately increases with demand</td>
<td>Increases lag occupancy, accelerate as occupancy approaches natural level</td>
<td>Construction begins as ADR approaches feasibility level</td>
</tr>
<tr>
<td>Downward movement from peak</td>
<td>Normal decline</td>
<td>Decrease occurs immediately</td>
<td>Decrease occurs with a definite lag</td>
<td>Construction slowly halts</td>
</tr>
<tr>
<td>Severe demand-based recession</td>
<td>Rapid decline</td>
<td>Immediate and rapid decline</td>
<td>Decrease with short lag</td>
<td>Construction stops abruptly</td>
</tr>
<tr>
<td>War or catastrophic event</td>
<td>Rapid decline</td>
<td>Immediate and rapid decline</td>
<td>May be frozen until duration is determined</td>
<td>Construction delayed until duration is determined</td>
</tr>
</tbody>
</table>
Supply Change vs. Long Term Average Across Top 52 U.S. Markets
Demand Change vs to Long Term Average Across Top 52 U.S. Markets
Real Estate’s Latest Movement

Build Green, Make Green

It’s Easy Being Green

The Greening of America’s Campus...
U.S. LODGING INDUSTRY
Select Operating Expenses
Change – 2005 to 2006

- Rooms Revenue: 8.9%
- Food and Beverage Revenue: 7.1%
- Total Revenue: 8.2%
- Labor Costs: 4.8%
- Rooms Department: 6.3%
- A&G: 8.2%
- Franchise Fees: 9.5%
- Utility Costs: 7.3%
- Management Fees: 10.0%
- Property Taxes: 5.5%
- Insurance: 9.5%
- Operating Profit*: 13.3%

Note: * Before deductions for management fees, property taxes, and insurance.
Source: PKF Hospitality Research