The Superior Lodging Industry: Marriott vs. Hyatt

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Marriott HOTELS & RESORTS

Innovation and growth strategies drive good companies. But to be a great company —the leader in an industry —a company must also have a set of core values that inform every decision the company makes. For Marriott International, our core values have stood the test of time: put people first, pursue excellence, embrace change, act with integrity and serve our world.

***Marriott Mission Statement** (Excerpt)*

HISTORY

In 1927, Willard and Alice S. Marriott opened their first A&W root beer franchise called The Hot Shoppe. With great success, the Marriott's were able to expand into other types of business. In 1957, Marriott opened a new motor hotel and continued building a hotel division.

Marriott was listed on the New Year Stock Exchange (NYSE) in 1968 and the company was divided into three basic groups: food operations, in flight-services to airlines, and hotels and specialty restaurants. In 1993, Bill Marriott officially split into two companies: Marriott International, Inc. and Host Marriott Corporation. Host Marriott Corporation formed to own lodging properties, as well as handling Marriott's airport and turnpike concessions; and Marriott International, Inc. created to manage the Marriott family of hotels brands and the senior living communities, along with Marriott's food and services management business.

SWOT ANALYSIS

STRENGTHS
- **Leading brand platforms driving the company's business growth**
- **Loyalty programs and strong online presence helping Marriott in enhancing customer satisfaction**
- **Global presence helping Marriott to offset dependency risks**

WEAKNESSES
- **Business model may dilute brand perception and limit revenue growth**
- **High debt burden will affect the future capital generation and expansion projects**

OPPORTUNITIES
- **Expansion of hotel operations likely to drive Marriott's top-line growth**
- **Tourism promotion initiatives by the U.S. government**

THREATS
- **Changes in laws and regulations could reduce the company's profits or increase its costs**
- **Fragmented and intensely competitive lodging industry**
- **Vulnerability to terrorist attacks raises security and safety concerns**

WACC

	Jan-12
Total Debt	$ 3,153.00
Total Equity	$ 23,454.50
Total Capital	$ 26,607.50
Weight of equity (We)	88.15%
Weight of debt (Wd)	11.85%
Marginal Tax	35%
Before tax cost of debt	2.17%
After tax cost of debt	1.41%
Cost of equity	11.08%
WACC	9.93%

WACC

		Jan-13
Total Debt	$	3,781.00
Total Equity	$	22,301.00
Total Capital	$	26,082.00
Weight of equity (We)		85.50%
Weight of debt (Wd)		14.50%
Marginal Tax		35%
Before tax cost of debt		2.17%
After tax cost of debt		1.41%
Cost of equity		11.53%
WACC		10.06%

CASE SUMMARY

On February 28, 2014, Raya Al-Khatib, a portfolio manager at Kash Corporation, a financial investment company, was asked to analyze and review the performance of two international lodging companies: the Marriott and the Hyatt. As a part of her financial analyst position, she was asked to make a recommendation to the management of Kash Corporation on which one of these two companies is a better investment. This report is prepared for the executive committee to analyze the financial performance of the Hyatt and Marriott hotels by examining their financial and analytical ratios, historical data given, growth, management, competitive environment, and international business. Al-Khatib has analyzed two years Balance Sheets, Cash Flows, and Income Statements from 2012 to 2013. Al-Khatib knows the company's cost of capital is a critical element in evaluating a company and since analyst's reactions have been mixed, she decided to estimate both Marriott and Hyatt's financials using different performance measures.

ECONOMIC OVERVIEW

In 2012, the global economy gradually strengthened after a major setback in 2011. The United States economy had improved its performance and better policies in the euro area were made. Unemployment rate decreased to about 8% from 9% in 2011 and inflation fell to 2.1% from 3.1% in 2011. Inflation fell due to lower energy costs, less labor costs associated with a weak labor market and stable inflation expectations.

According to the American Hotel and Lodging Association statistical analysis, in 2011 the U.S. lodging industry had before-tax profits of $21.6 billion—up from 18 billion in 2010, and $137.5

MAR:<u>2012 EVA</u>

EVA=

(ROIC-WACC)* Invested capital

NOPAT	$	1,174.00
Return on Capital		23.76%
Calculation of Cash Operating Tax		
Fiscal Year End 2012		
Income Taxes		271
less;Increase in Defer tax		0
Plus: Tax Savings from Interest		42
Cash Operating Tax		313
Cash Tax Rate		34.89%
Long-Term Debt		3,147.00
Equity	$	23,454.50
Firm Value	$	26,601.50
Risk-free rate		6.00%
Cost of capital		9.93%
EVA	$	683.22

Marriott DuPont Analysis	2012	2013
NPM=Net income/ sales	0.048332	0.048967
TAT=Sales/total Assets	1.93	1.95
D/E=Debt-Equity Value	0.13443	0.169544
	2012	**2013**
ROE	10.58%	11.17%

H:<u>2012 EVA</u>

NOPAT=

Operating Income*(1-t)

Calculation of NOPAT	
Fiscal Year End 2012	
Revenues/Sales	$ 4,184.00
Cost of Sales	$ 3,283.00
Gr Oper Profit	$ 901.00
S, G & A Expenses	$ 323.00
Op Prof bef Depr	$ 578.00
Deprec & Amort	$ 345.00
EBIT	$ 233.00
Other Income, Net	$ 205.00
NOPBT	$ 438.00
Cash Operating Tax	$ (145.75)
NOPAT	$ 292.25
Return on Capital	28.37%

<u>Hyatt DuPont Analysis</u> ROE=NPM*TAT*(1+D/E)	2012	2013
NPM=Net income/sales	0.022284	0.049474
TAT=Sales/total Assets	0.52	0.53
D/E=Debt-Equity Value	0.157365	0.153281
	2012	**2013**
ROE	1.34%	3.02%

HYATT HOTELS & RESORTS ®

At Hyatt, our mission is to make a difference in the lives of the people we touch every day and to demonstrate care in everything we do. In a world that continues to be more connected, with even more people traveling, the opportunities and challenges for our business are multifaceted. We recognize that with our significant global expansion comes even greater responsibility to operate in an environmentally and socially responsible way.

***Hyatt Mission Statement** (Excerpt)*

HISTORY

Hyatt was founded by Jay Pritzker in 1957 when he purchased the Hyatt House motel near the Los Angeles International Airport. Over the years, Jay Pritzker and his brother Donald Pritzker grew the company into a North American management and hotel ownership company, which became a public company in 1967. However, management went crooked when a new president was hired and spent money from the business on his own personal expenses. After that, Hyatt Corporation and Hyatt International Corporation were taken private by the Prtizker family business interests in 1979 and 1982, respectively. After taking the company private, Hyatt began to open the first Parking Hyatt, Grand Hyatt, and Hyatt Resort. They manage, franchise, own and develop Hyatt branded hotels, resorts, and residential and vacation ownership properties around the world.

SWOT ANALYSIS

STRENGTHS
- **Brand recognition and strength drive preference among customers**
- **Strategically located hotels support revenue growth**
- **Environment sustainability and community service initiatives create goodwill**

WEAKNESSES
- High dependence on the U.S. market exposing business to concentration risk

OPPORTUNITIES
- **Strong growth in the hotel and motel industry in emerging markets**
- **Focus on improvement of guest services and loyalty programs likely to help the company create value in the long term**
- **Tourism promotion initiatives by the U.S. government**

THREATS
- **Intense competition may erode Hyatt's market share**
- **Risking labor wages in the U.S. likely to affect the company's operating profit margin**

WACC

	Jan-12
Total Debt	$ 1,483.00
Total Equity	$ 9,423.93
Total Capital	$ 10,906.93
Weight of equity (We)	86.40%
Weight of debt (Wd)	13.60%
Marginal Tax	35%
Before tax cost of debt	2.64%
After tax cost of debt	1.72%
Cost of equity	10.12%
WACC	8.98%

WACC

	Jan-13
Total Debt	$ 1,390.00
Total Equity	$ 9,068.31
Total Capital	$ 10,458.31
Weight of equity (We)	86.71%
Weight of debt (Wd)	13.29%
Marginal Tax	35%
Before tax cost of debt	2.64%
After tax cost of debt	1.72%
Cost of equity	10.19%
WACC	9.06%