

THE LEADER OF TOMORROW: A DEEP DIVE INTO
MARRIOTT'S PIPELINE DOMINANCE AS THE
CATALYST FOR MARKET SHARE SUPREMACY

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Abstract

This report is part of an extensive equity research on Marriott International Inc, the largest hotel group worldwide by number of guestrooms as of 2023. In times of high uncertainty, this sort of analysis achieves increased importance as far as it manages to capture both financial market prospects and non-financial threats, for instance, concerning the most recent civil tensions in the geopolitical environment, cyberattacks and climate changes. Of course, a global business such as Marriott that sells franchise and management agreements under thirty brands widespread across several geographies has a tremendous challenge in mitigating those risks while fostering its growth. As soon as all variables have been accounted for the share price estimation, this report concludes in favour of a HOLD recommendation for future investors.

Keywords (up to four)

Pipeline, Forecast, Occupancy Rate, Average Daily Rate

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This report is part of the Marriott International Inc Equity Research – The leader of tomorrow: A deep dive into Marriott’s pipeline dominance as the catalyst for market share supremacy report (annexed), developed by Simão Correia (53261) and Francisco Carvalho (53876) and should be read as an integral part of it.

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Introduction

In this joint report, me and my pair intend to perform a valuation on Marriott International Inc, providing shareholders with the potential returns they might obtain in case they buy the stock at the present time and hold it for one year. In the end, we have reached the conclusion that Marriott's stock is slightly undervaluated, with a price of 221.14\$, compared to our target price of 229.93\$, resulting in a 8.4% return, including 2024 dividends, which means that our advice would be to HOLD the Marriott's stock.

Concerning this part of the analysis, we look deeply into Marriot's financial statements captions, and forecast what they will look like in a few years' time, aiming to accurately predict the company's share price movements. The DCF analysis is the core section of this individual set, where we calculate the WACC and reach our final Equity Value and Share Price of 229.93\$. It worths mention the high-detailed forecast regarding Marriott's pipeline evolution and the effort to conceive a reliable statistical model that predicts the average daily rates evolution for Marriott's U.S. & Canada markets, based on three key explaining variables.

Finally, it ends with a risk analysis, crucial to the investor as it allows him/her to understand potential problems that are not yet reflected in the financial statements, as well as a sensibility and scenario analysis, designed to validate inputs and understand how much the share price would change, had certain assumptions been different.

In the other part of the, we look into the company itself, as well as the market it is inserted in. We heavily rely on some historical data, comparing Marriott with its competitors and observing its performance metrics over the historical years, capturing important trends to forecast the future of the company. This part also looks deeply into the lodging industry, highlighting some market trends which will be of the upmost importance going forward. It concludes with a multiple valuation, in order to give the reader an idea of Marriot's potential share price based on market movements and prices, and to complement the DCF analysis.

Valuation

Revenue Forecast

Marriott International has pursued a very aggressive market strategy based on portfolio strengthening, measured by the number of available guest rooms and pipeline development, through an increasing number of Management and Franchise new signings over the years. Moreover, some news trends are arising in terms of pipeline planning, for instance, with an increasing number of conversions going on, representing 27% and 20% of the total new signings in 2022 and 2021, respectively. Marriott's 2022 annual report empathizes the dichotomous bet that has been made in the luxury tier (accounting for 7.4% of total systemwide signings) as well as in the select segment¹, which is believed to be one of the major drivers of the company revenue growth in the next few years, (Marriott International, 2022).

- Occupancy Rates

As one starts looking into the revenue forecast, it becomes crucial to consider the three key performance indicators expected evolution for the next few years, namely, Occupancy Rate, Average Daily Rate and the product of the former two, RevPAR. As far as pre-pandemic occupancy rates were analyzed, it is possible to observe some stability over the years for every region of the world in each segment operated by Marriott, always taking into account that occupancy rates for the premium tier in North America tended to be slightly below the other two and the International market, typically registers lower occupancy than the North America (74% comparing to 71.7%, in 2019). Following a data-driven approach based as much as possible on market relevant forecasts for the lodging industry and economic indicators, the occupancy rates have been estimated for the period between 2024 and 2034 as weighted variations from the previous period in accordance to the estimated evolution for the real GDP as a good driver of supply increase, (both the local and global real GDP were weighted to enhance the accuracy of estimations) and the forecasts for the hotel industry revenue growth provided by Statista as a relevant driver of demand prospects, (when forecasting the occupancy for the upper scale tiers it was weighted the evolution of the High Net Worth Population – HNWIs, in addition to Statista's references as Marriott sets this group as the main target for the most exclusive offer). Overall speaking, the analysts' expectation is that the luxury segment in the U.S. and Canada will outperform the other two categories, following an outstanding evolution of the American society high-class, considering a CAGR for the number of HNIWs of 7.7% between 2022 and 2027. There is a wide conviction that consumer preferences are evolving towards non-conventional luxury offer and tailor-made experiences where location becomes secondary and the overall feeling turns out to be the most valuable asset, (JLL, 2023).

To sum up, the average systemwide occupancy for North America will reach a steady state level of 76.45% since 2027 onwards widening the historical gap with the International set which does not seem to go above the 70.3%, although there is still some hope on the fair evolution of

¹ Marriott reinforced this position with the unprecedented acquisition of the City Express portfolio of 17.300 rooms in the Americas franchise, playing in the midscale segment for the first time.

the APAC market whose real GDP average annual growth rate will be 4.2% between 2023 and 2028, above the world composite estimated by the IMF.

- Average Daily Rate (ADR)

The average daily rate is the lodging indicator whose recover from pre-pandemic levels occurred faster, even during 2022, which also holds true for the general industry in the United States, according to STR, (148.83\$ in 2022 vs 131.21\$ in 2019), consisting of high-level evidence of the correlation with inflation.

On the grounds of the assumption that ADR can have multiple drivers and varies significantly across the three business segments in the U.S and Canada, depending on the quality of the service being offered, it was decided to run a regression to explain how the ADR, in its logarithmic form, can be explained by three independent variables – Occupancy Rate representative of the demand effect in ADR fluctuations across quarterly observations², the logarithm of the CPI for hotels and restaurants in the U.S. and an hotel rating (from 0 to 3) to distinguish the hotels contained in the sample in accordance to the belonging segment. It is relevant to mention the rating of 3 has been attributed to Ritz-Carlton observations, as this brand exhibits historical ADRs considerably above the average of the Luxury peer group, which has further increased the R square of the regression. The sample consists of 234 quarterly observations for 9 different brands directly extracted from Marriott’s quarterly reports, with exception for the U.S. Hotel and Restaurants CPI whose series was retrieved from FRED’s Economic Data section. Although it can be argued this model is based on a very limited set of observations for Marriott Hotels in the U.S., it is still considered valid as individual significance tests have acknowledge the three explaining variables are highly significant for any standard level of confidence, the fit of the regression is very high, (above 90%) and the presence of heteroscedasticity has been discarded.

Regression Statistics	
Multiple R	0,954582407
R Square	0,911227573
Adjusted R Square	0,910069671
Standard Error	0,056029098
Observations	234

Figure 1: Regression statistics.
Sources: Analysts Estimations

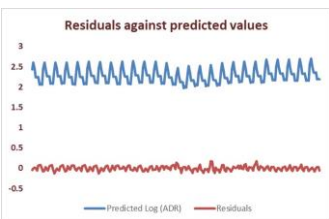


Figure 2: Residuals against predicted values
Sources: Analysts Estimations

Variables	Coefficients	Standard Error	t Stat	P-value
Intercept	-0,201732339	0,228910488	-0,881271717	0,379090767
OR (Demand)	0,247749298	0,020553752	12,05372636	2,95081E-26
Log (US CPI)	1,037665479	0,110284983	9,408946304	5,37755E-18
Hotel Quality	0,175028748	0,003701968	47,27992491	1,8772E-120

As far as the model was validated, it allowed to compute the systemwide ADR forecasts between 2023 and 2034 for each business sort. In the long run, the ADR is expected to grow in line with inflation³, as far as occupancy rates become steady after 2027, leading to a very similar CAGR between segments in the period under analysis, (3.01% for Luxury, 2.87% for Premium and 2.67% for Select).

The ADR forecast for Marriott’s International business relies entirely on the expectations for global inflation, following the trends discussed in the economic overview section, as occupancy rates are assumed to be almost constant, floating between 70.25% and 72% in the long run, placing those numbers very close to pre-pandemic historical values. In addition, this approach

² The OR also captures the effect of the Covid-19 lockdown in ADR and deletes the necessity to compute a dummy variable to identify observations contained between 2020Q2 and 2021Q4.

³ For the forecasts section, the inflation considered for future years relied on the values of the US breakeven inflation for several horizons.

narrows the gap that has been enlarging between North America and International in recent years placing both statistics very close to each other in accordance to the observable pattern before 2020⁴.

Once again, it is empathized Marriott should place the upper-scale tier on top of its priorities as it represents a subset of the population less price-sensitive with an abiding desire for leisure travel who can accommodate increasing costs derived from high inflation periods. It is indeed a business unit that allows to hedge against inflation, accounting for one of the major financial risks that may trigger the company's performance.

- Owned Leased and Other

Notwithstanding the expected decrease in the number of owned and leased properties across all regions, the forecasted revenue under this caption is still expected to grow at a CAGR of 0.32% between 2023 and 2034, as the ADR evolution, (assuming systemwide occupancy rates), more than offsets the number of lost units until 2025, leading to steady-state null variations.

- Unallocated Corporate and Other

As part of the revenue generated through franchise and licensing agreements, there are other captions not included in Gross Fees that come from Timeshare and the most recent offer within the exclusive Ritz-Carlton Yacht Collection. Hence, Marriott Vacation Worldwide owes Marriott International royalty fees composed of an annual fixed amount inflation-linked and a variable part dependent on sales. As of 2022, 89% of MVW portfolio was related to Marriott International, which somehow benchmarks the percentage of the caption "Royalty fees" owed to Marriott. From 2023 onwards, the royalty fee was decomposed in expectations for inflation in three key regions – Europe and APAC, Americas and US and Hawaii and the respective evolution of the economy as a good driver of vacation rental sales. Apart from that, the luxury sail experience has been estimated to evolve in accordance with the number of boats in pipeline, which are expected to be available in 2024 and 2025, each one with more than 1.5x ERIMA's capacity and tonnage.

- Cost Reimbursement

Cost reimbursements relate to certain expenses that Marriott incurs in order to help the operation of managed properties, which are later reimbursable by said properties. Therefore, Marriot does not intend to make a profit with these caption, with the differences between Cost Reimbursement Revenues and Reimbursed expenses resulting only from temporal differences between payment and receivment of said amounts. In order to forecast this caption, 2020 was used as a reference year for fixed costs (due to the low activity levels), determining that these represented about 60% of total costs in said year, varying only with inflation for the remaining period. The variable costs were then computed, using the average percentage of the historical period as a benchmark for the future. As the company does not intend to make a profit, the Cost

⁴ The U.S. and Canada achieved a full resumption of Covid-19 restrictions earlier than many regions in the rest of the world, such as Grand China and Asia Pacific, placing a gap between the ADR in those two countries and the International set.

Reimbursement Revenue is forecasted to be equal to that of the expenses.

- General, administrative, and other

This caption of the Income Statement mainly consists of personnel costs, as well as other administrative costs and general expenses, such as litigation settlements. For this reason, this is a caption that is expected to vary slightly over the years, showcasing the strong fixed costs component it possesses. Once again, 2020 was used as a benchmark year for said costs, not only because of the low activity, but also because there was a corporate restructuring in this time-period. Variable costs in this caption represent possible sub-contracts or increased personnel Marriott has to hire in order to efficiently respond to higher demand, and were computed as an average of this percentage over historical periods. The lack of workforce in the tourism industry might increase the value of this expense, pushing it above historical values, and resulting in a bigger variation, which is offset by lower forecasted inflation rates. This caption does not include Depreciation and Amortization expenses, which are forecasted as a percentage of PP&E and Intangibles, respectively.

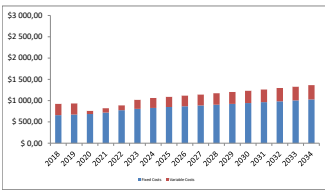


Figure 4: General, administrative and other: variable and fixed costs
Sources: Financial Reports and Analysts Estimations

- Owned, leased and other Direct

The Owned, Leased, and other direct caption relate to the expenses directly associated with rooms owned or leased by Marriott. These are composed by both fixed expenses, such as lease payments, and variable expenses, such as internet or heating. Computing fixed costs based on the year with the lowest activity, 2020, and using 60% of the total as benchmark, we can get the variable expenses in each year, which represent on average half of the “Owned, Leased and Other Revenue”, which is a comparable yet slightly higher margin than that of the managed and franchised rooms, explained by the reflection of financing costs in this type of rooms. A decrease is expected between 2018 and 2034, as the loss in owned and leased rooms, following the asset light strategy, will more than offset the inflationary tendencies, resulting in a smaller impact of this caption in the total expenses as the years go by.

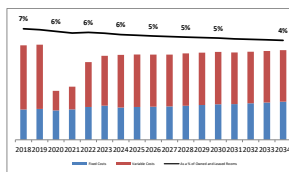


Figure 5: Owned, Leased and other direct: variable and fixed costs
Sources: Financial Reports and Analysts Estimations

- Contract Acquisition Costs & Contract Investment Amortization

Contract Acquisition Costs represent certain costs incurred in order to obtain franchise and management agreements. For this reason, the value of Contract Acquisition Costs is closely connected to the number of contracts Marriott signs, which is, in turn, associated to the number of franchised and managed rooms, as more contracts mean more capacity. With the predicted increase in managed and franchise rooms, especially in the latter, it is natural that this caption will represent a more important part of the balance sheet in 2034 than in 2023. Multiplying the number of managed and franchised rooms (proxy for the number of contracts) by the cost per room, calculated using the average real cost per room in the historical period and adjusting it for inflation, we get the contract acquisition costs. The Contract Investment Amortization represents the annual amortization of said contracts, which lose value over the years. This value was therefore calculated as a percentage of the balance sheet caption.

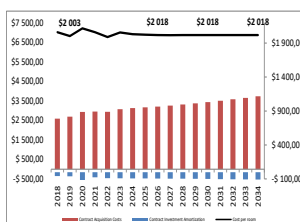


Figure 6: Contract acquisition Costs, Cost per room and respective amortization

- Liability for guest loyalty program

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This caption represents the monetary amount that Marriott owes to its customers, typically repaid in services such as free nights, or free upgrades. Marriott has a guest loyalty program, named Marriott Bonvoy, which has been growing in the last few years, going from about 125 million members in 2018 to 177 million in 2022. Despite this growth, Marriott Bonvoy has been falling in the Best Hotel Rewards program of US News, going from the 1st place in 2018, to being the 3rd best reward program in 2023-2024. The liability associated with the hotel rewards program is usually closely related to the number of members, but also to the amount of points each of them possess, as well as the value per point and the redemption rate. We expect Marriott's Bonvoy number of members to keep growing, starting at the average growth rate of historical period, but changing to a slower rate as years go by, reflecting the previously mentioned shifts in consumer preferences, as well as a limited and increasingly smaller pool of potential members. The other value driver, liability per member, is expected to grow at negative rates, a tendency seen in the historical period, and explained by the increase in members and the increase in touristic activity, meaning that a lot of points owned by customers are expected to be redeemed in the following years. The division between current and non-current liabilities shows our prospect for the next fiscal year, and is therefore heavily related to the tourism market. For that reason, it was used a GlobalData forecast for the global tourism market, and applied a 50% ponderation, meaning that current liabilities will grow 50% of the global tourism market growth, as not all that variation will be captured by Marriott in said year. The non-current liabilities are computed by the difference between total and current liabilities.

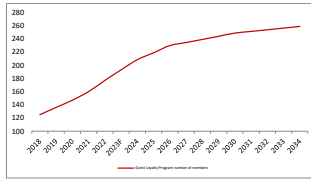


Figure 7: Guest liability program: Number of members
Sources: Financial Reports and Analysts Estimations

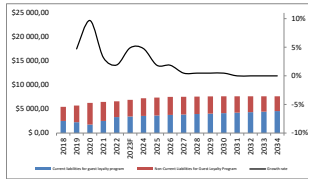


Figure 8: Guest liability program: Forecasted growth rate and current vs non-current liabilities.
Sources: Financial Reports and Analysts Estimations

▪ Intangibles (Brands and Goodwill)

A major part of Marriott's assets (60%) are intangibles, mainly represented by the 2 biggest captions: Goodwill and Brands. Goodwill typically arises when a company acquires another with a premium. Considering that M&A activity is hard to predict, we have decided to maintain this caption constant for the remaining projection period. Brands is a very important caption in Marriott's balance sheet, as it showcases the variety and value of Brands in Marriott's portfolio. Marriott currently has 31 brands under its name, having added the last one during 2023. It is expected that more will follow. In order to forecast this caption, and assuming that a new brand is added to the portfolio every 4 years, the net value per brand was computed, and it was used a 1% decrease each year since 2022, in order to account for amortization. The total number of brands is then multiplied by the value per brand.

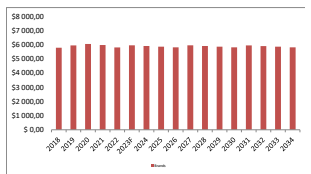


Figure 9: Brand value evolution
Sources: Financial Reports and Analysts Estimations

▪ PP&E, CAPEX and Leases

As previously mentioned, Marriott operates under an asset light strategy, meaning that it owns or leases a very small part of the rooms it operates (less than 1%). The PP&E value depends on several factors, such as land values, furniture and other improvements. Historically, and despite a big investment in owning Caribbean hotels in 2019, Marriott has been disposing of some of its owned hotels, specially in USA & Canada. While we do not expect Marriott to invest in new hotels, we do have to account for improvements on current ones, resulting in some CAPEX investments, specially in the first few years. We expect Marriott to dispose of more owned

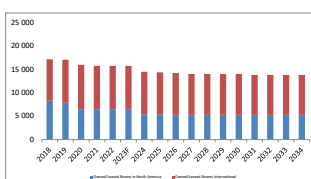


Figure 10: Owned/Leased Hotels in North America vs International
Source: Financial Reports and Analysts

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hotels, such as the Westin Peachtree Plaza in Atlanta, which is their biggest hotel. The city of Atlanta has been active in buying buildings, as it has a goal of providing 20,000 affordable housing units by 2030. As prices are hard to predict, we assumed this sale would be at the fair asset value, not resulting in any revenue generated. Leases follow a similar rationale. In fact, in the last few years, there were no new lease agreements, and some, mainly in South Africa, have been broken by the company. We expect this trend to continue, reducing the value of lease assets and liabilities.

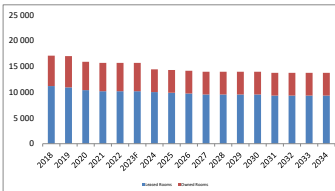


Figure 11: Total Owned vs Leased Hotels
Sources: Financial Reports and Analysts

Intrinsic Valuation

After computing a DCF Valuation, which we deemed as the most reasonable way of determining Marriot's share value, we have arrived to the conclusion that Marriot's stock price is worth 229.93\$ as of December 2024. With the expected payment of 9.75\$ of dividends per stock during 2024, and considering that the stock is trading at 221.14\$ as of 17th of December 2023, the expected one year return is 8.4%.

Free Cash Flows

In order to perform a DCF Valuation, one must calculate the core Free Cash Flows of a company, which represent its ability to generate cash through core operations. Analysing this value, we can see that Marriott will generate increasingly bigger Core Free Cash Flows, until it reaches the steady state in 2034.

WACC

- Risk Free Rate

For the estimation of a risk-free rate, we decided to use the most risk-free asset denominated in the same currency of the cash flows available, which is typically assumed to be the US 10Y Government bond. According to Refinitiv, the yield for this security, as of 6-11-2023 is 4,65%.

Date	US-10Y-Govm Bond
06/nov/23	4,65%
03/nov/23	4,57%
02/nov/23	4,67%
01/nov/23	4,76%

Figure 12: US Government Bonds (Risk free rate)
Sources: Refinitiv

- Market Risk Premium

The market risk premium represents the additional return that an investor gets for investing in the market portfolio when compared to the risk free rate. According to Damodaran (July, 2023), the US market risk premium is 5%.

- Cost of Debt

In order to compute the cost of debt (Rd) we have followed two approaches, having used the previously mentioned risk-free rate and market risk premium for the computation of both debt betas.

In the first method, we have used the Yield to Maturity of a bond issued by Marriott in 2021, which matures in 2033 (10 years from now), as the company's cost of debt. This value amounted to 6.19% and represents the return that holders of this security demand to hold Marriott's debt. After that, we need to adjust this value by the probability of default, and the loss in case this default happens. For this effect we have used Moody's 2020 report on debt, which

Figure 13: Cost of Debt inputs
Sources: Damodaran, Moody's, Refinitiv

states that a Baa2 rated company, such as Marriott, holds a 0,191% chance of defaulting, and a loss of 61,60% in case this default happens. The adjusted cost of debt was, therefore, estimated to be 6,17% and the respective implied debt beta was of 0,31.

In the second method we have used Damodaran estimate for the cost of debt, which is 5,50%, and represents an implied debt beta of 0,17.

In order to account for both methods, the average implied debt beta was used, which multiplied by the market risk premium and after adding the risk-free rate, resulted in a final cost of debt of 5,84%.

- Cost of equity

For the cost of equity estimation, it was needed to calculate Marriott's levered Beta, which is a good reference of a firm's exposure to systematic risk, considering the impact of financial leverage. Hence, the beta can be derived from a linear regression analysis, which demanded the computation of five-year monthly historical market returns represented by the S&P 500 Index and the same five-year monthly returns for Marriott's stock and its closest peers, namely Hilton Worldwide, Hyatt Hotels, Wyndham Hotels & Resorts Inc and Intercontinental Hotels Group.

Following the analysis, both Marriott and its competitors returns were regressed against the returns of the market benchmark. The slope of the regression is in the so-called leveraged beta or simply the coefficient or correlation. Marriott's beta turned out to slightly above the industry, 1.57 in comparison with 1.43.

- Perpetual Growth Rate, ROIC and RONIC

We expect Marriott's cash flows to stabilize and grow at a constant rate in 2034. The RONIC and Reinvestment Rate assume the values of (116%) and (4%), respectively, as we forecasted the Invested Capital to decrease throughout the years. This results in a terminal growth rate of around 4%. Considering that the forecasts for the World long term real GDP growth are 3.8%, and inflation prospects are 2.2%, meaning that nominal GDP will grow at a 6.1% rate, Marriott will perpetually grow below the economy. This is not an issue, as the highest growth forecasted will be in the African continent, where Marriott does not have much activity. When considering only the North American nominal GDP growth, which is 4%, the predicted terminal growth rate arises as a good proxy.

The core ROIC is expected to be 91% in 2034, which is well above the WACC, meaning Marriott is creating value to its shareholders, as the return on invested capital is higher than the cost of it.

- Equity Value

After calculating the operational cash flows, as well as the terminal value, and discounting them at the WACC rate, we get the core Enterprise Value. To get the Equity Value, it is necessary to account for the Non-Core operations and Net Debt. For this, we have used the 2024 book values, as in these cases, book values are a fairly good proxy for market values. After this

ROIC (core)	91,0%
RONIC (core)	-116,2%
RR	-3,6%
g	4,2%

Figure 14: ROIC and terminal growth rate inputs
Sources: Analysts estimations

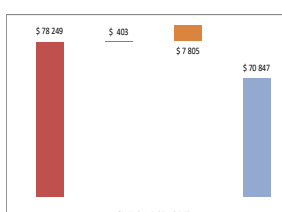


Figure 15: Equity Value calculation
Sources: Analysts Estimations

operation, we reach a B69.6\$ in equity value, which divided by the 308M shares reported in 2022, result in a 229.93\$ share price. With a payout ratio of 81%, the average industry payout rate of the last two years, the transactions with shareholders in 2024 were just above B3\$, resulting in a 9.75\$ dividend per share.

These values sustain our idea that Marriott's stock might be slightly undervalued, as the average between both metric results in a 236.1\$ price, close to the one obtained in the DCF method.

Risks & Scenario Analysis

Data Breaches

According to Trustwave's report "2023 Hospitality Sector Threat Landscape: Trustwave Threat Intelligence Briefing and Mitigation Strategies", 31% of lodging corporations have acknowledged a data breach across their company existence and 89% have actually been affected more than once in a single year, with average financial penalties (both legal implications and indirect costs accounted) of \$3.4 million.

Marriott International compresses a huge infrastructure that heavily relies on the most disruptive technology to ensure the normal flow of the operations as well as the most advanced cybersecurity procedures to avoid third-parties access to guests' personal data. The likelihood of a data breach occurrence under an asset-light business model is enhanced by the fact that franchisees and licensees may fail to behave in accordance with applicable standards, therefore, damaging Marriott's brands reputation (Marriott International Inc., 2022).

In fact, Marriott has proven to be vulnerable to this sort of threats, as it has been involved in one large-scale data breach taking place in 2014, involving Starwood brands⁵. Nevertheless, the security alert came out just four years later and it has further evolved to the confirmation that Starwood's internal guest reservation database had actually been accessed by external parties. Consequently, over half a million guest entries including payment card data and passport numbers were breached and Marriott has faced a severe financial penalty of \$23.9 million, (lower than the initial 100 million pounds fine) decreed by the Information Commissioner's Office (ICO) (Page, 2020) as well as stock losses.

More recently, Marriott reported another incident with sensitive information involving 5.5 million users (the "Unauthorized Application Access Incident") due to an inappropriate login using some franchise employees' credentials, resulting in ongoing lawsuits whose financial impact over the amount already paid is still uncertain (Marriott International Inc., 2022).

As a brief note, the occurrence of these breaches represent a major challenge for Marriott as it demands higher investments in information security and technology as well as in compliance initiatives concerning M&A activities and new signings as Marriott's business model heavily depends on third-party entities – the Starwood Data Security Incident could have taken larger

⁵ Starwood Hotels has been acquired by Marriott under a \$13b billion deal in 2016.

consequences if Starwood's fragile reservation system was merged with Marriott's in-house database immediately after the acquisition.

Sensitivity Analysis

In order to present a more complete DCF analysis, one should make a sensitivity estimate, as results are heavily reliant on inputs. In this case, we have changed both WACC and the terminal growth rate, g , by 0.25p.p and 0.1p.p respectively. In both cases, we see stock price variations ranging from 203\$ to 316\$. In this case, the potential upside would always be bigger than the potential downside, suggesting that Marriot's share price might be fairly or undervalued.

Scenario Analysis

As far as the future is uncertain due to multiple external situations ranging from geopolitical and cybersecurity threats, climate changing conditions and economic instability, it is of the utmost importance to formulate an alternative worst-case scenario, assuming some deterioration on the key performance indicators that have been considered so far for Marriott's base scenario. Bearing this in mind, and concerning the ongoing Russian invasion of Ukraine and the most recent civil tensions between Israel and Hamas which therefore constrain global mobility and affect or may affect nearby countries where Marriott holds operations, the worst-case scenario was built on the assumption that forecasted average daily rates between 2023 and 2034 would suffer an haircut of 10% in both North America and International regions and the occupancy rates would be diminished in 2 percentage points in each segment. As a result, the share price decreases 13% to \$200.28. As of the present date, there is no evidence that the Covid-19 virus may resurface not even with the same intensity as previous new variants, it is assumed that China's definitive deletion of the zero Covid-19 policy as a strong signal of recovery for the T&T industry.

Peer Identification

Marriott's peer group was selected based on the output of the Sum of the Absolute Rank Differences approach (SARD). A group of 11 companies aggregated by the Bloomberg Industry Classification (BICS) was considered to compute the Market Capitalization as a proxy of market size, Net Debt to EBITDA as a risk measure as well as Earnings per Share and the EBITDA Margin as a profitability surrogate. Finally, the companies were attributed a rank and sorted from the one with the least absolute difference against Marriott to the one whose overall score was larger, creating a sample of peers that includes the following companies: Hilton Worldwide, Intercontinental Hotels Group, Hyatt Hotels, Choice Hotels Group and Wyndham Hotels & Resorts Inc.

Final recommendations

Marriott, as well as the tourism sector, has faced some difficulties in recent years due to the COVID-19 outbreak. However, in the past year, revenues have recovered to reach pre-COVID

levels, and the future seems bright. While Marriott seems to have a big growth potential, with growing revenues, a solid customer base and some trends playing in its favour, there are some downsides and risks one can not ignore. Marriott has been falling behind in terms of sustainability requirements and has recently been involved in data breach scandals which could hinder its future value. There is also an expectation that the International sector will be the one with the highest growth, but this could easily change due to the instability that is currently being experienced in global markets. Furthermore, there is still uncertainty about inflation and the future of interest rates. For all these reasons, our final recommendation for this stock is HOLD. According to our calculations, the stock will be worth 229.93\$ in FY2024, which added to the 9.77\$ dividend per share will result in a total return of 8.4%.