Hotel Business

Arne Sorenson, Marriott International's president and CEO

Marriott Sees Gains, RevPAR Growth Is Slow

BY HOTEL BUSINESS ON FEBRUARY 28, 2019 BRANDS, FINANCE

BETHESDA, MD—Marriott International Inc. reported solid earnings for the fourth quarter of 2018 as it worked to complete the integration of Starwood Hotels & Resorts.

Marriott reported rooms growth of nearly five percent, net; worldwide revenue per available room, or RevPAR, increased nearly three percent; general and administrative expenses rose only one percent; and adjusted earnings per share surged 48%.

The brand closed the year with a record 1.3 million rooms operating under its 30 leading lodging brands. During the year, Marriott reduced operating costs for owners, increased the value of its loyalty program for customers, and improved guest 'intent to recommend' scores.

"We continue to grow our market share of industry rooms," Arne M. Sorenson, president/CEO, Marriott International. "According to STR, our worldwide market share of rooms at year-end 2018 stood at seven percent, while our share of rooms under construction totaled a leading 20%. We expect rooms growth will accelerate, as we signed contracts for a record 125,000 rooms in 2018 and our development pipeline increased to a record 478,000 rooms. Select-service signings were especially strong in North America, particularly for Residence Inn, Fairfield Inn & Suites, and Courtyard."

In the fourth quarter, North America systemwide RevPAR increased 0.2% and worldwide systemwide RevPAR increased 1.3%. North American RevPAR growth in the quarter was impacted by labor strikes in eight North American markets and weaker than expected transient demand for the industry, according to the company.

"We expect North America RevPAR will increase 1-2% in the first quarter, reflecting the impact of the government shutdown offset by a favorable calendar comparison," he said. "Outside North America, RevPAR growth is expected to moderate slightly in the first quarter due to the slower economic growth outlook in the Asia Pacific region.

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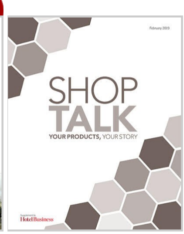

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“For the full year 2019, we expect North America and worldwide RevPAR growth of 1-3% and rooms growth of roughly 5.5%, net. This should yield an increase in total fee revenue of 5-7%, despite foreign exchange headwinds. It should also enable us to return at least $3 billion to shareholders in share repurchases and dividends in 2019, even assuming no asset sales for the year.

“We are pleased that, just over two years since the acquisition, the integration of Starwood is nearly complete. With the announcement of our new loyalty brand, Marriott Bonvoy, just a few weeks ago, customers are enjoying the meaningful benefits of the combined company. I am very grateful for all the hard work and dedication of Marriott associates around the world who made the integration happen.”

Fourth Quarter 2018 Results

Marriott’s reported net income totaled $317 million in the 2018 fourth quarter, compared to 2017 fourth quarter reported net income of $114 million. Reported diluted earnings per share (EPS) totaled $0.92 in the quarter, compared to reported diluted EPS of $0.31 in the year-ago quarter.

Fourth quarter 2018 adjusted net income totaled $497 million, a 23% increase over 2017 fourth quarter adjusted net income of $403 million. Adjusted diluted EPS in the fourth quarter totaled $1.44, a 32% increase from adjusted diluted EPS of $1.09 in the year-ago quarter. Adjusted results exclude merger-related costs and charges, cost reimbursement revenue, and reimbursed expenses. Adjusted results for the 2018 fourth quarter also exclude adjustments to the provisional tax charge resulting from the U.S. Tax Cuts and Jobs Act of 2017 (Tax Act). Adjusted results for the 2017 fourth quarter also exclude the Avendra gain and the provisional tax charge resulting from the Tax Act.

Base management and franchise fees totaled $743 million in the 2018 fourth quarter, an 8% increase over base management and franchise fees of $688 million in the year-ago quarter. The year-over-year increase in these fees is primarily attributable to unit growth, higher credit card branding fees and higher RevPAR.

Fourth quarter 2018 incentive management fees totaled $167 million, a 4% decrease compared to incentive management fees of $174 million in the year-ago quarter. The year-over-year decrease largely reflects the impact of labor strikes, unfavorable comparisons in the Middle East, and unfavorable foreign exchange, partially offset by new units and higher net house profit at most hotels.

Owned, leased, and other revenue, net of direct expenses, totaled $88 million in the 2018 fourth quarter, compared to $89 million in the year-ago quarter. Compared to the year-ago quarter, results were negatively impacted by $14 million from hotels sold during or after the fourth quarter of 2017. That negative impact was mostly offset by higher termination fees year-over-year.

Depreciation, amortization and other expenses totaled $62 million in the 2018 fourth quarter, compared to $53 million in the year-ago quarter. The $9 million increase largely reflects the unfavorable comparison to a $7 million adjustment related to Legacy-Starwood IT systems in the year-ago quarter.

General, administrative, and other expenses for the 2018 fourth quarter totaled $242 million, compared to $270 million in the year-ago quarter. The year-over-year decrease largely reflects cost synergies, partially offset by the $7 million expense in the 2018 fourth quarter for the company’s supplemental investments in its workforce. Those supplemental investments totaled $51 million for full year 2018.

In the 2018 fourth quarter, the company incurred $28 million of expenses and recognized $25 million of insurance proceeds related to the data security incident it disclosed on Nov. 30, 2018. The $3 million of net expenses are reflected in either the reimbursed expenses or merger-related costs and charges lines of the statements of income, which have been excluded from adjusted net income, adjusted EPS and adjusted EBITDA.

Gains and other income, net, totaled $3 million, compared to $657 million in the year-ago quarter. Gains and other income, net, in the 2017 fourth quarter reflected the $659 million Avendra gain.

Interest expense, net, totaled $88 million in the fourth quarter compared to $58 million in the year-ago quarter. The increase is largely due to higher interest rates and debt balances, and lower interest income.

Equity in earnings for the fourth quarter totaled $8 million, compared to $11 million in the year-ago quarter. The year-over-year decrease largely reflects the $5 million gain on the sale of a hotel in a North American joint venture in the 2017 fourth quarter.

The reported provision for income taxes totaled $28 million in the fourth quarter, an 8.1% reported effective tax rate, compared to $920 million in the year-ago quarter, an 89% reported effective tax rate. The 2017 fourth quarter reported tax provision reflects a $563 million charge related to the enactment of the Tax Act. The lower reported effective tax rate in the 2018 fourth quarter largely reflects a lower corporate tax rate as a result of the Tax Act and favorable discrete items.

For the fourth quarter, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) totaled $864 million, a 10% increase over fourth quarter 2017 adjusted EBITDA of $789 million. Compared to the prior year, adjusted EBITDA for the fourth quarter of 2018 was negatively impacted by $12 million from sold hotels.

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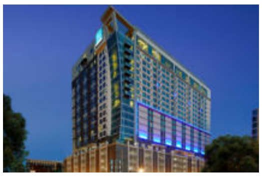

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