Hotel News Resource

Marriott International Reports Third Quarter Results

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Third Quarter Highlights:

-- Worldwide comparable company-operated revenue per available room (REVPAR) rose 3.4 percent (1.1 percent using constant dollars) for the third quarter ended September 5, 2008,

-- Outside North America, comparable company-operated REVPAR increased 13.4 percent (5.7 percent using constant dollars) with double-digit growth in South and Central America, the Caribbean, and the Middle East,

-- In a weak economic environment, North American comparable company-operated REVPAR declined 1.0 percent with a 1.6 percent increase in average rate,

-- The company's worldwide pipeline of hotels under construction, awaiting conversion or approved for development totaled over 130,000 rooms,

-- Over 6,500 rooms opened during the third quarter, including almost 2,300 rooms outside North America.

Marriott International, Inc. (NYSE:MAR) today reported third quarter 2008 adjusted income from continuing operations of $123 million, an increase of 1 percent over the year-ago quarter, and adjusted diluted earnings per share ("EPS") from continuing operations of $0.34, up 10 percent. The company's EPS guidance for the third quarter, disclosed on July 10, 2008, totaled $0.30 to $0.35.

Adjusted results for the 2008 quarter exclude a $29 million ($0.08 per diluted share) after-tax non-cash charge primarily related to a 1994 tax planning transaction.

Reported income from continuing operations was $94 million in the third quarter of 2008 compared to $122 million in the year-ago quarter. Reported diluted EPS from continuing operations was $0.26 in the third quarter of 2008 compared to $0.31 in the third quarter of 2007.

J.W. Marriott, Jr., Marriott International's chairman and chief executive officer, said, "In our more than 50 years in the lodging business, we have focused our business strategy on meaningful competitive advantages -- strong brands, skilled management, and leading guest, owner and franchisee preference -- all combined in a time-tested business model of managing and franchising hotels. These attributes drive strong returns when the economic picture is bright and allow us to outperform competitors when times are more challenging.

"The third quarter demonstrated those advantages. With soft economic growth, our third quarter North American REVPAR declined modestly. Favorable international REVPAR and strong global unit growth enabled our fee revenue and operating income to remain steady. Over the past 12 months, we have opened over 200 hotels, including over 30 hotels converted from competitor brands.

"Our timeshare business has certainly been far more impacted by the current financial environment than our core lodging business. Tight credit, soft consumer spending and a difficult securitization market have lowered our expectations for the fourth quarter and 2009. However, our strong brands, high customer satisfaction and loyalty, and the terrific know-how of our associates will reward us in the future.

"Our financial leverage is modest, we have ample liquidity, and our market share continues to grow. Increasingly, our presence is global. During the quarter, nearly 70 percent of the company's incentive fees were earned at properties outside North America. Today, our pipeline of hotels under development totals over 130,000 rooms worldwide. We expect to open approximately 30,000 rooms in 2008 and 30,000 to 35,000 rooms in 2009. Companywide we are maximizing revenue opportunities and operating efficiencies while redefining and refreshing our brands. We're confident that as the economy strengthens, we'll be well positioned to achieve solid earnings growth."

In the 2008 third quarter (12-week period from June 14, 2008 to September 5, 2008), REVPAR for the company's comparable worldwide company-operated properties increased 3.4 percent (1.1 percent using constant dollars) and average daily rates increased 6.2 percent (3.9 percent using constant dollars). REVPAR at comparable worldwide systemwide properties rose 2.2 percent (0.7 percent using constant dollars) over the year-ago quarter.

Third quarter international comparable company-operated REVPAR increased 13.4 percent (5.7 percent using constant dollars), including a 16.9 percent increase in average daily rate (8.9 percent using constant dollars). REVPAR growth was particularly strong in the Middle East, the Caribbean, and South and Central America.

In North America, comparable company-operated REVPAR declined 1.0 percent in the third quarter of 2008. REVPAR at the company's comparable company- operated North American full-service and luxury hotels (including Marriott Hotels & Resorts, The Ritz-Carlton and Renaissance Hotels & Resorts) was flat with a 2.1 percent increase in average daily rates.

Marriott added 42 new properties (6,528 rooms) to its worldwide lodging portfolio in the third quarter, including a Marriott and a Renaissance in Beijing and The Ritz-Carlton, Fort Lauderdale. Six properties (838 rooms) exited the system during the quarter. At quarter-end, the company's lodging group encompassed 3,105 properties and timeshare resorts for a total of over 550,000 rooms.

MARRIOTT REVENUES totaled $3.0 billion in the 2008 third quarter, a 1 percent increase from the same period in 2007. Base management and franchise fees rose 2 percent to $251 million as a result of REVPAR improvement, primarily driven by rate increases and unit growth. Franchise relicensing fees declined $8 million to $1 million compared to the year-ago quarter, reflecting a slower transaction environment for existing franchised hotels. With soft lodging demand trends in the United States, incentive management fees declined $4 million. Incentive management fees from international markets accounted for nearly 70 percent of total incentive fees in the 2008 quarter compared to about 45 percent in the 2007 quarter.

Worldwide comparable company-operated house profit margins declined 50 basis points. House profit margins for comparable company-operated properties outside North America grew 80 basis points and house profit per available room ("HP-PAR") increased 7 percent. North American comparable company-operated house profit margins declined 130 basis points from the year-ago quarter and HP-PAR declined 4 percent.

Owned, leased, corporate housing and other revenue, net of direct expenses, declined $7 million in the 2008 third quarter, to $20 million, primarily reflecting the impact of properties under renovation and lower termination fees.

The timeshare business continues to be impacted by tight credit markets and increasingly negative perceptions of residential real estate. Third quarter Timeshare segment contract sales declined 13 percent to $306 million largely due to lower sales of timeshare and residential products, partially offset by stronger sales at the new Ritz-Carlton Lake Tahoe fractional resort.

Timeshare segment results, which includes timeshare sales and services revenue, net of direct expenses, as well as base management fees, equity earnings, minority interest and general, administrative and other expenses associated with the timeshare business, totaled $49 million compared to $39 million in the prior year. The segment results reflected a net $10 million pretax impairment charge for a fractional and residential consolidated joint venture project, adjusting the carrying value of the real estate to its estimated fair market value. The $10 million charge included a $22 million negative adjustment in timeshare direct expenses partially offset by a $12 million pretax ($8 million after-tax) benefit associated with the joint venture partner's share, which is reflected in minority interest.

In the third quarter, timeshare sales and services revenue decreased 1 percent to $384 million and, net of expenses, increased 4 percent to $47 million. While soft demand constrained revenue, results reflected favorable product costs, increased year-over-year reportability at several projects, and higher financing and services profit in the 2008 quarter, largely offset by the $22 million charge at the fractional/residential joint venture project referred to above.

GENERAL, ADMINISTRATIVE and OTHER expenses for the 2008 third quarter totaled $167 million, compared to $164 million in the year-ago quarter.

GAINS AND OTHER INCOME totaled $7 million and included $2 million of gains on the sale of real estate, a $2 million gain from the sale of the company's interest in a joint venture and $3 million of preferred returns from joint venture investments. The prior year's third quarter gains totaled $30 million and included $22 million of gains on the sale of real estate, $2 million of gains from the sale of the company's interest in four joint ventures and $6 million of preferred returns from joint venture investments and other income.

INCOME TAXES

During the quarter, the company recorded a non-cash charge of $29 million, largely related to an unfavorable court decision associated with a 1994 tax planning transaction. The company expects to appeal the ruling.

MINORITY INTEREST, NET OF TAX increased $9 million in the third quarter. The increase largely reflected the adjustment of the carrying value of the fractional/residential project noted earlier. Since the project is a consolidated joint venture, the partner's share of the adjustment was an $8 million after-tax benefit to minority interest.

BALANCE SHEET

At the end of third quarter 2008, total debt was $3,046 million and cash balances totaled $117 million, compared to $2,965 million in debt and $332 million of cash at year-end 2007. The company repurchased 3.3 million shares of common stock during the third quarter of 2008 at a cost of $88 million. Weighted average fully diluted shares outstanding totaled 365.4 million in the 2008 third quarter compared to 394.1 million in the year-ago quarter. The remaining share repurchase authorization, as of September 5, 2008, totaled 21.3 million shares.

FOURTH QUARTER 2008 OUTLOOK

Given the current soft economic climate in North America and weakening markets outside North America, the company expects worldwide comparable systemwide REVPAR to decline 1 to 3 percent in the fourth quarter of 2008. North American comparable company-operated REVPAR is expected to decline 3 to 5 percent and as a result, house profit margins are expected to decline 250 to 300 basis points. With approximately 8,000 rooms forecasted to open in the fourth quarter, the company anticipates total fee revenue of approximately $440 million to $450 million, a decrease of 3 to 5 percent from the prior year.

The company expects fourth quarter 2008 timeshare contract sales to be roughly flat with the prior year reflecting weak consumer demand in North America and Europe.

While the company's timeshare loan portfolio remains strong, current conditions in the capital markets significantly lower the likelihood that the company can complete a timeshare note sale in the fourth quarter. In addition, delays in state-level registration approvals have postponed some previously scheduled closings until 2009. As a result, timeshare development revenue should decline in the fourth quarter and note sale gains are expected to be zero, compared to $36 million in the year-ago quarter. All in all, timeshare sales and services revenue, net of expenses, is expected to total $50 million to $60 million in the fourth quarter of 2008.

Timeshare segment results include timeshare sales and services revenue, net of direct expenses, base management fees, equity earnings, minority interest and general, administrative and other expenses associated with the timeshare business. Base management fees associated with the timeshare business are expected to increase and timeshare site, regional and corporate overhead expenses are expected to decline in the fourth quarter, excluding possible severance charges. Timeshare segment results for the 2008 fourth quarter are expected to total $35 million to $45 million.

For the entire company, general, administrative and other expenses are expected to total $245 million to $255 million in the fourth quarter, approximately flat with the 2007 quarter (excluding possible severance charges in the fourth quarter).

The company expects nearly 30,000 new room openings (gross) in 2008. At the end of the 2008 third quarter, the company's worldwide pipeline of hotels under construction, awaiting conversion or approved for development totaled over 130,000 rooms. Given the deteriorating financial markets, the company, owners or franchisees may decide to delay or cancel some of the projects included in the pipeline. Such decisions may lead to write-offs of amounts invested, which cannot be estimated at this time and, therefore, are not included in the fourth quarter 2008 guidance.

Based upon the above assumptions, the company expects EPS for the 2008 fourth quarter to total $0.44 to $0.50.

The company expects investment spending in 2008 to total approximately $1 billion to $1.1 billion, including approximately $70 million for maintenance capital spending, $300 million to $315 million for capital expenditures and acquisitions, $350 million to $400 million for net timeshare development, $30 million to $40 million in new mezzanine financing and mortgage loans for hotels developed by owners and franchisees, and $280 million to $300 million in equity and other investments (including timeshare equity investments).

	Fourth Quarter 2008	Full Year 2008
Total fee revenue	$440 million to $450 million	$1,435 million to $1,445 million
Owned, leased, corporate housing and other revenue, net of direct expenses	$50 million to $55 million	$142 million to $147 million
Timeshare sales and services revenue, net of direct expenses (1)	$50 million to $60 million	$187 million to $197 million
General, administrative and other expenses	$245 million to $255 million	$758 million to $768 million
Operating income	$285 million to $320 million	$996 million to $1,031 million
Gains and other income	Approx. $0	Approx. $19 million
Net interest expense (2)	Approx. $50 million	Approx. $133 million
Equity in earnings (losses)	Approx. $0	Approx. $26 million
After-tax minority interest	Approx. $3 million	Approx. $16 million
Diluted earnings per share (3)	$0.44 to $0.50	$1.62 to $1.68
Tax rate	33 to 35 percent	

(1) Includes $28 million of timeshare note sale gains for full year 2008
(2) Net of interest income
(3) Excludes the $0.18 per diluted share impact of non-cash items included in the tax provision for full year 2008

2009 OUTLOOK

While Marriott would typically provide a range of guidance for future performance in the coming year, the current global economic and financial climate makes predictions very difficult. In 2009, at a minimum, the company expects the business environment to remain unusually challenging. For internal planning purposes, the company is assuming roughly flat performance in comparable company-operated REVPAR outside North America (on a constant dollar basis) and, at best, a 3 percent decline in North American comparable company-operated REVPAR. Given these REVPAR assumptions and assuming higher property-level costs, house profit margins could decline 250 to 300 basis points in North America and decline 125 to 175 basis points outside North America. Room growth is expected to total 30,000 to 35,000 rooms in 2009 and most hotels expected to open are already under construction. In this scenario, room growth offsets REVPAR performance to yield modestly higher combined base management and franchise fees, while softer REVPAR and margin declines lead to declining incentive management fees. All in all, fee revenue could total $1,365 to $1,385 million in 2009, a decline of 4 to 5

percent. In this scenario, the company estimates that incentive management fees in 2009 would derive largely from international markets. The company estimates that an additional 1 percent decline in comparable REVPAR in 2009, coupled with a roughly 50 to 100 basis point decline in house profit margin, could impact pretax fees by approximately $20 million.

Assuming continued weak economic conditions, timeshare contract sales could remain flat to 2008 levels with lower fractional and residential sales and modest growth from the company's core timeshare product, particularly the Asia Pacific Points program.

While the company currently does not contemplate a timeshare note sale in the fourth quarter 2008, for internal planning purposes the company assumes the completion of two note sale transactions in 2009, selling approximately $450 million to $500 million of notes and earning $40 million to $50 million in note sale gains, roughly half of the gains expected by the company for 2009 a few months ago.

Base management fees associated with the timeshare business are likely to increase and timeshare site, regional and corporate overhead are likely to decline in 2009. As a result, timeshare segment results for 2009 could total $175 million to $225 million.

Given this plan, the company's general, administrative and other expenses are expected to be generally flat with 2008 levels reflecting increased spending for brand initiatives but decreased spending for development and corporate staffing.

While the company cannot forecast results with certainty, based upon the above assumptions, EPS for 2009 could total $1.48 to $1.60.

In 2009, investment spending is expected to total $700 million to $800 million. The company does not anticipate meaningful share repurchase activity in the balance of 2008 and 2009.

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