

MARRIOT INTERNATIONAL INC. FINANCIAL MANAGEMENT ANALYSIS

Ashraf Ali

Professor's Name: Christopher Wilkins

Date: 01/12/2022

Assignment 2 BMIH5007

Executive Summary

Marriot International Inc. is an American multinational company that operates, franchises, licenses and manages lodging, including residential, timeshare and hotel properties. This project aims to compare the financial ratio performance of Marriot International Inc. in 2020 and 2021. The project will discuss the trends of key financial ratios, including profitability, liquidity and gearing while drawing apt conclusions through charts and graphs. The project will also address the limitations of ratio analysis and why it is indispensable to gain insight into the ratios and fluctuations in Hotel management and their financial statements. Ultimately, the project will explore the importance of financial ratios in decision-making.

Background

Marriot International Inc. is a multinational corporation headquartered in Bethesda, Maryland. Marriot International Inc. is a leading lodging company that owns 3400 hospitality and real estate properties in 68 countries and territories. Marriott International Inc. develops, owns, operates, licenses, manages, franchises, and provides furnished corporate housing for a wide range of hotels globally. As a worldwide organization, Marriott International is now a global leader since it has grown its operations beyond its headquarters in Maryland, located in the United States, to around 122 nations and territories.

Ratio Analysis

Profitability Ratio

Profitability Ratio	2021	2020
Gross margin	20.2136	13.8019
Operating margin	12.629	0.7946
EBIT margin	12.629	0.7946
EBITDA margin	14.7579	5.3164
Pre-tax margin	8.5156	-4.4083
Net profit margin	7.931	-2.5258
Return on Equity	77.7228	-62.093
Return on Assets	4.3009	-1.0809

Marriot International Inc's gross margin has risen steadily in the last two fiscal years. The gross margin increased from 13.8019 in 2020 to 20.2136 in 2021. A company with a higher gross margin can better cover its indirect costs and other expenses, such as interest, without dipping into its operating capital. The rise in gross margin from 2020 to 2021 indicates that Marriot International Inc. is generating returns for investors. Also, the increase in gross profit margin shows that the company can make a reasonable profit on sales if it controls overhead costs (Dwi Sihono & WIDARTI, 2021). Moreover, investors will pay more due to the progressively rising profit margin profit.

Marriot's return on assets has progressively increased from -1.0809 in 2020 to 4.3009 in the fiscal year 2021. The trend shows that Marriot International Inc. has been able to transform its cash into investments, effectively engendering its income. A lower ROA suggests that there is space for improvement in a firm's ability to manage its balance sheet to generate profits. A higher ROA indicates that the company is more productive and efficient (Hertina & Saudi, 2019). The

increasing rate of return on assets shows that Marriott International Inc. will earn more income from less investment.

Marriot's return on equity shows a positive trend for the previous two fiscal years (ROE increased from -62.093 in 2020 to 77.7228 in 2021). The trend indicates that Marriot has effectively generated income from new investments. The high proportion of ROE shows that the company is more successful at generating profits from the assets it already possesses (Hertina & Saudi, 2019). Similarly, a company that, over its existence, offers rises in its ROE is almost certainly becoming more effective, and so does Marriot.

Liquidity Ratio

Liquidity/ Financial Health	2021	2020
Current Ratio	0.5659	0.4911
Quick Ratio	0.0	0.0
Cash Ratio		

The current ratio for Marriott International Inc. displays a negative trend, a cause for concern. The percentages have consistently been lower than one during the past two fiscal years (in 2020, the current ratio was 0.4911; and it rose to 0.5659 in 2021). The negative trend indicates that Marriott Inc. may not be able to satisfy its short-term creditors with the assets it presently possesses and can use. Even though this is a poor indicator of the company's productivity, there is still a possibility that it will not go bankrupt and that it will be able to obtain finance from other sources.

The quick ratio for Marriot International Inc. for both fiscal years 2020 and 2021 is 0. A quick ratio of less than 1 indicates that the company has inadequate quick assets to meet all its short-term debts. Suppose a company with a quick ratio below 0 suffers an interruption. In that case, raising the cash to pay its creditors may be difficult—the lower the quick ratio, the lower the

liquidity. The low Marriot's quick ratio indicates the company has taken on too many debts, is struggling to collect accounts receivables, is paying its bills too quickly, or is decreasing sales.

Gearing Ratio

Gearing Ratio	2021	2020
Debt/Equity Ratio	7.1697	24.1302
Shareholder's Equity ratio	25.553	24.701
Debt-service coverage ratio	1.2	1.2

Marriot's debt-to-equity ratio dropped from 24.1302 in 2020 to 7.1697 in 2021. The drop in the debt-to-equity ratio indicates less debt on a company's balance sheet. The debt-to-equity ratio is going down, which means that the company is getting less money from lenders and more from shareholders. Comparatively, in 2021, the company borrowed less money than in 2020; hence less potential risk if the debt levels increased. Due to the risks of debt, lenders and investors tend to favour companies with lower debt-to-equity ratios. A lower debt-to-equity ratio indicates a lesser chance of loan default for the lending institution (Herawati & Fauzia, 2018). For shareholders, the company is less likely to go bankrupt if the economy goes down.

The shareholder's equity ratio gradually increased to 25.553 in 2021 from 24.701 in 2020. The gradual increase in the shareholder's equity ratio shows that the company financed its asset obligations with minimal debt. A company should have a high shareholder's equity ratio because more of the company's assets are paid for by the shareholders' money instead of borrowed money.

The debt-service coverage ratio remained the same in the previous two fiscal years (the coverage ratio in 2020 and 2021 remained at 1.2). The greater the debt-service coverage ratio, the more debts a firm can take on while still being able to pay them, making the company more appealing to lenders (Berrada, 2022). The DSCR of 1.2 indicates that the property can cover the

company's total debt 1.2 times over the fiscal year (Assuming that the debt requirements do not rise).

Knowledge from Ratio Analysis

The hospitality industry is a significant field within the service industry that encompasses a variety of subfields, some of which are hotels and lodging, event organizing, theme parks, transportation, cruise lines, and other fields that fall within the broader category of the tourist industry. It is of the utmost importance to define a set of financial ratios that can be used to examine organizations across the entirety of the hospitality sector, regardless of their operations. This is because the hospitality industry is a generic one. Due to the prevalence of fixed and tangible assets in the hotel sector, it is necessary to use a particular set of financial ratios to accurately analyze the industry as a whole and the performance of individual businesses.

1. Profitability Ratios

The ratios of a company's gross profit, operational profit, and net profit can provide insight into the overall level of profitability achieved by that business. The hospitality business is responsible for billions of dollars annually, and many companies operating within it have been there for a long time; this means that people at all levels of the industry should be able to make good profits (Santoso, 2021).

Gross profit margin = $(\text{sales} - \text{the cost of goods sold} / \text{sales})$: The percentage of a company's total revenue is referred to as the gross profit margin. Companies operating within the hospitality industry should have a high gross profit margin because most of their costs come from operations rather than the cost of goods sold. Since this is the case, businesses in the hospitality industry should have a high gross profit margin.

Net profit margin = (net profit / total sales): The difference between the gross profit margin and the net profit margin is that the latter calculates the proportion of revenue that goes toward net profit. In contrast, the former calculates the balance that goes toward gross profit. Because of the high operating costs associated with running a business in the hospitality industry, most hospitality companies don't see exceptionally high yields; the overall cost of running a business in this industry is very high. A shareholder should always check the net profit margin of a firm and compare it to the industry averages to ensure the company meets or exceeds the standard (Karadag, 2017).

2. Liquidity Ratios

A company's ability to satisfy its short-term financial responsibilities can be evaluated using liquidity ratios, which convey this information to various stakeholders. Since the hotel industry needs a lot of working capital and has a lot of short-term financial obligations to meet, figuring out liquidity ratios is an essential part of analyzing the industry.

Current ratio = (current assets / current liabilities): The current balance is a measure of a firm's liquidity that indicates the degree to which the company can meet all of its short-term liabilities using the short-term assets that it has available. The term "short-term assets" refers to any assets, including inventory, but does not include long-term assets, such as property, plants, and equipment (Karadag, 2017).

Companies in the hospitality business have a significant amount of current liabilities, which come in the form of salary and wages, short-term equipment leasing, and other liabilities with a short-term time horizon. In addition, the sector is cyclical, making it necessary for businesses to have sufficient current assets to pay their current penalties, even when the economy slumps. Stakeholders are looking for a high current ratio greater than one to tell if a company in the hotel business is substantial or not.

3. Gearing Ratios

By calculating the gearing ratio, stakeholders can better understand the degree to which a company's operations are financed by equity instead of creditor financing. The gearing ratio measures debt's effect on the capital structure and determines the level of additional financial risk that debt poses. Several ratios, such as the debt-to-equity ratio (D/E ratio), shareholders' equity ratio (SER), and debt-service coverage ratio (DSCR), are used to determine a company's gearing, which provides insight into the amount of risk that is associated with a specific enterprise (Santoso, 2021). The level of gearing appropriate for a given company is contingent on the industry in which it operates and the level of leverage its corporate competitors utilize.

Benefits and Limitations of Ratio Analysis

Ratio analysis is a standard method that is used in the field of financial analysis (Nadar & Wadhwa, 2019). With this tool, one can look at financial statements visually and get information from them. It emphasizes ratios that show a company's profitability, efficiency, and the leverage it finances its operations, in addition to other crucial pieces of information. The ratios can be used for horizontal or vertical analysis, depending on the context. Even though ratio analysis is a common type of analysis, financial analysts must be aware of the many limits that come with it. Analyzing a company's performance concerning the "benchmark" businesses in a specific industry is one of the most critical aspects of ratio analysis. Because it draws essential conclusions from the financial statements, this type of financial analysis can be helpful not only to the firm's internal management and analysts outside the business. Just like any other method of conducting financial analysis, ratio analysis is subject to several warnings and limitations.

- **Historical information:** The analysis uses data from the company's publicly disclosed real-world results. As a result, the indicators provided by the ratio analysis only sometimes predict the company's future success (CFI, 2022).

- **Changes in accounting policies:** It is possible that the company's accounting practices and procedures have been altered and will substantially impact the financial reporting. The most important economic indicators used in ratio analysis have changed in this case; this means that the financial results recorded after the change cannot be compared to those recorded before the change. The analyst is responsible for staying current on any modifications that have been made to accounting policies. In most cases, the changes made can be seen in the notes section of the financial statements.
- **Inflationary effects:** There are time gaps between each new publication of the financial statements because these statements are only published periodically. If there was inflation in the period covered by the financial accounts, the prices reported do not reflect the actual market situation. Because of this, one cannot compare data from different periods unless they have been changed to account for inflation.
- **Seasonal effects:** An analyst should be mindful of seasonal factors because these aspects could result in limits when doing ratio analysis. If you do not change the ratio analysis to consider the effects of seasonality, you might misinterpret the data from the analysis.
- **Operational changes:** A corporation may make significant adjustments to its operating structure, including anything from the strategy behind its supply chain to its selling product. When significant functional changes occur, comparing financial indicators before and after could lead to erroneous inferences about the company's performance and prospects.
- **Manipulation of financial statements:** The information in the company's financial statements serves as the foundation for ratio analysis. There is a risk that the company's management will alter this information to report a more favourable result than the company's actual performance. As a result, the examination of ratios might need to adequately reflect the natural character of the company, given that a straightforward analysis does not discover the misrepresentation of information. Before coming to any

conclusions, an analyst needs to have a solid understanding of how data can be changed and always do much research (CFI, 2022).

Financial ratios provide business owners with a method to evaluate the performance of their companies and compare those evaluations to the versions of other companies operating in the same industry (Al Breiki & Nobanee, 2019). The link between two or more elements of financial statements can be measured using ratios. Comparing the findings across several time intervals is the most fruitful application for their use. Because of this, you will be able to track the success of your business over time and spot signs that something might go wrong.

Ratio analysis is an efficient method for evaluating the financial outcomes of a company to get a sense of how well it is doing. Understanding the financial statements of one's company is made easier with the help of these ratios. Financial statements are one measure that may be used to analyze the current financial status of a company, and they identify specific trends that have developed over time (Choi, 2021). These ratios can assist lenders and investors in determining whether or not it is worthwhile to lend money to or invest in a business based on its performance. A company that analyzes these ratios will better understand the areas where their business is underperforming and can take corrective measures. In the end, when a company compares its performance to its competitors, a more accurate image of its current financial status is shown, making it easier to pinpoint problem areas that need to be addressed.

Bibliography

- Al Breiki, M. and Nobanee, H., 2019. The role of financial management in promoting sustainable business practices and development. *Available at SSRN 3472404*.
- Berrada, A., 2022. Financial and economic modelling of large-scale gravity energy storage system. *Renewable Energy*, 192, pp.405-419.
- CFI (November 2022). Limitations of Ratio Analysis. Factors that limit the efficacy of ratio analysis. <https://corporatefinanceinstitute.com/resources/accounting/limitations-ratio-analysis/>
- Choi, W., 2021. The Role of Financial Statement in Decision Making. *Available at SSRN 3920990*.
- Dwi Sihono, R. and WIDARTI, R., 2021. Effect of Profitability Financial, Ratios Return on Assets, Return on Equity, Gross Profit Margin and Inflation Level of Stock Return Manufacturing Company Recorded Activities in LQ 45. *Research Journal of Finance and Accounting*, 12(24), pp.49-64.
- Herawati, A. and Fauzia, F.I., 2018. The effect of current ratio, debt to equity ratio and return on the asset on dividend payout ratio in sub-sector automotive and component listed in the Indonesia stock exchange in period 2014–2018. *KnE Social Sciences*.
- Hertina, D. and Saudi, M.H.M., 2019. Stock return: Impact of return on asset, return on equity, debt to equity ratio and earning per share. *International Journal of Innovation, Creativity and Change*, 6(12), pp.93-104.
- Karadag, E., 2017. Performance Measures and Use in Hospitality. In *Management Science in Hospitality and Tourism: Theory, Practice, and Applications* (pp. 363-391). CRC Press.

Nadar, D.S. and Wadhwa, B., 2019. Theoretical review of the role of financial ratios. *Available at SSRN 3472673*.

Krylov, S. (2021). The Content of Contemporary Analysis of Financial Statements. *Available at SSRN 3845542*.

Santoso, T.G., 2021. Financial Ratio Analysis to Assess Financial Performance of the Hotel Industry. *International Journal of Social Science and Business*, 5(3).
<https://ejournal.undiksha.ac.id/index.php/IJSSB/article/view/37003>

Safitry, H. A., Luhsasi, D. I., & Permatasari, C. L. (2021). ANALYSIS OF FINANCIAL STATEMENT IN ASSESSING THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENT. *Jurnal Riset Akuntansi Kontemporer*, 13(2), 65-71.

Macrotrends.net. Marriott Financial Ratios for Analysis 2009-2022 | MAR
<https://www.macrotrends.net/stocks/charts/MAR/marriott/financial-ratios>

Palepu, K. G., Healy, P. M., Wright, S., Bradbury, M., & Coulton, J. (2020). *Business analysis and valuation: Using financial statements*. Cengage AU.

Robinson, T. R. (2020). *International financial statement analysis*. John Wiley & Sons.

Welc, J. (2022). Financial statement analysis. In *Evaluating Corporate Financial Performance* (pp. 131-212). Palgrave Macmillan, Cham.