

Assignment 2: Marriott International

Module: Financial Management for the Hotel Industry

Tutor: chris wilkin

Submitted by:

Full Name: Md Alimuzzaman Malik

Id No: 2027785

Table of Contents

Introduction	3
Task- A	4
Trends that were seen in Marriot's key financial ratios and a ratio performance comparison between 2020 and 2021.	4
Task- B	10
Importance of financial ratios for hotel management in analysing the financial statement's information.	10
Limitations of ratio analysis.	10
Task- C	11
Importance of financial ratios in decision making.	11
Conclusion	12
Bibliography	13

Introduction

Marriot International Inc. is a multinational corporation operating mainly in the hotel, accommodation and lodging businesses. I as a senior manager of the company was asked to prepare a report regarding the company's financial ratios for the chief executive. This report will include the trends seen in the key financial ratios of Marriot, and an in-depth comparison between the company's financial performance in 2020 and 2021. It will then go over the importance of understanding ratio analysis for hotel operations and the limitations of financial ratios. The report will conclude by showing the roles of financial ratios in decision-making and an outline of my understanding of these ratios.

Task- A

Trends that were seen in Marriott's key financial ratios and a ratio performance comparison between 2020 and 2021.

Financial ratios are a numerical representation of a company's financial conditions that are created with the data from the company's balance sheets, cashflow sheets, income statements and other similar documents (CFI, 2022). These ratios help to deliver information about the company's condition to both the stockholders and the management.

For this report, we will look at 9 key financial ratios of Marriott International that could be considered a priority for most investors. In the following sections we will be looking at the trends seen in these key financial ratios;

1. Current ratio-

The current ratio shows whether a corporation has sufficient cash flow to cover its immediate responsibilities and debts. A healthy current ratio is normally between 1.5 and 2 (Nuryani and Sunarsi, 2020, pp.304-312). Marriott's current ratio trend is following;

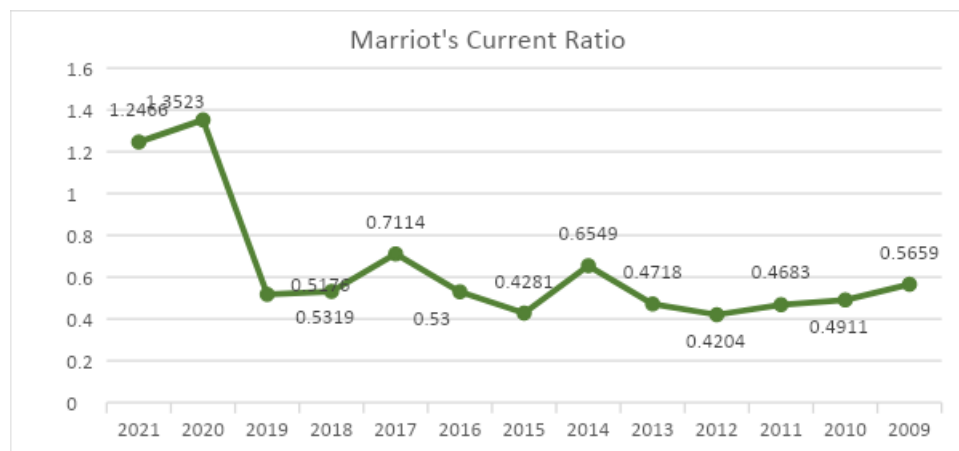


Figure 01- Marriott International's current ratio trend

Source: (Macrotrends, 2022)

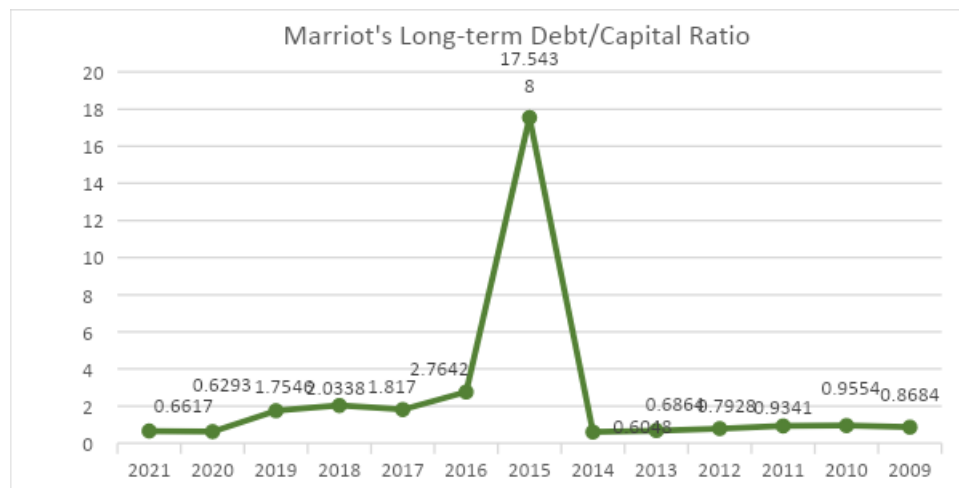
As it appears that Marriott has been losing its capacity to pay off its immediate debts over the years and it has been below the ideal 1.5-2 range for a long time.

2020 and 2021 comparison: In both years the ratio is below the ideal range but in 2021 Marriott seem to have progressed towards the ideal range in comparison to 2020.

2. Long-term debt/capital-

The long-term debt to total capital reveals a company's financial leverage. Any value below

1.0 is the ratio's ideal value (Investopedia, 2022). Marriot's long-term debt to total capital



ratio is following;

Figure 02- Marriot International's long-term debt/capital ratio trend

Source: (Macrotrends, 2022)

Given the ideal value, Marriot has been in good condition in recent years.

2020 and 2021 comparison: In both years the ratio is below the ideal range which is a good sign but the ratio has raised in 2021.

3. Debt/equity ratio-

This ratio demonstrates the degree to which a business can finance its operations more effectively through debt than through its resources. Generally speaking, a debt/equity ratio of roughly 2 or 2.5 is good (Winn, 2014). Marriot's debt/equity ratio is following;

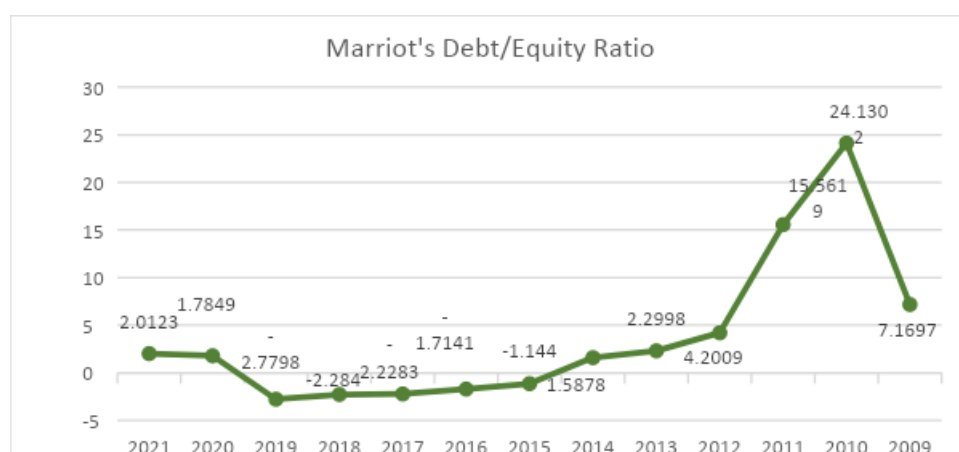


Figure 03- Marriot International's long-term debt/equity ratio trend

Source: (Macrotrends, 2022)

From 2011 to 2015 Marriot had a dangerously low debt-to-equity ratio but in recent times it seems to rise. And now the ratio is in the high zone.

2020 and 2021 comparison: In 2020 the debt-to-equity ratio was unfavourable as it showed that Marriot was heavily dependent on its assets. Fortunately, in 2021 this ratio came to a high zone but it could get better.

4. EBITDA margin-

The operating profit like a proportion of revenue is calculated using the EBITDA margin. Income before interest, taxation, depreciation, and amortization is referred to by the term EBITDA. EBITDA margins of 10% or higher are regarded as favourable (Investopedia, 2022). If we look at the trend of Marriot's EBITDA margin it would be as follows;

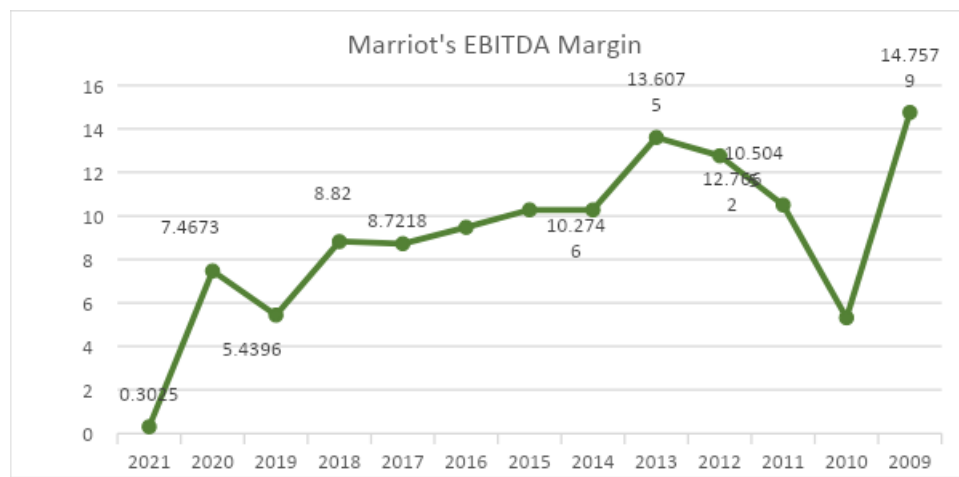


Figure 04- Marriot International's EBITDA margin trend

Source: (Macrotrends, 2022)

As the trend line shows most of the time Marriot's EBITDA has been above the ideal value of 10%. During the time of 2009 to 2014, this value was below 10% which shows lower profit probabilities but since then it has grown steadily.

2020 and 2021 comparison: In 2020 the EBITDA margin dropped nearly 5% which is alarming news given that it shows how much profit could be made after all deductibles. However, the sudden growth in the margin in 2021 has eradicated that fear.

5. Net profit margin-

This net profit margin, or commonly net margin, measures the proportion of net income or profit to total sales. It is the ratio of a firm or business segment's net earnings to its revenues. In general, a reasonable profit margin is between 7% and 10% (Investopedia, 2022). If we look at the trend of Marriot's net profit margin it would be as follows;

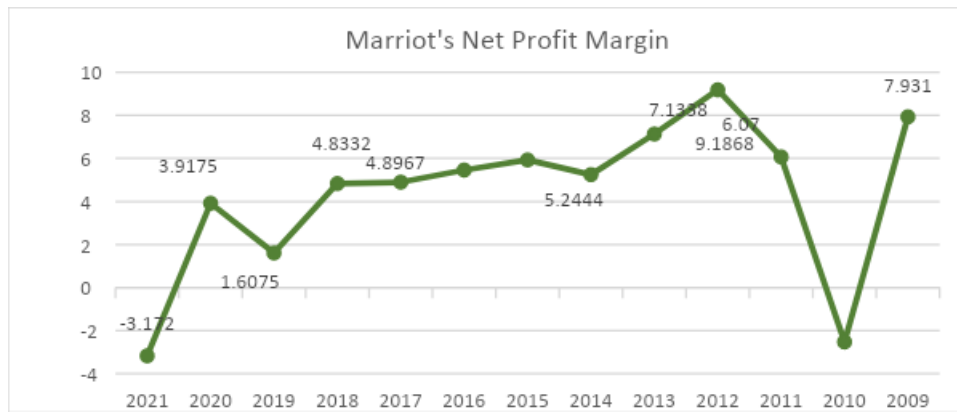


Figure 05- Marriot International's net profit margin trend

Source: (Macrotrends, 2022)

As can be seen, Marriot's profit margin has most of the time been under the ideal level. It only reached the ideal limit in 2017, 2018, and 2021. Marriot needs to improve in this segment.

2020 and 2021 comparison: In 2020 Marriot's profit margin fell dangerously low. Mostly due to the COVID-19 pandemic. Fortunately, it is back to the standard level of 7% in 2021 but there is still room for improvement.

6. Asset turnover-

Asset turnover assesses the effectiveness of property in generating sales or income. It compares the monetary volume of sales (total revenue) to the yearly percentage of total assets. Thus, the asset turnover formula calculates net income by the total asset. An asset turnover ratio of at least 2.5 could be deemed satisfactory (Investopedia, 2022). If we look at the trend of Marriot's asset turnover ratio it would be as follows;

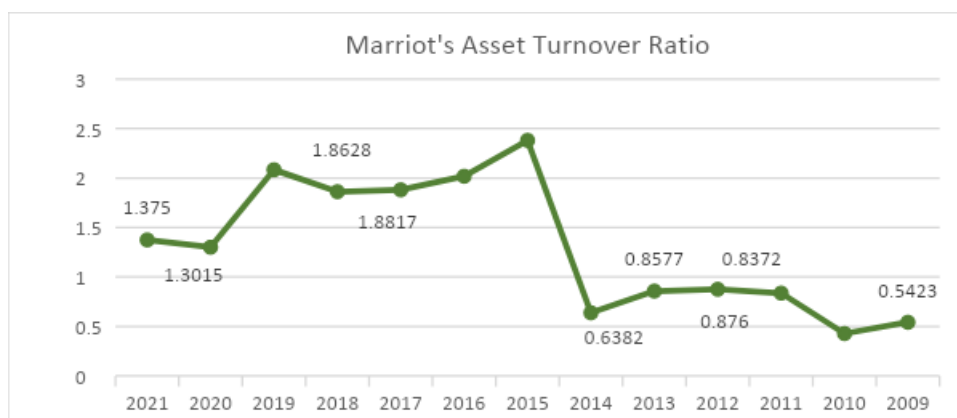


Figure 06- Marriot International's asset turnover ratio trend

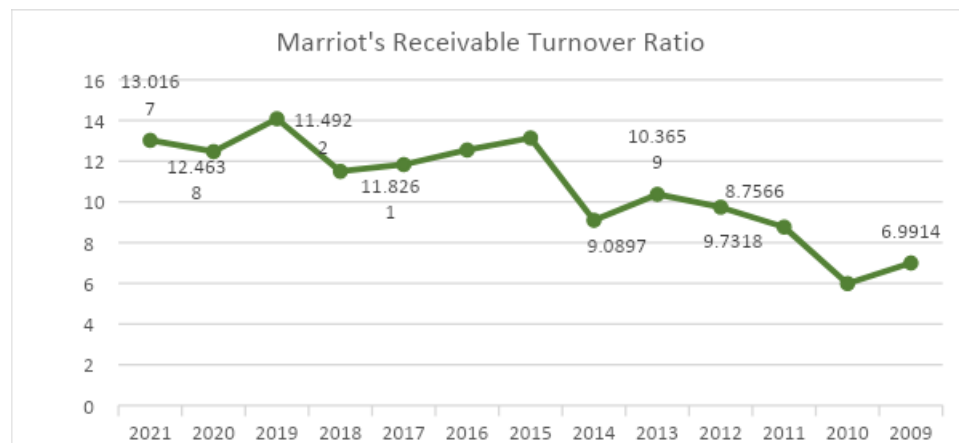
Source: (Macrotrends, 2022)

As can be seen in the chart Marriot has not been very successful in generating sales with assets in recent years. Though it was good from 2009 to 2014.

2020 and 2021 comparison: In 2020 asset turnover rate came down to 0.428 which is not very profitable considering the invested asset's value. 2021 has shown positive feedback compared to 2020 but is still far from the ideal range.

7. Receivable turnover-

The average amount of times a company will collect its accounts receivable balance is measured by the receivable turnover ratio. It is a measurement of how well a business manages its credit line process and collects unpaid bills from customers. A company's receivable turnover ratio is higher for an efficient business and lower for an inefficient one. Usually, standard practice is to have the account receivable turnover at 4 to 6 (Gorczyńska, 2011). If we look at the trend of Marriot's asset turnover ratio it would be as



follows;

Figure 07- Marriot International's receivable turnover trend

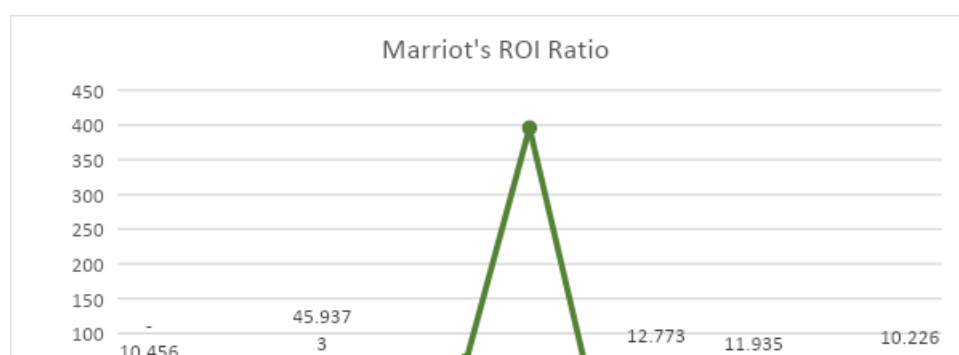
Source: (Macrotrends, 2022)

Marriot seems to have maintained a standard level of receivable turnover rate throughout the time. However, the trendline shows it is going downward steadily. As stated, before the higher this turnover rate the better the performance.

2020 and 2021 comparison: In 2020 the turnover rate fell quite a bit but fortunately did not go under the ideal line. In 2021 this turnover rate seems to have raised again.

8. ROI - Return on investment-

The primary indicator of the profit made from any venture is the return on investment (ROI). A profit or a loss from a venture concerning its cost is compared using this ratio. A decent



return on investment is one with an annual ROI of around 10% or higher (Investopedia, 2022). If we look at the trend of Marriott's ROI it would be as follows;

Figure 08- Marriott International's ROI trend

Source: (Macrotrends, 2022)

Marriot showed exceptional heights on this ratio and has been quite stable throughout time.

2020 and 2021 comparison: In 2020, Marriot's ROI went to negative figures mostly due to the pandemic but in 2021 it is back on standard level.

9. Free Cash Flow (FCF) per share-

A company's financial adaptability is gauged by dividing the free cash flow by the total number of outstanding shares. Investors and creditors prefer a larger ratio, greater than 1, as it indicates that a business can pay its present short-term obligations (Investopedia, 2022).

Marriot's FCF per share ratio is following;

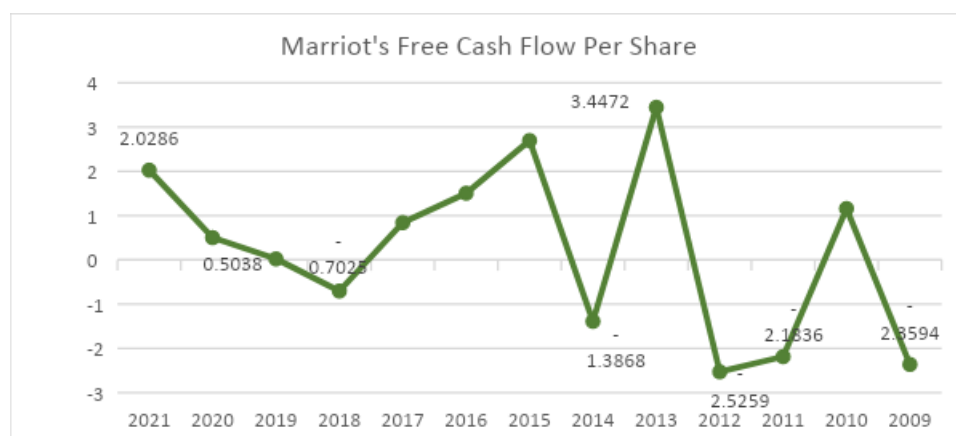


Figure 09- Marriott International's ROI trend

Source: (Macrotrends, 2022)

As it appears that Marriot had quite a few fluctuations in this case and in most of them it seems that Marriot's shares are undervalued.

2020 and 2021 comparison: In 2020, Marriot gained favourable ground for this ratio but unfortunately it lost that ground in 2021.

Task- B

Importance of financial ratios for hotel management in analysing the financial statement's information.

Financial ratios are quite helpful in conveniently delivering complicated data. Most of the

ratios are derived from the information from the financial statements.

Hotels tend heavily rely on such ratios to deliver their information to their stakeholders. Most of the stakeholders may not have the necessary time to go through every little detail of the very financial statements. That is why these ratios tend to be very helpful in conveying a hotel's message to the stakeholders in the most convenient manner. Some other uses of these financial ratios in this matter are;

- Financial ratios help to locate where improvement is required and pinpoint which problems to focus on.
- Ratios are useful for selling stocks in a fast trading market as it presents complicated and lengthy data from financial statements in a more adaptable manner (Altman, 1968, pp.589-609).

Limitations of ratio analysis.

Though financial ratios are quite useful they do come with some limitations. Some of these are;

- **Historical data:** The analysis's data is based on actual previous performance that the company has made public. Ratio analysis measures thus may not always predict future business performance.
- **Effects of inflation:** Because financial statements are periodically provided, there are time gaps between each publication. Real costs are not recognized in the financial accounts if inflation has taken place in between periods.
- **Accounting policy modifications:** If the firm has made changes to its accounting procedures and practices, this could have a big impact on financial reporting.
- **Operational adjustments:** This can include everything from a firm's supply chain management to the product they are selling. A company may also dramatically alter its operational structure. When large operational changes take place, drawing incorrect assumptions about the company's growth prospects by contrasting financial indicators during the operational modification may be possible.
- **Financial statement manipulation:** The information contained in the company's financial statements serves as the foundation for ratio analysis. The management of the company may modify this data to report a greater performance than it had (CFI, 2022).

Task- C

Importance of financial ratios in decision making.

Financial ratios are important to the management of a company because it helps them in decision-making in the following manner;

- Ratios can shed light on a company's solvency and give management guidance on how to manage the business.
- The foundation of the budgeting and decision-making process, financial planning and forecasting, heavily relies on ratios.
- Managers may use patterns shown by ratio analysis to take corrective action.
- Ratios are helpful for cost control and performance measurement.
- Ratio analysis can offer details on liquidity, solvency, productivity, and capital gearing, all of which reveal the company's financial health. Management must be aware of these details to manage the business successfully (Finance Strategists, 2022).

Conclusion

Marriot International Inc. has been performing outstandingly since its dawn. This could be due to its management's watchful eyes and smart decisions and both of these are made possible by the financial ratios that they continuously use to figure out where they are and where they could be. This report shows a small portion of how Marriot is performing right now but it could never cover Marriot's potential for growth.

Bibliography

- Altman, E.I. (1968) Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The journal of finance*, 23(4), pp.589-609. Available at: https://d1wqtxts1xzle7.cloudfront.net/44793197/Altman_1968_Financial_Ratios_Discriminant_Analysis_and_the_Prediction_of_Corporate-with-cover-page (Accessed: 12 November 2022).
- CFI (2022) *Financial Ratios*. Available at: <https://corporatefinanceinstitute.com/resources/accounting/financial-ratios/> (Accessed: 11 November 2022).
- CFI (2022) *Limitations of Ratio Analysis*. Available at: <https://corporatefinanceinstitute.com/resources/accounting/limitations-ratio-analysis/> (Accessed: 13 November 2022).
- Finance Strategists (2022) *Ratio Analysis*. Available at: <https://learn.financestrategists.com/explanation/management-accounting/q-1-what-is-ratio-analysis-discuss-importance-and-limitations-of-ratio-analysis/> (Accessed: 13 November 2022).
- Gorczyńska, M. (2011) Accounts Receivable Turnover Ratio. The Purpose of Analysis in Terms of Credit Policy Management. In *8th International Scientific Conference on Financial Management of Firms and Financial Institutions, Ostrava, Czech Republic*. Available at: <https://www.ekf.vsb.cz/share/static/ekf/www.ekf.vsb.cz/export/sites/ekf/frpfi-history/content/galerie-dokumentu/2017/> (Accessed: 13 November 2022).
- Investopedia (2022) *Asset Turnover Ratio Definition*. Available at: <https://www.investopedia.com/terms/a/assetturnover.asp> (Accessed: 12 November 2022).
- Investopedia (2022) *EBITDA Margin: What It Is, Formula, How to Use It*. Available at: <https://www.investopedia.com/terms/e/ebitda-margin.asp> (Accessed: 13 November 2022).
- Investopedia (2022) *Free Cash Flow Per Share*. Available at: <https://www.investopedia.com/terms/f/freecashflowpershare.asp> (Accessed: 12 November 2022).

Investopedia (2022) *How to Calculate Return on Investment (ROI)*. Available at: <https://www.investopedia.com/articles/basics/10/guide-to-calculating-roi.asp> (Accessed: 12 November 2022).

Investopedia (2022) *Long-Term Debt to Capitalization Ratio*. Available at: <https://www.investopedia.com/terms/l/longtermdebt-capitalization.asp> (Accessed: 12 November 2022).

Investopedia (2022) *What is Net Profit Margin? A Formula for Calculation and Examples*. Available at: https://www.investopedia.com/terms/n/net_margin.asp (Accessed: 12 November 2022).

Macrotrends (2022) *Marriott Financial Ratios for Analysis 2009-2022 | MAR*. Available at: <https://www.macrotrends.net/stocks/charts/MAR/marriott/financial-ratios> (Accessed: 11 November 2022).

Nuryani, Y. and Sunarsi, D. (2020) "The Effect of Current Ratio and Debt to Equity Ratio on Deviding Growth". *JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)*, 4(2), pp.304-312. Available at: <http://journalfeb.unla.ac.id/index.php/jasa/article/view/1378> (Accessed: 12 November 2022).

Winn, C.D. (2014) *Optimal Debt-to-Equity Ratios and Stock Returns*. Available at: <https://digitalcommons.usu.edu/cgi/viewcontent.cgi?article=1363&context=gradreports> (Accessed: 12 November 2022).