***Financial Statement Analysis Project ACCT 5307-002***

***Group- 1***

***Marriott International and Hilton Worldwide Holdings Inc***

**Introduction:** Financial analysis plays an important role in finding stability, economic trends, profitability, sustainability, and strength of earning potential for a company. This project contains meaningful interpretation with actual ratio record for two well-known companies from hospitality industry called ‘Marriott International’ and ‘Hilton Worldwide Holdings Inc’(competitor). Further we will discuss the ratio calculation, values and proper explanation of these ratios for both the companies.

**Return Ratios:**

**Return of Equity:** Return on equity is a significant ratio to measure the financial performance of any company. Marriott International’s ROE was negative over the past 5 years except for 2019 which shows that the company is not generating any returns on the investment it received from its shareholders. One of the main reasons behind this would be from 2016 to 2018 Marriott’s shareholder’s equity was negative indicating the company's liabilities exceed its assets. During 2019, the company made $.993 for every dollar of common shareholder’s [equity](http://en.wikipedia.org/wiki/Equity). In 2020, the company incurred a loss as a result ROE became negative again.

Hilton’s ROE is showing an increasing trend from 2016 to 2019 but then fell in 2020 to 0.735 as the company incurred a loss in this year. One of the main factors behind this increasing trend would be Hilton’s decreasing shareholder’s equity over the years. If we see the graph then we can say that there is a spike in Hilton’s ROE in the year of 2019 which is mainly due to decrease average shareholder’s equity. Compared to Marriott International, Hilton Worldwide Holdings Ltd is giving us a better indication of company performance by showing a positive increasing trend in their return on equity. Equity investors would be interested to investing into Hilton Worldwide Holdings Ltd compared to Marriott International.

**Return on Assets (ROA):** Return on assets indicates how profitable a company is relative to the resources or assets it owns or controls. In terms of business operation, higher this ratio is the better the company is doing to produce profit compared to its assets. Marriott International is showing an increasing trend in ROA from 2016 to 2018 and then a decreasing trend for 2019 to 2020 which can be described as company’s net income has decreased for recent years.

For Hilton, this ratio is showing fluctuations from 2016 to 2019, initially it increased in 2017 but in 2018 it fell from 6.2% to 5.4% but again in 2019 it raised up to 6.1%. But then it became negative in 2020 explaining the loss incurred in the year of 2020. ROA is showing quite similar kind of trend for both the companies. As both of them belong to the hospitality industry and in 2020 due to the pandemic, both the companies have faced severe loses in net earnings which is self-explanatory.

**Return on Net Operating Assets (RNOA):** We are unable to calculate this ratio.

**Return on Financial Leverage (ROFL):** The financial leverage ratios measure the overall debt load of a company and compare it with the assets or equity. For Marriott International, this ratio is showing negative value from 2016 to 2018 indicating that it earns less profit on the money it has borrowed than the interest paid for the use of that borrowed money. During 2019, this ratio becomes positive but in 2020, ROFL falls and becomes negative directing that Marriott is not making enough money compared to the money it has borrowed than the interest paid for the use of that borrowed money.

For Hilton worldwide Holdings limited, this return on financial leverage is showing a significant increasing trend from 2016 to 2019 and then in 2020 this ratio became negative which might be a direct impact of pandemic. This positive increasing trend tells us that Hilton was making more profit corresponding to the amount it has borrowed and the interest amount paid for the use of that borrowed money from 2016 to 2019 before pandemic hit the hospitality industry. Comparing both Marriott and Hilton’s ROFL, we can conclude that creditors would be more prone to lend money to Hilton compared to Marriott International.

**Profitability Ratios:**

**Profit Margin (PM):** This ratio compares profit to sales and tells us how well the company is handling its finances overall. It’s always expressed as a percentage. Marriott’s profit margin ratio was 9.2% in 2016 and 12.2% in 2017, 11.4% in 2018, 8.6% in 2019 and 0.8% in the year of 2020. The company is showing increment every year till 2019 but later the profit margin has decreased.

Hilton Worldwide Holdings Inc has a profit margin of 12.8% in 2016, 15.0% in 2017, 16.1% in 2018, 16.7% in 2019, -9.7% in year of 2020. Hilton shows an upward trend from 2016 to 2019 later in 2020, company’s profit margin is showing negative due to loss incurred in that particular year.

**Net Operating Profit After Tax (NOPAT):** This ratio helps investors to determine how well one company is performing in correspondence to another company in the same industry. Marriott’s NOPAT for 2016 is 623.140, for 2017 it is 1231.480, for 2018 it is 1638.400, for 2019 it is 961.740, for 2020 it is -618.550. The company is showing an increasing trend from 2016 to 2019 and in 2020 it has decreased and became negative which we believe due to the pandemic.

Hilton Worldwide Holdings Inc has a NOPAT of 623.140 in 2016, 1231.480 in 2017, 1638.400 in 2018, 961.740 in 2019, -618.550 in 2020 showing increment from 2016 to 2019 and during 2020 net operating profit after taxes becomes negative due to loss incurred in that year.

**Gross Profit Margin (GPM):** This is the percentage of revenue a company has left over after paying direct costs of producing goods. Marriott’s gross profit margin was 0.232 in 2016, 0.255 in 2017, 0.240 in 2018, 0.216 in 2019 and 0.202 in 2020. This ratio also shows a rising trend every year till 2019 and then in the year of 2020, this ratio has decreased. Hilton doesn’t have cost of goods sold so we couldn’t calculate this ratio.

**Turnover Ratios:**

**Asset Turnover:**  It indicates how effectively companies are using their assets to generate sales. It also helps investors to understand this. Marriott International reported its Asset Turnover Ratio of 1.020 in the year 2016 and then went on to record 0.851, 0.871, and 0.860 respectively every year, and settled at 0.425 in 2020.

Hilton Worldwide Holdings Ltd started with a ratio of 0.284 in the year 2016 and later it had a slight increase of 0.451, 0.629, 0.653 in the respective year till 2019 and in 2020 it got dropped down to 0.272. This ratio provides us the information that Marriott International has always been performing good in generating the sales from assets compared to the Hilton Worldwide Holdings Ltd.

**Inventory Turnover:** Marriott International and Hilton Worldwide Holdings Inc both belongs to the hospitality industry and they don’t have inventories so we are unable to calculates this ratio.

**Length of Operating Cycle:** Operating cycle for both Marriott International and Hilton Worldwide Holdings Inc are based on year.

**AR Turnover (ART):** Accounts receivable turnover is the number of times per year that a business collects its average accounts receivable. We are using this ratio to measure how efficiently companies collect on the credit that they provide to their customers. Marriott International reported the most elevated proportion of 11.013 in the year of 2016 and 11.097 in the year of 2017. From that point it slightly decreased to 10.067, 9.263, 5.079 each year till 2020.

On the other hand, Hilton Worldwide Holdings Ltd began with the proportion of 7.849 in 2016. Then, there were many ups and downs in the coming years. The ratio suddenly got increased in the year of 2017 to 9.126, then again got decreased in 2018 to 8.292. In the recent years of 2019 and 2020, Hilton recorded ART of 7.841 and 4.239 respectively. In comparison with Hilton, Marriott International has a high accounts receivable turnover, which indicates an efficient business operation or tight credit policies of Marriot International in the year of 2020.

**PPE Turnover (PPET):** PPE turnover ratio tells us, that how many dollars a particular company receives for each dollar invested in property, plant and equipment. Marriott International recorded its PPET of 9.160 in 2016 then, it is showing a steady rise from year to year till 2019 (9909 in 2017, 11.074 in 2018, 10.866 in the year 2019). In 2020, PPET got declined a bit to 6.185. On the other side, Hilton Worldwide Holdings Ltd shows the least ratio of 1.619 in the beginning year, though later they showed a tremendous growth while recoding 161.770 in 2017, 37.108 in 2018, 25. 307 in 2019 and 11.865 in 2020. Marriott International had somewhat slow PPET progress which is stable compared to Hilton.

**Liquidity Ratio:**

**Current Ratio:** Current ratio measures how well a business generates cash to meet its short-term obligations. Marriott International reported having the highest current ratio of 0.655 in 2016 and went on to record 0.457, 0.420, and 0.468 in respective years, and settled at 0.491 in 2020.Hilton Worldwide Holdings Ltd started with a ratio of 1.325 in the year of 2016 and later it had a slight decrease of 0.899, 0.758, 0.729 in the respective years till 2019 and in 2020 it increased twice to 1.729. After analyzing the above trends, we can conclude that Marriot International has less efficiency in generating cash, whereas Hilton has the better ability to generate cash.

**Quick Ratio:** The fast proportion measures a company's capacity to pay its current liabilities without requiring to offer its stock or get extra financing. Marriott International reported with the most elevated proportion of 0.496 in the year of 2016 and from that point it steadily diminished to 0.395, 0.380, 0.392 each year till 2019 but in 2020 it had a slight increment and closed at 0.460 in 2020.

Hilton Worldwide Holdings Ltd began with the proportion of 0.903 in 2016 and from that point the QR has been fluctuating for next three years indicating 0.710, 0.594, 0.627 respectively and have a satisfactory rise in 2020 to 1.641. If quick ratio is less than 1 the company may not be able to completely pay off its current liabilities and in case it is more than 1 the company can pay off its current liabilities. By observing the data, we can say that it would be tough for Marriott to pay off their current liabilities compared to Hilton.

**Operating cashflows to current liabilities ratio:** The operating cash flow ratio measures how well current liabilities are covered by the cash flows generated from a company's operations. Marriott International reported its operating cashflows to current liabilities of 0.307 in 2016 and topped to 0.371 in 2017 and from that point it began to decline till 2019 to 0.366 and 0.252 respectively and at last it settled to 0.285 in the year of 2020. Hilton Worldwide Holdings Ltd began with the most noteworthy proportion of 0.509 in the year of 2016 and steadily diminished from 2017 to 2020 to 0.418, 0.480, 0.482, 0.291. After analyzing this ratio we can demonstrate that both the company’s current liabilities are secured by money streams produced from the company’s operations.

**Solvency Ratio:**

**Debt to Equity Ratio:** The debt-to-equity ratio (also known as the "debt-equity ratio," "risk ratio," or "gearing") is a leverage measure that weighs total debt and financial liabilities against total shareholders' equity. This ratio shows how a firm's capital structure is skewed toward debt versus equity financing. Marriott international started with highest ratio of 113.952 in the year of 2016 and had a tremendous drop in the next year to -11.508. Later on, it has adequate increase to 10.968,41.896 respectively in the year of 2018 and 2019 and settled at 8.916 in 2020.

Hilton Worldwide holdings ltd began with a score of 3.481 in 2016 and quickly increased to 24.08 in 2018, before declining to -32.689 and -12.275 in 2019 and 2020, respectively. We can conclude that Marriott seems to have a more stable business while Hilton has negative ratio indicating that it has more liabilities than assets.

**Times Interest Earned Ratio:** The TIE (Times Interest Earned) ratio assesses a company's capacity to meet its debt obligations on a regular basis. Marriott International began the year with a negative TIE ratio of -6.085, then varied between 8.694 and -6.959 throughout 2017 and 2018, respectively. Following that, in the years of 2019 and 2020, the ratio slowly increased from -4.569 to -0.189.

Hilton Worldwide Holdings Ltd started with a low TIE ratio of -2.416 in 2016 and steadily fell to -3.363, -3.860, and -4.002 in 2017, 2018, and 2019, respectively, before rapidly increasing to 0.974 in 2020.

The above trend for Marriott International indicates that a greater times interest earned ratio is advantageous since it indicates that the company poses less of a danger of insolvency to investors and creditors. While the graph for Hilton worldwide indicates that the times interest earned ratio is low, it suggests there are fewer earnings available to cover interest payments.

**Conclusion:** After analyzing both the companies 5 years of financial statements, we can summarize that 2020 was not a good year for both Marriott International and Hilton Worldwide Holdings Inc. One of the main factors behind this was the impactful effect of pandemic on hospitality industry and the evidence is shown on the income statement as both the companies have suffered loss in last year. After thorough analyzation of all the ratios for both companies, we have come to this observation that both equity investors and creditors would be more prone to invest on Hilton compared to Marriott International as Hilton’s ROE and ROFL are positive throughout the past 5 years. We would like to make clear recommendation that Marriott International should go for creditor financing and Hilton Worldwide Holdings Inc should go for equity financing. As Marriott’s Debt to equity ratio has improved in recent years and Hilton’s ROE is showing a positive upward trend.