MARRIOTT INTERNATIONAL, INC.

VALUATION REPORT

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FIN40180 Equity Asset Valuation- Individual Assignment.

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Assessment Submission Form

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Executive Summary:

This report fully values Marriott International, Inc., using the Discounted Cash Flow (DCF) model to arrive at its intrinsic value. It also includes a sensitivity analysis and a short comparison with market-based metrics.

Based on the DCF model, Marriott's intrinsic equity value is estimated at approximately $31.5 billion, suggesting an implied stock price of $113.89. This is significantly less than the company's current trading price of roughly $249, suggesting that the market may be overpricing the stock relative to conservative fundamental assumptions.

The valuation presumes a sustainable terminal growth rate of 2.0%, a WACC of 8.16%, and a forecasted gradual stabilization of EBITDA margins at approximately 19% during the forecasted period between 2025 and 2029. Free Cash Flow to the Firm (FCFF) is anticipated to increase steadily as the worldwide travel business continues to recover increasingly, while Marriott takes advantage of its asset-light business model.

Although the company has strong brand equity, global scale, and operating leverage, the DCF valuation presents modest upside at current market prices.

Valuation Stance: HOLD WITH DOWNSIDE RISK

The report concludes that Marriott International looks relatively to slightly overvalued given present market circumstances. Investors can hold the stock and watch for either a market correction or upside surprise in revenue and margin performance.

1. **Company Background:**

Marriott International, Inc., which is considered to be one of the highest rankings and most recognized global hotel chains in the hospitality industry, is actively involved in the extensive business activities of operating, franchising, and licensing an extensive portfolio of highly respected and well-known hotels and accommodations brands that range through diverse target markets. Looking forward to the year 2024, the company is proud of its outstanding feat of operating and managing an impressive count of over 8,600 hotels, all of which have in total over 1.5 million rooms, spread through an expansive network in 139 countries and territories worldwide.

Through the meticulous implementation of a set of well-planned and strategically intelligent acquisitions, as well as unwavering focus on innovation and an ongoing adaptation of business strategy with an escalating focus on an asset-light strategy, Marriott International has not only successfully transformed its image over the span of several decades, but has reinvested itself in the process. Established in 1927 in Bethesda, Maryland, the organization expanded considerably from its original inception as a modest root beer stand to become a giant and powerful force in the large and vast global hospitality business.

One of the most important acquisitions that occurred in the hospitality sector was that of Starwood Hotels & Resorts Worldwide, which was accomplished in the year 2016. With this landmark acquisition, Marriott’s already formidable portfolio grew to include iconic brands, such as Sheraton, Westin, and St. Regis, which are all well established in the hotel industry. Moreover, among the list of more than 30 distinct brands that Marriott now owns, we can identify esteemed names such as The Ritz-Carlton, JW Marriott, Courtyard, Fairfield, and Moxy, each of which targets various segments of customers. These various brands together cover a broad portfolio of offerings that range across the luxury, premium, and select service categories, thus increasing Marriott’s footprint across different market segments.

1.1 Business Model:

Marriott operates its business activities mainly using an asset-light model that focuses considerably on the following principal elements:

i. Franchise agreements (royalty-based income)
ii. Management contracts (fee-based revenue)

The ownership of hotel property is limited or circumscribed in several important respects.

Specifically tailored to efficiently minimize the capital expenses incurred, this particular framework contributes to an improvement in the overall rate of return on the capitalized amount. The majority of the earnings of this business model come from a wide range of fee-based sources of revenue, which in turn makes the business much more resilient to cyclical downturns and shocks related to fixed costs.

With more than 180 million members worldwide, the Bonvoy reward program supports Marriott’s business model by promoting pricing model by promoting pricing power, increased occupancy rates, and recurring customer engagement.

1.2 Industry Landscape:

Marriott is a major player in the global hospitality and lodging sector, a large and multifaceted industry that is heavily impacted by multiple macroeconomic cycles, changing travel trends, and major geopolitical events. The unprecedented COVID-19 pandemic dealt a historic and unprecedented blow to this sector, shutting down operations and travel on a massive scale; however, after this difficult time, a strong and promising recovery began to materialize in late 2021 and continues unabated, maintaining its upward trend well into 2024, with the leisure travel segment being especially robust. Therefore, the near future looks bright for Marriott.

The underlying trends that are presently molding and driving the industry include:

i. Post-pandemic travel normalization.
ii. Digitization and self-service technologies.
iii. Sustainability and ESG practices.

The competition that has arisen from non-traditional accommodation providers, like Airbnb, has been growing in importance.

The return of business travel has not been as quick as that of leisure travel, which has been a quicker recovery; however, it is starting to show some encouraging signs of revival. The upward trend is especially apparent in the North American and Asia-Pacific markets.

1.3 Competitive Positioning:

Marriott remains the world’s largest hotel operator when measured by the number of rooms it operates, and this gives the company significant scale and a great deal of negotiating power within the sector. Its wide and varied brand portfolio also means that Marriott has the ability to serve a large number of different customer segments, from the budget-conscious traveler looking for low-cost lodging to the luxury customer base demanding premium services and offerings.

Key Competitors include:

i. Hilton Worldwide
ii. Hyatt Hotel Corporation
iii. InterContinental Hotels Group (IHG)
iv. Accor Hotels

Marriott’s massive scale, coupled with its established loyalty network and strong brand equity, presents significant barriers to entry for any would-be competitors. That said, it’s worth mentioning that the competitive landscape in the hospitality sector is only continuing to heat up, not just from industry stalwarts, but from emerging disruptors like online travel sites and platforms such as Airbnb.

2. Overview of Valuation Methodology Approach:

The major valuation mechanism used in this analysis to determine Marriott International’s intrinsic value is the Discounted Cash Flow (DCF) methodology. Many people consider DCF to be a rigorous and fundamental technique that works best for businesses with comparatively steady and predictable free cash flows.

This report’s model is based on the Free Cash Flow to Firm (FCFF) approach, which accounts for all capital providers (debt and equity) and discounts future cash flows before interest payments. Given its asset-light business model, steady profitability, and very transparent financial structure, Marriott is particularly well-suited for this.

In order to depict the value of cash flows beyond this horizon, the FCFF model computes a terminal value after estimating cash flows over a 5-year explicit forecast period (WACC) is used to discount these values to their present value.

2.1 Justification for Using DCF (FCFF):

Although there are a number of valuation techniques, such as asset-based methodologies and relative valuation (such as P/E and EV/EBITDA multiples), DCF is especially appropriate for Marriott for the following reasons:

i. Cash Flow visibility: Marriott’s cash flows are comparatively predictable because it is a fee-based operator with minimal capacity intensity.
ii. Good Past performance: After COVID, the business earned a profit again, allowing for realistic future projections.
iii. Capital structure stability: By valuing entire company, FCFF prevents distortion from fluctuating debt levels.
iv. Focus on intrinsics: DCF offers a more basic understanding of value that is unaffected by multiples or market sentiment.

2.2 Structure of the Model:

This rigorously developed and holistic report adopts the Free Cash Flow to the Firm (FCFF) oriented Discounted Cash Flow (DCF) method as an advanced structured technique for estimating the intrinsic value of Marriott International, which is an illustrious global chain of hotels in the extensive hotel industry. The use of the FCFF method is specifically appropriate for the valuation exercise being performed in the present specific context, as the method offers an exact correlation of capturing and fairly articulating the cash flows available for all providers of capital, including both the debt holders and the equity holders. This method results in an exact, complete, and comprehensive articulation of the underlying worth of the firm, as well as delineating the potential from an economic viewpoint. The model itself is framed in three broad steps that are useful in conducting such an analysis:

i. First, estimating the free cash flows for a definite forecasting horizon extending five years into the future.
ii. Then, estimating an implied terminal value that captures the value anticipated to be realized when the definite forecasting horizon is over.
iii. Finally, discounting all of the cash flows projected for the future back to their present value through the use of the Weighted Average Cost of Capital (WACC), which is an important input in such an undertaking.

In the sections to follow, a detailed description is given for each of the elements that constitute the model. This encompasses not just the related formulas that are applicable for each element but also a clear jurisdiction for each step of the process.

2.2.1 Revenue Forecast

Revenue is projected using a top-line growth approach. Historical growth trends were reviewed, and assumptions were made for a moderate but consistent post-COVID recovery. Each year's revenue is derived from the prior year's value multiplied by a growth rate:

$$\text{Revenue}_{t} = \text{Revenue}_{t-1} \times (1+\text{Growth Rate}_{t})$$

The growth rate was varied from 5.85% in 2025 to around 8% by 2029, reflecting Marriott's expected recovery trajectory and global travel normalization.

2.2.2 EBITDA Forecast:

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) measures the company's operating profitability before accounting for non-cash charges and financing decisions. It is modeled as a percentage of revenue.

$$\text{EBITDA}_t = \text{Revenue}_t \text{ X EBITDA Margin}_t$$

EBITDA margins were forecasted based on historical stabilization trends, starting from 17.84% in 2025 and increasing modestly toward 18.9% by 2029. These margins reflect Marriott's operational efficiency and its asset-light model, which supports relatively consistent profitability.

2.2.3 EBIT Forecast:

EBIT (Earnings Before Interest and Taxes), or operating profit, is derived by subtracting Depreciation and Amortization (D&A) from EBITDA. D&A is projected as a percentage of revenue based on historical levels.

$$\text{EBIT}_t = \text{EBITDA}_t - \text{Depreciation}_t$$

$$\text{Where: Depreciation}_t = \text{Revenue}_t \text{ x Depreciation\%}$$

A depreciation rate of approximately 0.7% of revenue was used throughout the forecast, aligning with historical data.

2.2.4 Tax Adjustment:

Since FCFF is calculated before financing decisions, taxes must be applied to EBIT to reflect actual operating profit after tax.

$$\text{NOPAT}_t = \text{EBIT}_t \text{ X (1-Effective Tax Rate)}$$

An effective tax rate of 24% was used, which is consistent with the average rate Marriott has paid in recent years and reflects standard U.S. federal and state corporate taxation.

2.2.5 Capital Expenditure (CapEx):

Capital Expenditures represent cash used to maintain or grow Marriott's business operations. Due to the company's asset-light model, CapEx is low and stable, modelled as a percentage of revenue:

$$\text{CapEx}_t = \text{Revenue}_t \text{ X CapEx\%}$$

The CapEx percentage ranged between 1.35% and 2.92% across the forecast period, in line with Marriott's historical patterns and reinvestment needs.

2.2.6 Change in Net Working Capital (Δ NWC):

Net Working Capital (NWC) represents short- term operational liquidity. A change in NWC affects cash flows: an increase ties up more cash, while a decrease releases cash. For simplification, Δ NWC is modelled as a percentage of revenue:

$$\Delta NWC_t = Revenue_t \times NWC\%$$

The percentage was calculated based on historical trends and averaged approximately -2.84%, indicating a positive impact on FCFF (cash being released).

2.2.7 Free Cash Flow to the Firm (FCFF):

FCFF is the core metric in this valuation. It represents the cash available to both debt and equity holders after all operating costs, taxes and reinvestment.

$$FCFF_t = EBIT_t \times (1\text{-Tax Rate}) + Depreciation_t - CapEx_t - \Delta NWC_t$$

Each component of the equation is derived from the forecast model and linked to the assumptions page to ensure consistency and flexibility.

2.2.8 Terminal Value:

The terminal value (TV) accounts for the value of all cash flows beyond the explicit forecast horizon, assuming perpetual growth. The Gordon Growth model is used to compute TV:

$$TV_{2029} = \frac{FCFF_{2029} \times (1+g)}{WACC - g}$$

Where:

- FCFF 2029 is the last year of forecasted free cash flow
- g = 2.0% is the assumed perpetual growth rate
- WACC = 8.16% is the discount rate used throughout

This method assumes Marriott continues to grow at a modest pace in perpetuity, consistent with long-term inflation and GDP growth.

2.2.9 Discounting to Present Value:

All forecasted FCFF and the terminal value are discounted back to present value using the WACC. This reflects the time value of money and required return on invested capital:

$$PV_t = \frac{FCFF_t}{(1+WACC)^t} \quad \text{and} \quad PV\ TV = \frac{TV\ 2029}{(1+WACC)^5}$$

The sum of these present values represents the firm's enterprise value (EV).

2.2.10 Equity Value and Share Price:

To determine the intrinsic equity value of Marriott, net debt is subtracted from enterprise value. The result is then divided by the number of diluted shares outstanding to derive the implied share price.

$$\text{Equity Value} = \text{Enterprise Value} - \text{Net Debt} \quad \text{and} \quad \text{Share Price} = \frac{\text{Equity Value}}{\text{Shares Outstanding}}$$

This final figure is then compared to the market price to determine the valuation stance.

3. Forecast Assumptions Summary:

The fiscal projections of Marriott International from 2025 through 2029 were framed using historical trends, macroeconomic expectations, and company-specific performance metrics. The key assumptions used in the DCF model are outlined below:

Metric	2025 E	2026 E	2027 E	2028 E	2029 E
Revenue Growth Rate (%)	10%	9.50%	9%	8.50%	8%
EBITDA Margin (%)	18.06%	18.07%	18.08%	18.09%	18.10%
EBIT Margin (%)	15.88%	15.89%	15.90%	15.91%	15.92%
Depreciation (% of revenue)	0.76	0.70	0.70	0.65	0.65

Capital Expenditure (% of revenue)	2.40%	2.35%	2.30%	2.25%	2.20%
Change in Net Working Capital (% of revenue)	0.30%	0.30%	0.30%	0.30%	0.30%
Effective Tax Rate (%)	24.45%	24.45%	24.45%	24.45%	24.45%

Table 1: Core Forecast assumptions

4. FCFF Forecast Overview:

Consistent with such principles, Free Cash Flow to the Firm (FCFF) is projected over the five-year forecasting period with the use of the standard formula:

$$FCFF_t = EBIT_t \times (1\text{-Tax Rate}) + Depreciation_t - CapEx_t - \Delta NWC_t$$

The projections correlate with Marriott's asset-light strategy and foresee low capital needs, expanded operating margins, and relatively low reinvestment demands.

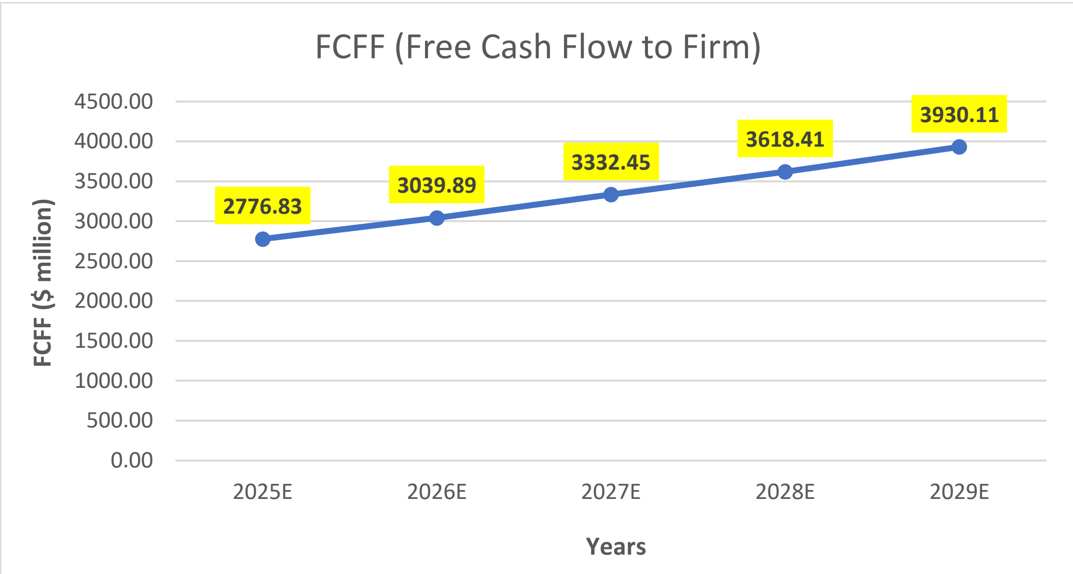

Chart 1: Forecasted FCFF (2025-2029)

5. Sensitivity Analysis:

In Discounted Cash Flow (DCF) valuations, the terminal growth rate and the cost of capital assumptions are very influential on the implied equity value. To gauge the base-case valuation's sensitivity, adjustments were made to the Weighted Average Cost of Capital (WACC) and the terminal growth rate (g) during the two-dimensional sensitivity analysis.

The analysis shows that small changes in these variables can significantly impact the valuation of the business, largely because of the persistent properties of discounted cash flows and the terminal value component.

The WACC range considered ranges between 7.5% and 9%, while the terminal growth rate ranges between 2.0% and 3.0%. The ranges were arrived by considering Marriott's past capital structure, current macroeconomic conditions, and future growth prospects in the industry.

WACC	2.00%	2.25%	2.50%	2.75%	3.00%
7.50%	$ 176.80	$ 186.00	$ 196.13	$ 207.33	$ 219.77
7.75%	$ 166.79	$ 175.12	$ 184.24	$ 194.28	$ 205.37
8.00%	$ 157.65	$ 165.21	$ 173.47	$ 182.51	$ 192.45
8.25%	$ 149.26	$ 156.16	$ 163.65	$ 171.83	$ 180.79
8.50%	$ 141.54	$ 147.85	$ 154.68	$ 162.11	$ 170.21
9.00%	$ 127.83	$ 133.15	$ 138.89	$ 145.08	$ 151.79

Table 2: Sensitivity of Implied Share Price to WACC and g

The sensitivity table illustrates how Marriott's implied share price is impacted by variations in WACC and terminal growth rate. As anticipated, the share price rises with higher growth rates and falls with a higher WACC.

The expected price is $219.77 at a WACC of 7.5% and terminal growth of 3%, but it falls to $127.83 for a WACC of 9% and growth of 2%. This demonstrates how crucial assumptions affect the valuation.

The suggested price is $173.47, which is still less than the current market price (~$249) even if one makes acceptable assumptions such as 8% WACC and 2.5% growth. This is in favor of a hold with a downside risk.

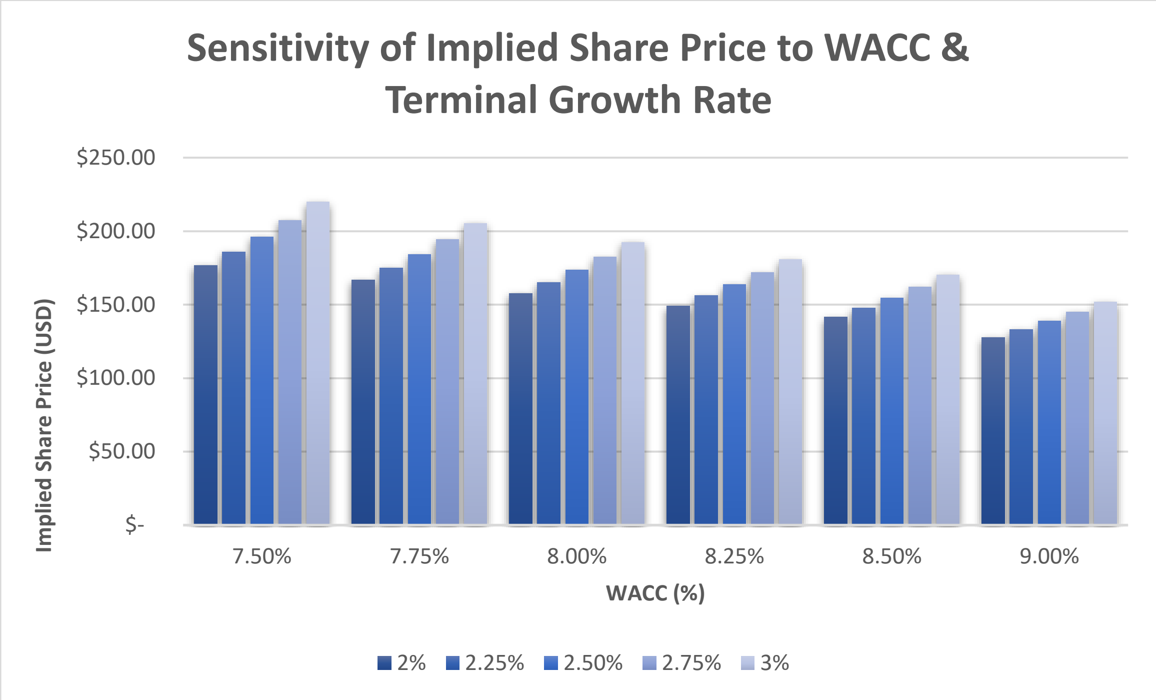

Fig.: Sensitivity of Implied Share Price to WACC & Terminal Growth Rate.

The graph shows how sensitive Marriott's implied share price is to different combinations of terminal growth rates and WACC. While a greater WACC compresses the share price even under optimistic growth assumptions, a lower WACC plus a higher terminal growth rate led to a substantially higher value. Given that the current market price of about $249 is still higher than the majority of predicted outcomes, this graphic supports the downside risk indicated in the base-case valuation.

6. Competitor Analysis:

Marriott International faces competition from a number of significant hotel operators in the fiercely competitive global hospitality sector, including Hilton Worldwide Holdings Inc., Hyatt Hotels Corporation, and InterContinental Hotels Group (IHG). This section contrasts Marriott with its main competitors on a few strategic and financial indicators.

6.1 Strategic Positioning:

Marriott is the world's leading hospitality company, measured by the number of its accommodations, a position that it achieved after acquiring Starwood Hotels in 2016. The company's portfolio of brands features luxury flagship brands like The Ritz-Carlton, JW Marriott, and Sheraton, with an extensive portfolio that ranges from luxury properties to select-service hotels.

Albeit Hilton's comparatively smaller size, it enjoys strong brand recognition and consistent operating performance. Hyatt, on the other hand, has targeted the luxury and upper-market segments, whereas IHG has mainly followed an asset-light strategy as well as global diversification. By comparison to the competition, Marriott's large scale and diversified portfolio of brands provides greater operating leverage and network effects.

Company	EV/EBITDA	P/E	P/FCF	Dividend Yield
Marriott Intl	18.25	28.52	34.65	1.04
Hyatt hotels Corp	18.33	41.08	N/A	0.49
Choice Hotel Intl	13.29	19.85	24.99	0.88
Hilton Worldwide Holdings Inc	20.18	33.01	29.38	0.26
Travel+Leisure Co.	7.30	8.41	8.61	4.37
Median	18.25	28.52	27.19	0.88

Table 3: Peer Group Comparison

Marriott is pricier than the majority of others when comparing metrics such as EV/EBITDA (18.25) and P/E (28.52) to the average of its peers. While these are comparable to the peers' average of, its P/FCF of 34.65 is far better than the peers' average of 27.19, which indicates the market believes Marriott's cash flow is more valuable than others are. Its dividend yield of 1.04% is just slightly higher than the peer's average of 0.88%, which returns something to the owners. Much lower prices are found at Travel + Leisure Co. at 7.30 EV/EBITDA and 4.37% dividend yield, which may indicate it is inexpensive or has dissimilar risks and rewards. On the whole, Marriott's higher prices may reflect the brand value, but may also indicate concern about how long these high prices can be sustained.

7. Valuation Results:

Using the Free Cash Flow to Firm (FCFF) approach, the present value of future FCFFs for the forecasting period from 2025 to 2029 was calculated. A terminal value was calculated using the Gordon Growth Model, on the basis of the long-run growth rate of 2.5%. Discounting these cash flows at the determined Weighted Average Cost of Capital (WACC) of 8.16%, an enterprise value (EV) of **approximately $46,462** million was calculated.

After adjustment for net liabilities of $14,949 million and dividing by 276.7 million shares outstanding, the estimated intrinsic value of a share was found to be **$113.89.**

7.1. Investment View:

The intrinsic value of Marriott, based on a detailed DCF Analysis, is estimated at $113.89 per share, which is significantly below the current market price of approximately $249. This valuation gap persists across a wide range of assumptions tested in the sensitivity analysis, suggesting that the stock may be priced above its fundamental value.

However, Marriott's global scale, brand strength, and recurring revenue model support long-term performance. These qualitative factors may partially justify the market premium, especially in a recovery travel environment.

Recommendation:

A hold rating with downside risk is considered appropriate. While the long-term fundamentals remain strong, the current valuation limits upside; in addition, any setback to market sentiment or operational efficiency is likely to trigger a market correction.

Appendix: Valuation Assumptions and Rationale:

Assumption	Value / Range (2025–2029)	Basis / Rationale
Revenue Growth Rate (%)	10.00 → 8.00	Based on normalization post-COVID growth, aligned with industry trends and slower long-term expansion expectations.
EBITDA Margin (%)	18.06 → 18.10	Assumes operational stability with slight improvements driven by cost discipline and revenue growth.
EBIT Margin (%)	15.88 → 15.92	Derived from historical averages with consistent improvement in operating efficiency.
Depreciation (% of Revenue)	0.76 → 0.65	Reflects a gradual decline as capital intensity reduces over the forecast period.
Capital Expenditure (% of Revenue)	2.40 → 2.20	Reflects Marriott's asset-light strategy; aligned with historical spending patterns.
Change in Net Working Capital (%)	0.30 (constant)	Assumes stable operations and efficient working capital management; based on historical balance sheet behaviour.
Effective Tax Rate (%)	24.45 (constant)	Combines U.S. federal (21%), state/local, and foreign taxes; consistent with historical effective rates.
WACC (%)	8.16	Calculated using: Rf = 4.01%, ERP = 5.6%, Beta = 1.04, Cost of Debt (after tax) = 2.41%, and D/E from market data.
Net Debt (USD million)	14,949	Based on 2024 balance sheet data: total debt minus cash and equivalents.

Assumption	**Value / Range (2025–2029)**	**Basis / Rationale**
Shares Outstanding (million)	276.70	Taken from Yahoo Finance (as of the latest update in April 2025).
Terminal Growth Rate (%)	2.50	Conservative estimate in line with long-run global GDP growth and sector maturity.