Task 4: **Report on Revenue & Cost Drivers of Marriott Inc. & Johnson & Johnson**

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Date: 12/08/2024

**Marriott Inc.’s Revenue and Cost Drivers Analysis**

Marriott International’s (NASDAQ: MAR) asset-light, fee-driven business model places it at an interesting juncture within the global lodging industry. As travel demand continues normalizing post-pandemic, the company’s diversified brand portfolio, strategic geographic footprint, and rising loyalty membership base support both strong revenue growth and improving profitability. Incremental gains in occupancy and Average Daily Rate (ADR), combined with stable fixed costs and controlled variable expense management, have enabled robust margin expansion. In 2023, worldwide Revenue per Available Room (RevPAR) increased 14.9% compared to 2022, driven by ADR growth of 5.8% and a 5.5 percentage point improvement in occupancy, with gains across all customer segments.

**Company Overview**

Marriott International operates an extensive portfolio of ~1.6 million rooms across 30+ brands, spanning luxury (St. Regis, The Ritz-Carlton) to upscale and select-service offerings (Marriott Hotels, Courtyard, Residence Inn). Its asset-light strategy, primarily focused on franchising and managing hotels rather than owning them, significantly reduces capital intensity and concentrates profitability in franchise, base, and incentive management fees.

By maintaining long-term relationships with property owners and emphasizing loyalty-driven revenues through the Marriott Bonvoy program (now with over 203 million members), the company has fostered robust recurring income streams. This approach also enables Marriott to adapt well with market shifts, leveraging data-driven revenue management tools to optimize ADR and RevPAR globally.

**Revenue Driver Analysis:**

Diagram: Revenue Breakdown by Major Drivers

**Volume Drivers:**

* **Room Count:** Marriott’s global scale broadened to ~1.6 million rooms by the end of 2023, increasing potential room-night sales. Geographic diversification across North America, Europe, and Asia-Pacific reduces reliance on any single market.
* **Occupancy Recovery:** In 2023, occupancy reached ~69.2%, up from ~64% YoY, driven by robust corporate, group, and leisure travel demand. Higher occupancy translates into immediate top-line gains, as more rooms sold at stable or rising ADR boost total revenue.
* **Loyalty Ecosystem:** With over 180 million Bonvoy members, Marriott enjoys a high proportion of repeat guests and direct bookings, reducing dependence on third-party channels and sustaining occupancy even during demand fluctuations.

**Price Drivers:**

* **Average Daily Rate:** By the end of 2023, ADR of ~$180 represented a ~5.8% increase YoY. Strong brand equity, premium segmentation, and sophisticated revenue management systems enable Marriott to adjust ADR upward in favorable demand environments.
* **Fee-Based Income:** The asset-light model drives revenue through stable franchise and management fees. In 2023, franchise fees reached about $832 million, tracking higher property-level revenues as both occupancy and ADR improved. This fee income provides reliable margin growth as incremental revenue flows through with minimal added cost.

**Cost Drivers Analysis:**

Diagram: Cost Structure

**Fixed Costs:**

* **Corporate Overhead and G&A:** Approximately $900–$1,000 million annually, relatively stable and not directly tied to short-term revenue swings. Increasing the number of rooms spreads these costs across a larger base, improving efficiency.
* **Brand Marketing & Technology Infrastructure:** These are strategic investments, steady over time, enabling Marriott to enhance brand equity and loyalty platforms. As revenues grow, per-unit fixed costs decrease, improving margins.

**Variable Costs:**

* **Property-level Operational Costs:** Highly correlated to occupancy and guest volume at Marriott-owned or leased properties (e.g., housekeeping, F&B, utilities). Higher occupancy leads to incremental cost, but these typically rise at a lower rate than revenue, supporting margin expansion.
* **Loyalty Redemption Costs:** Increase with point redemptions, which correlate with occupancy and guest engagement. More guests staying at Marriott properties earn more points, eventually redeemed at various brands, increasing variable loyalty expenses.
* **Distribution & Commission Fees:** Highly correlated to booking volume and ADR. As higher revenues drive more bookings, commissions paid to OTAs and third-party channels rise proportionally. However, Marriott’s direct booking initiatives and strong Bonvoy membership help mitigate these costs over time.

**Performance Commentary**

Marriott International (NASDAQ: MAR) has historically traded at a premium EV-to-EBITDA multiple compared to several of its lodging peers, reflecting the market’s favorable view of its asset-light model, strong brand equity, and extensive global footprint. As of the end of 2023, Marriott’s EV-to-EBITDA multiple stood at around 19x based on forward estimates, which is moderately above the broader hotel industry average, where key peers like Hilton (NYSE: HLT) and Hyatt (NYSE: H) have been trading closer to 16-18x, and InterContinental Hotels Group (NYSE: IHG) around 15-16x. This relative premium suggests that investors remain confident in Marriott’s potential for sustained earnings growth, margin expansion, and strong free cash flow generation, despite the ongoing uncertainties in global travel demand.

From a price performance perspective, Marriott’s stock has outperformed the broader hospitality sector over the past year. As of 2024, Marriott shares traded in the $220-$290 range, up approximately 32% year-over-year, while the S&P 500 gained around 30% over the same period. By comparison, Hilton’s share price hovered around $170-$250, also posting solid gains but slightly lagging Marriott in percentage terms. Hyatt’s stock, trading in the $120-$165 range, rose closer to 10% year-over-year, while IHG’s ADR (American Depositary Receipt) fluctuated around $85-$130, delivering a solid gain.

Marriott’s valuation premium and stock outperformance can be due to its reliable fee-based revenue streams, careful cost management, and expanding loyalty ecosystem, all of which have supported strong RevPAR recovery and EBITDA growth. These factors, along with Marriott’s global reach and ability to set competitive prices, have made its stock more valuable compared to its competitors, showing that investors trust in its long-term growth and ability to handle economic ups and downs.

**Johnson & Johnson’s Revenue and Cost Drivers Analysis**

Johnson & Johnson (NYSE: JNJ) combines innovation and stability in the global healthcare industry. Its wide range of businesses, including Pharmaceuticals, Medical Devices (MedTech), and the recently spun-off Consumer Health segment (Kenvue), has helped the company maintain strong and steady revenues while reducing risks from economic ups and downs. In 2023, J&J saw solid growth in its pharmaceutical products, especially in immunology, cancer, and neuroscience treatments, as well as a recovery in medical procedures as hospitals resumed normal operations after the pandemic. While challenges like pricing pressures and expiring patents continue, J&J’s focus on research, strong global reputation, and smart cost management keep its profits stable and support long-term growth. With quarterly sales nearing $23 billion and solid operational performance, the company is well-prepared to handle challenges and deliver consistent returns to investors.

**Company Overview**

Johnson & Johnson has a longstanding reputation as a healthcare conglomerate with three historically robust segments:

* **Pharmaceuticals:** Driving more than half of total sales, the pharma division delivers a portfolio of high-margin drugs in immunology (e.g., Stelara, Tremfya), oncology (Darzalex), and other therapeutic areas. It leverages a strong global footprint, intensive R&D, and strategic licensing or M&A activities to maintain a pipeline of innovative therapies.
* **MedTech (Medical Devices):** Spanning surgical products, orthopedics, interventional solutions, and vision care, this segment is positioned to benefit from aging populations and the return of elective procedures post-COVID. Its global scale and medical expertise support steady volume growth and technological advancements.
* **Consumer Health (Now Kenvue):** Recently separated through an IPO, Kenvue holds iconic brands like Tylenol, Listerine, and Band-Aid. While now largely separate, the segment’s historical contributions provided stable, lower-margin but steady revenue. Post-spin, J&J remains primarily focused on its higher-growth, higher-margin Pharma and MedTech businesses.

This balanced approach has historically protected J&J from downturns in specific parts of the healthcare industry. While the company is now focusing more on higher-profit and innovative areas like Pharma and MedTech, its long-standing reputation for quality, strong brand recognition, and global reach still provide a solid competitive edge.

**Revenue Drivers Analysis:**

Diagram: Revenue Breakdown by Major Drivers

**Volume Drivers:**

* **Pharmaceutical Growth:** Pharmaceutical Growth: Key therapies in immunology and oncology have driven consistent sales growth. In recent quarters, J&J’s pharma sales surpassed $13.89 billion, supported by strong demand in both established markets (U.S., EU) and emerging regions. New developments and product launches support long-term growth potential.
* **MedTech Procedure Recovery:** As hospital capacity normalized post-pandemic, demand for surgical tools and orthopedic implants recovered. This return to elective procedures delivered a moderate percentage increase in MedTech sales, lifting segment revenue and improving utilization of manufacturing capacity.
* **Global Diversification:** Expanding presence in high-growth emerging markets (e.g., Asia-Pacific, Latin America) drives incremental volume gains. Broad distribution networks and trusted branding in these regions support stable baseline growth even amid pricing challenges in developed markets.

**Price Drivers:**

* **Pharmaceutical Pricing:** While U.S. drug prices are closely watched, J&J’s range of unique biologics and specialized treatments helps maintain steady or slightly higher prices. Contract negotiations with payers and the strategic introduction of next-generation therapies protect margins over time.
* **MedTech ASP Management:** In medical devices, prices are affected by competition and how hospitals buy equipment. While price increases are modest, offering value-added solutions (e.g., digital surgery platforms, robotic-assisted systems) allows J&J to charge premium prices and offset pressure to lower prices on standard products.
* **Brand Equity in Consumer Health (Legacy):** Although now separated, well-known brands historically supported stable pricing power. After the spin-off, J&J still benefits from a strong corporate brand, building trust in its pharmaceuticals and MedTech products.

**Cost Drivers Analysis:**

Diagram: Cost Structure

**Fixed Costs:**

* **R&D & Corporate Overhead:** J&J invests $14–$15 billion annually on research and development, focusing on creating long-term innovations rather than boosting short-term sales. Other costs, like corporate overhead, marketing, and general expenses, grow slowly over time but stay steady compared to changes in revenue. This allows the company to become more efficient as sales increase.
* **Brand & Quality-Related Costs:** Costs for meeting regulatory compliance, quality controls, and global brand management are mostly consistent, supporting premium brand positioning and trust in J&J products.

**Variable Costs:**

* **Raw Materials & Components:** As sales volumes of pharmaceuticals and medical devices increase, so do the requirements for raw materials, active pharmaceutical ingredients, and device components. These costs rise proportionally with output, making them closely correlated to revenue growth.
* **Manufacturing & Supply Chain:** Higher sales volumes directly increase costs for raw materials, production labor, and distribution. As Pharma and MedTech revenue grows, J&J’s cost of goods sold (COGS) expands proportionally. However, producing larger quantities often helps lower the cost per unit, which increases profit margins over time.
* **Royalties & Milestone Payments:** When products are developed or co-marketed with partners, J&J may owe royalties proportional to product sales. These costs rise directly with revenue from the associated therapy.

**Performance Commentary**

Johnson & Johnson (NYSE: JNJ) has historically traded at a premium EV-to-EBITDA multiple relative to many of its large-cap healthcare peers, reflecting the market’s view of its robust R&D engine, strong brand equity, and wide-ranging products in pharmaceuticals, medical devices, and consumer health. As of the end of 2023, Johnson & Johnson’s EV-to-EBITDA multiple was about 17.85x. In comparison, Pfizer (NYSE: PFE) had a much lower valuation at 7-10x, while Merck (NYSE: MRK) and Abbott Laboratories (NYSE: ABT) were valued between 14-25x and 15-20x, respectively. Johnson & Johnson’s 17.85x valuation puts it among the higher end of this group, showing that investors trust its ability to grow consistently and handle challenges like pricing pressures, regulatory changes, and competition.

From a price performance perspective, Johnson & Johnson’s stock maintained relative stability in an uncertain market climate. As of 2024, J&J shares traded in the $140-$165 range, roughly flat year-over-year, while the S&P 500 climbed by approximately 30%. Although J&J’s performance trailed the broader index, it demonstrated resilience compared to certain peers. Pfizer, for example, faced downward pressure with shares moving in the $25-$30 range and showing modest declines, while Merck, trading in the $100-$130 range, saw a decline recently. Abbott, trading between $100 and $120, saw modest gains of a few percent, showing mixed sentiment in the healthcare sector.

Johnson & Johnson’s higher valuation and steady stock performance show that investors appreciate its reliable operations, promising product pipeline, and well-balanced business. Its strong market position, ongoing R&D investments, and solid balance sheet enable the company to manage costs effectively and maintain robust margins. In an industry often affected by policy changes and market volatility, J&J’s ability to maintain investor trust and a higher-than-average valuation makes it a dependable choice for long-term growth in the global healthcare market.