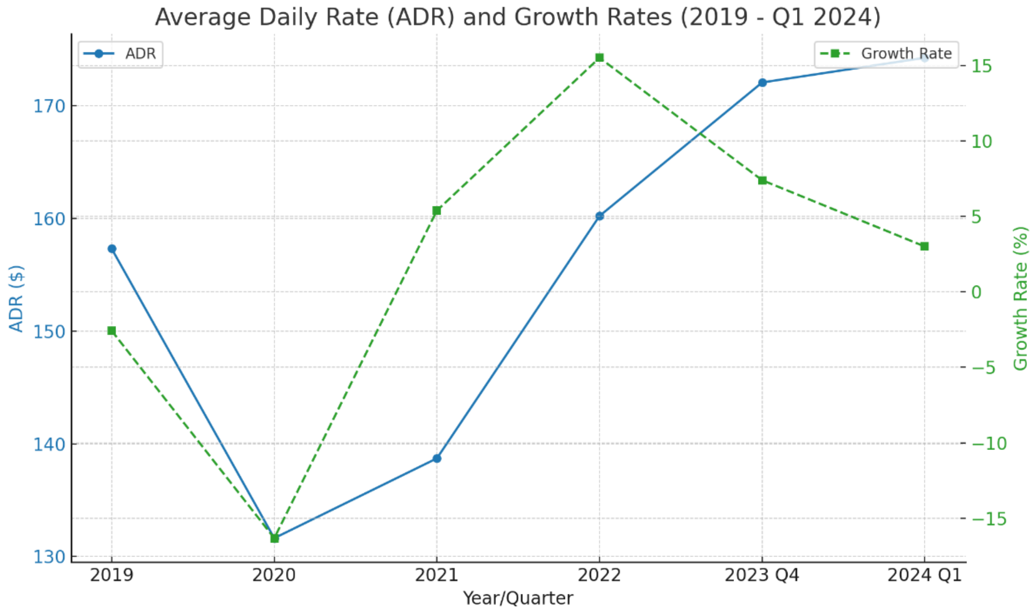
Revenue & Cost Drivers

Revenue Drivers for Marriott International Inc. (MAR)

1. **RevPAR (Revenue per Available Room) Growth**
   - Global RevPAR highlights Marriott's strong revenue performance:
     - **2024 Q1**: $114.88 (5% growth)
     - **2023 Q4**: $116.81 (27.9% growth)
     - **2022**: $91.30 (55.4% growth)
     - **2021**: $58.75 (41.53% growth)
     - **2020**: $41.51 (-62.77% growth)
     - **2019**: $111.51 (-2.66% growth)
   - For **Q4 2023**, RevPAR was $116.81, reflecting 27.94% growth compared to the previous year. In **Q1 2024**, it decreased slightly to $114.88, with a 5% growth rate.
2. **Average Daily Rate (ADR)**
   - ADR represents the average revenue earned per room sold:
     - **2024 Q1**: $174.24 (3% growth)
     - **2023 Q4**: $172.05 (7.39% growth)
     - **2022**: $160.21 (15.5% growth)
     - **2021**: $138.71 (5.38% growth)
     - **2020**: $131.63 (-16.32% growth)
     - **2019**: $157.31 (-2.58% growth)
   - ADR growth contributes directly to revenue by increasing room rates.



3. **Occupancy Rates**
   - Occupancy rates reflect the percentage of rooms sold:
     - **US & Canada FY 2023**: 69.8% (4.18% growth)
     - **International FY 2023**: 67.9% (19.12% growth)
     - **Q2 2024**: Increased 150 basis points, signalling higher room utilization.
4. **Customer Segments**
   - Diverse growth across group, business transient, and leisure transient segments.
5. **Loyalty Program**
   - Continued expansion of the **Marriott Bonvoy** loyalty program drives repeats business and member penetration.
6. **Global Portfolio Expansion**
   - 6% net room growth year-over-year, with 37% of openings from conversions and 32% of signings attributed to conversions.

Impact of Price and Volume on Revenue Growth

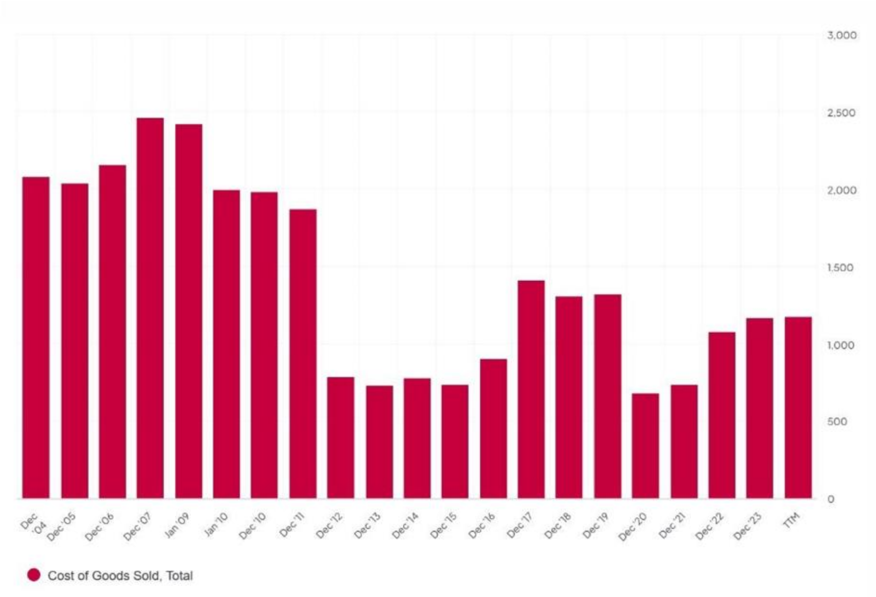
1. **Price (ADR)**
   - Directly influences revenue by increasing the average price per room.
   - **Q2 2024**: ADR growth of 3% contributed significantly to revenue.
2. **Volume (Occupancy Rates & Number of Rooms)**
   - Higher occupancy rates and an expanded global portfolio (6% growth in available rooms) enhance revenue potential.
   - **Q2 2024**: Occupancy increased by 150 basis points, reflecting better room utilization.
3. **RevPAR**
   - Combines ADR and occupancy rates for a comprehensive measure of revenue per available room.

Cost Drivers

1. **Cost of Goods Sold (COGS)**
   - **Nature**: Variable
   - **Correlation with Revenue**: High

- **Annual Data**:
  - **2023**: $1.165B (8.47% growth)
  - **2022**: $1.074B (46.32% growth)
- **Quarterly Data**:
  - **2024 Q1**: $286M (1.78% growth)

2. **Incentive Management Fees**
   - **Nature**: Variable
   - **Correlation with Revenue**: High
   - Impacted by regional performance metrics (e.g., RevPAR, occupancy).
3. **Marketing & Sales Expenses**
   - **Nature**: Variable
   - **Correlation with Revenue**: High
   - Increased spending aligns with revenue-generating activities.
4. **Property and Equipment Costs**
   - **Nature**: Fixed
   - **Correlation with Revenue**: Low
   - Includes maintenance, depreciation, and leases.
5. **Administrative Expenses**
   - **Nature**: Fixed
   - **Correlation with Revenue**: Low
   - Covers corporate staff salaries and overhead costs.
6. **Franchise Fees**
   - **Nature**: Semi-variable
   - **Correlation with Revenue**: Mixed
   - Comprises fixed base fees and variable components tied to performance.
7. **Maintenance Costs**
   - **Nature**: Semi-variable
   - **Correlation with Revenue**: Mixed
   - Fixed costs for routine maintenance; variable costs for wear-and-tear.

- 

Pricing Strategy

- **Dynamic Pricing**: Adjusts rates based on demand fluctuations.
- **Segmented Pricing**: Tailored for business travellers, leisure customers, and loyalty members.
- **Seasonal/Event-Based Pricing**: Capitalises on high-demand periods.
- **Value-Added Pricing**: Justifies higher rates with premium services.
- **Promotional Pricing**: Boosts occupancy during low-demand periods.
- **Loyalty Pricing**: Exclusive rates and benefits for **Bonvoy** members.

Peer Comparison

- **Market Capitalization**: Marriott leads with $68.2B, followed by Hilton ($54.5B).
- **Profit Margins**:
  - Gross Profit: **81.65%**
  - EBITDA: **65.95%**
  - Operating: **60.48%**
  - Net Profit: **45.33%**
- **Growth Metrics**:
  - 3-Year Revenue CAGR: **53.27%**
  - 5-Year Revenue CAGR: **4.01%**
  - Highest diluted EPS growth over 3 and 5 years among peers.

Marriott's strong financial performance reflects its effective pricing strategies, operational efficiency, and diverse revenue streams.

Revenue Drivers for Johnson & Johnson (J&J)

Johnson & Johnson's (J&J) revenue is primarily driven by its three core business segments: Pharmaceuticals (Innovative Medicine), Medical Devices (MedTech), and Consumer Health. Each segment plays a pivotal role in the company's financial success. Below is a detailed breakdown of these revenue drivers:

1. Pharmaceuticals (Innovative Medicine):

This segment accounts for over 55% of J&J's total revenue, making it the company's largest revenue generator. It contributed $55.67 billion in revenue for the last trailing twelve months (LTM). Key brands driving growth include:

- **DARZALEX:** A leading product in oncology.
- **CARVYKTI and TECVAYLI:** Innovative treatments in the cell therapy space.
- **ERLEADA and TREMFYA:** Key contributors in immunology.
- **SPRAVATO:** Expanding in mental health therapeutics.

The segment's success is attributed to its robust product pipeline, continued innovation, and strategic market positioning.

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2. Medical Devices (MedTech):

The Medical Devices segment is another significant revenue contributor, generating $30.91 billion in the last LTM. Growth in this division is fuelled by:

- **Commercial execution:** Effective sales strategies and distribution.
- **New product launches:** Innovative devices and surgical solutions.
- **Procedure volume growth:** Driven by increasing global healthcare access and elective procedure recovery post-pandemic.

The Medical Devices segment is categorised into four key areas:

- **Orthopaedics:** Joint reconstruction, trauma, spine care, sports medicine, and surgical power tools.
- **Surgery:** Advanced surgical systems and instruments.
- **Interventional Solutions:** Supporting healthcare professionals in heart rhythm disorders and neurovascular care.
- **Vision:** Eye care solutions, including contact lenses and surgical tools for vision correction.

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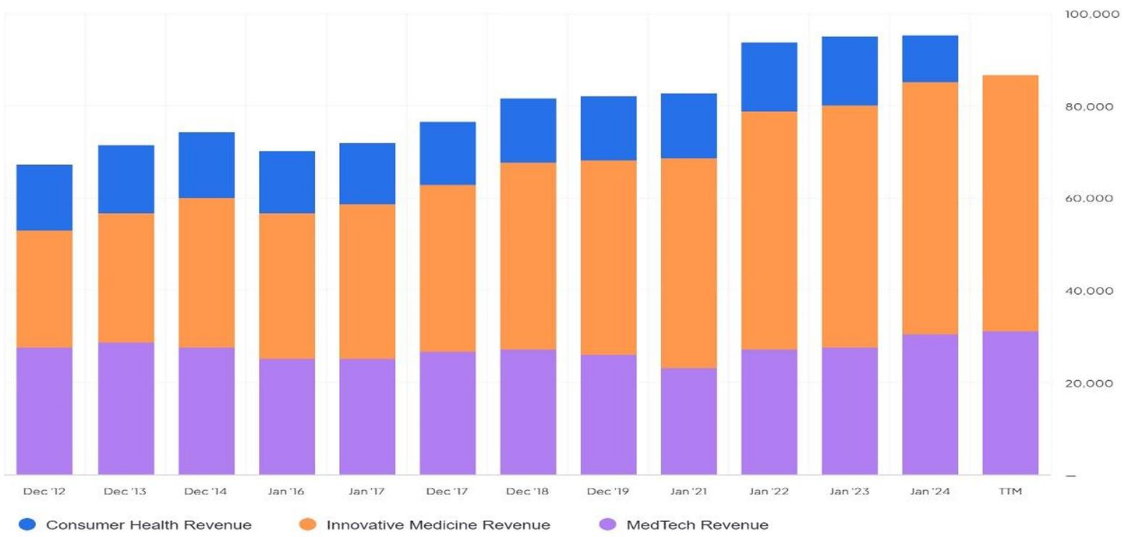
3. Consumer Health Products:

Although smaller than Pharmaceuticals and MedTech, this segment remains a vital contributor, accounting for 17% of total revenue with $10.05 billion in sales for the full year. It includes products across six distinct categories:

- **Baby Care:** JOHNSON'S®, AVEENO® Baby.
- **Oral Care:** LISTERINE®.
- **Skin Health/Beauty:** NEUTROGENA®, AVEENO®, OGX®.
- **Over the Counter (OTC):** TYLENOL®, SUDAFED®, ZYRTEC®, MOTRIN® IB.
- **Women's Health:** STAYFREE®, CAREFREE®, o.b.®.
- **Wound Care:** BAND-AID®, NEOSPORIN®.

In 2023, this segment achieved 3% year-over-year growth, driven by strong demand for household names like TYLENOL® and LISTERINE®.



2023 Q4 Revenue Breakdown by Segment:

- Pharmaceuticals: **$54.76B (57.52%)**
- MedTech: **$30.4B (31.93%)**
- Consumer Health: **$10.04B (10.54%)**
- Total Revenue: **$95.2B**

Cost Drivers for Johnson & Johnson (J&J):

Key Cost Drivers Overview:

For 2023, Johnson & Johnson reported total revenue of $86.58 billion, with the following major cost components:

1. **Cost of Goods Sold (COGS):**
   - $30.5 billion (35% of revenue).
   - Primarily variable costs, closely tied to production and sales volumes.
2. **Research & Development (R&D):**
   - $14.6 billion (16% of revenue).
   - Includes both fixed costs (e.g., staff salaries, infrastructure) and variable costs (dependent on project scale and scope).
3. **Selling, General, and Administrative (SG&A):**
   - $22.3 billion (25% of revenue).
   - A mix of fixed costs (e.g., office rent, corporate salaries) and variable components (e.g., advertising and promotions).
4. **Interest and Financing Costs:**
   - $1.2 billion (1.4% of revenue).
   - Primarily fixed, not directly correlated with revenue.
5. **Manufacturing Overhead (included in COGS):**
   - Includes both fixed (depreciation) and variable (utilities, direct labour) components.
6. **Distribution and Logistics:**
   - Part of SG&A.
   - Variable costs that rise with sales volumes.
7. **Regulatory and Compliance Costs:**
   - Spread across SG&A and R&D.
   - Includes fixed costs (compliance staff salaries) and variable costs (regulatory filings).
8. **Intellectual Property and Licensing Costs:**
   - Found within SG&A and R&D.
   - Fixed components (e.g., patent fees) and variable ones (royalties tied to sales).

Summary of Cost Structure:

J&J’s cost structure is a blend of fixed and variable expenses:

- **Variable Costs:** COGS, variable R&D, distribution, and some SG&A components correlate strongly with production and sales volumes.
- **Fixed Costs:** R&D infrastructure, corporate overhead, and interest expenses remain stable irrespective of revenue fluctuations.

Pricing Strategy:

Johnson & Johnson employs a diverse pricing strategy tailored to its product portfolio:

1. **Pharmaceuticals:**
    - Value-based pricing: Focused on clinical outcomes and patient benefits.
    - Tiered pricing: Adjusted for global economic differences.
    - Patent exclusivity: Allows premium pricing, with reductions upon generic entry.
2. **Medical Devices:**
    - Cost-plus pricing: Ensuring profitability through production cost markups.
    - Competitive pricing: Aligning with or undercutting competitors.
    - Bundling: Offering packaged deals to justify premium pricing.
3. **Consumer Health Products:**
    - Leverages brand equity for premium pricing.
    - Employs promotions and discounts to capture market share.
    - Utilises segmented pricing to cater to diverse consumer groups.

By blending these strategies, J&J balances profitability with accessibility, enhancing its competitive position globally.

Peer Comparison:

Johnson & Johnson remains a leader in its industry, outperforming key competitors like Pfizer, Merck, AbbVie, Medtronic, and Procter & Gamble:

- **Revenue:** J&J leads with $86.58B, followed by Pfizer ($81.29B).
- **Net Income:** Second to Pfizer ($22.02B) with $17.94B.
- **Market Capitalisation:** Highest at approximately $450B, reflecting strong investor confidence.
- **Dividend Yield:** Competitive at 2.6%, behind AbbVie's leading 4.1%.

J&J's robust financial performance and diverse portfolio underpin its sustained leadership in the healthcare sector.