**Marriot International**

An American multinational company that operates franchises and licences lodging including hotel, residential and timeshare properties. Listed on the NYSE.

Share price (23/11/23) $208.1

Market Valuation $61.6bn

The business has three main revenue streams, Base Management Fees , Franchise Fees and Incentive Management Fees

Revenue FY21 FY22 FY23 EST

$mm $mm $bmm

Base Management Fees 669 1044 1,232

Franchise Fees 1,790 2,505 2,826

Incentive Management Fees 235 529 737

**REVENUE DRIVERS**

Base Management Fees, Franchise Fees and Incentive Feels are ultimately driven by the same drivers. The three areas are separated due to slightly different business models. Hotels owned and run by Marriott, hotels franchised by Marriott and then hotels purely managed by Marriot but not owned. All three areas will have the same top-down drivers for revenue but the costs/expenses will differ for each segment. Marriotts revenue is calculated by multiplying the hotel chains average room rate by its occupancy rate. Known as RevPAR which is also calculated by dividing the total revenue received by number of rooms available in a given period. There are three revenue drivers at work here.

The number of available rooms. From the table below you can see a 7% growth in the number of rooms from YE 2020 to YE 2022. Unit growth (no of rooms) is therefore a key driver for revenue. At the end of Q3 23 the development pipeline for new rooms stood 557,000 with 43% of that pipeline under construction. The pipeline represents 36% of existing room stock and therefore provides a good foundation for future room growth.

No or rooms FY20 FY21 FY22

Owned 5,492 5,492 5492

Leased 10,408 10,200 10,200

Managed 560,735 553,172 560,551

Franchised 814,499 877,736 914,789

Residences 9,155 9,878 11,481

Timeshare 22,755 22,701 22,745

Yacht 149

Total 1,423,044 1,479,179 1,525,407

REVPAR

Below shows Marriott Systemwide annual % change in Comparable RevPAR over the last 7 quarters

Q122 +96.5% (very low comps because of covid lockdowns)

Q222 +70.6%

Q322 +36.3%

Q422 +28.8%

Q123 +34.3%

Q223 +13.5%

Q323 +23.0

Revenue is driven as RevPAR \* No. Rooms where,

RevPAR is the function of ADR (price impact) \* Occupancy (volume impact)

Note that for each of the segments, North America (full service, limited service), APAC and Other international, RevPAR, Room count Occupancy and ADR are reported by the company. These will be forecasted based on historical trend analysis.

Large portion of Marriot’s cost is the reimbursed expenses which is directly related to reimbursed revenue. Management and franchise related operating expenses will have be derived as a % of revenue.

This is an interesting table as it encapsulates the extreme levels of demand swings in a given period. The pandemic effectively shut the hotels down almost globally ie demand for rooms went close to zero. As the world came out of covid and travel restrictions were lifted demand began its recovery. You can see this with a 96.5% increase in RevPAR in Q1 22 vs Q2 23. As the comps get harder you can see the rate of recovery in RevPAR begins to slow. This was a common pattern in many businesses that were highly sensitive to economic lockdowns during this period. It highlights the sensitivity of hotels to general economic activity and travel. These are two key drivers that will drive demand. The key for the hotel industry is managing supply and keeping occupancy levels high. Tight demand and supply keep room rates high and maximises yield. Changes in average room rates effectively fall straight through to the bottom line and remain the most sensitive area of profit development, alongside side high occupancy rates.

Like all international businesses revenue will also be reflected by changes in prevailing exchange rates. I have not discussed this in this report or in peer comparison

**COST DRIVERS**

FY21 FY22 FY23 EST

$mm $mm $mm

Total Sales 3,415 5,361 6,208

Expenses

-Owned, Leased Property -734 -1074 -1172

-General & Admin -823 -891 - 254

- D&A -220 -193 -185

-Contract amortisation -64 - 84 -90

Adj Operating Income 1,649 3,203 3,916

-Cost Reimbursement 120 276 255

- Other -19 -17 - 52

Operating Income 1,750 3,462 4,119

Operating Margin 51.2% 64.6% 66.4%

You can see from these number from 2021 that variable costs are relatively limited. It is estimated that revenue will grow from $3.4bn in 2021 to $6.2bn in 2023 an increase of $2.8bn with operating profit growing by $2.35bn implying costs are up only $450m. A very high contribution margin to rising sales. This clearly reflects a period where asset utilisation is coming from a very low base. The majority of cost are relatively fixed. Costs such as lease payments, insurance and maintenance will be driven the growth in room units and properties. General and administration is more labour and therefore will be driven by wage inflation and the number of employees. Depreciation and amortisation will be driven by growth or reduction in the number of properties in the portfolio. You could expect this to grow with growth in units in coming years.

Peer Group

According to Bernstein Hyatt Group is forecast to lead of the peer group of Marriot with 11.6% revenue growth through to 2027. Fee (revenue) growth is clearly the key driver and the most important metric for hotel groups as incremental fees come in a 100% contribution margin. Hyatt Group has industry leading unit growth of 6-7% out till 2027 with forecast RevPAR growth of 5%. Interestingly Hilton has 10.6% fee revenue growth forecast out till 2027 although 6% of this comes from NUG (Net Unit Growth) and 3.5% RevPAR. Direct comparisons are complicated as the hotel peer group has slightly different mix of business models. (Please see below.). Making margin comparisons difficult.

Comment

The company’s revenue streams are driven by factors like room availability, RevPAR and economic conditions. Efficient cost management is evident, with a high contribution margin to rising sales and a significant increase in operating profit. The company’s ability to maximise yield through high occupancy rates and adapt to changing economic conditions is crucial for sustained success in the highly competitive hotel industry

**Johnson and Johnson**

An American multinational, pharmaceutical and medical technologies company. Listed on the NYSE.

Share price ( 23/11/23) 150.8

Market Valuation $363bn

The business has three main divisions Pharmaceutical, MedTech and Consumer

Revenue FY21 FY22 FY23 EST

$bn $bn $bn

Pharmaceutical 52,080 52,529 53,363

MedTech 27,060 27,552 28,473

Consumer 14,636 15,095 15,475

Each of the three segments, Consumer, Pharmaceuticals and Medical Devices have sub segments with product lines like Remicade, Darzalex , Stelara and Tremfya  or Surgery, Orthopaedics and Intervention solutions. All of these lines have US & International sales. US revenue can be driven by annual growth rates, international revenue growth has two components, organic growth and currency impact.

Cost Drivers – as % of revenue (trend analysis)

* Selling, Marketing and Administrative Expenses
* Research and Development Expenses
* In-process research and development
* Cost of products sold

**REVENUE DRIVERS**

Pharmaceutical

Five main therapeutic areas. Immunology, Infectious Diseases, Neuroscience, Oncology, Pulmonary Hypertension, Cardiovascular

The company expects to deliver $60bn in Pharma revenue in 2025 which represents a 5% CAGR . Pharma companies have little pricing in the drug portfolios and are inevitably reliant on bringing new innovative drugs to the market through their R&D pipelines. Interestingly the consensus estimates for J&J pharmaceutical revenues is $53.7bn. It would seem that the company is more optimistic on the potential sales of some of their pipeline drugs coming through Phase 111. It would appear there are five key drugs where management expect sales of over $5bn each.. Carykti, Rybrebant, The Taris Platform, nipocalimab and milvexian. It is therefore clear that the existing portfolio is actually falling in value as drugs come off patent or suffering from price pressures. It highlights that the key driver for pharmaceutical companies is the delivery of new products to the market.

Medical Devices

Similar to Pharma, there is very little positive pricing in the med tech industry. The industry grows manly through volume growth of devices and consumables in the low single digits. Similar to the pharmaceutical division growth is driven by innovation and investment in R&D. J&J’s growth has been below market for a few years however a renewed commitment in R&D should help reinforce its competitive positioning and help the company back to market growth of 4 to 5%. This is all volume driven as there is slight deflation in the market.

Consumer

In 2021 JNJ announced it would spin out to shareholders its Consumer unit health business. Again this divisions key driver is volume as pricing power is weak. Innovation in product through R&D again is key for long term sustainable growth.

**COST DRIVERS**

FY21 FY22 FY23 EST

$bn $bn $bn

Total Sales 93,776 95,176 97,312

Cost of Sales 25.023 26,459 26,274

Gross Profit 68,753 68,717 71,038

Gross Margin 73.3% 72.19% 73.0%

SG&A 24,635 24,635 25,251

R&D 14,589 14,443 14,588

% of sales 15.5% 15.1% 14.99%

Cost of sales

This is the cost of manufacturing and raw materials. Recent increases have been driven by increases in amortisation costs and general inflationary pressures..This can be seen in the reduction in gross margin where the company was unable to pass on all costs through price rises. Plant and machinery is a fixed cost and this cost is shown as depreciation in the P&L statement. This cost line also contains a number of variables such as impairments. The main driver of cost of sales however is production of goods and so should trend with sales growth in absolute terms and remain relatively static as a % of sales. Of course new more efficient production and improved productivity processes could bring this % down.

SGA

Selling, general and adminstrative expenses and includes all non production expenses incurred by the company in a given period. Costs included are rents, advertising, marketing, accounting, litigation, travel, management salaries bonuses etc. Most of these costs are not related to production or sales growth in the short term and are therefore more flexible. Wages are clearly linked to wage growth and the competition for labour. Advertising was $2.1bn, $2.7bn in 22 and 21 respectively so a big increase 22 on 21 so clearly variable but is most likely correlated with the launch of new products as will marketing .

Peer Group Sales (£bn)

FY20 FY21 (%ch) FY22 (%ch)

Eli Lily 24.5 28.3 (15.5) 28.5 (7)

Merck 41.5 48.7 (17.3) 59.2 (21)

Pfizer 41.6 81.2 (95.0) 100.3 (23.5)

JNJ 82.5 93.7 (13.5) 95.1 (1.3)

The best analysis of for performance of costs is the Gross margin development .

GROSS MARGIN FY21 FY22

Eli Lilly 74.2% 76.7%

Merck 72.03% 70.63%

Pfizer 62.08% 65.77%

JNJ 73.3% 72.19%

Peer Group

Johnson and Johnsons competitors include Eli Lilly, Merck, Pfizer. Johnson and Johnson has reported a revenue decreased in q3 2023 year on year by -10.26%, despite the revenue increase by most of its competitors of 4.83% recorded in the same quarter. However with a net margin of 121.91% the company achieved higher profitability than its competitors. The data above shows the sales data and gross margins, with only Pfizer having greater sales than J&J in 2022. However in terms of gross margin, Eli Lilly and Merck have higher gross margins, with J&J coming out ahead of its biggest competition Pfizer in 2022

COMMENT

J&J’s revenue drivers highlight a strategic emphasis on innovation and new product development across its pharmaceutical, MedTech, and consumer divisions. The challenges in the Pharma divisions existing portfolio underscore the importance of a robust pipeline. Cost management appears effective, as seen in the stable gross margin despite cost challenges in the industry. The commitment to research and development is a positive sign for future growth, particularly in the Pharma and MedTech divisions.