**WACC PROJECT FOR MARRIOT INTERNATIONAL INC**

**TABLE OF CONTENTS**

|  |  |  |
| --- | --- | --- |
| **Sl. No** | **Particulars** | **Page No.** |
| 1 | Introduction | 3 |
| 2 | Weighted Average Cost OF Capital | 5 |
|  | 2.1 Cost Of Equity Calculations | 5 |
|  | 2.2 Cost Of Debt Calculations | 6 |
|  | 2.3 Cost of Preferred Stock | 6 |
|  | 2.4 Capital Structure | 6 |
| 3 | Conclusion | 7 |
| 4 | References | 8 |
| 5 | Appendix | 9 |

**Introduction:**

Marriot International Inc is a globally recognized lodging company leading from the front established in Bethesda, Maryland, USA with close to 4,300 hotels and present across 81 countries and territories. The company started with A&W root beer stand. Mr. J Willard Marriot along with his Alice started this business say back in the year 1927 and it was started with a Hot Shoppe Restaurant. At present Marriot International Inc operates franchises and licensed hotels, restaurants and timeshare properties across the globe. Basically the company has three segments through which it generates its revenue namely North-American Limited Service, North American Full Service and International. The company is licensed the development, marketing, sale, operation, management of vacation ownerships along with related products under different brand names likely Grand Residency By Marriot, The Ritz-Carlton Residencies, Marriot Vacation Club etc. Apart from the hotel business, the company also operates, develops along with marketing of residential properties and also renders services to the home / condominium owner associations. Till June 8, 2015, the company has closely 4,200 properties in 80 different countries and territories.

The company is known as “World’s Favorite Travel Company” and it works hard to live up to that promised expected level. At the company’s 4,200 managed and franchised hotels across the globe, there are more than 360,000 associates those were spotted as the top choice for each and every travel experience starting from family gateways and wedding. Since the company’s beginning, it could succeed because it could stay true to its core value by putting people first, pursuing excellence along embracing change in all the times. The company is more successful in attracting talented travelers and associates across the globe which leads the company forward by keeping it fresh. The innovation brought in by the company year on year fuels the growth of the company and help to appeal the next generation customers along with delighting the existing loyal customers with successful registered travel adventures which customers expect from the company in order to improve the business and go for enhancing the better travel experience.

The company has a culture of brining innovation to its food, brands, beverage offerings, great guest experiences, good affordable price to avail the facility in the restaurants and hotels. The company has recently signed certain agreements for start of close to 650 hotels across the globe with different specifications. The company is on target to reach close to 1 Million rooms in few years as the owners of the company invest more than $50 Billion in the new proposed hotels. The company has achieved a milestone in very recently by opening the 400th hotel Marriott Marquis Washington, DC. The strong leadership of the management could able to help the company to improve the Worldwide Revenue Per Available Room with 6.60% and daily average rates to 3.7% in business and leisure driving of demands worldwide occupancy level more than 73%. In case of North America, there is more acceleration in case of group demand. During the year 2014, the company has signed contract for more than $2.50 Billion for the future group revenue up with 6.50% as compared to the previous years and will benefit to the company’s hotels in the next five years. The company could add more than 300 properties to its system during the year 2014. This unit expansion could support the company to improve fee income to a record breaking $1.70 Billion during the year 2014 which is an increment over the last years by 11%. Due better operational efficiencies and higher rates for the room, the company could able to generate incremental profit margin by 1.2% points during the year of 2014 and it happens to be a alluring contribution to the owner’s investment. The company has close to 123,500 numbers of employees and it belongs to the services sector and lodging industry. The quality of service rendered by the company could able to set itself as a benchmark in the industry.

**Weighted Average Cost Of Capital (WACC):**

With respect to the WACC calculations for Marriott International Inc (MAR), we need to use the following formula namely:

WACC = Cost of Equity \* Weight of Equity In Capital Structure + Cost of Debt \* Weight of Debt In Capital Structure \* (1- Tax Rate) + Cost of Preferred Capital \* Weight of Preferred Capital In Capital Structure.

**Cost of Equity Calculation:**

In order to calculate the cost of equity, we needed the value of Beta of the stock. I have done a regression analysis by taking the closing prices of Marriott International Inc (MAR) and S&P 500 since January 1, 2015 and the Beta value is calculated to 0.90. The Beta Value of MAR as per the Yahoo Finance is 1.31 and the Beta Value as per Google Finance is 1.23. So for my calculations I have used the average all there Betas I.e. of 1.15 and have done the calculations. The cost of equity is calculated with the help of Capital Assets Pricing Model (CAPM) and the formula is as below:

Cost of Equity = Risk Free Rate + Beta \* (Return From Market – Risk Free Rate)

The Risk Free Rate for the calculations is considered to be 2.20% which is 10 Yr Treasury Bill Yield Rate. The return from the market is considered to be 12.50% and have gone ahead with the calculations. The historical returns of the market keep differing, however on a conservative note, I have assumed the rate of 12.50% and did the calculations.

**Cost of Debt Calculation:**

In order to find out the cost of the debt, I have considered the interest amount paid by MAR on its long term debt and corporate tax rate paid by them.

Long Term Debt as on December 31, 2014 (In Millions) = $3,457.00

Interest Expenses during the year 2014 (In Millions) = $115.00

Rate of Interest (115 / 3457 \* 100) Before Tax = 3.33%

Income before Income Taxes (In $ Millions) = 1088

Provision Income Taxes (In $ Millions) = 335

Income Tax Rate (335/1088 \* 100) = 30.79%

**Cost of Preferred Stock Calculation:**

As there is no cost of preferred stock for the company, I have not calculated this.

**Capital Structure of Marriott International Inc: As On December 31, 2014**

|  |  |  |
| --- | --- | --- |
| **Type OF Capital** | **Amount of Capital**  **($ In Millions)** | **Weight age In Total Capital** |
| Equity Capital | (2200) | -175.0% |
| Debt Capital | 3,457 | 275.0% |
| Total Capital | 1257 | 100% |

**#** I have only considered balance sheet figures as on December 31, 2014 from the company’s respective year annual report for validity of data.

WACC = Cost of Equity \* Weight of Equity In Capital Structure + Cost of Debt \* Weight of Debt In Capital Structure \* (1- Tax Rate) + Cost of Preferred Capital \* Weight of Preferred Capital In Capital Structure.

= (14.05% \* -175%) + {3.33% \* 275% \* (1- 30.79%)} + 0

= -24.58 % + 6.33% + 0

= -18.25%

It may be noted that, during the year 2014, there were lots of treasury stock acquired by Marriot International Inc and hence the total equity capital is negative. As a result of that, the calculated WACC is negative. However, if we remove the negative sign, we may say that, Marriott has a WACC of 18.25% as on December 31, 2014.

**Conclusion**

Weighted Average Cost of Capital for a company plays a significant role while going for choosing an investment avenue. If a company is not able to calculate the WACC judiciously, then it may drop lucrative investment opportunities and may be deprived of improving business. Here while calculating the WACC, it could be observed that, the WACC is negative due to negative equity capital as the company has gone ahead to acquire treasury stocks. However, if the negative sign is neglected, then we may say that, 18.25% of WACC seems very high for a company like Marriott and it may be commented that, this WACC is not a true representative of the financial position of Marriott.

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**Appendix**

**Regression Analysis Results**

