

## Revenue & Cost Driver Report

Marriott inc's industry is hospitality services with a market capitalisation value of \$71.76 billion and employs roughly 411,000 people. Revenue is broken down as base management fees, franchise fees, incentive management fees, cost reimbursement revenue, as well as a remaining revenue section referred to as owned, leased, and other revenue. Gross fee revenues rose by 50% from 2021 to 2022. According to Marriott's annual report, this is mainly due to "higher RevPAR, rooms additions, and significant growth in our nonRevPAR related franchise fees". RevPar means revenue per available room which makes it approximately prices for rooms and therefore is a good measure for price drivers (1). From 2021 to 2022, RevPAR rose by 51% worldwide, hence Marriott's room prices rose by roughly 50% and that the company's revenue growth is predominantly due to higher prices rather than greater sales volume. When not factoring contract investment amortisation due to being a cost, the largest revenue driver from 2020 to 2022 was cost reimbursement revenue at around 70%. Marriott provides their management services to other hotels, and when these hotels spend money on certain business expenses, they must reimburse Marriott. The related cost for this revenue driver is reimbursement expense where hotels spend part of their money as authorised business expenses without having to reimburse Marriott which becomes a variable cost based on business expenses. Reimbursement expenses are also the biggest cost driver for Marriott as it represented around 80% of costs from 2020 to 2022. Hence, there is a significant correlation between cost reimbursement revenue and the variable cost of reimbursement expenses.

The next largest revenue driver is Franchise fees which are fees that Marriott charges for the use of their intellectually property such as fees from their co-branded credit card, timeshare and residential programs. This revenue driver made up between 10 to 12% of the revenue growth over 3 years. This rise in franchise fees is attributable to higher RevPAR, greater unit growth and higher co-branded credit card fees amounting to \$119 million. The nonRevPAR related franchise fees mentioned earlier mainly stems from co-branded credit card fees which is intriguing as the Marriott Bonway loyalty program contributed heavily to the demand of their co-branded credit cards. This is supported by how at the end of 2022, Marriot Bonway had 170 million members, mobile app users risen by 32% within a year after 2021 and according to the 2023 Marriot 10-K report, Marriott Bonvoy members booked over 60% of global room nights. This suggests Marriott Bonway was instrumental in Marriott's franchise fee revenue (2). Prices for Marriot Bonvoy's credit cards do not seem to have changed from 2021 to 2022 such as the annual fee of one credit card staying the same at \$95 demonstrating that the loyalty program relies more sales volume rather than price growth. In addition, the next significant revenue driver is owned, leased, and other revenue which contributed to between 5% and 6% of revenues in 2022 which was due to stronger net results at Marriot's owned and leased properties. The associated cost driver for owned and leased properties contributed to around 6% of costs and was a fixed cost. Overall, Marriott is capable of maintaining their costs in line with revenue growth due to the very high correlation.

	2022	2021	2020		2022	2021	2020
<b>REVENUES</b>					Revenue Percentile Breakdown		
Base management fees	1044	669	443		5.00%	4.80%	4.14%
Franchise fees	2505	1790	1153		12.01%	12.85%	10.77%
Incentive management fees	529	235	87		2.54%	1.69%	0.81%
Gross fee revenues	4078	2694	1683				

Contract Investment amortisation	-89	-75	-132				
Net fee revenues	3989	2619	1551				
Owned, leased, and other revenue	1367	796	568		6.55%	5.71%	5.31%
Cost reimbursement revenue	15417	10442	8452		73.90%	74.95%	78.97%
Total Revenue	20773	13857	10571				

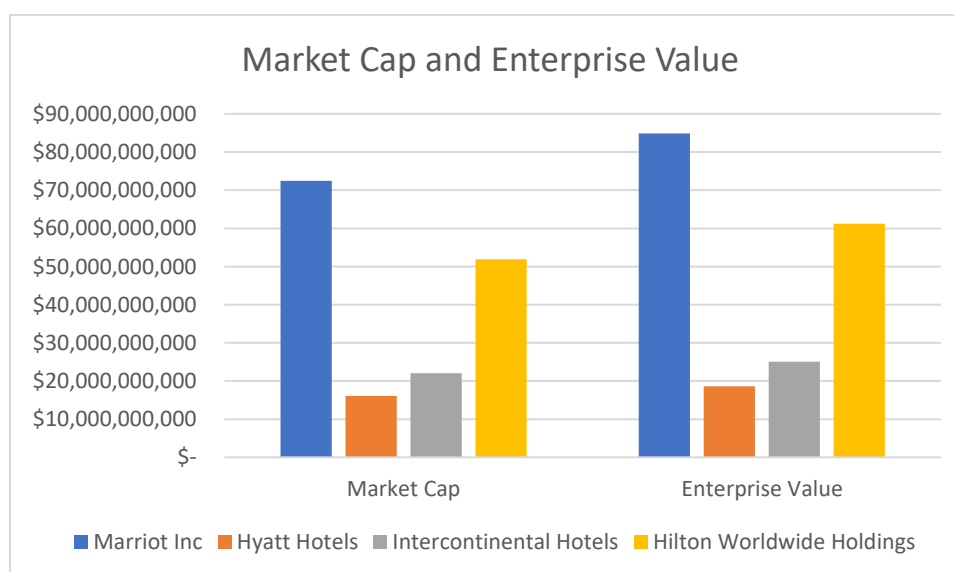
	2022	2021	2020		2022	2021	2020
<b>COSTS</b>					Cost Percentile Breakdown		
Owned, leased, and other-direct	1074	734	677		6.20%	6.06%	6.46%
Depreciation, amortisation and other	193	220	346		1.11%	1.82%	3.30%
General, administrative, and other	891	823	762		5.15%	6.80%	7.27%
Restructuring, merger-related charges, and other	12	8	267		0.07%	0.07%	2.55%
Reimbursed expenses	15141	10322	8435		87.46%	85.26%	80.43%
Total Cost	17311	12107	10487				

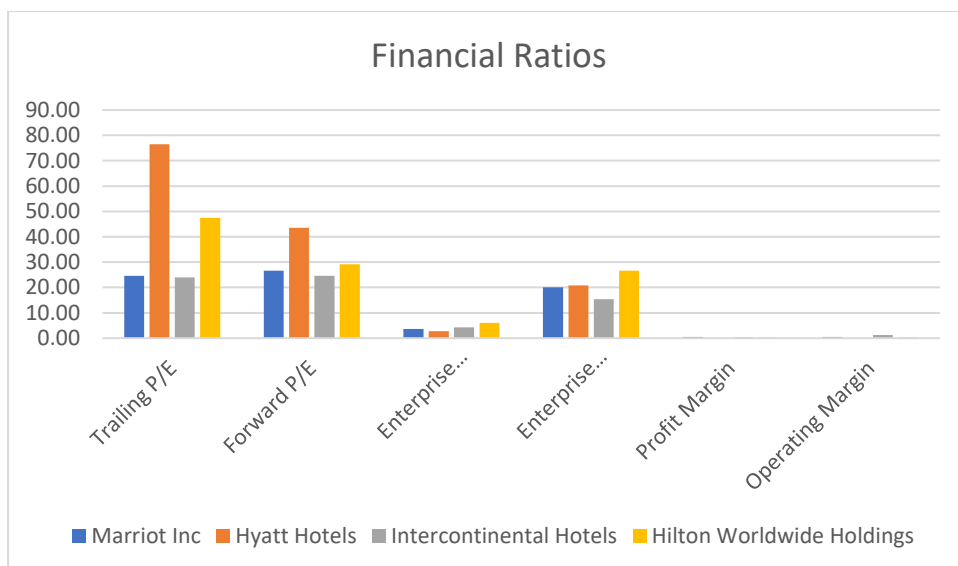
The 3 peers for Marriot Inc are Hyatt Hotels Corporation, Hilton Hotels and Resorts and Intercontinental Hotels and Resorts.

- Intercontinental hotels had slightly lower trailing P/E, forward P/E and Enterprise/EBITDA values than Marriott while Marriott had a lower Enterprise/Revenue value. While this would suggest for the most part that Marriott is overvalued compared to Intercontinental Hotels, the differences between these metrics seem too small for this to matter. As Marriot Inc has a much higher market cap compared to its Intercontinental, it has a larger market presence. But Marriot's enterprise value was over \$10 billion higher than its market cap value while Intercontinental's enterprise value was only \$3 billion higher indicating that Marriot was much more reliant on debt financing than Intercontinental. Marriott has a higher profit margin indicating they have a higher customer base while Intercontinental has triple the operating margin which shows they are much more effective at controlling costs.
- Marriott hotels had much lower trailing P/E, forward P/E and Enterprise/EBITDA values than Hyatt while Hyatt had a slightly lower Enterprise/Revenue value. This implies that for the most part that Marriott is undervalued when compared to Intercontinental Hotels. Marriot Inc's market cap is much higher than Hyatt's so Marriot has a much stronger market presence. Nevertheless, Marriot's enterprise value was over \$10 billion higher than its market cap value while Hyatt's enterprise value was only \$2 billion higher indicating that Marriot was much more dependent on being financed by debt. Marriott has a higher profit margin indicating they have a higher customer base while Intercontinental has triple the operating margin which shows they are much more effective at controlling costs.
- Marriot Inc had lower trailing P/E, forward P/E, Enterprise/Revenue and Enterprise/EBITDA values than Hilton Worldwide Hotels meaning that Marriott is undervalued compared to Hilton. Marriot Inc has a higher market cap than Hilton indicating that Marriot has a larger market presence. Both Marriot's and Hilton's enterprise values was over \$10 billion higher than their respective market cap values so both companies seemed somewhat reliant on debt financing. Marriott has a higher

profit margin and operating margin suggesting that Marriott has a higher customer base and is much more effective at controlling costs than Hilton.

Company	Marriot Inc	Hyatt Hotels	Intercontinental Hotels	Hilton Worldwide Holdings
Stock Price	\$ 251.46	\$ 156.51	\$ 135.86	\$ 206.80
Market Cap	\$ 72,440,000,000	\$ 16,120,000,000	\$ 22,054,400,000.00	\$ 51,870,000,000
Enterprise Value	\$ 84,870,000,000	\$ 18,600,000,000	\$ 25,024,000,000.00	\$ 61,190,000,000
Trailing P/E	24.58	76.44	24.01	47.51
Forward P/E	26.67	43.48	24.63	29.15
Enterprise Value/Revenue	3.58	2.79	4.23	5.98
Enterprise Value/EBITDA	20.11	20.80	15.33	26.57
Profit Margin	0.49	0.03	0.35	0.26
Operating Margin	0.43	0.04	1.21	0.39





Johnson & Johnson is medical technology company that is valued at a market capitalisation of \$375.32 billion and employ 132,000 people. While list prices for Johnson & Johnson couldn't be found, net price data is available. Net prices are the prices charged by a company after rebates, discounts and/or fees. The 2022 Jansen US Pricing Transparency brief states that from 2021 to 2022, net prices fell by 3.5% despite revenue increasing by 1% (3) . This is further reinforced by how prices overall fell by 0.8% in 2022 while sales volume rose by 6.9%. This means that a higher sales volume led to the higher revenue than prices (4) .

Patents have been an effective driver of revenue such as Johnson & Johnson's product STELARA making up roughly 10.2% of revenue in 2022. The second product DARZALEX was approximately 8.4% of revenues. The related cost of accumulated amortization was half the gross revenue of patents and trademarks, leading to net patent profit being half of patent revenue. So accumulated amortization had a 50% correlation with patent revenues. In addition, the most effective revenue driver is new products that have been introduced within the past five years where they accounted for approximately 25% of 2022 sales. This revenue driver can most likely be attributed to research and development costs which can range from 19% to 22% of costs which is roughly similar to the revenue driver of new products. This research and development is a variable cost that is based on improving Johnson & Johnson's products and services. Therefore, the cost driver of research and development costs are strongly correlated with new products.

Furthermore, Johnson & Johnson had 3 segments for their wholesalers distributing products representing 14%, 11% and 11% in 2021 and 16.5%, 13% and 12% respectively in 2022 of total consolidated revenues. In 2018, the Company announced restructuring plans to implement actions across its Global Supply Chain that included improving its supply chain network and growing their strategic collaborations which leads directly to wholesale distributions and negotiations. This makes restructuring plans the cost equivalent of wholesale distributions, but there is not much of a correlation between these drivers since restructuring makes less than 0.5% of costs. This is a variable cost since this will rise as negotiations with wholesale distributors increase. Overall, Johnson & Johnson was able to keep costs down relative to revenue growth.

	2022	2021	2020		2022	2021	2020
Costs					Cost Percentile Breakdown		

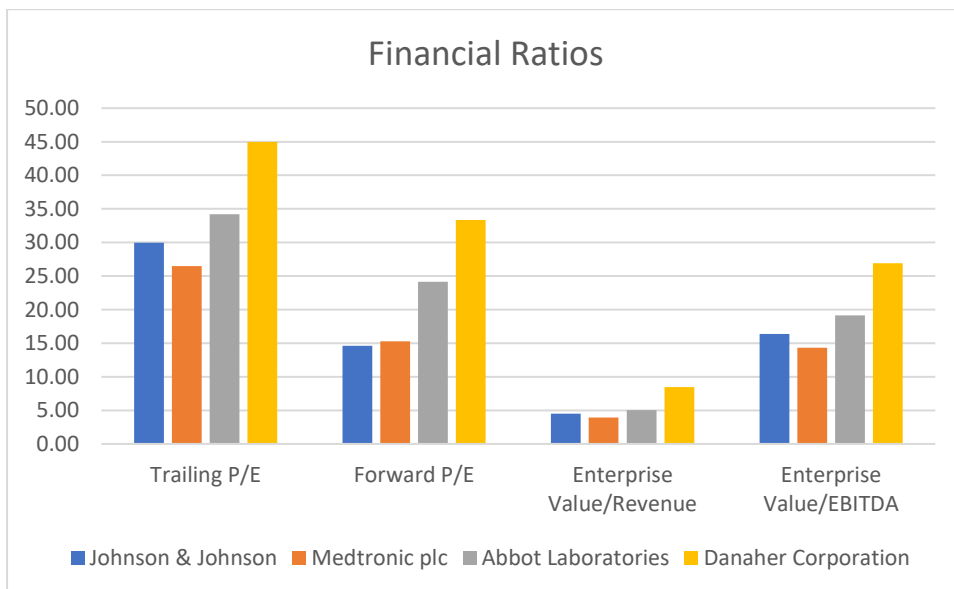
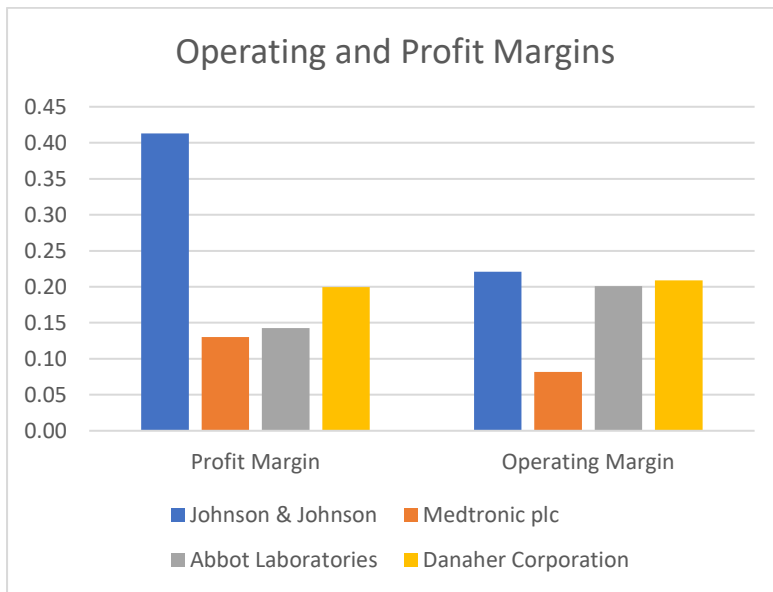
Cost of products sold	31089	29855	28427		43.28%	42.31%	44.91%
Selling, marketing and administrative expenses	24765	24659	22084		34.47%	34.95%	34.89%
Research and development expenses	14603	14714	12159		20.33%	20.85%	19.21%
In-process research an development (Note 5)	783	900	181		1.09%	1.28%	0.29%
Interest expense, net of portion capitalized (Note 4)	276	183	201		0.38%	0.26%	0.32%
Restructuring (Note 20)	321	252	247		0.45%	0.36%	0.39%
Total Costs	71837	70563	63299				

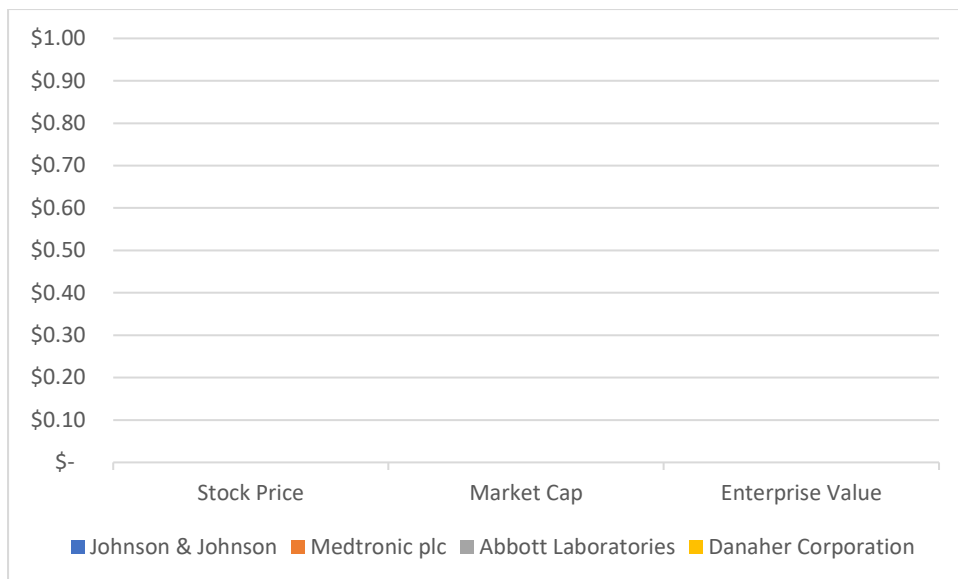
The 3 peer companies I have chosen for Johnson & Johnson within the medical technology sector are Medtronic plc, Abbott Laboratories and Danaher Corporation.

- Medtronic plc's trailing P/E, Enterprise value/Revenue and Enterprise value/EBITDA ratio are lower than Johnson & Johnson, while Johnsons & Johnson only has a lower forward P/E so Medtronic is mostly undervalued compared to Johnson & Johnson. Moreover, Johnson & Johnson has more than triple the market capitalisation value of Medtronic plc, meaning Johnson & Johnson has a greater market presence. Both companies' enterprise value didn't differ much from its market cap value implying that neither company didn't depend much on debt for its operations. Johnson & Johnson is much more profitable, has more effective management and a greater customer base due to higher operating and profit margins than Medtronic plc.
- Johnson & Johnson has smaller trailing P/E, forward P/E, Enterprise/Revenue and Enterprise/EBITDA values than Abbott Laboratories meaning that Johnson & Johnson is very undervalued compared to Abbott Laboratories. In addition, Johnson & Johnson has a greater market presence than Abbot Laboratories due to a much higher market capitalisation value. Neither companies' Enterprise value varies much with the market cap value so neither are in much debt. In addition, Abbot is not very profitable and has a smaller customer base relative to Johnson & Johnson due to lower profit and operating margins.
- Danaher Corporation has larger trailing P/E, forward P/E, Enterprise/Revenue and Enterprise/EBITDA values than Johnson & Johnson meaning that Johnson & Johnson is very undervalued compared to Danaher Corporation. Danaher's lower market cap value demonstrates a lower market presence than Johnson & Johnson. Like the other companies in this peer group, both Danaher and Johnson & Johnson's market cap and enterprise value are quite similar so don't depend on debt for growth much. Johnson & Johnson's higher operating and profit margins in contrast to Danaher's lower profit margin gives the impression that Johnson & Johnson is much more profitable, has better management and a better access to a large customer base.

Company	Johnson & Johnson	Medtronic plc	Abbott Laboratories	Danaher Corporation
Stock Price	\$155.75	\$83.41	\$111.51	\$254.11
Market Cap	\$375320000000	\$110750000000	\$193490000000	\$187970000000
Enterprise Value	\$381730000000	\$127610000000	\$201840000000	\$201640000000
Trailing P/E	29.95	26.48	34.21	44.98
Forward P/E	14.62	15.27	24.15	33.33
Enterprise Value/Revenue	4.48	3.95	5.03	8.44
Enterprise Value/EBITDA	16.37	14.32	19.14	26.90
Profit Margin	0.41	0.13	0.14	0.20

Operating Margin	0.22	0.08	0.20	0.21
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Sources:

- 1) <https://marriott.gcs-web.com/static-files/c0fb865c-15b1-4166-9846-49b548da1ce4>
- 2) <https://marriott.gcs-web.com/static-files/0f66a698-c5bd-4fdd-9c03-95b3111600e9>
- 3) [https://transparencyreport.janssen.com/\\_document/2022-janssen-transparency-report-pdf?id=00000188-267e-d95e-abca-7e7e58750000](https://transparencyreport.janssen.com/_document/2022-janssen-transparency-report-pdf?id=00000188-267e-d95e-abca-7e7e58750000)
- 4) [https://www.investor.jnj.com/files/doc\\_financials/2022/ar/2022-annual-report.pdf](https://www.investor.jnj.com/files/doc_financials/2022/ar/2022-annual-report.pdf)