Marriott International Inc New

Project Part II

Finance 331

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March 7, 2007

Part II:

A. For December 5, 2005

(a) Current ratio-

CA/CL= 2,010,000/1,992,000= 1.0090

(b) Quick ratio-

CA-inventory/CL= 2,010,000- 555,000/1,992,000 = 0.7304

(c) Times interest earned ratio

EBIT (operation profit)/ interest = 263,000/106,000= 2.4811

(d) Total debt/equity

Total L/OE= 5,267,000/3,252,000= 1.6196

(e) Inventory turnover ratio (use COGS in the numerator)

COGS/inventory= 2,571,000/555,000= 4.6324

(f) Average collection period (use credit sales, if available)

365/credit sales or receivable turnover = 365/3,879,000= 9.4096

(g) Total asset turnover

Sales/fix assets= 3,879,000/3,126,000= 1.2409

(h) ROA using the DuPont relationship

Net income/total asset= 669,000/8,530,000= 0.0784

(i) ROE using the DuPont relationship

Net income/OE= 669,000/3,252,000= 0.2057

(j) Price/Earning Ratio

Price per share/earning per share= 35.490/3.2492=

(Earning per share= net income/outstanding shares= 669,000/205,900= 3.2492)

B.

Marriott International is one of the most trusted names in the hotel industry globally. Marriott has high standards for its hotels and employees. It assured a high level of quality to its customers that's why when people travel; they often look for the Marriott brand from their unforgettable experience.

The firm's liquidity improvements over the period can be identified by looking at both the current ratio and quick ratio. The current ratio is a measure of short-term liquidity which does not affect by the using of cash to buy inventory. On the other hand, it would reduce the quick ratio. Both of the ratios were fairly constant for the last three years which means that the firm's liquidity has not improved much but stayed the same.

By observing the total debt/equity, the "Leverage" ratios show an improvement in the financial strength of the company. Since the total of debt/equity is fairly low it is better for the company. The lower the total debt/equity is the better the company is; however, over the past three years the total debt/equity increased from 0.30 to 0.48.

Using return on asset can (ROA) determine the "Efficiency" ratios which will indicate a better or worse utilization of resource and how much can the company get out of assets. The ROA that was provided indicated a better utilization of resource.

Using return on equity can determine if the "profitability" or the "management effectiveness" ratios improving. The amount the company can get out of equity is fairly high by its 7.54. Marriott's ROE are very consistence through out the each year.

According to the calculations and the past performance, I am very optimistic about the financial health of this company in the near future. Marriott recently announce about their new expansion through out the world to increase their profit.

C.

1. Valuation Ratios

a. Marriott's P/E ratio is higher than the industry ratio by about 1.4. Marriott's is 29.62 while the industry ratio is 27.16.

b. Marriott's price to book is not provided by Reuters.com; however, the industry price to book is 4.98.

c. Marriott's price to free cash flow is also not provided by Reuters.com; however, the industry price to free cash flow is 48.10.

2. Profitability ratios:

a. Marriott's gross profit margin is lower than the industry's gross profit margin by nearly about half. The industry's profit margin is 26.75 while Marriott's is 13.88.

b. Marriott's operating profit margin is lower than its industry's by about 3.5. Industry's profit margin is 26.75 while Marriott's is 13.88.

c. Marriott's net profit margin is lower than its industry's by about 3.5. Industry's net profit margin is 9.40 while Marriott's is 5.85.

3. Management effectiveness ratios:

a. Marriott's return on assets (ROA) is not provided by Reuters.com; however, using the calculation from part A, ROA came out to be 7.54 for Marriott's while the industry is 7.56 (provided by Reuters.com). The numbers are very close.

b. Marriott’s return on equity (ROE) is not provided by Reuters.com; however, using the calculation from part A, ROE came out to be 20.57 for Marriott’s while the industry is 17.97 (provided by Reuters.com). Marriott’s is fairly higher than the industry’s.

4. Efficiency ratios

a. Marriott’s receivables turnover is not provided by Reuters.com; however, using the fundamental ratio sheet, it came out to be 4.63 for Marriott’s while the industry is 10.63 (provided by Reuters.com). Marriott’s is much lower than the industry’s.

b. Marriott’s inventory turnover is not provided by Reuters.com but the industry is 10.43.

c. Marriott’s asset turnover is not provided by Reuters.com but the industry is 0.80.

On the basis of the above ratio comparison discuss the firm’s position vis-à-vis its industry. Based on your analysis of the company’s ratios in B and C I would recommend to “buy” the stock of your company.