U.S. Hotel Industry Analysis

Example 5

April 19th, 2002
Industry Sales 1997 - 2001

Sales in Billions of Dollars

Year (E indicates estimated value)

76.78 81.87 86.57 90.09 65.81

(WEFA Industrial Monitor)
Industry Profits 1997-2001

Profits in Billions of Dollars

1997: 17
1998: 20.9
1999: 22.1
2000: 23.0
2001: 16.8

(Salomon Smith Barney)
Major U.S. Competitors

Top Hotel Corporations for 2000

2000 Sales (In Billions)

 Corporations

Marriott  Radisson  Accor  Starwood  Hyatt  Hilton  6 Continents  Wyndham  Cendant  La Quinra

(Business Rankings Annual 2002)
Cultural Influences

*Demand Factors*

- Domestic and international fear of travel resulting from recent terrorist activity
- Economic downturn has dampened spending by all market segments
- Corporate spending limitations resulting from current economy
- Continual increase in travel spending by Baby Boomers

*(Ernst and Young)*
Cultural Influences

Supply Factors

- Prior to September 11th events luxury and upscale segments of this market already were experiencing effects of oversupply in market (Ernst and Young)

- Increased enforcement of Immigrant employment status (Hotel and Motel Management)

- Weakening investment trends is limiting growth in the travel and leisure industries (Ernst & Young)
Legal Environmental Influences

- American Travel Promotion Act *(Tradeshow Week Magazine)*
- LAS (Legislative Action Summit) *(American Hotel and Lodging Association)*
- Code 299F.011 ; Uniform Fire Code *(Minnesota State Statutes 2000)*
- American’s with Disabilities Act *(Mondaq Business Briefing)*
- Fair Housing Act *(Mondaq Business Briefing)*
- SAVE Pilot Program ; verifying immigrant status *(Hotel & Motel Management)*
Recent Environmental Influences

*September 11th Industry Impact*

- Over 700 million in lost sales in first two weeks following terrorist attacks *(Ernst and Young)*

- RevPAR (revenue per available room) is expected to decline 5% total for 2001 *(Smith Travel Research)*

- Increase in insurance premiums of up to 50% expected for 2002 *(Ernst and Young)*

- Luxury hotels saw most dramatic decrease in sales due to economic downturn resulting from terrorist attacks *(Pricewaterhouse Coopers)*
Trends

- Mixed use development in industry; using time-share property to fund hotel construction
- Cost containment
- Energy and environmental savings
- Dramatically increased security since 9-11 events
- Increased insurance premiums

(Ernst & Young)
## Performance Summary

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001E</th>
<th>2002E</th>
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<tbody>
<tr>
<td>OCC</td>
<td>63.7%</td>
<td>60.1%</td>
<td>69.9%</td>
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<tr>
<td>ADR</td>
<td>$86</td>
<td>$85</td>
<td>$85</td>
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<tr>
<td>RevPAR</td>
<td>$55</td>
<td>$51</td>
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### 2002 US Lodging Industry Outlook: The Numbers

**Anticipated Recovery Period**
- Fast (3-6 months)
- Slow (12-18+ months)

Source: Smith Travel Research, Lodging Econometrics, Ernst & Young LLP
Forecasted Sales For Industry 2002 - 2006

Sales in Billions of Dollars

Years

2002 2003 2004 2005 2006

66.98 84.22 88.66 93.1 97.5
Segmenting: Who’s Traveling?

- 28.4 % of people who stay in hotels are transient business travelers
- 25.3 % are attending a conference or group meeting
- 24.6 % are on vacation
- 21.8 % are traveling for other reasons

(American Hotel and Lodging Association)
Baby Boomers as Target Market Segment

- Established Careers
  - More disposable income
  - More free/vacation time
- Less dependent children
Top Growth Markets in Lodging Demand 1999-2000

Percentage growth in demand

Geographic Region in U.S.

(Business Rankings Annual 2002)
Top Growth Markets in Lodging Supply, 1999-2000

Percentage Growth in Supply

Geographic Region in the U.S.

(Business Rankings Annual 2002)
Primary Research

- Individual State Laws
- Taxes
- Licenses
- Available labor of areas
- Construction and building information and costs
- Franchise laws and licenses
Reference Books


"NOTES FROM PWC ANNUAL LODGING INDUSTRY PRESENTATION."

"Reports Indicate Business Travel is in Holding Pattern." Tradeshow Week Magazine.


Internet Sources


**HARDCOPY PERIODICALS**

**INDICATION OF THE MAJOR DOMESTIC HOTEL CORPORATIONS SIZE**  
(RANKED ACCORDING TO 2000 REVENUES)

<table>
<thead>
<tr>
<th>Marriott International, Inc.</th>
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<tbody>
<tr>
<td><strong>Sales for 2001</strong></td>
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<td><strong>Number of Rooms</strong></td>
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</table>
| **Most Popular Domestic Brands** | Marriott Hotels, Resorts, & Conference Centers  
Ritz Carlton  
Courtyard  
Fairfield Inns  
Residence Inns |

(Marriott International, Inc.)

<table>
<thead>
<tr>
<th>Radisson Hotels (Franchise Branch of Carlson Hospitality)</th>
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</thead>
</table>
| **Sales for 2000**                                       | 6.4 Billion  
(Not traded by public, sales data based on Brandweek data) |
| **Number of Rooms**                                     | 101,408 |
| **Brands & Related Brands In Carlson Family**            | Radisson Hotels & Resorts  
Regent International  
Park Inn  
Park Plaza  
Country Inn & Suites  
(Sales and Number of Rooms not inclusive of all brands, just Radisson) |

(Brandweek)  
(Radisson Hotels)

<table>
<thead>
<tr>
<th>Accor International, Inc. (Formerly Redroof Inns)</th>
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<tr>
<td><strong>Sales for 2001</strong></td>
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<td><strong>Number of Rooms</strong></td>
</tr>
</tbody>
</table>
| **Most Popular Domestic Brands**                 | Red Roof Inns  
Motel 6  
Days Inn  
Sofitel |

(Accor International, Inc.)  
(Hotel Digest)
<table>
<thead>
<tr>
<th>Starwood Hotels &amp; Resorts Worldwide, Inc.</th>
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<tbody>
<tr>
<td><strong>Sales for 2001</strong></td>
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<td><strong>Number of Rooms</strong></td>
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(Starwood Hotels & Resorts Worldwide, Inc.)

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<th>Hyatt Corporation</th>
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<td><strong>Sales for 2000</strong></td>
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<td>(Not traded by public, sales data based on 2000 American Hotel &amp; Lodging data)</td>
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<td><strong>Number of Rooms</strong></td>
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(Hyatt Corporation)
(American Hotel & Lodging Association)

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<tr>
<th>Hilton Hotels</th>
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<td><strong>Sales for 2001</strong></td>
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(Hilton Hotels)

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<th>6 Continents (Formerly Bass Hotels)</th>
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<td><strong>Sales for 2001</strong></td>
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*(Wyndham)*

*(American Hotel & Lodging Association)*

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*(American Hotel & Lodging Association)*

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<th>La Quinta Corporation</th>
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<td><strong>Sales for 2001</strong></td>
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*(La Quinta Corporation)*
EXPLANATION OF SALES ESTIMATION

To estimate sales, we looked at profits for each year and found the proportion of sales that is accountable to profits. We used the proportion of 1998 data because it is the most current available information. Profits for 1998 divided by Sales for 1998 were equal to .2253 or 25.53%.


20.9 bil. / 81.87 bil. = 22.1 / Sales 1999

Cross multiply to get: 22.1*81.87=20.9s  Sales 1999 = 86.57 E


20.9 bil. / 81.87 bil. = 23.0 / Sales 2000

Cross multiply to get: 23.0*81.87=20.9s  Sales 2000 = 90.09 E


20.9 / 81.87 = 16.8 / Sales 2001

Cross Multiply to get: 16.8*81.87=20.9s  Sales 2001 = 65.81 E
EXPLANATION OF FORECAST ESTIMATIONS

To forecast sales, we used the same method we used for estimating current sales up to the year 2003 and used the same data with the profits. The hotel industry is expected to be back to normal after the year 2003 (Ernst & Young).


\[ \frac{20.9}{81.87} = \frac{17.1}{\text{Sales 2002}} \]

Cross multiply to get: \( 17.1 \times 81.87 = 20.9 \times \text{Sales 2002} \)

Sales 2002 = 66.98 E


\[ \frac{20.9}{81.87} = \frac{21.5}{\text{Sales 2003}} \]

Cross multiply to get: \( 21.5 \times 81.87 = 20.9 \times \text{Sales 2003} \)

Sales 2003 = 84.22 E

For years 2004-2006, we looked back at what the growth previously was before the September 11th attacks and the downturn in the economy. The sales each year were increasing at a decreasing rate.

Sales 1998 - Sales 1997 = 81.87 - 76.78 = 5.09

Sales 1999 - Sales 1998 = 86.57 - 81.87 = 4.70

Sales 2000 - Sales 1999 = 90.09 - 86.57 = 3.52

\( \frac{(5.09 + 4.70 + 3.52)}{3} = 4.44 \)
The average increase in sales is $4.44 billion.

Sales 2003 + 4.44 = 84.22 + 4.44 = $88.66 billion = 2004 Sales E

Sales 2004 + 4.44 = 88.66 + 4.44 = $93.1 billion = 2005 Sales E

Sales 2005 + 4.44 = 93.1 + 4.44 = $97.54 billion = 2006 Sales E