



# JOSEPH JEKYLL ADVISERS

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**Experts in Qualitative Research  
and  
Quantitative Analysis**

**Confidential Presentation**

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## **Starwood Hotels and Resorts, Inc.**

February 10, 2015

NYSE: HOT | \$75.93 | Beta: 1.65 (Bloomberg)

2014 Cash Dividend \$ 4.00

Trailing Annual Dividend Yield: 5.26%

Price Objective: \$75

**Annual Results FY 2013 and  
Five Year Financial Outlook**

## **STARWOOD HOTELS AND RESORTS, INC**

### **UPDATE 02/10/15: Q4 2014 better than expected and time share spin off announcement**

Starwood's Hotels and Resort's, Inc. (HOT) Q4 2014 results came in above our expectations: EPS from continuing operations was \$0.97 and EBITDA was \$335 million, compared to EPS of \$0.73 and EBITDA of \$314 million in Q4 2013. For the full year 2014, EPS from continuing operations was \$3.46 and EBITDA was \$1.194 billion, which is close to our EPS and EBITDA estimates of \$3.34 and \$1.195 billion, respectively.

The SVO spin was a good move strategically, in our view, as the timeshare business is more cyclical and lower return than HOTs fee-based business segment. It also helps to further move HOT towards asset light. The market responded favorably to the news of the spin off. HOT closed at \$71.23 on 02/09/11, the day prior to the announcement ; at \$75.93 on 02/10/15, the day of the announcement and at \$78.55 on 02/13/15. We change our PO from \$75 to \$79 based on the positive news of better than expected Q4 results but mainly because of the SVO spin. Our HOLD rating, however, does not change, reflecting the risk that the spin off could take longer than expected (end of 2015) or that it might not take place at all.

### **UPDATE 02/17/15: Current CEO and Director van Paasschen resigns on 02/17/15**

HOT announced on 02/17 that CEO Frits van Paasschen resigned. This news was viewed positively by the market. HOT closed at \$78.55 on 02/13/15, the prior trading day before the announcement and at \$80.64 on 02/17/15, the day of the announcement. The board wants the company to focus on accelerating growth and improving performance.. While HOTs strategy will not change, the board wants a CEO with an operational background in lodging. HOT stated van Paasschen's departure was based on a mutual agreement, but the company is only now starting the search for a new CEO, which may take months. On the upside, the interim CEO Adam Aron is an eight-year member of HOTs board and comes with a solid background in hospitality. We maintain our PO of \$79 and our HOLD rating.

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## STARWOOD HOTELS AND RESORTS, INC

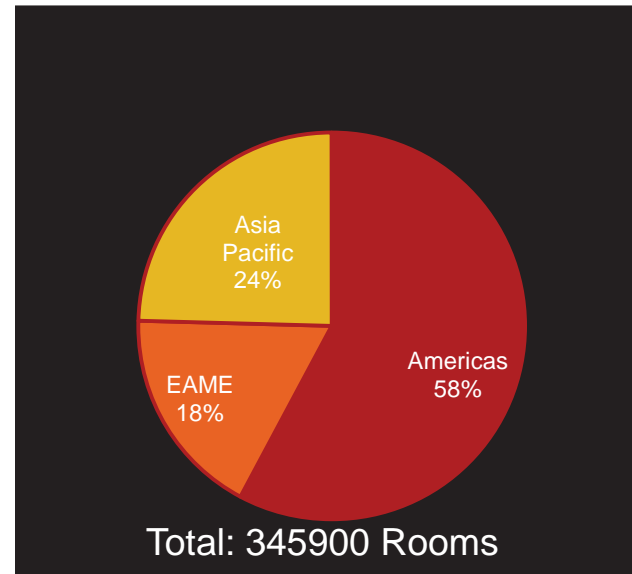
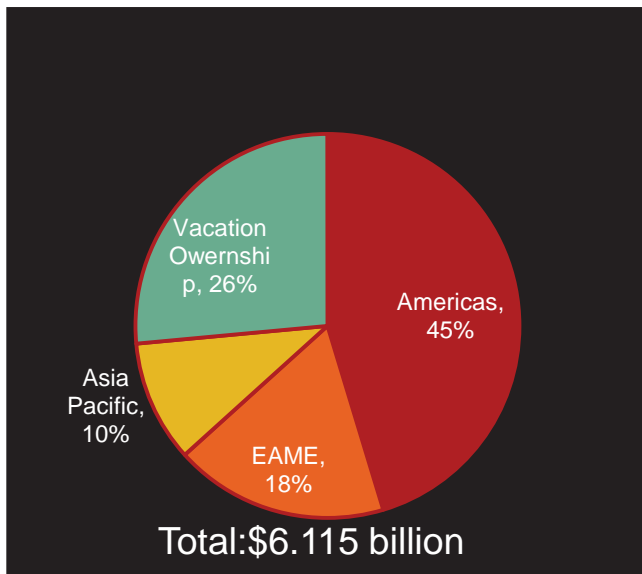
### *Company Overview*

- ***Starwood is one of the largest hotel and leisure companies in the world, with 1,175 properties providing approximately 346,800 rooms in nearly 100 countries and 181,400 employees***
- ***Starwood operations the following brands:***
  - ***St. Regis***<sup>®</sup> (luxury full-service hotels, resorts and residences) is for connoisseurs who desire the finest expressions of luxury.
  - ***The Luxury Collection***<sup>®</sup> (luxury full-service hotels and resorts) is a group of unique hotels and resorts offering exceptional service
  - ***W***<sup>®</sup> (luxury and upper upscale full-service hotels, retreats and residences) is where iconic design and cutting-edge lifestyle set the stage for exclusive and extraordinary experiences.
  - ***Westin***<sup>®</sup> (luxury and upper upscale full-service hotels, resorts and residences) provides innovative programs and instinctive services designed with our guests' well-being in mind.
  - ***Le Méridien***<sup>®</sup> (luxury and upper upscale full-service hotels, resorts and residences) is a Paris-born global hotel brand, currently represented by close to 100 properties in over 40 countries worldwide.
  - ***Sheraton***<sup>®</sup> (luxury and upper upscale full-service hotels, resorts and residences) is our largest brand serving the needs of business and leisure travelers worldwide.
  - ***Four Points***<sup>®</sup> (select-service hotels) delights the smart traveler with what is needed on the road for greater comfort and productivity.
  - ***Aloft***<sup>®</sup> (select-service hotels) opened its first hotel in 2008 and has rapidly expanded to 79 properties in 18 countries by the end of 2013.
  - ***Element***<sup>®</sup> (extended stay hotels) first opened in 2008, providing a modern, upscale and intuitively designed hotel experience that allows travelers a place to thrive.
- Headquartered in Stamford, CT

Source: Publicly available SEC filings

## STARWOOD HOTELS AND RESORTS INC

### Revenue Breakdown 2013



Source: Publicly available SEC filings.

- More than 50% of HOTs revenue is generated outside the U.S.

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## 11-Year Financial Summary

(\$ in millions, except per share data)

## STARWOOD HOTELS AND RESORTS INC

Fiscal	Actual										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenues	\$ 4,630	\$ 5,368	\$ 5,977	\$ 5,979	\$ 6,153	\$ 5,907	\$ 4,696	\$ 5,071	\$ 5,624	\$ 6,321	\$ 6,115
Operating exp., SGA											
Owned, leased and joint ventures	2,392	2,519	2,634	2,023	1,805	1,722	1,315	1,395	1,449	1,391	1,292
Vacation ownership and residentia	340	488	661	736	758	583	521	405	521	961	632
SGA	200	331	370	466	508	477	352	344	352	370	384
Other expenses fr. Managed fran	851	983	1,070	158	1,865	2,042	2,339	2,117	2,339	2,448	2,614
Restructuring	(9)	(37)	13	20	53	141	379	(75)	68	(12)	1
Total operating exp., SGA	3,774	4,284	4,748	3,403	4,989	4,965	4,906	4,186	4,729	5,158	4,923
Net Income	105	369	423	1,115	543	254	(3)	308	500	470	565
Diluted EPS	\$ 0.51	\$ 1.72	\$ 1.88	\$ 5.01	\$ 2.57	\$ 1.37	\$ -	\$ 1.63	\$ 2.57	\$ 2.39	\$ 2.92
Dividends	0.84	0.84	0.84	0.84	0.90	0.90	0.20	0.30	0.50	1.25	1.35
Total Revenue Growth	0.9%	15.9%	11.3%	0.0%	2.9%	(4.0)%	(20.5)%	8.0%	10.9%	12.4%	(3.3)%
EPS Growth		237.3%	9.3%	166.5%	(48.7)%	(46.7)%	(100.0)%	n/a	57.7%	(7.0)%	22.2%
Cost and expenses, % of Total Re	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income, % of Total Revenues	2.3%	6.9%	7.1%	18.6%	8.8%	4.3%	(0.1)%	6.1%	8.9%	7.4%	9.2%
Dividend Growth		0.0%	0.0%	0.0%	7.1%	0.0%	(77.8)%	50.0%	66.7%	150.0%	8.0%
Dividend Payout Rate	164.7%	48.8%	44.7%	16.8%	35.0%	65.7%	n/a	18.4%	19.5%	52.3%	46.2%
Current assets of continuing operat	1,245	1,683	2,283	1,810	1,824	2,166	1,491	2,621	2,534	1,889	1,996
Current liabilities of continuing oper	1,644	2,128	2,879	2,461	2,101	2,688	2,027	2,165	1,992	2,016	1,924
Working Capital	(399)	(445)	(596)	(651)	(277)	(522)	(536)	456	542	(127)	72
Δ Working Capital		(46)	(151)	(55)	374	(245)	(14)	992	86	(669)	199
PPE, net	7,123	4,341	3,956	3,831	3,850	3,599	3,350	3,323	3,270	3,034	3,162
Δ Net PPE		(2,782)	(385)	(125)	19	(251)	(249)	(27)	(53)	(236)	128
Hotels	756	752	864	896	925	968	992	1,041	1,089	1,134	1,175
Rooms	233,000	236,000	264	272,500	282,000	292,000	298,500	308,700	322,300	335,400	346,800

Note: Fiscal year ends December 31

Source: Publicly available SEC filings

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Income Statement		<b>STARWOOD HOTELS AND RESORTS INC</b>								
(\$ in millions, except per share data)										
Fiscal	2010	Actual			Estimated		Projected			
		2011	2012	2013	2014	2015	2016	2017	2018	
Revenue	\$ 5,071	\$ 5,624	\$ 6,321	\$ 6,115	\$ 6,017	\$ 6,107	\$ 6,214	\$ 6,323	\$ 6,434	
Operating, SG&A Expen	4471	4,994	5,409	5,190	5,084	5,138	5,204	5,272	5,340	
<b>Operating Income</b>	<b>600</b>	<b>\$ 630</b>	<b>\$ 912</b>	<b>\$ 925</b>	<b>\$ 933</b>	<b>\$ 970</b>	<b>\$ 1,010</b>	<b>\$ 1,051</b>	<b>\$ 1,094</b>	
Equity earnings/ gains from uncons. ventures		11	25	26	24	24	24	24	24	
Interest expense, net		(200)	(170)	(100)	77	77	59	57	57	
Loss on early extinguishment of debt, net		(16)	(128)	-	(1)	-	-	-	-	
Loss on asset dispositions and impairments, net		-	(21)	(23)	(75)	15	15	15	15	
Interest income					9	9	5	6	7	
<b>Pre-Tax Income</b>		<b>\$ 425</b>	<b>\$ 618</b>	<b>\$ 828</b>	<b>\$ 967</b>	<b>\$ 1,095</b>	<b>\$ 1,113</b>	<b>\$ 1,153</b>	<b>\$ 1,197</b>	
Income Taxes		75	(148)	(263)	(339)	(383)	(390)	(404)	(419)	
<b>Net Income from cont. operations</b>		<b>\$ 500</b>	<b>\$ 470</b>	<b>\$ 565</b>	<b>\$ 629</b>	<b>\$ 712</b>	<b>\$ 724</b>	<b>\$ 749</b>	<b>\$ 778</b>	
Diluted Shares Outstanding		195	197	193	188	185	182	179	176	
<b>Diluted Earnings per Share</b>		<b>\$ 2.56</b>	<b>\$ 2.39</b>	<b>\$ 2.93</b>	<b>\$ 3.34</b>	<b>\$ 3.85</b>	<b>\$ 3.98</b>	<b>\$ 4.19</b>	<b>\$ 4.42</b>	
<b>EBITDA</b>		<b>\$ 895</b>	<b>\$ 1,163</b>	<b>\$ 1,192</b>	<b>\$ 1,195</b>	<b>\$ 1,236</b>	<b>\$ 1,281</b>	<b>\$ 1,327</b>	<b>\$ 1,375</b>	
<i>EBITDA Margin</i>		<i>15.9%</i>	<i>18.4%</i>	<i>19.5%</i>	<i>19.9%</i>	<i>20.2%</i>	<i>20.6%</i>	<i>21.0%</i>	<i>21.4%</i>	
<b>Income Statement Assumptions</b>										
Revenue Growth		10.9%	12.4%	-3.3%	(1.6)%	1.5%	1.8%	1.8%	1.8%	
Op, SG&A, % of Revenue	(0.4)%	88.8%	85.6%	84.9%	84.5%	84.1%	83.7%	83.4%	83.0%	
Effective Tax Rate		(17.6)%	23.9%	31.8%	35.0%	35.0%	35.0%	35.0%	35.0%	
Depreciation & Amortization		\$ 265	\$ 251	\$ 267	\$ 263	\$ 267	\$ 271	\$ 276	\$ 281	
D&A, % of Net Revenue		4.7%	4.0%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Note: Fiscal year ends December 31										
Source: Publicly available SEC filings										

## Low revenue growth due to negative F/X impact and slow unit growth compared to peers

RevPAR increases in constant dollars will be 300 basis points lower in actual dollars at current exchange rates in 2015, according to guidance. HOT lags behind peers in hotel-count and rooms growth, but does not plan on targeting higher growth lodging segments such as the midscale market and below. It considers those a different business model. We have lowered our revenue growth figures to 1.5% for 2015 and 1.8% for 2016.

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## Balance Sheet

# STARWOOD HOTELS AND RESORTS INC

(\$ in millions)

Fiscal	Actual		Estimated	Projected				
	2011	2012	2013	2014	2015	2016	2017	2018
<b>ASSETS</b>								
Current Assets								
Cash & Equivalents		\$ 305	\$ 616	\$ 601	\$ 347	\$ 363	\$ 430	\$ 152
Restricted Cash		158	134	134	134	134	134	134
Receivables	569	586	643	605	611	617	623	629
Inventories	812	361	217	283	285	286	288	289
Securitized vacation ownership notes		65	54	54	54	54	54	54
Deferred income taxes		290	211	211	211	211	211	211
Prepaid Expenses and Other	125	124	121	121	122	123	124	125
Total Current Assets		\$ 1,889	\$ 1,996	\$ 2,008	\$ 1,763	\$ 1,788	\$ 1,864	\$ 1,595
Investments		\$ 260	\$ 251	\$ 251	\$ 251	\$ 251	\$ 251	\$ 251
PPE		3,162	3,034	\$ 3,131	\$ 3,224	\$ 3,313	\$ 3,398	\$ 3,479
Assets held for sale, net		36	-	-	-	-	-	-
Goodwill and intangible assets, net		2,025	2,032	2,032	2,032	2,032	2,032	2,032
Deferred income taxes		660	591	591	591	591	591	591
Other assets	355	385	543	457	461	466	470	475
Securitized vacation ownership notes receivables, net		438	315	315	315	315	315	315
<b>TOTAL ASSETS</b>		<b>\$ 8,855</b>	<b>\$ 8,762</b>	<b>\$ 8,785</b>	<b>\$ 8,638</b>	<b>\$ 8,756</b>	<b>\$ 8,922</b>	<b>\$ 8,738</b>
<b>LIABILITIES</b>								
Current Liabilities								
Short-term borrowings, current portion LT debt		\$ 2	\$ 2	\$ 296	\$ 34	\$ 3	\$ 372	\$ 20
Revolver		-	-	\$ -	\$ -	\$ -	\$ -	\$ -
Account Payable	144	121	105	111	111	112	113	113
Current maturities of LT sec. VO debt		150	97	97	97	97	97	97
Accrued Expenses	1177	1,074	1,092	1,066	1,076	1,087	1,098	1,109
Accrued Salaries, wages and bene	375	395	404	393	397	401	405	409
Accrued Taxes and Other	163	274	224	224	224	224	224	224
Total Current Liabilities		\$ 2,016	\$ 1,924	\$ 2,186	\$ 1,940	\$ 1,924	\$ 2,309	\$ 1,972
Long-Term Debt		\$ 1,273	\$ 1,265	\$ 969	\$ 935	\$ 932	\$ 560	\$ 540
LT sec. VO Debt		383	258	258	258	258	258	258
Deferred Income Taxes		85	48	48	48	48	48	48
Other Liabilities		1,956	1,904	1,904	1,904	1,904	1,904	1,904
<b>TOTAL LIABILITIES</b>		<b>\$ 5,713</b>	<b>\$ 5,399</b>	<b>\$ 5,365</b>	<b>\$ 5,085</b>	<b>\$ 5,066</b>	<b>\$ 5,079</b>	<b>\$ 4,722</b>
<b>STOCKHOLDERS' EQUITY</b>								
Common Stock		\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2	\$ 2
APIC		816	661	354	47	(260)	(567)	(874)
Accumulated Other Comp. Income		(338)	(335)	(335)	(335)	(335)	(335)	(335)
Retained Earnings		2,657	3,032	\$ 3,396	\$ 3,836	\$ 4,280	\$ 4,740	\$ 5,219
<b>TOTAL STARWOOD STOCKHOLDERS' EQUITY</b>		<b>\$ 3,137</b>	<b>\$ 3,360</b>	<b>\$ 3,417</b>	<b>\$ 3,550</b>	<b>\$ 3,687</b>	<b>\$ 3,840</b>	<b>\$ 4,012</b>
Noncontrolling Interest		5	3	3	3	3	3	3
<b>TOTAL EQUITY</b>		<b>\$ 3,142</b>	<b>\$ 3,363</b>	<b>\$ 3,420</b>	<b>\$ 3,553</b>	<b>\$ 3,690</b>	<b>\$ 3,843</b>	<b>\$ 4,015</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		<b>\$ 8,855</b>	<b>\$ 8,762</b>	<b>\$ 8,785</b>	<b>\$ 8,638</b>	<b>\$ 8,756</b>	<b>\$ 8,922</b>	<b>\$ 8,738</b>

Note: Fiscal year ends December 31

Source: Publicly available SEC filings



## STARWOOD HOTELS AND RESORTS INC

### BALANCE SHEET ANALYSIS CONTINUED

#### Tradeoff between asset sales and stock price

HOT asset sales program is a catalyst to its share price as proceeds are used to fund share repurchases. HOT must balance the tradeoff between possibly higher asset valuations over the next two to three years before the lodging cycle reaches its peak or selling assets now and use the proceeds to repurchase stock. Overall, asset sales are off pace: with \$817 million of asset sales during 2014 and planned asset sales in 2015 of the same amount, HOT is still well behind its previously stated goal of \$3 billion worth of asset sales by the end of 2016. Also, if asset sales are international, at current rates F/X will have a negative impact.

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## Cash Flow Statement **STARWOOD HOTELS AND RESORTS INC**

(\$ in millions)

Fiscal	Estimated	Projected			
	2014	2015	2016	2017	2018
<b>Cash From Operating Activities:</b>					
Net Income	\$ 629	\$ 709	\$ 716	\$ 736	\$ 758
Plus: Depreciation & Amortization	263	265	268	271	273
<b>Changes in Working Capital:</b>					
(Increase)/Decrease in Receivables	\$ 38	\$ (6)	\$ (6)	\$ (6)	\$ (6)
(Increase)/Decrease in Inventories	(66)	(2)	(2)	(2)	(2)
(Increase)/Decrease in Prepaid Expenses and Other	0	(1)	(1)	(1)	(1)
(Increase)/Decrease in Other assets	86	(5)	(5)	(5)	(5)
Increase/(Decrease) in Account Payable	6	1	1	1	1
Increase/(Decrease) in Accrued Expenses	(26)	11	11	11	11
Increase/(Decrease) in Accrued Salaries, wages and ben	(11)	4	4	4	4
<b>Total Change in Working Capital</b>	<b>\$ 28</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 2</b>
<b>Total Cash From Operating Activities</b>	<b>\$ 919</b>	<b>\$ 976</b>	<b>\$ 985</b>	<b>\$ 1,009</b>	<b>\$ 1,034</b>
<b>Cash From Investing Activities:</b>					
(Increase)/Decrease in Capital Expenditures	\$ (360)	\$ (359)	\$ (357)	\$ (356)	\$ (354)
<b>Total Cash From Investing Activities</b>	<b>\$ (360)</b>	<b>\$ (359)</b>	<b>\$ (357)</b>	<b>\$ (356)</b>	<b>\$ (354)</b>
Net Δ in PPE					
<b>Cash From Financing Activities:</b>					
Issuance of Common Stock	\$ -	\$ -	\$ -	\$ -	\$ -
Common Stock Dividends	(265.14)	(268.15)	(271.76)	(275.47)	(279.35)
Net (Purchase) / Reissuance of Treasury Stock	(307)	(307)	(307)	(307)	(307)
<b>Cash Available / (Required) Before Debt</b>	<b>\$ (13)</b>	<b>\$ 42</b>	<b>\$ 50</b>	<b>\$ 71</b>	<b>\$ 93</b>
Debt Borrowing / (Repayment)	(2)	(296)	(34)	(3)	(372)
<b>Total Cash From Financing Activities</b>	<b>\$ (574)</b>	<b>\$ (871)</b>	<b>\$ (613)</b>	<b>\$ (585)</b>	<b>\$ (958)</b>
<b>Beginning Cash Balance</b>	<b>\$ 616</b>	<b>\$ 601</b>	<b>\$ 347</b>	<b>\$ 363</b>	<b>\$ 430</b>
Change in Cash	(15)	(254)	16	68	(279)
<b>Ending Cash Balance</b>	<b>\$ 601</b>	<b>\$ 347</b>	<b>\$ 363</b>	<b>\$ 430</b>	<b>\$ 152</b>
Average Cash Balance	608	474	355	396	291
<b>Dividends Estimate</b>					
Dividends per Share	\$ 1.41	\$ 1.45	\$ 1.50	\$ 1.54	\$ 1.59
Dividends per Share Growth		3.0%	3.0%	3.0%	3.0%
Basic Shares Outstanding	191.9	188.0	184.6	178.8	176.0
Total Dividends	\$ 265	\$ 268	\$ 272	\$ 275	\$ 279
<b>Share Repurchase</b>					
Share Repurchase Program	\$ 307	\$ 307	\$ 307	\$ 307	\$ 307
Projected EPS (Trailing basis)	\$ 2.93	\$ 3.34	\$ 3.84	\$ 3.94	\$ 4.12
Assumed PE Ratio (Trailing basis)	27.0x	27.0x	27.0x	27.0x	27.0x
Implied Share Price	\$ 79.04	\$ 90.28	\$ 103.61	\$ 106.34	\$ 111.14
Number Shares Repurchased	3.9	3.4	3.0	2.9	2.8

Note: Fiscal year ends December 31st

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## Debt Sweep

(\$ in millions)

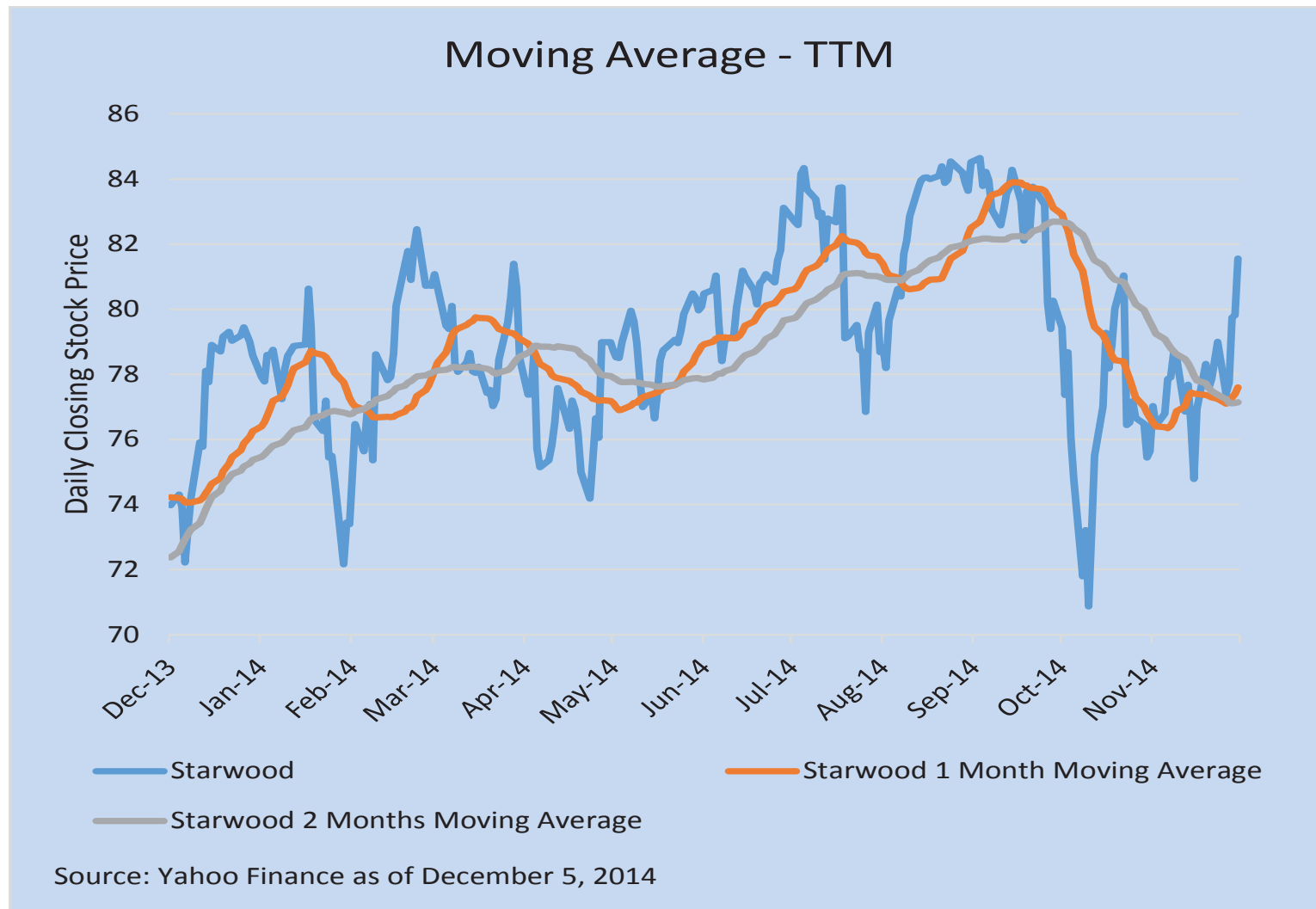
## STARWOOD HOTELS AND RESORTS INC

Fiscal	Actual	Estimated	Projected			
	2013	2014	2015	2016	2017	2018
<b>Cash Available/(Required) Before Debt</b>		<b>\$ (69)</b>	<b>\$ (13)</b>	<b>\$ 9</b>	<b>\$ 32</b>	<b>\$ 55</b>
Plus: Beginning Cash on Balance Sheet		616	545	235	210	239
Less: Minimum Cash Balance		350	350	350	350	350
Mandatory Debt Repayment		(2)	(296)	(34)	(3)	(372)
<b>Cash Before Discretionary Debt Repayment / (Borrowing)</b>		<b>\$ 895</b>	<b>\$ 585</b>	<b>\$ 560</b>	<b>\$ 589</b>	<b>\$ 272</b>
<b>Long term debt</b>						
Beginning Balance		\$ 1,267	\$ 1,265	\$ 969	\$ 935	\$ 932
Mandatory Debt Repayment		(2)	(296)	(34)	(3)	(372)
Ending Balance	\$ 1,267	\$ 1,265	\$ 969	\$ 935	\$ 932	\$ 560
Average Balance		\$ 1,266	\$ 1,117	\$ 952	\$ 934	\$ 746
<b>Total Debt, Beginning Balance</b>		<b>\$ 1,267</b>	<b>\$ 1,265</b>	<b>\$ 969</b>	<b>\$ 935</b>	<b>\$ 932</b>
Less: Mandatory Debt Repayment		(2)	(296)	(34)	(3)	(372)
Revolver Debt Borrowing / (Repayment)		-	-	-	-	-
<b>Total Debt, Ending Balance</b>		<b>\$ 1,265</b>	<b>\$ 969</b>	<b>\$ 935</b>	<b>\$ 932</b>	<b>\$ 560</b>
Less: Current Portion		(296)	(34)	(3)	(372)	(20)
Less: Commercial Paper		-	-	-	-	-
Less: Revolver		-	-	-	-	-
<b>Total Debt, less Current Portion</b>		<b>\$ 969</b>	<b>\$ 935</b>	<b>\$ 932</b>	<b>\$ 560</b>	<b>\$ 540</b>

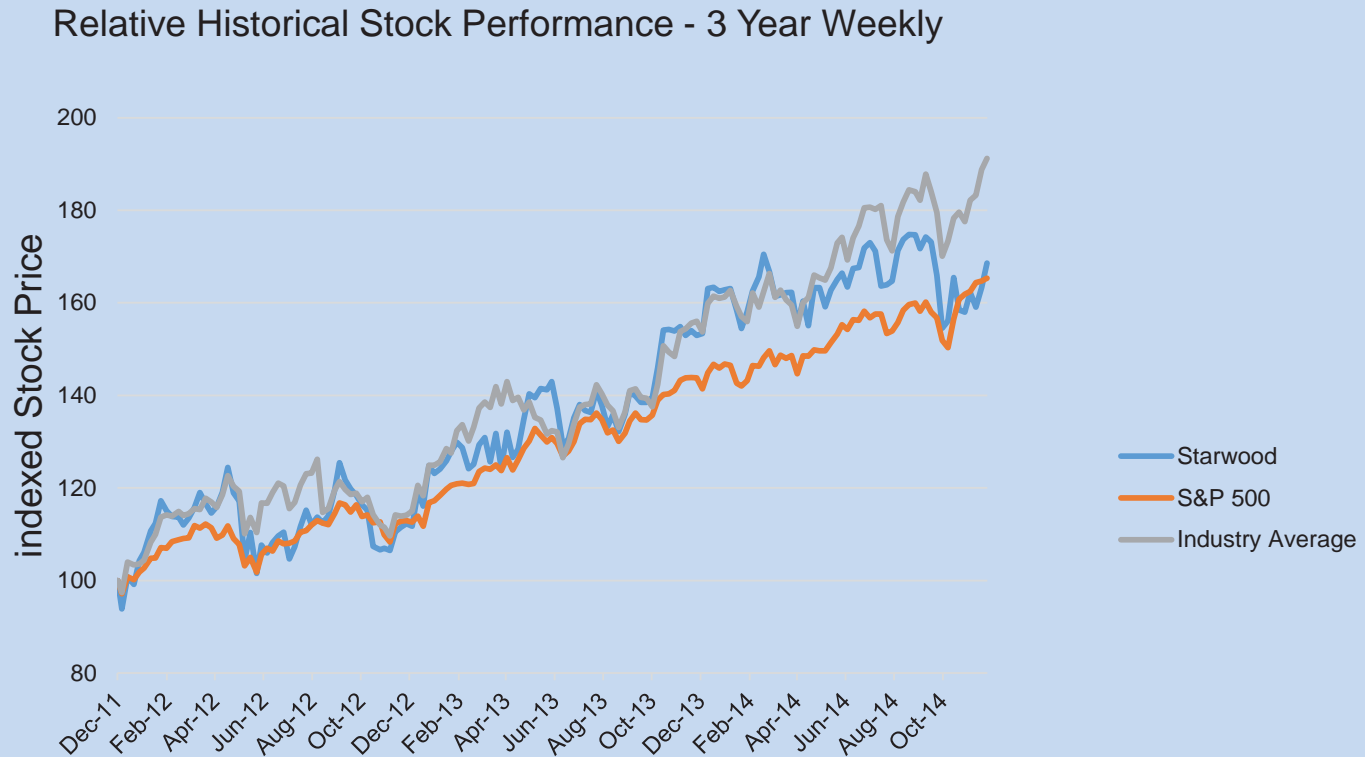
Note: Fiscal year ends December 31st

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## STARWOOD HOTELS AND RESORTS INC



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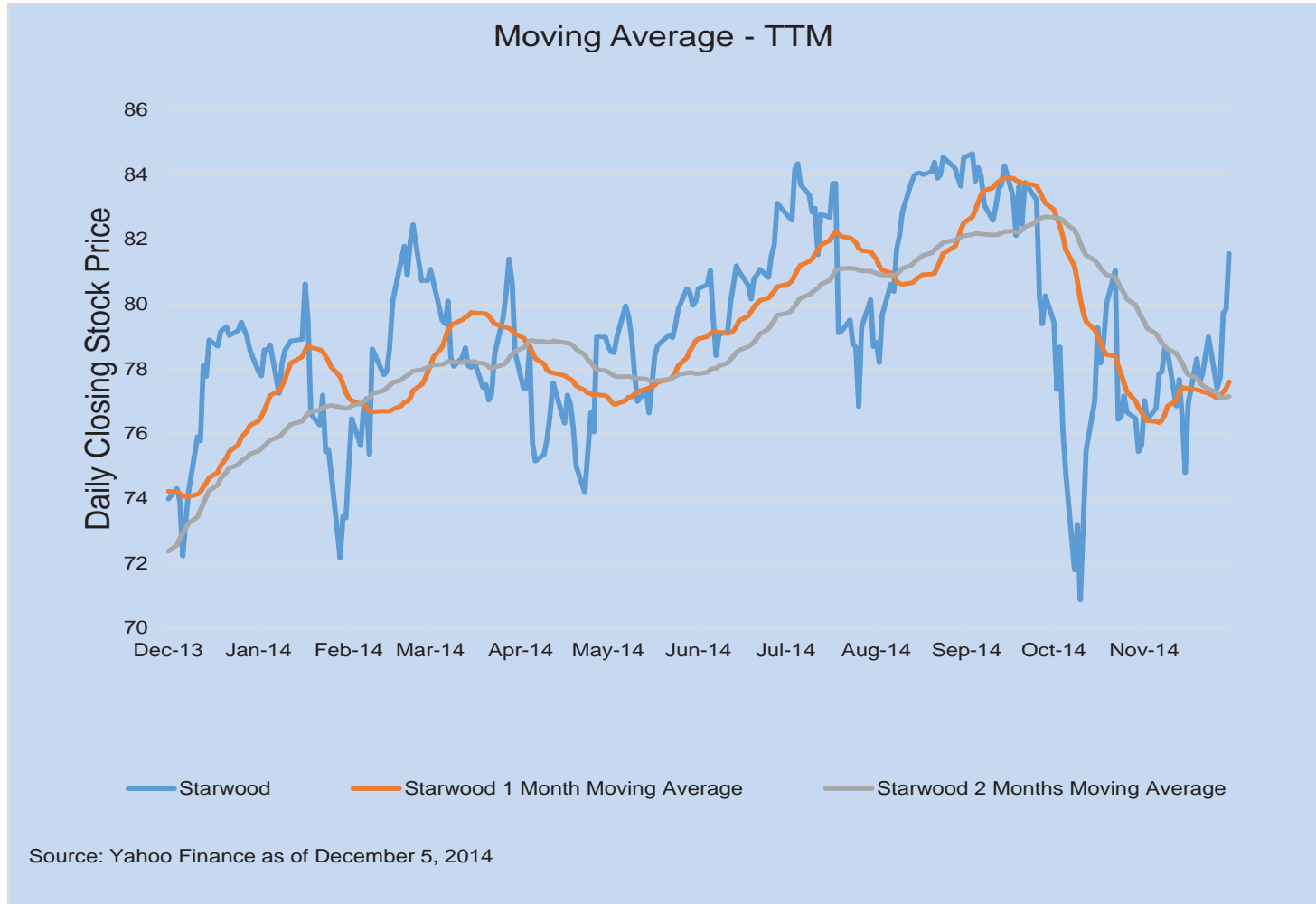


Source: Yahoo Finance as of December 5, 2014

Note: Industry Average is an equal weighted equal weighted composite of Choice Hotels, Hyatt, Wyndham and Intercontinental

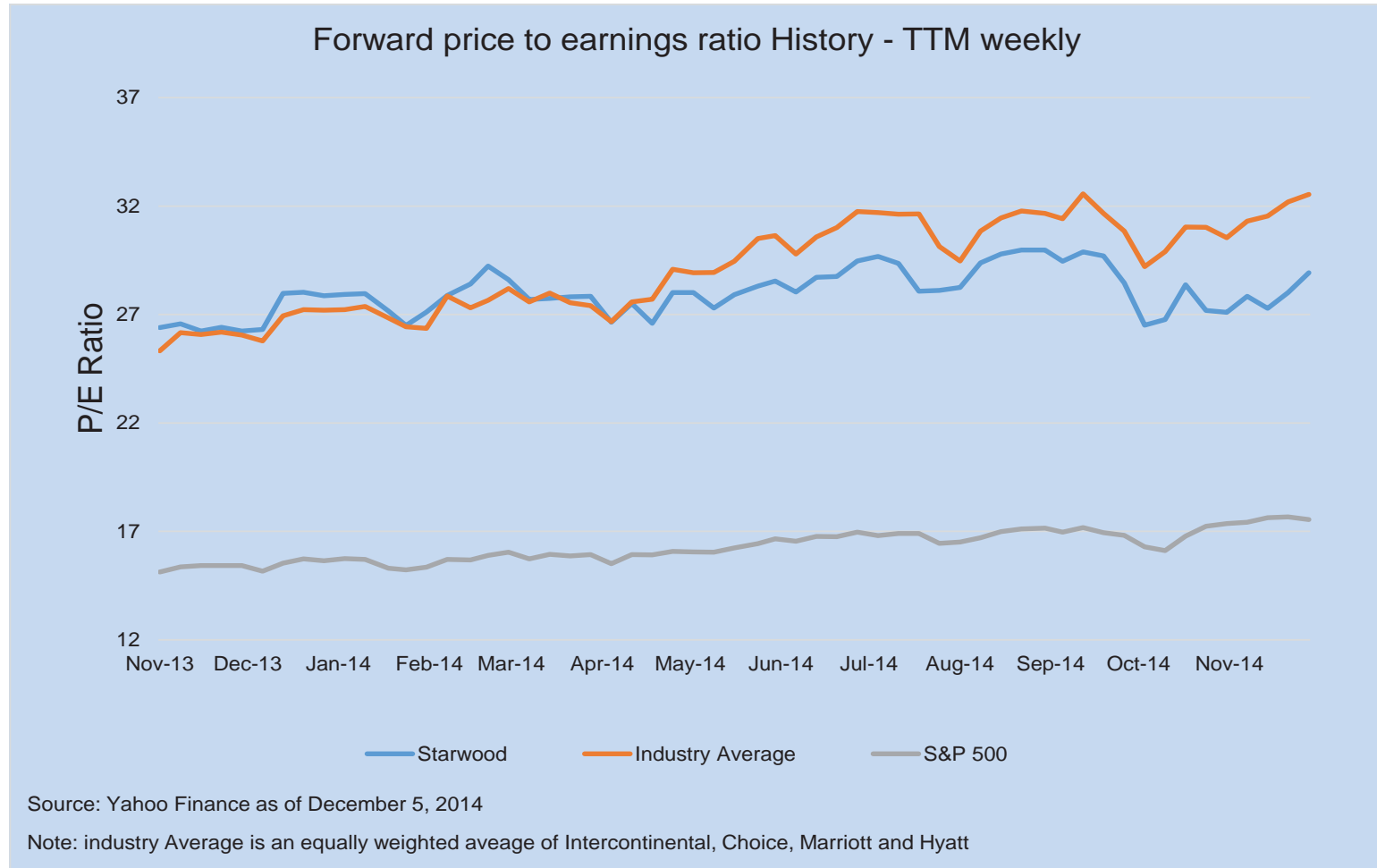
- HOT has underperformed its peers since Q2 2014

## STARWOOD HOTELS AND RESORTS INC



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## STARWOOD HOTELS AND RESORTS INC

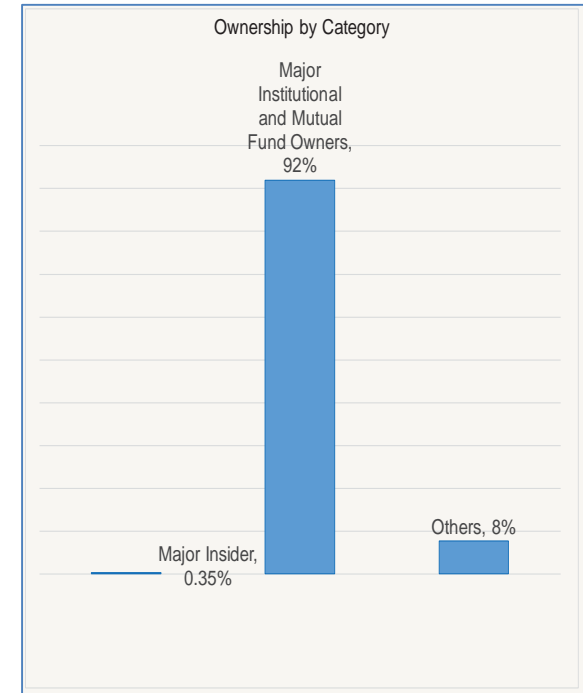


- The market is placing a lower value on HOT compared to its peers

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## STARWOOD HOTELS AND RESORTS INC

Insider Holdings	Frits D van Paaschen	246,915	0.14%
	Vasant M Prabhu	134,172	0.08%
	Simon Turner	108,974	0.06%
	Kenneth S. Siegel	67,777	0.04%
	Sergio Rivera	67,500	0.04%
Top Institutional Holdings	Vanguard Group, Inc. (The)	9,903,391	5.55%
	Price (T.Rowe) Associates Inc	9,219,720	5.16%
	State Street Corporation	8,921,101	5.00%
	Morgan Stanley	6,178,359	3.46%
	Ameriprise Financial, Inc.	6,075,957	3.40%
	BlackRock Institutional Trust Company, N.A.	5,256,318	2.94%
	Marsico Capital Management, LLC	4,704,197	2.63%
	Wellington Management Company, LLP	4,686,045	2.62%
	Harris Associates L.P.	4,604,991	2.58%
	FMR, LLC	3,982,232	2.23%
Top Mutual Fund Holders	Vanguard Total Stock Market Index Fund	3,124,022	1.75%
	Price (T.Rowe) Growth Stock Fund Inc.	2,500,264	1.40%
	Vanguard 500 Index Fund	1,977,940	1.11%
	Vanguard Institutional Index Fund-Institutional Index Fund	1,929,971	1.08%
	SPDR S&P 500 ETF Trust	1,927,016	1.08%
	Prudential Jennison Mid-Cap Growth Fd	1,844,399	1.03%
	Fidelity Growth Company Fund	1,810,800	1.01%
	JP Morgan Mid Cap Value Fund	1,787,650	1.00%
	Goldman Sachs Mid-Cap Value Fund	1,635,713	0.92%
	Price (T.Rowe) Blue Chip Growth Fund Inc.	1,439,200	0.81%
Other Public Holdings	94,440,703	52.89%	
Total Shares	178,575,327	100%	



Source: MSN Money and Google Finance

- Insider holdings should be higher to better align management's interest with HQTs interest



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## Financial Summary

## STARWOOD HOTELS AND RESORTS INC

(All figures in millions, except for per share data)

Company	Ticker	Enterprise Value <sup>(a)</sup>	Revenue			EBITDA			EBIT			EPS		
			2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E
Marriott	MAR	\$ 25,580	\$ 12,784	\$ 13,740	\$ 14,880	\$ 1,127	\$ 1,344	\$ 1,541	\$ 987	\$ 1,204	\$ 1,404	\$ 2.00	\$ 2.50	\$ 3.13
Hyatt	H	\$ 10,150	4,184	4,480	4,730	612	685	716	267	325	349	1.30	1.30	1.06
Choice	CHH	\$ 3,810	725	751	794	204	213	232	195	204	222	1.92	1.95	2.05
Hilton	HLT	\$ 37,350	9,735	10,440	11,250	2,074	2,344	2,573	1,439	1,686	1,901	0.42	0.69	0.81
Starwood	HOT	\$ 16,520	\$ 6,115	\$ 6,017	\$ 6,107	\$ 1,192	\$ 1,195	\$ 1,236	\$ 925	\$ 933	\$ 970	\$ 2.93	\$ 3.34	\$ 3.85

## Valuation Multiples

Company	Ticker	LFY Margins		Enterprise Value as a Multiple of									Stock Price as a Multiple of Earnings per Share		
		EBITDA	EBIT	Revenue			EBITDA			EBIT			2013A	2014E	2015E
				2013A	2014E	2015E	2013A	2014E	2015E	2013A	2014E	2015E			
Marriott	MAR	8.8%	7.7%	2.00x	1.86x	1.72x	22.7x	19.0x	16.6x	25.9x	21.2x	18.2x	39.5x	31.6x	25.2x
Hyatt	H	14.6%	6.4%	2.43	2.27	2.15	16.6	14.8	14.2	38.0	31.3	29.1	46.1	46.1	56.6
Choice	CHH	28.2%	26.8%	5.26	5.08	4.80	18.7	17.9	16.4	19.6	18.7	17.1	29.6	29.2	27.7
Hilton	HLT	21.3%	14.8%	3.84	3.58	3.32	18.0	15.9	14.5	26.0	22.2	19.6	62.9	38.3	32.6
	<b>HIGH</b>	28.2%	26.8%	5.26x	5.08x	4.80x	22.7x	19.0x	16.6x	38.0x	31.3x	29.1x	62.9x	46.1x	56.6x
	<b>AVERAGE</b>	18.2%	13.9%	3.38	3.20	3.00	19.0	16.9	15.4	27.4	23.3	21.0	44.5	36.3	35.5
	<b>MEDIAN</b>	18.0%	11.3%	3.13	2.92	2.73	18.3	16.9	15.5	25.9	21.7	18.9	42.8	34.9	30.2
	<b>LOW</b>	8.8%	6.4%	2.00	1.86	1.72	16.6	14.8	14.2	19.6	18.7	17.1	29.6	29.2	25.2
Starwood	HOT	19.5%	15.1%	2.70x	2.75x	2.71x	13.9x	13.8x	13.4x	17.9x	17.7x	17.0x	27.9x	24.5x	21.2x

Source: Publicly available SEC filings, Yahoo Finance

(a) Enterprise Value calculated as Equity Value plus Net Debt (Total Debt less Cash & Cash Equivalents).

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## STARWOOD HOTELS AND RESORTS INC

### Discounted Cash Flow Analysis

(\$ in millions, except per share data)

Fiscal	Estimated	Projected			
	2014	2015	2016	2017	2018
EBITDA	\$ 1,195	\$ 1,230	\$ 1,266	\$ 1,301	\$ 1,338
EBIT	933	965	998	1,031	1,065
Less: Cash Taxes @ 35.0%	(326)	(338)	(349)	(361)	(373)
Tax-effected EBIT	\$ 606	\$ 627	\$ 648	\$ 670	\$ 692
Plus: Depreciation & Amortization	263	265	268	271	273
Less: Capital expenditures	(360)	(359)	(357)	(356)	(354)
Plus / (Less): Change in net working capital	28	2	2	2	2
<b>Unlevered free cash flow</b>	<b>\$ 537</b>	<b>\$ 536</b>	<b>\$ 561</b>	<b>\$ 587</b>	<b>\$ 613</b>

WACC @ 8.0%

NPV of Unlevered free cash flow @ 8.0%

\$ 2,251

### EBITDA MULTIPLE METHOD

Terminal Value		Undiscounted	Discounted	Implied Perpetual Growth Rate
EBITDA Multiple	13.0x	\$ 17,393	\$ 16,105	3.9%
	13.5x	18,062	16,724	4.0%
DCF Range (Implied Enterprise Value)			<b>\$ 18,356</b>	<b>\$ 18,975</b>
Equity Value <sup>(a)</sup>			\$ 17,337	\$ 17,956
<b>Implied Price per Share <sup>(b)</sup></b>			<b>\$ 88.91</b>	<b>\$ 92.08</b>

### PERPETUITY GROWTH METHOD

Terminal Value		Undiscounted	Discounted	Implied EBITDA Multiple
Perpetuity Growth Rate	2.0%	\$ 11,763	\$ 10,892	8.8x
	3.0%	14,254	13,199	13.4x
DCF Range (Implied Enterprise Value)			<b>\$ 13,143</b>	<b>\$ 15,449</b>
Equity Value <sup>(a)</sup>			\$ 12,124	\$ 14,430
<b>Implied Price per Share <sup>(b)</sup></b>			<b>\$ 62.17</b>	<b>\$ 74.00</b>

N Note: Present Value as of December 31st 2013

(a) Assumes \$1,019M of net debt.

(b) Assumes 195.0MM shares outstanding.

### EBITDA MULTIPLE METHOD

WACC		Terminal EBITDA Multiple		
		8.0x	9.0x	10.0x
	\$ 88.91			
	9.0%	\$ 56.37	\$ 62.66	\$ 68.96
	10.0%	55.62	61.86	68.09
	11.0%	54.89	61.07	67.25

### PERPETUITY GROWTH METHOD

WACC		Perpetuity Growth Rate		
		3.0%	4.0%	5.0%
	\$ 62.17			
	9.0%	\$ 61.90	\$ 73.73	\$ 91.47
	10.0%	53.19	61.63	73.46
	11.0%	46.60	52.93	61.38

Note: Fiscal year ends December 31st

## STARWOOD HOTELS AND RESORTS INC

### Weighted Average Cost Of Capital

(\$ in millions)

#### WACC CALCULATION

I.	Cost of Debt ( $K_d$ ):	
	Estimated All-In Cost for Company	5.9%
	Tax Rate (T)	32.0%
	$K_d = \text{Cost of Debt} * (1-T) =$	4.0%
II.	Cost of Preferred ( $K_p$ ):	
	Estimated All-In Cost for Company	0.0%
	Tax Rate (T), <b>if applicable</b>	32.0%
	$K_p = \text{Cost of Preferred} * (1-T) =$	0.0%
II.	Cost of Equity ( $K_e$ ):	
	Risk Free Rate (10-year T-Note) ( $r_f$ ) <sup>(a)</sup>	1.79%
	Beta <sup>(b)</sup>	1.64
	Market Risk Premium ( $r_m$ ) <sup>(c)</sup>	5.8%
	$K_e = r_f + \text{beta} * r_m =$	11.2%
III.	Weighted Average Cost of Capital (WACC):	
	Debt to Cap. Ratio	32.6%
	Preferred to Cap. Ratio	0.0%
	Equity to Cap. Ratio	67.4%
	$WACC = (K_d * w_d) + (K_e * w_e)$	<b>8.9%</b>

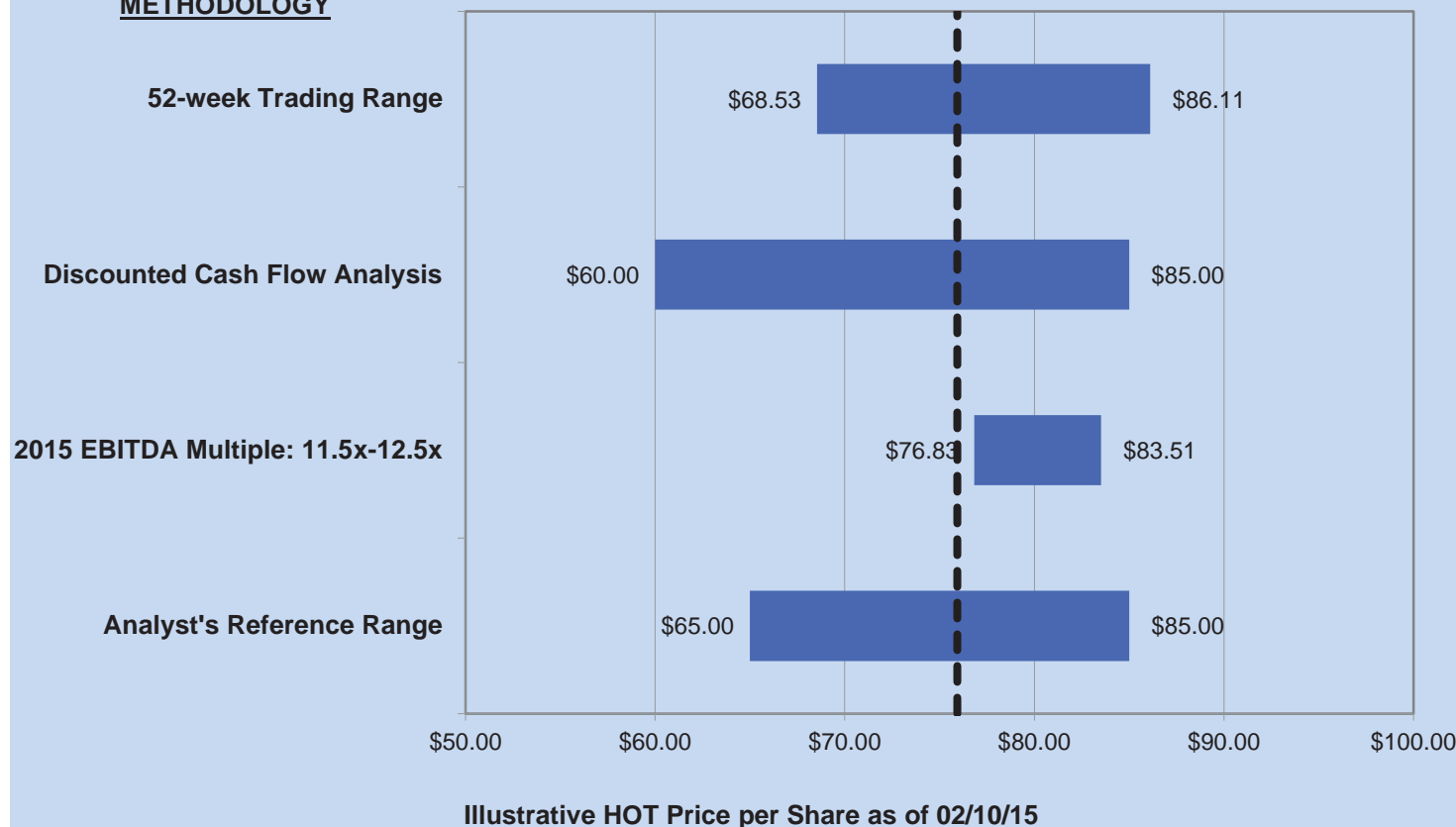
(a) 10 year US Treasury as of January 27, 2015

(b) Source: Google Finance

(c) Source: Prof. Aswath Damodaran of NYU Stern School of Business

## STARWOOD HOTELS AND RESORTS INC

### METHODOLOGY



### **UPDATE: Basis and risk for price objective**

We are increasing our fair value estimate of HOT to \$79 per share from \$75, based on 12x our 2015 EBITDA estimate. This 12x is a discount to HOTs competitive set of over 16x.

Risks to our price objective are 1) possible uncertainties with the outcome of the SVO spin-off, 2) worse-than-expected consumer spending, 3) greater-than-expected- economic weakness and 4) the potential for further terrorism.

## STARWOOD HOTELS AND RESORTS INC

### **HOT Pros and cons:**

- Pros:
  - Good growth potential for hotel operators: by year-end 2015, PKF-HR projects that the demand for lodging accommodations in the U.S. will have increased 25.8 percent since the depths of the recession in 2009, while the supply of hotel rooms will have grown by just 5.6 percent.
  - Since 2000, Starwood has sold more than 100 hotels for more than \$7.5 billion, converting them to management or franchised hotels, which offer higher margins and returns, have lower fixed costs, and have cash flows less cyclical than owned hotels
  - Proceeds from asset divestitures can be returned to shareholders via dividends
  - Starwood's positioning in the upscale hotel market and its higher exposure to metropolitan markets are a plus: higher barrier to entry, higher margins, etc.

Continued on next page

## STARWOOD HOTELS AND RESORTS INC

### **HOT Pros and Cons:**

- Cons:
  - The hospitality industry is highly cyclical and a sharp economic slowdown would result in a steep decline in revenue and cash flows for Starwood
  - Starwood is more exposed to Europe's economic uncertainty and to declining growth in China than its competitors:
    - Hotels in over 100 countries
    - 85-90% of room pipeline is abroad
  - F/X headwinds due to a strengthening of the US\$
  - Unit growth and fee growth is lower compared to competitors
  - Management's low ownership stake in the company does not align the interests of managers with those of shareholders
  - Starwood's financial statements are long and complex

## STARWOOD HOTELS AND RESORTS INC

### HOT Overall Rating: **HOLD**

#### 1. **Slowing international markets and trends**

- IMF global growth forecast is 3.5% and 3.7% for 2015 and 2016
  - This reflects a downward revision of 0.3% relative to the fall 2014 World Economic Outlook (WEO)
    - Cautionary for hotels
- IMF now sees the net benefit of cheaper oil as not enough to offset slowing growth in China (6.8% from 7.1%) and the Euro Area (1.2% from 1.4%)
  - This will cause further headwinds for HOT

#### 2. **High F/X impact**

- A further strengthening of the \$ will have negative impact on fees and RevPAR
- Decline in inbound traffic to U.S. (mostly from Europe)
- HOT does not hedge F/X exposure

***Continued on next page***

## STARWOOD HOTELS AND RESORTS INC

HOT Overall Rating: **HOLD**

**3. HOT lags behind competitors in hotel-count and rooms growth**

- HOT does currently not target the fast-growing segments of the market: midscale and lower
- HOTs portfolio is concentrated in the upper and upper upscale end of the market
- HOT lags behind competitors in hotel-count and rooms growth

**4. HOT asset sale program and shareholder return have lagged investors' expectation**

- With \$817 million in asset sales in 2014 and the same amount planned for 2015, the company must divest \$1 billion worth of assets in 2016 alone to reach its goal of \$3 billion in sales by the end of 2016



## Analyst Notes

- Merger and Acquisition would boost room growth, but may lead to higher SG&A investment after completed transaction to integrate acquired company
- The recent changes in executive management personnel makes HOT a target for merger and acquisition, as it remains to be seen when and how new leadership can implement the board's vision of stronger growth, operational excellence and better execution of its strategy

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