Marriott International, Inc.
Security Analyst Meeting Transcript[1]
The New York Marriott Marquis
October 27, 2010

J.W. Marriott, Jr.: Chairman of the Board and Chief Executive Officer

Bill Marriott: Good morning, welcome, I'm Bill Marriott and I'm pleased to welcome you to the Marriott Marquis and our security analyst meeting. We thought we'd begin with a little video to wake you all up and get you all going this morning. That was a town hall meeting in Atlanta. It may look like a spontaneous interruption of song and dance, however it was staged by our team at the Atlanta Airport Gateway Marriott last month, a brand new hotel, which is connected to the airport by a sky train.

It's just one way we're trying to stay cool. While it's important to remain true to our core customers, we want to appeal to new guests. We're diverse in background, age and lifestyle. I know our team is looking forward today to talking with you about the many opportunities we're seizing around the world. We appreciate the size of the crowd this morning, the best we've ever seen and we think that's a good sign.

We have a very full agenda and we're pleased you've chosen to spend the day in one of the most profitable and stunning hotels in the world and one that is celebrating its 25th anniversary this year. The New York Marriott Marquis has performed well over the years because of the efforts of our general manager, Mike Stengel, and his wonderful team. In his ten years on the job he's done such a wonderful job.

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We put him in charge of six other Marriott and Renaissance hotels in the New York area. He also heads up sales and revenue management for 20 hotels in the market. He's been with us for 25 years and has learned our business from the ground up and he certainly knows the importance of our associates. A big part of the success of this hotel is due to his full embrace of our culture.

He knows our people, remembers their birthdays, knows all about their sports teams. He's always been there with his door open for his associates and they really truly love him. They responded, of the 1600 people working here, 600 have been with us more than 20 years, 200 have been with us since we opened 25 years ago.

Mike knows the city like the back of his hand. Our guests love this hotel and we're thrilled and honored to welcome Mike with us today. He's here every day. He's the longest running general manager on Broadway and let me now introduce my hero and our superstar, Mike Stengel.

Michael J. Stengel: Vice President and Market General Manager, New York City Marriott and Renaissance Hotels

Mike Stengel: Wow, I can't blow this. I've got every boss in the room, everybody from Wall Street, got the mayor. Well thank you, Mr. Marriott. It's an honor to have Mr. Marriott introduce me and it's been such a great experience to be the general manager here for the past ten years.

Mr. Marriott and I have a great working relationship. As he mentioned in his introduction, yes I do know the city but I also know the building very well. But so does he. When he comes to New York, when he gets out of the car, the first thing he asks is how's the rate and he continues to ask how's the rate and then we go on a walk through. He said, "Let's go for a walk, Mike." So we proceed to walk the hotel. I said OK boss, let's do it.

So we start in the front and work our way through the building and we say hello to every associate that we pass, and our associates are really excited every time Mr. Marriott's here to see him. And my new boss is David Marriott, who is Mr. Marriott's son, who is also just like him and loves to do the same things that Mr. Marriott does when it comes to our associates.

I remember a story. We're walking through the kitchen and he loves the attention to detail. And we stopped to talk to an associate named Gino, who was washing pots in our main kitchen. And he stopped and said to Gino, "Mr. Gino, how's things going? Are we giving you all the equipment that you need?"

Gino turned to him and said, "Mr. Marriott, we're buying these new rubber gloves but they're really bad. They rip really easily." Well I was trying to save money of course. But Mr. Marriott remembered Gino's comments later on that day and guess what pretty soon we had new gloves, the next day.

He truly lives, the chairman truly lives, our culture of taking care of our associates. You know, 25 years ago when this hotel opened, this was a pretty challenging neighborhood for those of you that may remember. Just two weeks ago we celebrated those 25 years in Times Square with 200 of our chartered members who'd been here since the door opened. That's staying power.

As Mr. Marriott mentioned, more than 500 have been here more than 20 years. We calculate that these associates have served over 27 million guests in the past 25 years. We told our associates we are always looking to be innovative in our business. We must constantly change our physical product to exceed our guests' expectations.

Our associates care very much about our guests and they demonstrate the culture every day at Marriott, and that's why our guests continue to return year after year.

In 25 years we've also changed the culture of Times Square. One could never imagine Times Square as it is today with all of its attractions and businesses that now call it home.

We were pioneers in this neighborhood back then. The hotel's success has helped contribute to the cultural vitality of New York City. Other companies say that they're a people company, but Marriott culture cannot be copied by other companies. It's how we serve our guests. It's how we get things done.

It's also how we take care of our associates and they take great care of our guests and they continue to come back. Our associates come from countries from all over the world, speak over 50 languages. That makes sense because we are in the crossroads of the world in Times Square and we need to be able to speak other languages to welcome our travelers.

I've traveled with our sales team around the world and I'm always amazed at how well customers know the New York Marriott Marquis, whether it's from a movie or hearing about it from friends bragging about staying here. From Europe to Asia, everybody knows the Marquis. They know about our legendary service and now we're ready to welcome all those new visitors from those new emerging markets.

And today I have the honor of introducing someone who is no stranger to the Marquis, who has been here to address many groups on many topics. He is a great supporter of travel and tourism in New York City and he knows how important it is to the City's economic vitality. Under our mayor's leadership, NYC & Company, the City's marketing and tourism organization, has put New York City on the map for millions of new visitors.

More visitors to New York City means more jobs and a better economy and our mayor understands that very well. And now it is my pleasure to introduce the Honorable Michael R. Bloomberg, Mayor of the City of New York. Thank you, Mr. Mayor, for joining us today.

Michael R. Bloomberg: Mayor of the City of New York

Michael Bloomberg: Michael, thank you and Bill, thank you for coming to New York. We love to have you in our city. I'd say the same thing to you that I say to everyone, no matter what hotel they stay at, go to see a Broadway show, take in Central Park, walk on closed Broadway, which really gives you – let's you participate in the crossroads of the world and spend some money. We need sales tax revenue, anyways.

Bill you should know is one of our partners in an organization that we created called Partnership for New American Economy. And it's a group of business people and mayors from around the country who are getting together to try to explain to Congress and explain to the rest of the country how important immigration is to this country. It is vital to our nation's future, our intermediate economic recovery and our long term economic future.

And you only have to look at New York City to see why that is true. Since 1990 New York and other cities with the largest increase in immigrant workers have also had the fastest economic growth. Nearly 40 percent of the people who live in the Big Apple were born outside of the United States, 40 percent, it's an amazing number.

And their hard work and enterprise I think is one of the main reasons why we've weathered the national recession better than the country as a whole. So far this year, New York City accounts for every – one out of every ten private sector jobs created in the whole country. Ten percent have been created here. We have three percent of the country's population. We've created ten percent of the jobs.

And to a great extent that is because of the people who come here from around the world, who are entrepreneurs, want to participate in the great American dream, who aren't jaded, they just see tomorrow as it's going to be a better day than today and they go out there and they increase our economic base. They add to our culture. They add to our cuisine. They add to our religions and language and dress and everything else.

And Bill joins Rupert Murdoch and McInerney from Boeing and I could go on and on, all the high tech companies. This country desperately needs immigration and if we are going to, for example, treat all of those people that our last health care bill covered, the dirty little secret is there are no doctors left in this country. We have to get immigrants from around the world to come here and Bill really is one of the driving forces. He was one of the first to sign on and I just wanted to personally say thank you to him.

Tourism, which is one of the City's key industries and one of the – one that for tens of thousands of immigrant New Yorkers offers the first rungs up the economic ladder into middle class is helping lead our economic recovery.

Let me give you some indicators. In the first half of this year, passenger arrivals to the three airports that serve our city were up led by an all important five percent increase in international arrivals. We love international tourists more than domestic ones. They tend to spend four times the amount of money that domestic ones do. And some people say well, you know, it's the weaker dollar.

But the bottom line is other cities in the United States have not experienced a growth in international tourism that New York has and you'd think if it was the dollar, they all would participate. The bottom line what's happening here is crime is down. The schools are better. We focus on cultural institutions that create a buzz around the world and that's why people come here.

Our non-commuter passenger train arrivals at Penn Station, those are domestic tourists and that's up as well. And I heard some numbers that I think investors in Marriott and in other hotels should really sit up and take notice of. During the first six months of 2010, this year, hotel occupancy rate in New York was 25 percent higher than the average hotel occupancy rate in other American big cities.

During that time, hotel occupancy in New York City ran seven percent ahead of what it was the first half of '09 and that trend has continued into the third quarter as well. And remarkably that increase in occupancy in hotels has come even though we've seen a net increase of some 8,000 hotel rooms in city during 2008 and 2009.

So the bottom line is we're projecting that New York City, which is already the number one tourist destination in the United States will have a record 47.5 million visitors in 2010. And that puts us on track for our goal of 50 million visitors by the year 2012 and I think we'll make that quite comfortably. And our hospitality industry, which already now employs more people than before the recession began is certainly poised for even further growth.

And for evidence you just have to look at the fact that in recent months Delta, American and JetBlue have all committed to expanding service and modernizing facilities at our JFK airport. Tourism is also surging in our city because we've pursued the polices that made the investments that keep this city a great city to live in and to do business in and to visit. Today we remain this nation's safest big city.

We've driven crime down 35 percent from where it stood in 2001. And despite the unavoidable crunch on our city budget, we're protecting the size of our city's police department, the NYPD.

We're also investing in our future in other ways. For example we are on course to complete the extension of the number seven subway line from here at Times Square to the far west side of Manhattan down by the Javits Center, which will lead to new businesses and homes going up in the last really big undeveloped part of Manhattan.

At the same time, we've continued to enhance the attractions that make this the most exciting place to visit and make it an exciting to place to come back to and again and again and that includes new destination parks. As a matter of fact, I am leaving here as soon as I finish speaking, going to a very wet Staten Island park to cut a ribbon, where I will sink into the mud during the construction site. But that's OK, it is well worth it.

Governors Island is a whole new park right in the middle of New York Harbor with spectacular views. We had this year something over a quarter of a million visitors to a park that three years ago only had 10,000 visitors in the summer. The city's $6 million investment in revitalizing amusement parks and Coney Island, Coney Island you don't think of as Disneyland, but this year 400,000 visitors went to Coney Island and a couple of years ago that was down under 100,000.

We have a new basketball team coming to Manhattan – coming to Brooklyn from New Jersey. A new NBA team and it's going to bring more business to one of the most growing Burroughs in our city and people want to be here. When you say to people where did you eat last night, you are as likely to get the answer at a restaurant in Brooklyn as you are at a restaurant in Manhattan.

People are living all over the city and neighborhoods that nobody would ever have thought would become residential, safe, clean neighborhoods, desirable neighborhoods. You can go to Crown Heights and a townhouse can cost you three quarters of a million dollars. In Harlem, in these days, $2 million would not be unreasonable for a townhouse. This is a city that's growing. Our population's at 8.4 million and a lot of them have their friends when they come to town, other business associates, stay at Marriott hotels.

So before I close, let me point out that Marriott International really has been a key player in all of our success. As Bill mentioned or Mike mentioned, 25 years ago when they opened this Marriott Marquis hotel, it really was a huge vote of confidence in our future and one that was – an area that was really one of the most blighted parts of Manhattan, Times Square.

But their decision to open a Marriott in downtown Brooklyn was the same thing, another shot in the arm. This Company is a visionary company. They go where nobody else is willing to do. They're the first and it's paid off for them and I couldn't be happier. They are continuing to invest in our city. Their newest hotel here, the Courtyard, will open in SoHo in about three weeks.

And they have other hotels are in the works for our city, which you'll hear about soon. So this city is thrilled to have Marriott as a partner. They and each of you have reason I think to be confident that New York will continue to be the greatest city on earth, a great city to do business in, a great city to live in, a great city to come and visit, so thank you all of you. Anybody wants to join me on Staten Island after you listen to the presentations you're welcome to do so. God bless, thank you.

Bill Marriott: Thank you, Mayor. One thing that he didn't mention is that if New York City was an independent nation it would be the 15th largest economy in the world, so the mayor knows how to make a bottom line work. He knows how to lead. He knows how to take care of people and he's a great proponent of tourism as you've heard.

We opened a 1500 room hotel in another city in another state several years ago. And I called the mayor of the town. I said, "I'm opening the biggest hotel in the state in your city. Can you come to the opening?" He said, "No." He said, "I've got a bunch of Japanese people coming in, going to build a small electronics plant. I've got to take care of them," so I invited the Japanese and they came but the mayor didn't. But this mayor would have been there, let me tell you.

And I'm grateful for his tremendous support of tourism and his tremendous loyalty to our company and his support that he continues to give us. And it's a thrill for me to work with him on immigration reform, something we all badly need. So, mayor, thank you for being here and I'll introduce now Arne Sorenson, our president and chief operating officer.

Arne M. Sorenson: President and Chief Operating Officer

Arne Sorenson: Thank you, Bill. Good morning, everyone. It's great to see you all here today, good to see so many familiar faces. Now let's take care of the really exciting part of the meeting, so before we get started, let me first remind everyone that many of the comments today are not historical facts and are considered forward-looking statements under federal securities laws.

These statements are subject to numerous risks and uncertainties as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements issued in the Press Release this morning are effective only today and will not be updated as actual events unfold. For those who are present with us, you can find a reconciliation of non-GAAP financial measures referred to in our remarks in the back of your handbook.

For those listening in, you can find both the handbook and the reconciliations at www.marriott.com/investor. We recognize that in attending the meeting today you are using a substantial amount of your time to invest in us. We appreciate you taking the time to come and to hear our story and to pay attention to what is happening at Marriott.

Now in addition to PowerPoint decks and numbers, we're going to give you an opportunity today to get to know management and not just the folks you typically see or hear from in investor conferences. There are some 50 Marriott executives here today, from marketing, development, finance, revenue management, operations, from the whole range of the company.

You'll have the opportunity at breaks and at lunch to talk with them informally and we hope you use the opportunity to get to know them and to evaluate our talent. We are impressed by this team. Without a doubt it is the best team in the industry. At the back of your handbook you will see a luncheon seating chart, which shows you where the Marriott executives will be at lunch. We encourage you to seek out the ones that you're most interested in talking to and get to know them and ask them your questions.

Also at lunch, we invite you to join us in the continuing celebration of the 25th anniversary of this hotel. Mr. Marriott will be our keynote speaker at lunch and we are bringing in the menu from the new JW Steakhouse at the Grosvenor House Hotel in London, which is off to a flying start since it opened a couple of months ago. Now we're going to discuss financial forecasts with you today to assist you in understanding the way Marriott may perform going forward.

As we've done in our last three analyst conferences, we're going to focus on 2013, three years from now and what our profitability and cash flow could look like under a range of assumptions. We're going to use three different RevPAR models to build this 2013 forecast, 5, 7 and 9 percent compounding RevPAR growth.

It's important to keep in mind that the difference between five and nine percent in 2013 is not four points of RevPAR but it's three years of compounding four points so the range you can see is quite substantial.

Why five to nine? We're obviously incapable of telling you what RevPAR will be in 2011, let alone in 2012 and '13. But we're doing our best to come up with a range, which we think is relevant to the way the industry and Marriott ought to perform coming out of the recession that we've been through. We think five percent compounded RevPAR growth is probably conservative. Nine percent is probably a bit aggressive, but they seem relatively balanced and should encompass the likely range of possible outcomes over this period of time.

We're also going to discuss new unit growth. We've assumed 80,000 to 90,000 new rooms opening between now and 2013. With significant lead times required to develop a hotel, most of these rooms are already under construction and signed. There's clearly outside opportunities for more unit growth that will likely come from mergers and acquisitions work such as AC Hotels, which we announced a couple of weeks ago, conversion opportunities from our new Autograph brand or the adaptation and rollout of our existing brands to new markets.

We've estimated this upside at about 22,000 rooms by 2013. Now as we think about unit growth, there are a couple of significant milestones that we've experienced in the last couple of weeks. Just yesterday finally after many, many years of work, we signed definitive agreements for the D.C. Convention Center Marriott Hotel, which has been a labor of love since about 2001 I think. And then having finally gotten through the litigation challenges and the other planning processes, the deal is financed, signed and the shovels will go in the ground in the next couple of weeks. We're really excited about this new hotel in Washington D.C.

And about a week and a half ago we celebrated the grand opening of our first EDITION hotel in Waikiki. Ian Schrager and I and many others from our respective teams were out for the opening of that hotel.

It is a beautiful hotel that manages to be both cool and comforting at the same time with great food and beverages. I will confess that we had about 30 young stars from Hollywood that were out for the opening. I had heard of only one of them, but I communicated regularly with my children and they told me who I should make sure I seek out and occasionally who I should ask to date my daughters. But it was a great opening, we had a tremendous time and it's great to see the EDITION brand launch and we're looking forward to more of those hotels over this period as well.

Finally, we're going to discuss cash flow, investment opportunities and return to shareholders. Frequently, Wall Street describes the benefits of the asset-lite model in terms of volatility. And while management and franchise business is less volatile, the real beauty is in the combination of same store growth and unit growth and how that drives tremendous cash flow and business performance. The model we will take you through is really just that.

While it will show roughly $2.5 billion of investment spending in our business over the three years, the bulk of that spending is unidentified. And we could easily spend less or more than that amount over the three year period of time. In any event, the balance of our substantial capacity, which is generated over this period of time, will be returned to our shareholders, either as dividends or as share repurchases.

Now Regulation FD required us to publish a press release with all material nonpublic information, which we did this morning. So most of you, if you've been on your BlackBerrys already know today's punch line. Our three scenarios show roughly 20 to 35 percent compounding EPS growth through 2013, 21 to 28 percent pretax return on invested capital and roughly $3 billion to $5 billion of capital being returned to shareholders through share repurchases and dividends.

These are impressive numbers but the big story is not the outcome. The big story is how we get to that outcome and the leadership that takes us from here to there. I'm so pleased that you are here with us today to hear from these leaders. So to kick it off, I'd like to introduce Bob McCarthy. He is group president of the Americas and of Global Lodging Services, which includes all of our global brands, sales and marketing and operation support. It's a big job but it's ably filled by a big leader. Bob?

<u>Robert J. McCarthy: Group President</u>

Bob McCarthy: Good morning and welcome. I'd like to start off by giving you a little insight into what see in Marriott as our competitive advantages. Our core competitive advantages, first of all it starts with the broad portfolio of leading brands. We then follow it up with a global scale that allows us to drive RevPAR premiums. And extremely important as exemplified by Mike Stengel's comments this morning, and Mr. Marriott's as well, is the foundation and that's our culture of execution and continuous improvement.

The broadest portfolio of strong brands, the recognized leader with over 3,500 properties in 70 countries around the globe. We've got hotels for every lodging purpose, for every price point and we have a deep understanding of customer needs in multiple categories. We know how to develop brands. Over time, the investment that we've made in proprietary consumer research and market segmentation has identified distinct, high value consumer targets, consumer segments.

The evolution of our portfolio is based on responding to the needs of those target customer groups and offering products that are tailored to the distinct customer segments. We find that guests are willing to pay more to stay there. When you combine that with a powerful revenue management system, this is what drives RevPAR premiums over time. We've grown the portfolio both internally and externally.

Internally that growth would be brands like Courtyard and Fairfield Inn and externally through acquisitions like Residence Inn or Ritz Carlton. We have continued evolution with our most recent brand, the Autograph collection. The brand innovation fuels growth. When you respond to guest needs and you grow new brands, you get rooms growth, from 67,000 rooms in 1985 to over 600,000 rooms today.

With our new brands and with our global expansion we see more growth ahead. We've got 95,000 rooms in the pipeline. Seventy percent of those full-service pipeline rooms are outside the United States.

Let's talk a little bit about investing in brands. Customer needs have changed and we have adjusted to that. Consistent and dependable is just not enough. We need innovation. We need sophistication and need distinctive offerings.

At the same time, attitudes about travel have changed - social work, desire to explore, local knowledge. So what are we doing to address that? We're investing in new designs. We're refreshing our core brands. We're activating public spaces. Let's look at the full-service great room activation. What is it? Well it's activated public space at Marriott Hotels, JW Hotels and Renaissance Hotels around the world where guests can meet. They can work or they can relax.

It's a big dialup of food and beverage offerings, of public work space, laptop friendly seating, Wi-Fi connections. The results, there's 153 great rooms in place today. We expect to double that by 2012. RevPAR index in these units is up over three points and both guest satisfaction and food and beverage sales are very strong.

Let's look at Courtyard’s refreshing business. What is that? Well it's a redesigned lobby and it's a new upscale room décor, public space, adding a Starbucks, new menus, evening food and beverage and space to work, space to relax. The results, we've got over 200 hotels finished today. We'll have full rollout by year-end 2013 and we expect about 500 hotels done by the end of '11. RevPAR index in these completed units is up almost eight points and guest satisfaction is up over six points.

We've repositioned SpringHill Suites, a significant shift in design, more distinctive, more stylish. 49 hotels are open with this new design. We expect a full rollout by year-end 2013. RevPAR index on these hotels are up about 2-1/2 points, guest satisfaction up about three points. Very successful.

Let's look at Residence Inn, our new Gatehouse lobby design and our room décor. It’s upgraded kitchens with granite countertops, stainless steel appliances, LCD TVs, and an activated great house. The results, we've got more than 80 open today. RevPAR Index in these hotels is up over 10 points, and this brand already has the highest RevPAR index premium through our whole portfolio and we've got strong guest satisfaction as well.

Well, what are the trends that are driving future innovation? First there is more focus on leisure. It's a very strong growth segment. Marriott has traditionally been very strong in business transient and group and we're adding some leisure capabilities and components going forward. More packaging, more partnerships, more appeal to families and couples.

Health and wellness is a big priority. Customers want products that support healthy living and we're investing in fitness centers and in healthy menus.

Conscientious consumption, it's important to meet the guest's needs but also to model their values. We're expanding our Spirit to Serve globally through local community involvement. Just one example would be in our China clean drinking water initiative, which is Marriott's Nobility of Nature program.

Extremely important is local relevance. We need to take what's worked well in the U.S, we need to take those platforms globally but, very importantly, modify them as appropriate for various parts of the world.

One example would be that we're developing Fairfield projects prototypes for India and Brazil today and we're looking very carefully at our food and beverage offerings and customizing the cuisine and the product design to those areas.

Global size and scale creates operating leverage and that drives premiums. Thirty-five hundred properties in seventy countries equals operating leverage.

We've got power brand platforms and sales, our marketing, the booking channels and then shared services, these all drive RevPAR premiums and profitability.

Let me address sales transformation. What is it? Well it's a game changing sales strategy. We're the first and the only major hotel company to shift to strategic account management, a model aligned around the customer.

The old method was aligned by property. You've got multiple sales people from multiple hotels calling on the same customers. The new approach is fewer sales people calling on more customers, penetrating the entire needs of all the accounts. This means that we can take care of all their lodging needs, all geographies, all trip purpose for our clients. And why does this matter? It matters because we can cover seven to eight times the number of accounts.

We expect up to $1 billion in new property revenues and our RevPAR index is already up about 1-1/2 points in deployed markets and we will expand this model globally, modified to fit the needs of the continent. I might also add that we had a recent survey with customers in deployed accounts and more than 80 percent of our clients said they would do more business with us due to this approach that we have today in sales transformation and more than 60 percent say we are now easier to do business with than before.

Worldwide demand is changing and we're changing to meet it. According to the World Travel and Tourism Counsel, worldwide travel and tourism demand is expected to rise 7 percent over the next 10 years and the BRIC countries are 13 percent. So in Brazil, Russia, India, and China, you've got a range from eight to 15 percent individually in annual growth. We expect more room nights for our hotels in those countries but also outbound as well.

What are we doing about that? We're growing our sales force in these countries. We're opening reservation offices in China and in India and event booking centers in Shanghai and Beijing.

Let's address our powerful program, Marriott Rewards, 33 million members worldwide. It's the largest program in the entire industry. It provides 50 percent of all room nights across all our brands around the world. We have a customer database for personalized promotions to drive revenue.

Well, why does Marriott Rewards matter? Because it drives guest loyalty and it drives room nights. More frequency translates to greater share of wallet and we are focused on driving more business from our most profitable customers. If you look at the slide at the top, you'll see that our Platinum members are only five percent of active members but give us 38 percent of room nights and our Gold members, only eight percent of active members, but provide 16 percent of our room nights, and we're leveraging this knowledge to drive revenue.

We're using our Rewards member data to predict future behavior. Let me give you a couple of examples. MegaBonus - we predict future stays and create a stretch goal for guests. For example, if we have a customer that is about 15 nights away from Gold status, using a predictive modeling and looking at their historical travel behavior, we might incent them to give us disproportionate share of travel by granting Gold status after – for eight or 10 more room nights over a defined period of time rather than the 15, because we can tell by their pattern they've got the capability of giving us those eight to 10 room nights.

And so we're incenting their behavior and then we're rewarding them with Gold status which is meaningful to many of these travelers. That was $200 million in incremental property revenue in 2009. E-mail campaigns, 2,000 different targeted campaigns to 12 million customers based on predicted behavior in 2009 and $350 million in property rooms' revenue in 2009 from these e-mails.

Let's shift to growth in the rewards outside of the U.S. We had 4.6 million members in 2005. We've got almost 7-1/2 million members in 2009. So critically important, we're growing a global member base of loyal customers and this global member growth is driving global demand for our hotels around the world. Non-U.S. members are earning and they're redeeming at hotels around the world. For example, 20 percent of our European member paid-stays are at non-U.S. and non-European hotels, mostly Asian hotels.

On September 15th we announced Ritz-Carlton Rewards. We're leveraging our Rewards platform to launch it. It's a premium luxury rewards program. We've had some great partners in Vera Wang, Neiman Marcus, and Abercrombie & Kent and it's new earnings opportunities for our Marriott Rewards members, and they can earn and they can redeem in both programs. The program launched just six weeks ago, almost 30,000 Ritz-Carlton Rewards members already. Almost 80 percent of those sign-ups were not Marriott Rewards members previously.

The strongest and the most cost effective distribution systems in the industry, according to industry studies, our reservation system has the lowest cost per transaction, the highest contribution to occupancy and the highest revenue generated per call of any system in the lodging industry, producing $27 billion in property room revenue in 2009 and an industry leading 45 percent sales conversion rate.

Marriott.com is one of the largest consumer retail sites and the largest lodging site in the world. Channel growth of 33 percent per year over the past five years, $5.6 billion in gross property revenues in 2009. We have over 50 percent more hotel Web site sales than the closest competitor, which is Hilton and this Marriott.com site represents 85 percent of our Internet-based reservations.

Let's shift to RevPAR premiums, strong brands, great platforms equals premiums. The numbers on this slide are from Marriott-managed North American hotels. However, worldwide RevPAR index numbers are very similar. I would note that one point of RevPAR equals $15 million in fees and $5 million in owned and leased results in 2010.

Size, scale, drives costs savings. We've reduced real costs per occupied room by one percent per year over the past 10 years. How have we done that? Well, we've moved property functions to above property shared service centers. We've extended this model across almost every area of our hotels. One example would be a cluster engineering model. It's in Atlanta and many other markets, but in the Atlanta market, we have six technicians that perform work across 30 hotels. We've saved over $300,000 in property costs over the past three years. Our final core competitive advantage is our experience and our culture.

We've got management depth and stability in our business. A Cornell Study cited 25 percent manager turnover in the industry versus 10 percent for Marriott. The average tenure of all U.S. managers is approximately 11 years in Marriott. We have a culture of execution and continuous improvement. We are continually reengineering our business. You'll hear more from Dave Grissen about innovative changes that we've made to improve our hotel operations.

Looking ahead, we want to take what's worked well in the United States and adapt it and modify it to international markets. In conclusion, Marriott has a broad portfolio of leading brands. We have distribution that's driving significant cost savings. We have experience and we have a culture that's unmatched in the lodging industry. These key competitive advantages provide a strong foundation for our future. I thank you for your time and I'll introduce my colleague, Tony Capuano.

Anthony G. Capuano: Executive Vice President Global Development

Tony Capuano: Good morning. I want to give you my welcome as well. I'm thrilled to be with you this morning to give you my perspective on Marriott's competitive advantages as it relates to strategic global growth. I believe these advantages fall into five broad categories. First, as Bob described, our broad global footprint, which creates strong brand awareness around the world, second, our brand preference among both consumers and the development community. As you know, we're primarily a growth-focused manager and franchisor of hotels.

Our third advantage is this business model which allows us to utilize a variety of tools and strategy to fuel our growth. Fourth, our ability to deliver strong financial returns to our owners, as Bob described, allowing us to drive extremely favorable contract terms in a variety of global markets. Fifth, we have a demonstrated track record of introducing new growth platforms that fill gaps in our brand platform distribution and give owners opportunities to continue to grow their Marriott portfolios.

The confluence of these factors drives our robust global growth -- our global pipeline. As Bob touched on briefly, the impact of Marriott's scale and global distribution is significant. From a consumer perspective, our broad footprint drives awareness, preference and loyalty. We turn that preference into steadfast loyalty by leveraging our rewards program and not only providing incredible experiences but ensuring that we have property in every market that our guests want to visit.

When it comes to the development community, we also gain significant advantage as a result of our global reach. Our broad portfolio raises owner and franchisee awareness about our products and the breadth of our brands. Our distribution also drives lender preference. We have tried and true brands and when you have the sort of challenging debt markets that we're all living through today, the lender community finds great comfort with our platforms. Marriott's flags are among the scant few brands, which can actually attract debt financing in today's difficult climate.

Finally, and Bob touched on this as well, the economies of scale that we enjoy drive owner returns. The importance of Marriott's global footprint continues to increase as the world grows smaller. When we opened our first hotel more than 50 years ago, it was logical to focus on growing our footprint domestically. More than a decade ago however, we saw a shift towards the globalization of the industry. As shown on this slide, worldwide travel spend continues to grow.

As international markets evolve, it's critical for Marriott to offer industry-leading platforms and broad representation. During the course of today's presentations, you'll be hearing a variety of perspectives relative to evolving travel markets. Dave Grissen will talk about operating and growing in an environment where we enjoy almost 10 percent market share. Amy McPherson and Simon Cooper will discuss the extraordinary opportunities to expand share in the European and Asia Pacific markets.

As I think about our growth prospects in the coming years, this slide heightens my enthusiasm about our prospects. We have established development offices in 24 global gateway cities. We have 52 developers around the world and they have nearly 10 years of tenure with Marriott. In order to capitalize on global growth opportunities, we believe it's critical to focus on developing local talent. In fact, four out of five Marriott developers today are nationals of the country or region in which they work.

And as global markets evolve, our development organization continues to shift abroad. If you had looked at these numbers in 2000, you would have seen that about 40 percent of our developers were deployed outside of North America. Today, that number is about 60 percent, and as we look at adding resources, the bulk of those resources are added internationally. I've talked a little bit about the strategic benefits of our broad footprint and the resources we have in place to achieve this objective.

This slide shows what we've accomplished in terms of global distribution. Our portfolio of over 600,000 rooms allows us to leverage both the consumer and development community advantages that I've discussed. During the course of the day, you'll hear from a number of our continental presidents about our plans to continue to grow distribution and market share around the world.

Awareness, performance and preference have allowed us to grow extensively with multi-unit owners. As shown, we have many multi-unit owners in North America and the average number of hotels per owner is significant. This is an approach we're replicating around the world. And while the average number of hotels per owner is a bit smaller, it's trending in the right direction.

The second strategic growth advantage, I mentioned, is brand preference. This slide highlights total portfolio brand distribution for the top 10 hotel owners in the United States. As you can see, Marriott brands account for 45 percent of their aggregate portfolio.

And there are numerous real-time examples of this brand preference translating into success in competitive circumstances, whether that is AEG's selection of the JW and Ritz-Carlton brands in L.A. Live, whether that's Deutsche Bank's recent selection of the Autograph Collection for the 3,000 room Cosmopolitan in Las Vegas. Again, as you'll hear from the continent presidents today, we not only aspire to have international market share similar to what we enjoyed in North America, we have specific strategies on how to drive brand preference internationally.

I believe all of you in this room are quite familiar with Marriott's business model. For those of you that thought you might hear about a radical shift today, I'm here to reassure you. We're confident that the business model we've had in place for decades will continue to serve as a significant competitive advantage relative to our growth around the world. The strength of our brands and revenue engines continue to drive owner and franchisee investment and unit growth.

In other words, said more comforting, I think, we remain focused on third party real estate ownership to fuel our growth. However, the strength of our balance sheet allows us to use capital selectively to drive that growth. This flexibility of our model allows this capital to be deployed in a variety of ways. As it relates to individual deal transactions, our developers around the world have a number of tools at their disposal.

We can participate in individual projects with debt, with minority equity investments, with guarantees, or with key money investments. We are prudent in the deployment of this capital. We use it for strategic opportunities and the guiding principle around the deployment of capital is the recyclability of those investments. You heard Bob talk a little bit about our 95,000 room pipeline. Just to give you a few statistics, about 25 percent of the rooms in that pipeline were enabled by some form of Marriott investment.

All in all, we've committed about $400 million of direct cash investments and another $80 million of guarantees to support that 95,000 room pipeline.

Bob also touched on our impressive history of adding brand platforms through M&A. We continue to evaluate M&A opportunities every day with three specific focus areas. One, we look at multi-unit growth opportunities that allow us to dramatically increase our global distribution much more rapidly than single-unit organic growth.

Secondly, we continue to look for new platforms that give our owners and franchisees new ways to grow their Marriott portfolios. And finally, we have a specific focus in Europe. You'll hear a bit more from Amy McPherson a little later today about our announced preliminary agreement with AC Hotels. We believe macro-economic conditions in Europe will continue to create unique opportunities for us to grow our distribution in the world's largest lodging market.

As we've demonstrated in the past, we do have the capability to take temporary ownership of real estate assets, again, to fill strategic gaps in our distribution. To date, this has been a highly successful strategy. We recently reviewed the results of 45 hotels in which we had temporary ownership over the last decade. These deals demonstrated our investment philosophy, in that the average hold duration was less than two years. It also demonstrated our ability to recycle capital and often achieve gains on sale during the exit.

In addition to filling the strategic gap in our distribution, we found that asset control typically resulted in very strong management agreement terms. In fact, we were able to obtain contracts worth roughly 20-25 percent more than our typical full-service managed deal. In addition to stronger management agreement terms, we also received commitments from the buyers to invest significantly in the assets that they acquired; typically, about $8 million per hotel. The three year plan that we will outline today contemplates temporary real estate ownership of two assets per year through the three year period.

Despite an increasingly competitive deal environment the advantages we have discussed allow Marriott to continue to negotiate long-term stable contracts with highly favorable fee structures. Stability of contracts is critical to the quality of our long-term earnings stream.

Insistence on long initial contract terms, renewal terms at Marriott's option, non-disturbance agreements, which protect our contracts in the event of foreclosure, coupled with our strong resistance to terms like termination on sale, or termination at will, is driving the stable nature of our system.

In fact, during the highly volatile period over the last 18 months in the industry, we have not lost a single hotel from our system as a result of a termination on sale or termination at will provision. Admittedly we have terminated three hotels that were in the foreclosure process, not because we didn't have the protection of a non-disturbance agreement, but because the lender was not willing to commit to reinvestment on the asset and we chose to prune it from our system.

To illustrate the stability of our contracts, we've summarized the remaining average term of the contracts in our system, by continent. The slide here outlines those remaining terms by continent. I would point out two things, number one, while you see North America at 18 years, we did some additional research, if you just separate out the full-service hotels in North America that number actually increases to 22 years, which coincidentally is the average for all of our international hotels.

The strong focus that we have on growth requires us to continually search for opportunities to expand our existing growth platforms and to challenge ourselves to identify new platforms. In some cases, we are looking to export or adapt our existing brands in international markets. We continue to grow Courtyard strongly in both China and India, in Russia, and we are redoubling our focus on the deployment of Courtyard in Europe.

You heard Bob talk about India and Brazil. We are actively engaged with prospective development partners to launch those platforms in those two very compelling global markets. And at the same time, as Bob also mentioned, we are not simply exporting our domestic product and expecting international customers to flock to those hotels. With a multi-disciplinary team we are researching consumer trends, we're evaluating demand sources, and we're customizing product to succeed and generate compelling owner returns in these emerging markets.

In other cases we're looking to develop new growth platforms. Certainly our launch of EDITION three years ago was challenged by macro-economic conditions. You heard Arne talk about our new - our first EDITION in Waikiki. I was fortunate enough to attend the grand opening, it is an extraordinary hotel and I can tell you that both the consumer and developer reaction to that property is jump starting our pipeline and we expect strong growth of that platform.

On the other hand, earlier this year we launched the Autograph platform. Our market timing could not have been better and the results have demonstrated what an extraordinary platform it is given current market conditions. We expect to have 15-20 Autograph hotels open in the U.S. by the end of 2010. And we're quite excited about the launch of that platform internationally, particularly in Europe, where roughly 60-70 percent of the inventory is non-branded today.

I'd like to spend the last few minutes of my presentation talking a bit about our pipeline. To frame that discussion, and hopefully give some credibility to our view of the future, I would remind you that when we were last together in 2006 in Paris, we told you our goal was to open between 85,000 and 100,000 rooms around the world. I'm pleased to tell you that we exceeded the high end of that goal, opening over 101,000 rooms.

As we've indicated, we believe we'll open at least 80,000 to 90,000 rooms between 2011 and 2013. As you'll hear shortly from Dave Grissen, we continue to dominate domestic growth with strong full-service and select-service deal volume. Notwithstanding this growth, the international regions are accelerating past North America in terms of unit growth. As shown on the slide behind me, about 26 percent of our rooms growth from 2006 to 2010 was outside of North America. As we look at our pipeline going forward, we believe that between 2011 and 2013 about 51 percent of our rooms growth will be international. The continental presidents will provide a much deeper dive around how this growth will evolve. They'll also highlight some of the potential upside opportunities that Arne described briefly.

In summary, I am more confident than ever that Marriott should continue to benefit from several key competitive global advantages. Our broad global footprint; the extraordinary brand preference we enjoy both among consumers and developers and owners; our flexible, proven business model; our ability to consistently deliver extremely favorable contract terms; our proven ability to introduce new growth platforms; and my continued confidence that the confluence of these factors will continue to drive a strong and robust global pipeline.

Thank you very much for your time this morning and it's my great pleasure to introduce Dave Grissen, president of the Americas.

David J. Grissen: President, Americas

Dave Grissen: Hello. It's a pleasure to be here today. Given the size of North America, I'll focus my comments primarily there, our efforts over the last few years, during the economic crisis, the current state and our expectations for the next few years. First, we believe we are well positioned and are optimistic about our prospects for growth in North America over the next three years. Favorable industry supply and demand dynamics are expected to drive improved pricing and RevPAR. Our continued focus on refining the economic model of our hotels will deliver margin improvement opportunities and will bring more of the top line growth to the bottom line.

While most new-build construction will be very limited over the next few years, with our industry leading brands that we've discussed, we will continue to add full-service hotels primarily through conversions, with select ground up properties in our limited-service brands.

Let's spend a minute talking about supply and demand. In yellow, you see the demand growth. We've seen a dramatic turnaround this year from the bottom of 2009. In red, you see the supply growth. That is currently falling below a one percent annual growth rate.

Based on the timeline necessary for new build development and the pace of current construction starts, we expect this line to stay at or below one percent through 2013. Solid demand and limited supply leads to improved pricing power for our hotels. Marriott had very strong ADR growth during the last recovery when these same dynamics were in play. Based on the three RevPAR scenarios we shared with you, our RevPAR recovers to peak levels in 2013. Other revenue, non-rooms revenue also recovers to peak levels. With very similar supply and demand patterns during the previous recovery beginning in 2004, Marriott hotels grew RevPAR between six percent and nine percent each year for four straight years.

Let's talk a little bit about how we responded over the last few years to the economic crisis. At the very beginning, we managed an aggressive cost mitigation effort, which resulted in significant property cost savings. Many of the lessons learned during previous downturns provided well-documented ways to respond to the changing environment.

Working collectively, we quickly rolled out and implemented across our hotels these ideas. I'll give you just a few examples of some of the areas of focus to illustrate. Food and beverage, we changed a variety of our food and beverage specifications. Simple ideas like bacon and orange juice made significant changes to the tune of $1.7 million for a simple bacon spec change. Back-of-the-house costs, we took a look at our laundry operations, closed, consolidated and leveraged multiple hotels to save laundry costs.

Vendor contracts, we renegotiated many of our vendor contracts, everything from elevator maintenance to landscaping to leverage our hotels. Hours of operation, primarily in areas like room service and restaurant operations carved off hours during non-peak demand times. Cost per occupied room, given our distribution and the information available in all the markets we're in, we were able to benchmark our hotel's best in class concepts to achieve substantial cost savings in rooms, telephone, labor, and food and beverage. We also accomplished all this with minimal guest satisfaction impact and it is mostly sustainable.

Even with a solid start to the recovery this year, our year end 2010 house profit dollars, or margin, is expected to result in the decline of 5.5 points from the levels we achieved in 2007 to 32.6 percent. While most was driven by a cumulative RevPAR decline of more than 15 percent, through many of the efficiency efforts we touched on earlier, productivity, cost, benchmarking, managed wage growth, et cetera, we were able to stem further margin erosion during this economic downturn. Overall, our hotels have done a fantastic job responding to the economic challenges while remaining focused on our guests and our associates.

But we didn't stop there. Our early efforts were everything you would expect out of us, but we knew we needed more. This was a difficult economic time. In 2009, we began to develop new operating models, more efficient, creative, and most importantly, sustainable to run our hotels. Once again, a few examples, Bob mentioned this, engineering. We've moved a lot of our engineering support either to a multi-property or a shared service approach for a lot of the preventative maintenance efforts that go on in our hotel that are very unique and specific.

Rooms preventative maintenance, our inspection and PM program, we combined technology, reporting and vendor relationships to reduce our costs in maintaining our rooms.

Housekeeping, we implemented a new housekeeping process in over 150 hotels through this year, which enhances productivity and our service in housekeeping. Management structure, we're currently in process of rolling out our new full-service management structure that allows for a flatter organizational design, increased synergy between departments, and provides specific rules and guidelines for when we add managers back as the economy recovers.

Core menus, we implemented a new core menu across a broad base of our hotels that ensures cross-utilization of menu items, not only in the restaurants, but at events, room service, bars, and lounges. E-procurement, we are currently rolling out an e-tool to assist in compliance to our specs, increase vendor rebates, and improve financial controls.

In 2013, we'll also exceed our 2007 level high-water mark in house profit margin under the seven percent scenario.

Under the seven percent scenario, house profit returns to $80 with a house profit margin of 38.6. We were at 38.3 in 2007. Opportunistically, under the nine percent scenario, house profit reaches $90, a house profit margin of 41.1. Obviously, RevPAR drives most of the margin recovery and is primarily ADR focused as the volumes from a room standpoint have returned.

But the efficiencies I've discussed from redesigning our operating models and strict cost controls will provide leverage and will facilitate our ability to control costs in all these areas.

Despite a number of economic cycles during the timeline that you see on this slide, Marriott share of rooms in the industry has grown significantly. As of the end of this year, Marriott share is expected to be at 9.8 percent, which is almost 2-1/2 times our level in 1990. Part of the success in market share is developing new platforms to drive unit growth. Let's start with our expected growth in full-service hotels. In North America, we expect to add 17,000 to 18,000 rooms over the next three years.

As Bob and Tony mentioned, we have significant interest in the Autograph Collection and you see that representing 40 percent of the rooms over the next three years. And with the recent opening of the first EDITION hotel in Waikiki, we expect to build momentum in this brand as well.

As in previous cycles, we expect to see a flight to quality brands as a change in control associated with asset sales, bankruptcies, and terminations create recapitalization and repositioning opportunities.

As Tony mentioned, on the Marriott side, our contracts are very tight, typically with non-disturbance agreements, rarely termination on sales, and typically long-term. So we think there's more upside. Again, as Tony mentioned, Marriott's capital will be very useful in filling transactional gaps in order to facilitate unique and strategic opportunities that may present themselves.

Just because it's 40 percent, let's spend a little bit of time on the Autograph Collection and go a little deeper. The picture you see of this Autograph hotel, this is the Hotel Minneapolis. This is a former bank building over 100 years old. It's in our boutique chic section of the Autograph Collection. The last three months its RevPAR index is up almost 10 percent. We launched the collection in the first quarter of this year, a new brand within our portfolio that includes high personality, independent, upper-upscale and luxury hotels that have distinct personalities and promise unique experiences in major cities in desired destinations worldwide.

Quality and individuality rather than consistency are the hallmarks of this branded collection. The collection will be diverse, spanning adventure and relaxation, local individuality and history. It will range in design from high design in edge to historic charm and a tier from upper-upscale to luxury. The collection allows independent hotels to maintain their character while using Marriott's massive reach to drive revenues and save on costs.

Since the launch in the first quarter, we've already converted 12 hotels into the Autograph Collection including the hotel you see on the slide, the Casa Monica Hotel in St. Augustine, Florida. This hotel opened in 1888, it is a landmark hotel in the city. It is the only AAA four-diamond hotel in St. Augustine. The interest level in the development pipeline continues to grow with 40 hotels expected to open by the end of 2011.

As was mentioned earlier, the Cosmopolitan Hotel in Las Vegas will open as an Autograph Collection hotel on December 15, 2010. It will be the largest hotel of any brand in the Marriott portfolio when all of its 3,000 rooms come online in June of next year. To date, converted hotels have seen significant improvement in their top line in profit performance. Over the last two months, the open hotels have seen double digit growth in RevPAR and RevPAR index.

Rooms that are booked on the Autograph Collection have shifted from higher cost channels to lower cost channels. The lowest cost channel, marriott.com was accountable for one of every three reservations booked in the hotels in the month of July. The higher cost booking channels such as online travel agencies have been reduced as a percentage of room booked from 11 percent to four percent.

Newly converted hotels have experienced the impact of Marriott Rewards, member interest within the first three or four weeks of opening, when 35 percent of the bookings are coming from these members.

Let's spend a few minutes talking about the limited-service brands and how we see growth over the next three years. We expect to add 23,000 to 26,000 rooms in our CFRST (Courtyard, Fairfield, Resident Inn, SpringHill and TownePlace) brands. We continue to seek out and grow from our portfolio of new franchisees.

Many of these new franchisees are diverse owner-operators with a long focus and less focus on highly leveraged deals. A key focus of these new franchisees will be continued expansion with smaller units in growing secondary and tertiary locations. While debt may be limited for some time, the high quality of the Marriott brands is in demand because they are much more likely to attract financing in this environment. Our track record in large, urban limited-service hotels in major market continues.

I'll give you an example of New York City. Here in Manhattan alone, we have 13 limited-service hotels, the Mayor mentioned one of them that opens in three weeks, 13 under development right now representing 2,900 rooms including a 378-room Courtyard at 54th and Broadway and the city's first SpringHill Suites. Combining full-service and limited-service growth in North America, year-end 2010 to 2013, we expect to add 40,000 to 44,000 rooms or between eight and nine percent growth.

In conclusion, we are optimistic about our prospects for growth in North America over the next three years. With favorable industry supply and demand dynamics, we expect to drive pricing and RevPAR. Our continued focus on margin improvement opportunities will bring more of that top-line growth to the bottom line. In a little while, Kevin Kimball will translate a lot of these expectations into fees and their relevant economics. Let me invite Bob, Tony, and Laura back up on stage and move into the Q&A session. Thank you.

Question and Answer Session

Moderator: Laura E. Paugh: Senior Vice President Investor Relations

Laura Paugh: Good morning, delighted to see so many old friends here. There will be three Q&A sessions today. This morning we've talked about competitive advantage and we've also talked about the North American region. If you have any questions about the Caribbean, Latin America, or the Middle East, since we don't have any speakers today covering those regions, this is the right time to ask questions about those regions.

If you'd like to talk about incentive fees or recovery and fees, that kind of information, we'll cover that in the last Q&A session today after the finance section. We're going to take questions from the Web. I'll take questions from the audience. I'll direct the questions to the panelists and let's get started. Anybody have a question? Wait for a microphone so our Web listeners can hear us as well.

Question: Thanks, when you mentioned the 80,000 to 90,000 rooms, there's a small footnote in the presentation about 10,000 rooms in Asia that's not included in that. Is that an acquisition opportunity you've identified or can you tell us what those 10,000 rooms are?

Laura Paugh: Tony, can you cover that?

Tony Capuano: I can. I think that if you – and Paul Foskey who runs Asian developments for us will be speaking later today. He can go into more detail. The nature and the timeline around how we sign deals in Asia is very different than other parts of the world. Often times we're executing agreements when the building is 70, 80, 90 percent complete. And so the 10,000 rooms of potential upside is not related to an M&A transaction. It's related to identified preliminary deals that we've got high degree of confidence around them, eventually, making their way into our pipeline.

Laura Paugh: Any other questions? Over here, down front.

Question: Thank you. Tony, how much of what's in your pipeline or your growth forecast has Marriott capital investment? I believe it was Carl's or Arne's earlier comments, maybe it was when they were talking to me outside, that with respect to your 2011 and 2013 outlook, there's a lot of sort of unspoken for, unaccounted for capital investment. Based on what you have right now, what is spoken for?

Tony Capuano: About 25 percent of the 95,000 room pipeline is enabled by Marriott capital. That's about $400 million of direct cash investments, and about another $80 million plus or minus of guarantees. I think Laura and some other speakers will talk a bit today about the exercise we went through to identify investment capacity, but a lot of that, obviously, relates to unidentified projects.

Question: All right, thank you.

Laura Paugh: Any other questions?

Question: Hi. Tony, can you talk a little bit about what kind of investment is occurring and needs to occur to tailor the prototypes, especially on the limited-service brands to the international markets?

Tony Capuano: Sure I'd be happy to. You know, the good news, I think, a lot of it is what I would call sweat equity. Our brand teams, our operating teams are spending a lot of time on airplanes, doing consumer research in places like India and Brazil, pretty nominal out of pocket, kind of admin cost related to it. There is some external costs related to architects and interior designers, but the bulk of the activity I would really term sweat equity.

Laura Paugh: Over on the far side.

Question: If we could just follow-up the earlier question about rooms that are in the pipeline that have unspoken for capital, what assumptions are you making about recovery in the capital markets to support the construction of new builds, of full-service hotels particularly here in the U.S. given where the capital markets are these days.

Tony Capuano: Sure, I'll let Dave do a little deeper response to your question on North America. I will tell you, broadly, that we don't make a lot of assumptions about significant volume of new build full-service hotels in North America. We continue to see very strong conversion interest in our full-service platforms, particularly with Autograph as Dave described.

On the select-service side, we are starting to see some new construction capital leak out largely from Marriott brands as opposed to a number of our competitor brands, but very little on the full-service side. Dave, I don't know if you want to add to that?

Dave Grissen: Yes, the only thing I'd add is just in this part of the cycle it's very difficult, you know, in a new build part of the cycle, it's very easy to predict where our capital is going to go and why. In this part of the cycle, we are going to be much more opportunistic, we'll see conversion opportunities, especially on the full-service side and be able to deploy the capital, but it's very hard to nail it up to specific projects in a time like this.

Laura Paugh: Over here on the left.

Question: Hi. Of the 95,000 room pipeline, I'm guessing that's all franchise rooms. What percentage of that will also be managed and then maybe a little color on full-service versus limited-service outside the U.S., inside the U.S.

Tony Capuano: No, the 95,000 room pipeline is a blend of managed and franchised rooms. You'll hear from the continent presidents today it varies quite significantly by continent. For instance, every pipeline room in the Asia Pacific region is a managed project, not a franchised project. The select-service pipeline deals in North America are predominantly franchised.

Most of the full-service stuff in North America, on a unit count basis is probably relatively evenly distributed because of the number of big box hotels like DC Convention Center, on a room count basis, oriented more towards managed.

Dave Grissen: I'll use the example I used in Manhattan. Of those 13 development projects, they're all limited-service projects, 50 percent of those are managed, 50 percent of those are franchised. We typically do managed limited-service deals in major markets and franchised in secondary and tertiary locations, it's always a blend. Again, on the conversion opportunities in full-service we'll shoot for a 50/50 mix and try and focus on the major market opportunities for the managed hotels.

Laura Paugh: On a worldwide basis, it's about 50/50 also. Any other questions? Down front here.

Question: Thank you. Can you guys talk a little bit about the economics of the Autograph Collection brand? Are those exactly the same as a typical franchise agreement and do you get any, you know, pushback from owners of existing other Marriott brands where maybe you couldn't have built or opened another Marriott full-service brand, but because, I guess, this is different, there's contractually no obligation.

Tony Capuano: I can take a shot. Sure. On the fee structure, the franchise fee structure is tailored there almost identically to what we charge for the Renaissance franchise. From a market perspective, in terms – you know, our owners are always concerned when we grow distribution in their markets. That being said, it is almost exclusively a conversion platform, so you're not talking about adding incremental new rooms to the market.

And these are often hotels that we are attracted to because they are high-personality, independent hotels that already enjoy a fair amount of brand equity so that the perspective customer for those hotels, I think most of our owners view a bit differently than the customer that is attracted to a very consistent product and service delivery in one of our core brands.

Bob McCarthy: And I would say we look at impact all the time across brands as we do deals around the world, there's less impact on these because of the independent nature, so it's actually less an issue than some of the other brands that we deal with.

Tony Capuano: The only thing I'd add is we're actually very – one of the ideas behind Autograph was bringing new customers into the Marriott portfolio. We're hoping that these independent natured hotels are – we get an opportunity to introduce a lot of folks to not only Marriott Rewards, but to the rest of our portfolio as well so we think it expands our customer base significantly.

Laura Paugh: There's a question behind you.

Question: Thank you. If you could address the issue of amenity creep, which has in the last couple of recoveries become an issue and how do you maintain your financial discipline as you're adding amenities to your hotels?

Laura Paugh: Bob?

Bob McCarthy: Well, it does take a lot of discipline and sometimes it's a competitive response, but we have been pretty thoughtful about it over the years, in fact modified in our CFRST (Courtyard, Fairfield, Resident Inn, SpringHill, and TownPlace) properties about a year ago in the recessionary time, actually took some amenities out, kept a close look at customer feedback and it was not by any means loud. We also are struggling with other amenities over time, like high-speed Internet access and how we do that economically and put it into our financial model in a meaningful way.

So what we do is we kind of put it all in the blender, we look at our competitors. We look at our customer feedback, our GSS system and we try to keep it in balance with all the activities that Dave talked about, about keeping our margins in line. And so right now it's not an issue, but at times it's a competitive response like when we did free high-speed for platinum and gold about a year ago. It's not exactly an amenity but it is a cost issue coming into the business, which was a competitive response to something that went on with another brand. But it all has to go into the economic model and be very thoughtfully looked at.

Laura Paugh: Any other questions?

Question: Just going back to the early slides in Dave's presentation on just the overall outlook for the U.S. lodging industry recovery, you have a chart of your demand forecast. Can you elaborate a little bit on what are your core assumptions or the key indicators you are looking for since every economic, you know, recovery cycle plays out a little differently?

Dave Grissen: Sure, from a demand stand point, we're still very driven to GDP, so, you know, we're looking at where the economy is and what we've seen from a customer reaction this year. We were all pleasantly surprised by how fast the business demand came back this year. As GDP kind of has fluctuated over the last few months, we tried to kind of get a real sense for where we expect 2011 to play out.

But as we look at all the segmentation in our business, we feel pretty comfortable with the type of RevPAR ranges that we've shown you as far as where we expect 2011 to be, you know, at a minimum we'll be a lot closer to our predictions in 2011 than we were in 2010 or 2009.

Question: Thanks. You guys talked in pretty good detail about margin expectations over the next few years. I was wondering if you could give us some color, obviously, you know, labor is a big component of your margins and healthcare costs, I would imagine, would be a big component as well. Can you add some color as to where healthcare costs are relative to overall margins and also what your expected growth is over the next couple years? Thanks.

Dave Grissen: Yes. Right now healthcare costs, especially, with all the legislative changes that are out there creating a lot of time and focus, we expect healthcare costs to be under double digits in 2011, barely. Really where we see healthcare costs accelerating significantly is probably outside the timeline we're talking about. We'll see additional pressure in '12 and '13 but 2014's where we really see primarily significant increases in medical costs, double digit base on top of a double digit legislation pressure.

So from medical standpoint that's where we see costs going. Obviously, labor is a key component of our economic model. There's a lot of things going on from an industry standpoint but, you know, one of the things I would say is you saw Mike Stengel up here earlier, the relationship that we have with our associates and everything we do to make sure that they have a great work environment, we're teaching them life skills and everything else. We think that's our best way to maintain labor costs in the long run is take great care of our associates.

Question: Hi. You have a chart that shows U.S. lodging market share over time and it's kind of doubled over the past 15, 20 years. Where do you think that can go without hitting some friction with your existing portfolio?

Dave Grissen: It's been pretty interesting. We've been able to, as I showed in one of my slides, you know, 2-1/2 times our share of the industry increase in the last 20 years. In markets where we have more than a 40 percent supply of upper-upscale, we have some major cities in, you know, Washington D.C. is an example, Atlanta, others where we control a tremendous portion of the supply.

Our market share premiums are actually higher in cities like that where we control a lot of the supplies than they are where we aren't as well represented, so we think there's great avenues to grow and we think Autograph Collection is a great platform to grow, Renaissance. We think we've got some great opportunities with some of the additional brands that we've added over the years to continue to increase our share of the industry supply.

Bob McCarthy: I might also point out that the 33 million members we talked about with Marriott Rewards, they range from the low 40s to the low 50s across all brands, so even Autograph, which has only been in existence for a few months is running 40 percent of their customers as Marriott Reward members, so if you look at Courtyard, Residence Inn, Marriott. It's a very powerful engine across every brand that we have...

Laura Paugh: And now joined by Ritz-Carlton as well.

Bob McCarthy: And no brand is disadvantaged by it.

Question: Two questions. First on Autograph, is it fair to say that a strong recovery is perhaps the greatest risk to your unit growth expectations there? And then number two, the implementation of the Ritz-Carlton guest program, what does that impact on the bottom line of those hotels on a margin basis and what has the response been to the owners of the Ritz's?

Tony Capuano: Well, I can take the first one. As it relates to Autograph, it's been very interesting. There are, I think, three broad reasons we feel so confident about the growth prospects for Autograph. The first should be obvious and Dave alluded to it. We always knew the ability to plug high-profile independent hotels into our revenue engines could result in meaningful top-line revenue.

What has been pleasantly surprising and Dave talked about some of the statistics, the impact on margins to channel shift from going from the most expensive, least efficient reservation delivery system to the least expensive, most efficient is something that I think will be compelling, almost irrespective of cycle. And number three, and as we got ready to launch the platform, we spent a lot of time talking to owners of independent hotels, owners that were affiliated with other collections.

One of the things they found so compelling about Marriott launching a platform, is the strength of our owner and franchise services support infrastructure. When you think about the profile of an independent hotelier, almost by definition they don't have the experience that allows them to effectively mine all the revenue engines that a large international platform offers. We have the ability to instantly assign account managers and folks that can take them by the hand, help them effectively mine those systems, and I think that represents a tremendously competitive advantage for us, and all that infrastructure exists today.

Bob McCarthy: Regarding the Ritz-Carlton rewards question, it's a de minimus impact in 2010 and in 2011 we expect it to start paying for itself with a very low break-even with incremental business.

Laura Paugh: Any other questions? All right, well we've all earned a break. So let's be back here right at 11 o'clock and break is right outside. Thanks very much.

[Break]

Laura Paugh: Can we – everybody take their seats? Let's get started. We've got more good stuff to tell you. I'd like to next introduce our next speaker is Amy McPherson, she is probably the most well rounded executive I know. She has experience in finance, sales, marketing, revenue management, and today she's President of Marriott in Europe, so Amy, tell us about Europe.

Amy C. McPherson: President and Managing Director, Europe

Amy McPherson: Well thank you Laura, and good morning, so now we're going to move across the pond to Europe. And when we talk about global growth opportunities for business outside the U.S., China and India have clearly gotten a lot of press, and rightly so. Much like the U.S., the news in Europe has focused on economic concerns and in particular the debt crisis. So it's great to have the opportunity to put some attention and focus back on growth opportunities in Europe. It's a pretty fascinating and dynamic environment too.

So today I'd like to discuss Marriott's significant opportunity for growth in Europe. It's a large and growing market, and we have significant distribution gaps today in mature and emerging markets. We'll also share our plan to capitalize on these growth opportunities by leveraging the strength of our great brands and the operational excellence that Bob spoke about earlier. As background and context, I'll share with you where Marriott is today in Europe.

So as of year-end 2010, we expect to have 179 hotels in Europe across 24 countries, as you see on the map, representing over 40,000 rooms. From the U.K. and Ireland, we operate as far east as Kazakhstan, Georgia, and Armenia. Approximately, 90 percent of our hotels and rooms come from three brands, Marriott Hotels, Courtyard and Renaissance, and our portfolio includes nine Ritz-Carleton's, a JW Marriott in London, and a Bulgari in Milan.

Europe has 50 countries, 45 official languages, 28 different currencies, legal systems separate to each country, and a largely unbranded lodging market, so it's a pretty complex operating environment, and more so than the United States. It's also why we see a more fragmented competitive environment, where you have strong local country-based competitors who have disproportionate distribution in their home country. Despite the complexity, it's hard to ignore the market size and potential.

As our development and feasibility teams look at future hotel opportunities, population is one key determinant of hotel demand. People tend to think of Europe as small. Well that's true if you're comparing the population to India and China with over a billion people each, but it's not true as it relates to the United States. In fact, just the 10 major countries of Europe, in gold here, have a combined population over twice the United States.

Wealth is another key indicator of demand and as shown here, the Western Europe countries have mature, established economies with GDP per capita amongst the highest in the world. China and India are lower today, but they're growing exponentially, and Russia and Turkey are strong emerging markets like China and India. As Tony mentioned, Europe is the largest lodging market in the world, with an estimated 6.3 million rooms, but it's highly fragmented with less than a third of total rooms affiliated with a brand.

That said, over the past three years, we've seen a significant shift in the share of new openings towards chain affiliation, almost 10 percentage points. Clearly, the economic times have driven existing investors to increasingly embrace the size and scale benefits of global brands. In addition, we see a growing investor base from outside Europe who want to replicate their success with global brands and new markets. We believe this shift provides opportunities for our core brands in mature and emerging markets, and as you've already heard we have tremendous potential for the Autograph Collection.

With the owner-operator model prevalent in Europe, Autograph is a great conversion vehicle for the multitude of iconic independent hotels who seek the benefits of chain affiliation without giving up their name or control. So we've talked about the size of Europe, and the lodging market, now let's talk about travel spend. This chart shows WTTC's statistics on the total travel spend, by region, for 2009 and 2019. That's for travel domestic and abroad, for business and for leisure.

And based on this projection, even with the expected substantial growth in Asia over the next 10 years, Europe will continue to generate more travel dollars than any other region in the world. In fact, five countries in Europe, the UK, Germany, France, Italy and Spain, are in the top 10 countries for travel spend worldwide and 80 percent of total travel spend worldwide is for leisure, and that's why Europe will remain a force.

It remains the most favored leisure destination in the world because of its rich history and exciting destinations and events and many of those same destinations are recognized global business centers. So we've established Europe is big, it's growing and it's remaining popular for obvious reasons. And continued growth in Europe provides halo benefits for Marriott across the portfolio. While you'll find heavy concentrations of Americans in hotels in gateway cities, like Paris, London, and Rome, 70 percent of Marriott guests in Europe are European.

Europeans also contribute meaningful room nights to our hotels in Asia, the Mideast and U.S. gateway cities, 10 percent in Asia and 34 percent in the Middle East, respectively. We also have a large and growing Marriott Rewards population in Europe, with over three million members.

Seventy percent of Europe Marriott Rewards members come from the U.K., Germany, and France, where Marriott has the most hotel distribution.

With Marriott's share at less than one percent of supply in Europe as a whole, there are many markets, mature and emerging with great potential for growth. As we grow in these markets, our Marriott Rewards membership will expand accordingly and drive increased loyalty to Marriott worldwide. The significant opportunity for growth in Europe is evidence by our competitive position today. This chart shows the top lodging companies in Europe by number of rooms.

We're at number 10 today, just ahead of Starwood. It's interesting to note that none of the top U.S. based global competitors are in the top three. Our distribution gaps present large opportunities for growth and here's some examples of where we see those opportunities. As the U.K., Germany, Italy, France, and Spain are the largest source markets for travel in Europe, they're also more mature as it relates to the amount of branded supply, as illustrated by the two gold bars on the left.

As this chart shows, in major markets where Marriott is most distributed, like London, Paris, and Berlin, we still have only a six percent share of the branded supply. In other gateway cities like Rome and Madrid, our share is half that. So there are still significant opportunities to fill out our distribution with our core brands. What is really interesting and exciting is the growth potential in emerging markets in Eastern Europe, like Russia and Turkey.

Despite significantly lower brand affiliation, we've been successful in penetrating key cities like Moscow and Istanbul, with Ritz-Carlton, Marriott, Renaissance, and Courtyard brands representing 22 percent share of branded supply in these markets alone. This success is driven by a less capital-intensive business model in the East, and the peace of mind that our investors and guests alike feel with the Marriott name in these less familiar locations.

So to put this all in context, in major markets in the U.S., Marriott's share of total supply is typically in the 15 to 20 percent, and it can be higher. So we're capitalizing on these opportunities by leveraging the power of our brands and operational excellence to refocus in five key areas. First, we create brand awareness through culturally relevant brands and driving distribution. Arne and I opened our first two hotels in Sweden this year, a Renaissance in Malmo and a Courtyard in Stockholm, both are terrific representatives of our brand positioning. As a result, we're already seeing growing interest in the investment community.

To further enhance our brand positioning and driving awareness, we've focused our development efforts on important hotels in strategic locations, like the landmark Grosvenor House Hotel on Park Lane in London that Arne mentioned earlier. The renowned great room of this hotel is home to the U.K. equivalent of the Academy Awards and the Emmys.

This JW Marriott Hotel just completed a £150 million multi-year renovation to modernize the public areas, the rooms and the technology, including a telepresence room, all while maintaining the iconic historic feel. We and our partners also continue to reinvent existing hotels, to drive brand preference and awareness, and with our largest owner in Europe, we just completed £120 million refurbishment of 42 hotels within our U.K. portfolio.

This extensive renovation upgraded the guest rooms, the public areas, and the technology of 32 city center and town locations and 10 stunning country club estates, including the three you see on this slide. And in March, we celebrated the 35-year anniversary of our very first hotel in Europe, the Amsterdam Marriott. We took that opportunity with the U.S. Ambassador to the Netherlands, and 200 customers present to showcase the recently completed two and a half million Euro refurbishment of this terrific hotel in the heart of Amsterdam.

We also enhance our brand positioning and the drive awareness by opening new lifestyle hotels that fit unique customer needs. The Renaissance brand has been a great platform for this, with some exciting new opens in fashion and design oriented markets like Paris and Sweden, and this is the Renaissance Arc de Triomphe, located on the Avenue de Wagram in Paris. Renaissance is our third most distributed brand in Europe, and provides great halo benefits to the Marriott portfolio.

And we talked about Courtyard earlier. Courtyard has 40 hotels in Europe, the largest distribution outside the United States, and we have another 11 in the pipeline in Europe. And today Courtyard has less than a half a point share of the chain affiliated mid-tier in Europe, and that compares to 22 percent of relevant supply in the U.S. Given the disproportionate amount of domestic travel in Europe, we see tremendous opportunities for Courtyard expansion as well. And Bob mentioned our continued focus on the customer.

To be even more customer-driven in Europe, we're also ensuring that we have the most effective and efficient sales deployment against the highest value accounts in our key source markets. We're also focused on providing culturally relevant marketing in our customers' native languages in our distribution channels, particularly online. We already provide end-to-end reservations capability on marriott.com in German and Spanish, and we just launched our French site in June.

And last year we consolidated the two former regions of Europe, the United Kingdom Ireland and Continental Europe into one consolidated Europe organization. This presents great cross-selling opportunities and more impactful marketing. It also allowed us to consolidate above property operations to improve top and bottom line performance and this leads me to operational excellence, which Bob talked about earlier, a key competitive advantage to Marriott.

In Europe we're focused on leveraging our size and scale to drive the top line and margin growth in the major markets where the majority of our distribution lies. Today three countries, the U.K., Germany, and France generate approximately 60 percent of our European revenue and 45 percent of our European fees. As in the U.S., Marriott's operational excellence drive strong RevPAR premiums that are key to our competitive advantage and competitive benchmarking with reliable market share data is becoming increasingly available outside the U.S.

And while we have a modest share of supply in the U.K., Germany, and France, we have significant RevPAR premiums due to our revenue engines and our scale and this is a key selling point for investors across Europe. RevPAR premiums also give us attractive margins and growing scale should improve these margins further. In fact, house profit margins for Europe in 2010 are expected to be 35 percent, 30 basis points higher than in 2007, with lower RevPAR.

This is driven by improved productivity associated with implementation of shared services, lower energy costs and leveraging procurement across Europe. A fundamental way we're also capitalizing on growth opportunities in Europe, is by continuing to focus on having the right people in the right jobs, taking care of our guests and ensuring we have a robust talent pipeline for the new hotel openings.

And as our distribution has grown in key markets, we've mirrored our U.S. success in establishing above property shared service centers in lower cost locations in the United Kingdom and Ireland to further drive efficiencies and reduce property costs. And finally, unit growth fuels and is fueled by our focus in the prior four areas. So let me close with our efforts to accelerate hotel development. In March, we announced our plans to double the size of our portfolio in Europe by 2015.

That means another 40,000 rooms signed or opened, and there are three key drivers of this accelerated growth plan. First we'll achieve organic growth, by continuing to fill distribution gaps in halo, secondary, and emerging markets with our core full-service brands, and with Courtyard expansion in the mid-tier. In addition, we're just now rolling out Autograph, targeting iconic independent hotels and we see significant interest in Europe as you heard from Tony earlier. We're already in advanced discussions with owners representing some 30 hotels.

We've also been successful with the use of Marriott capital, strategically and selectively, for the acquisition of on-strategy hotels in key markets that fill our gaps. As we said before, capital gives us a competitive advantage and is particularly important in Europe, some more to come on this. And we also see opportunities for short chain acquisitions. If not an outright purchase, there may be J.V. opportunities, and we've already mentioned our announcement of AC Hotels.

We are very excited about the strategic fit of AC Hotels within the Marriott portfolio, with 80 of the 92 existing hotels in Spain. It provides an immediate and significant presence in the fifth largest source market in Europe, and a great opportunity for Marriott to drive over all brand awareness. With its stylish design and strong European customer base, AC by Marriott would be positioned in the lifestyle category and presents a compelling complement to the performance positioning of Courtyard.

We also get an incredible development partner with Antonio Catalan and the AC Hotels team, who are very knowledgeable, obviously, about Spain and very knowledgeable about the mid-tier segment, and we expect to have a great growth platform with AC Hotels throughout Europe and in Latin America, and since our preliminary agreement announcement we've already seen a lot of interest in Latin America as a result. So upon closing the deal, Marriott would leapfrog from number 10 in Europe to number five.

So how does this all factor into our expected rooms growth in Europe? Our base business plan shows approximately 10,000 rooms opening between 2010 and 2013, driven by the organic growth I discussed earlier. And based on a current pipeline of 4,900 rooms, this is a reasonable target. This target is reflected in the 2013 forecast that we'll share and discuss this afternoon.

With a closing of the AC Hotels deal by year end, and with anticipated conversions to the Autograph Collection over the next three years, we expect to add another 12,000 rooms in Europe by year end 2013. This puts us well on our way to achieving our accelerated growth goal for 2015.

So in conclusion, we're serious about our aggressive and ambitious expansion plans for Europe. Our continued success in Europe will accelerate Marriott's growth worldwide, and we're already making a lot of progress, so, more to come from Europe in the months ahead. Thank you very much, and now I'd like to introduce our President and Managing Director of Asia Pacific, Simon Cooper.

Simon F. Cooper: President and Managing Director, Asia Pacific

Simon Cooper: Thank you very much, Amy. Good morning, ladies and gentlemen. I'll give you a broad overview of Asia Pacific and then Paul Foskey is going to follow me and do a much deeper dive and detailed look at our development. I've just started my position in Asia Pacific after 10 years being the president of Ritz-Carlton, so the challenge is new, but the area certainly isn't new to me.

Topics I'm going to cover, I'm going to look at the supply landscape with a particular focus, obviously, on China and India, since they are the two largest markets. I'm going to look at Asian tourism by market, look at the region as a source of demand and how inter-Asia travel is replacing other travel coming into the region. I'm going to talk about the impact of infrastructure, especially in terms of infrastructure in air, rail, new central business districts and indeed new cities. I'm going to talk about some of our brands and how we're deploying them in the region, and then I'm going to look at the key Marriott strengths.

If we look at supply, the first thing probably to note is that the total on the left hand pie is 2.4 million rooms. It's a little hard to calculate, but a lot of independent operators, a lot of small hotels in the Asia Pacific region, however you will note that this is below, it's less than 50 percent of the United States and well below Europe.

If you look at the right hand chart, the 647,000 chain managed rooms, and Marriott is well represented there. One of the key things that we'll talk about, and certainly see in Paul's presentation, it's not just about the number of rooms, it's about where we locate our products, making sure that we're in the primary markets. If you look at the total supply chain in China at the present time for entire China, it's 140,000 rooms in the pipeline.

This is for all of China. Seventy percent of those rooms are in full-service hotels. If we look at India, that number is 47,000, so at the present time in Asia pipeline, you're looking at two to one in terms of China versus India. Looking at demand, somewhat hard to track historically, but if we look today as you can see, the largest source of demand is travel within Asia. This is especially true in the key gateway cities.

I can tell you from my Ritz-Carlton experience that in locations like Guangzhou, Shenzhen, Sanya, Ritz-Carltons, even the luxury hotels are running over 85 percent PRC as in mainland China residents. If we look by market at the various countries in the region, you can see the countries below listed, and the blue bar is the spend and the yellow bar is the CAGR. As you can see, China here is deemed to be the fastest growing market in the world, and that by 2015, inbound will be number one and outbound number four. Current inbound is 58 million travelers.

If you look all the way across to the right, you can see that Japan still has significant spend. It is a very big market, although obviously, the growth patterns are much less and reflect a very mature market. If we go back to China for a second, 50 percent of all travelers come from three primary economic zones. The Bohai Rim, The Yangtze Delta, and the Pearl Delta, get to know those because you'll see more of that in Paul Foskey's presentation.

Another thing in those regions, 30 percent of all the wealth in China resides in four cities, Beijing, Shanghai, Shenzhen, and Guangzhou. If we look at the impact of infrastructure and other game changers in the region, China infrastructure has certainly been very helpful to travel and tourism, starting primarily with airports. And those of you that have been there recently, or for the Olympics know that nearly every single major city has a new airport.

Now they're beginning to move into high speed rail, cutting travel times between major cities by over two thirds. An indicator of China's spend on infrastructure, China is currently spending $117 per capita compared to India, who's spending $17 per capita. However, in India airline deregulation doubled the number of airlines and increased dramatically the number of locations served. The current CAGR in terms of airline travel in India is 18 percent per year.

Returning to these central business districts that have grown up, a good example of central business districts where we have inventory would be Pudong, which is probably the best known in terms–in Shanghai, Guangzhou central business district and Shenzhen is another, and we even have new cities being built. Two of the new cities that are under construction at the present time, Malaysia is building Johor, which is down on the Singapore border and Inchon Airport outside of Seoul, Korea is building Songdo. These are complete new cities and complete new opportunities for us.

The fourth point there is the growth of low cost carriers, just the same as in United States and Europe. Low cost carriers have come to Asia. They're growing significantly and they have a very vital impact upon the leisure markets, especially. So when we look at some of our distribution in those leisure markets, this has given a great boost to those hotels.

Looking at some of our distribution, ever since we opened the JW Marriott in Hong Kong back in 1989, this brand has been very popular with owners. The JW now has flagship hotels in gateways like Shanghai, which you can see there, Beijing, Seoul, Mumbai, and we also have gateway resorts that represent the brand superbly in critical locations such as Phuket and Sanya.

We've heard a little bit earlier about Courtyard. Courtyard in Asia is a different looking Courtyard, but a very strong platform indeed and very well accepted in the market. We have the brand positioned in key markets like Seoul, Tokyo, Bangkok, Hong Kong, Sydney, and the hotels certainly have full-service features, because they have to compete with full-service hotels in markets where customers expect that, with club lounges, Chinese restaurants, meeting space.

Paul will talk a little bit more later on about the growth story of Courtyard and how we see that playing out in the region. One of the key advantages we have with Courtyard is that our inventory is much newer than that of our competitors. Renaissance, which Amy referenced is our lifestyle brand, we've opened 10 Renaissance in Asia since '05. We have a relatively well-balanced pipeline especially in China, with 17 Renaissance signed or under construction and we have 20 Marriotts signed or under construction.

Recent flagship hotels that represent the brand absolutely superbly would be Phuket, Bangkok and Shanghai. Ritz-Carlton, which is, obviously, near and dear to my ex-heart, very strong presence, very strong RevPARs in Asia. We have an excellent China portfolio and when we open Hong Kong next year, we'll have nine hotels in China for Ritz-Carlton. Eight of those have opened in the last three years.

We also have the top two rated hotels in Japan, in Tokyo and Osaka. Again, a very important market for Marriott brands. Ritz-Carlton's beginning to move in China to phase two, moving into secondary cities, of course a secondary city in China probably has 10 million people. The first signed deal is in Chengdu, which is under construction at the present time, and we're focused on Tianjin and Qingdao as next Ritz-Carlton locations. We also opened the first Ritz-Carlton reserve in Krabi, Thailand.

Looking at some of the brands, some of the Ritz-Carltons represented here, Singapore's been a great brand builder for the last 10 years. Tokyo at the Midtown Plaza in partnership with Mitsui Fudosan has been just a huge success for Ritz-Carlton, and you can see there in Pudong the rather art-deco representation of the 1930's Shanghai. However the piece de resistance is the Ritz-Carlton Hong Kong, which will open in the early part of next year. It is 118 stories high. The lobby is on the 102nd story, so you're looking 102 to 118.

Some real advantages are that there are 90 floors of offices completely occupied below the hotel.

All of the occupants of the offices are banks or financial services who have moved over from Central to the Kowloon side, also sits on a luxury shopping center, a transportation hub, including the new high speed rail that is going to go from Hong Kong to Guangzhou, and a little factoid, you can get from the entrance of the hotel to the lobby, 102 stories, in 52 seconds, at 270 kilometers an hour. It will be the tallest hotel in the world when it opens.

So if you look at the network of Ritz-Carltons, very important to our luxury customers is to have a network in places where they want to be, and as you can see the Ritz-Carlton is very well positioned in terms of Asian capitals and gateway cities. Other brands we've touched upon earlier, Tony highlighted Fairfield in India, and I know Paul will talk more about that in his presentation.

Marriott Executive Apartments, we provide a terrific residential environment in key gateway cities, which are hard for people to live necessarily in the community, very, very popular with guests, owners and developers and an excellent product. You'll also see there the first EDITION. We're thrilled to have the first EDITION opened now in Hawaii, and we expect more traction around that brand. The Autograph Collection, as Tony mentioned, starting in the U.S. and beginning to look at how do we move that into other markets?

Looking in summary, we have long term executives who have spent many years in Asia and, particularly Paul, who is going to follow me has been nearly a decade as head of development for Marriott in Asia. We have a new global organization that is designed to place more resources in the market and speed decision-making. We're beginning to get critical mass in some markets to provide opportunity, as Bob mentioned, for shared services and cluster sales.

We can implement practices that are common in much more mature markets, and I think the first market we'll be looking at is Shanghai, as Bob mentioned, where we'll have 20 hotels early next year. The last item on the list there is Marriott Rewards, which you've heard from all the speakers how strong Marriott Rewards is, very popular in Asian communities and it is a primary vehicle for us in terms of customer loyalty.

In order to grow Marriott Rewards, one of the key things is to have terrific partnerships, and I was thrilled that this morning I got Arne Sorenson up at 5:00 and Ken Rehmann and we went over to teleconference and sign a new agreement with CTRIP of China. CTRIP, which is quoted on the NASDAQ, is the largest online travel agency in China. To give you an idea of how significant they are, they have 65 percent market share, so their market share in China exceeds the market share of Expedia and Orbitz together in North America.

It's really important, because in China there are 420 million on the Internet. That is double the number on the Internet here in North America, so, in summary, great products, in key locations, in high growth markets, with newer product than that of our competitors. And to tell you more about the development story I couldn't have a better partner in trying to grow Asia than Paul Foskey, executive vice president of development. Paul?

Paul T. Foskey - Executive Vice President International Hotel Development, Asia Pacific

Paul Foskey: Well good morning, everybody or I guess as we'd say in Hong Kong about now, good night. I'm thrilled to be here today to tell you more about our growth story in Asia Pacific. As you just saw in Simon's presentation, the market dynamics in Asia Pacific are spectacular, and Marriott has well-defined brands with outstanding products across the region.

In the second part of our Asian overview, I'll tell you more about our current and planned distribution. We'll talk about some of the factors that make us so strong in India and China, and I'll explain how Marriott's approach to growth is different in each of those two countries. Finally, I'll show you the importance of the rest of Asia, beyond India and China, and you'll see how Marriott's development strategy reflects that.

Let's start with a snapshot of our rooms growth over the last three years. We've expanded our existing footprint in Asia by more than a third since 2007. Put another way, that's 50 new hotels, all of them managed, and they're in the right places, two, soon to be three in Hong Kong, seven in Shanghai, five in Beijing, eight across India and eleven in Thailand, including Bangkok and the major resorts.

Quite a number of these new hotels are brand building, high profile properties that are already driving interest from potential owners. Let's look at the geographical mix of our open hotels and our signed pipeline. Today's profile naturally reflects the strength and importance of China, but you can also see how Marriott is well diversified across Asia. Countries such as Thailand, Vietnam, Indonesia and South Korea not only have their own economic growth stories, they're also benefiting from China's booming outbound tourism and investment.

On the right, our signed pipeline shows the increasing importance of India, which really only took off as a growth market over the past five years or so, but we've been quick to capitalize, and we now manage more rooms in India than any other global operator. Although you don't see Japan and South Korea represented in our signed pipeline, I'd like to point out that we've opened five hotels in Tokyo and Seoul in 2007, and we hope to finalize additional projects soon.

Barriers to entry in those two markets are the highest in our region, but it's worth the effort. Today Japan and South Korea generate 20 percent of our fees in Asia, with only 12 percent of the open rooms. Marriott's hotel portfolio in Asia is also well diversified by brand. All of our brands mean something to guests and owners. As a result, we're not reliant on any one particular name to drive growth. That gives us both balance and flexibility.

With the brands you see here, plus Bulgari, EDITION, Autograph and others, we have plenty of room to grow in the same city with multiple hotels, and we can do more with our multi-unit owners.

In our signed pipeline shown on the right, Marriott's high end brands continue to have strong representation, but Courtyard is our fastest growing brand. By 2013, we'll have 45 Courtyard hotels open in the region, 40 of which would have come online since 2007. Courtyard is our growth vehicle because it's scalable, it's adaptable for different countries, and it's well suited for Asia's growing middle class.

Let me now show you where we've built our footprint in China. There are three main commercial areas in the country. Each of these contains a number of major cities anchored by an international gateway. The Bohai Rim, which includes Beijing, is located in the Northeast. The Yangtze River Delta is on the Central coast and includes Shanghai, and on the Southern coast is the Pearl River Delta in Hong Kong. Together these three major areas represent 60 percent of China's GDP, 99 percent of its international arrivals, and more than a third of the population. With economic fundamentals like that, these areas have been our priority since we started on the mainland in the mid 1990's.

But there's been more to our strategy than macroeconomics. Room rates were another critical factor. Beyond just returns and fees, rates help to establish brand equity, and that's especially important when entering a new market. On the mainland, all of the yellow bars and most of the blue bars are located in the three major areas we just talked about. Outside of those locations, rate potential has historically been limited, making it challenging to justify quality product and generate fees.

So where are we as a result of all this, and what about our competitors? Although Marriott entered the mainland almost a decade after everyone else, today we're ranked fourth overall in terms of open rooms, which is the gold bar, and number two in the largest market, shown by the green bar. We're focused on these gateway and primary markets not only because they have better room rates and fees, but also because they generate higher brand visibility and more exposure to potential future owners.

But the room counts shown on this slide are a bit misleading. It's interesting to note that IHG, which currently has the most rooms in China by far, recently announced that they expect to generate total hotel revenues in excess of a billion U.S. dollars this year from their 45,000 hotel rooms in China. We're also projecting 2010 China hotel rooms – hotel revenues of over a billion U.S. dollars, but we're driving that with only 19,000 rooms. This shows that there's a lot more to the story than just rooms.

Where you are, and with what products are also critically important in driving revenues and any evaluation of competitive positioning in China has to take that into consideration. To make this point again, we can look at only the gateway and primary markets, focusing only on the luxury and upscale segments. On that basis, Marriott's leadership is more evident.

Another way to illustrate that revenues matter is to look at Marriott's China-wide revenue share versus our primary competition. As the chart shows, we capture over 20 percent of total revenues with 15 percent of the inventory. In summary, we don't believe that a successful hotel company is defined solely by the number of rooms. Instead, we believe success is defined by the numbers, profitability, and the quality of one's distribution. And it's those metrics that drive our development strategy.

Looking ahead, we're committed to growing our leadership in the major cities. We'll soon have 20 hotels open in Shanghai, as Simon mentioned, and as the city expands, we believe there's room for more. Recall that we have over 100 hotels within 50 miles of New York City. At the same time, China's growth story is evolving, and it's now starting to move beyond the major economic growth corridors. The government is determined to drive growth in secondary and tertiary cities.

We're seeing better room rates in some locations already, as one example, we just signed a Ritz-Carlton project in Chengdu, which is the commercial capital of Southwest China, and we're working on several more Ritz projects in similar size cities. Also, we're now taking Courtyard into secondary markets and even some smaller cities where we see the rate potential. Finally, with explosive domestic leisure travel, there's plenty of opportunity for new resorts.

We have two extremely successful hotels on the beach in Sanya, and we're actively pursuing more resort projects there and throughout the country. In India, market fundamentals are completely different. First, India's population and economy are much more evenly distributed and the top 10 largest cities only account for six percent of the population and less than a quarter of GDP. Second, India's infrastructure is far less developed.

Third, it's a relatively new hotel market and it's a very small hotel market, with only around 140,000 rooms open across the entire country. Finally, there's not as much rate disparity between gateway, primary and other markets. Marriott's profile in India reflects all of this. Our open and signed hotels are located in different types of markets, and they're well disbursed throughout the company. Until recently, most of India's very limited quality supply catered to inbound business in the high-end tier.

That, together with dramatic economic growth and the emergence of India's middle class, created a clear opportunity for Courtyard. We've been quick to capitalize on the situation, and today led by Courtyard, we have more open managed rooms than any of the main global operators. In terms of overall open rooms, we're currently in second place, but note that our entire portfolio is managed. In today's India market a focus on management gives us an edge in controlling our brands and service.

The result is an outstanding market reputation for quality and performance throughout the country. We're thrilled about Courtyard, but even with 14 signed Courtyard projects set to open in the next few years, that's only part of the growth story in India. Marriott's overall signed pipeline is well rounded and includes seven JW Marriott Hotels, in addition to our first Ritz-Carlton hotel, which opens in Bangalore next year.

We also have eight hotels signed in the up-scale tier across our Marriott and Renaissance brands. At the same time, there's a significant opportunity for moderate priced lodging in India, so we're now in the process of launching Fairfield by Marriott in that sector. We've spent a lot of time researching the Fairfield opportunity, and we're now finalizing a new product that's been specifically designed for the India market. Autograph also has potential for us in India, and we're looking at several projects right now.

So, if we consolidate all of this into anticipated growth, you can see that we're projecting 15,000 to 17,000 gross room additions through the end of 2013. That target is reflected in the forecast that Kevin Kimball will discuss later today. But we think we can do more. Our pipeline of signed deals as of today already totals some 17,000 rooms, and we believe there's up-side from the market opportunities I've just highlighted. So we're upping our target by another 10,000 rooms. They aren't in the forecasted profit numbers yet, but we're confident that we can accelerate growth.

As you've just seen, Marriott has built a foundation of quality in Asia, not only in products, brands and service, but also with the locations and profile of our hotels. As a result, we have a network of brands and properties that generate strong revenues along with both high visibility and an excellent reputation in the marketplace. As the head of development in Asia, I'm extremely enthusiastic about our ability to accelerate growth from this platform, as we leverage our existing hotels and introduce new ones with the ongoing evolution of the market.

Much of our growth will continue to be driven by India and China, but we see plenty of opportunity elsewhere in the region. Even today, almost half of Asia's fee revenue comes from countries other than India and China. That leaves us very optimistic about maintaining the balance that's so important to our overall Asian growth story. Thank you very much. I now have the pleasure of introducing Mr. Steve Weisz, the president of Marriott Vacation Club International.

<u>Stephen P. Weisz: President, Marriott Vacation Club International</u>

Steve Weisz: Good morning. It's still morning. I know many of us got together a few years ago when we held Marriott's timeshare security analyst day in Orlando in 2008. To say things have changed a bit is probably a big understatement. The timeshare industry, which historically had not been meaningfully impacted by economic downturns, has definitely felt the impact of this current recession. And given that impact, it's understandable, on the surface, anyway, as to why many of your reports on Marriott asked the question, why is this a good business?

So over the next 20 minutes or so, I'm going to try to do my best to highlight for you why I'm very optimistic about our timeshare business, not only just for now, but for the long term as well. I'm confident that with our competitive advantages as well as the impact of our hard work over the past few years to right size the business, we are well positioned for financial upside as the economy improves.

There are many reasons to buy a timeshare product, none of which have permanently changed as a result of the recent recession. And what we are selling to our guests is a product that provides a commitment to vacationing every year at an exciting Marriott resort. It represents a time to reconnect to one's family, decompress from day-to-day stresses and truly rejuvenate oneself. The broad variety of usage options and our large portfolio of not only Vacation Club properties, but Marriott Resort Hotels, are very attractive to leisure travelers.

Our product typically includes an underlying real estate deed, which means that our owners own their timeshare forever and allows them to pass on their interval to their children and to others as they desire. Overall, we feel very strongly about the value of our product. But more importantly, so do our owners. But all of us at MVCI understand that in the end, what we are really selling is fun and who doesn't want to have more fun, right? So why do timeshare customers buy Marriott timeshares? Well, it really has to do with consistency, quality and the overall trust in the Marriott name.

Marriott is committed to the highest standards of product and service quality and consistency. We recognize the trust implicit in the Marriott name and we work very hard to ensure that the product we deliver meets and exceeds that expectation. And our partnership with Marriott Rewards drives owner satisfaction with our product and helps fuel our growth. The key differentiator Marriott has in comparison to our competitors is our broad distribution of properties.

We offer our customers a portfolio of 53 resorts without peer and we have multiple brands that serve their individual vacation needs. Couple these factors with a constantly evolving array of vacation options like the ability to trade into Interval International's 2,500 resort properties or to trade for Marriott Rewards and utilize over 3,400 Marriott hotels and roughly 30 airline partners gives us an offering that is superior to that of the competition.

As Bill Marriott always says, take care of your associates and they'll take care of your guests. And we're extremely fortunate to have a tremendous base of experienced associates that help us drive high owner satisfaction in our resorts. As you can see from this graph, we've continued to improve on guest satisfaction over the last five years. What's even more impressive is that even during the most challenging years of our business in 2008 and 2009 we actually saw an increase in owner satisfaction, at nearly 89 percent in 2010, this represents roughly a five-point increase from just five years ago.

A lot of the credit for those outstanding results goes to our great team of associates, who are very satisfied as well. In fact, we take an annual survey of our associates, which measures, among other things, associate engagement. For 2010, I'm proud to say that our results once again remain very high. In fact, MVCI's engagement survey rating of 83 percent was six points higher than the world-class benchmark standards as reported by the outside firm that measures engagement not only for us but for over 600 companies as well.

We believe that this is a tremendous feat, particularly during these challenging times when most company engagement scores actually showed considerable declines. Those higher owner satisfaction scores mean that our owners love our product and we're happy to report that that love actually increases sales and lowers overall marketing and sales costs for MVCI. In 2009, two thirds of our domestic sales came from our existing owner base, either through owner reloads, where an owner either upgrades or buys an additional week, or through owner referrals.

I'm sure you'll agree with me that there is no greater indication of satisfaction than when an existing owner wants more of our product or is willing to recommend us to their friends or families. So as our owner base grows, we expect to continue to leverage these low-cost channels to drive additional sales volumes. But you should note that in 2009, as the economy weakened, we did see a much higher proportion of our sales come from these channels, given the significant discounts we offered as part of our 25th anniversary program, which heavily incented owner purchases.

While owners will continue to be a big part of our sales going forward, the percentage of sales from reloads and referrals over the next several years is expected to be more in the line with what we have seen historically, that is, it will move from roughly two thirds to right around 50 percent of sales. Oh, but please don't misinterpret this to mean that we're only focused on existing customers to drive sales. Even in 2009, with the promotional program being offered, we still experienced 55 percent of our total sales coming from first-time buyers, albeit, some of them through owner referrals.

Over the past 26 years, we've consistently evolved our product to meet changing customer needs. And we've continued that tradition as we recently introduced Marriott Vacation Club Destinations, Marriott's new points-based timeshare program. This new program was launched at the beginning of the third quarter of this year for our North American timeshare properties. So let me take just a few minutes to highlight some of the key points of this new program. For our 350,000 timeshare owners, our Destinations program is an enhancement to what they currently own.

Some things haven't changed. For instance, owners still have the option to occupy their home resort, which for many is how they choose to use their timeshare each and every year. They can also continue to trade their week for Marriott Rewards to access our broad array of lodging products and travel partners, or they can exchange into any of the Interval International's 2,500 resort properties. All those options existed prior to the implementation of our new points-based product and will continue to exist going forward.

However, with the introduction of Marriot Vacation Club Destinations, these owners now have the ability to enroll their week into the new program, receiving access to even more options which I'll share with you in just a moment. But recognize that enrollment is at their discretion. If they choose not to enroll in the new program, then they had exactly what they had before – that is, there is no change to their existing product. So let's take a look at the new program, which we believe takes the weeks-based product to a whole new level by providing even more usage options and increased flexibility.

The first element of our Destination program is what we call the MVCI Collection, which allows our owners to utilize their points to reserve accommodations at any of our MVCI resorts. The key point here is the flexibility that owners now have in terms of being able to utilize their points to check in any day of the week, for any length of stay, in any season, and in any unit size that meets their needs. Essentially, what I'm saying is, if an owner has enough points in their account, they can go and stay wherever they want in our portfolio as long as there is availability. They are no longer bound to their home resort.

The next element is what we're calling the Marriot Collection. Under this option, an owner can trade their timeshare points for Marriott Reward points and gain access to over 3,400 Marriott branded hotels worldwide.

The Explorer Collection is another new feature for our owners. Owners are now able to utilize their points to experience a wide array of adventure travel options, including African safaris, cruises, river rafting, guided tours in exciting destinations in Europe and Asia and much, much more. And we intend to expand these options to continue to meet the evolving owner needs and interests over time.

And lastly is what we call the World Collection. This option allows an owner to deposit their Destination Club points with Interval International and request an exchange to one of 2,500 non-MVCI resorts in the Interval system for a week of vacationing. While this exciting new program certainly provides enhanced flexibility for our owners, there are also significant business benefits to MVCI.

From a top line standpoint, we believe the product is much more appealing to our owners and will allow us to reach more customers than the traditional weeks-based product, given the increased flexibility, ability to buy in smaller increments, ease of usage and a simplified fee structure. And this program helps achieve our goal of generating stronger cash flows and enhancing ROIC through improved capital efficiency, as we are now selling a portfolio of projects versus an individual resort.

We will have less projects in development at one time, thereby reducing development capital spending going forward. And with a more of a just-in-time inventory management, there will be less inventory on our balance sheet with lower unsold maintenance fee costs as well.

And lastly, as we intend to sell only completed inventory through the points program, revenue recognition will be more in line with sales, something that I think you'll probably be happy about, given some of the reporting complexity of percentage completion accounting.

So you might ask how's the program performed so far? Well, we've only been in sales for about four months, but we are very excited about how well received the product has been, particularly with our existing weeks-based owners. Through the first four months of the program, 29,000 existing owners have enrolled 58,000 weeks into the new program, and they're enrolling some great weeks. Nearly 80 percent of the enrolled weeks are platinum and gold season, with the heaviest weighting favoring platinum weeks, our most highly-demanded inventory.

Owners who are vacationing with us and take a tour have been very inclined to enroll in the new program, with more than half of them signing up on the spot. And when they do, a quarter of those folks add to their Marriot Vacation Club portfolios by purchasing additional points, with the average incremental points purchase approaching $14,000. This is all great news and the pace is well ahead of the expectations that we have set for ourselves. Enrollees are already beginning to elect to use their points for 2010, '11 and '12.

And this new program is resonating with new owners as well. Even though our focus since launch has been on introducing Destinations to our existing owner base, we've already added nearly 1,500 new owners to our family with an average purchase of $26,000.

Turning to contract sales, as you can see from this chart, our sales levels have been significantly impacted by the economic downturn, when in the fall of 2008 it felt as though someone had actually turned off a light switch. Our contract sales dropped from about $1.5 billion in 2006 and 2007 down to a little over $700 million over each of the last two years. Hopefully we are seeing some signs of recovery. But because of the somewhat uncertain economic indicators, we are projecting very modest growth over the next few years. And that growth is focused primarily on our core timeshare product as we sell out our existing fractional and residential products.

I want to emphasize to everyone that while our contract sales are not back to historical levels, given all the restructuring that we've done to right size the business, we expect the profit flow-through on those sales will be much greater going forward. We expect that the 12 percent compounded improvement in contract sales through 2013 should also translate into stronger timeshare earnings. Base fees are expected to total $55 to $60 million by 2013 as we continue to add new owners.

Timeshare sales and services, net of direct cost, could total $255 to $265 million and timeshare segment profits could total $192 to $202 million. You'll probably note that we are showing 2013 results while we didn't provide profit guidance for 2011 in our most recent earnings call. So it does beg the question, how can we have a view of the long-term but not the short term? Well, the answer is really twofold. First, we are early in the rollout of Marriott Vacation Club Destinations.

The new product has profoundly changed the way we market and sell timeshare. It's altered our approach to development and impacted our near-term revenue recognition. All of these are difficult to forecast in the short-term with the degree of confidence and precision that we are accustomed to. We did do a great deal of research prior to the launch of the product and we're very pleased with the market's reception of the product to date and I'm confident that the points program will provide the long-term value and cash flow we are showing in these 2013 numbers.

Secondly, our Ritz-Carlton fractional and residential business, a relatively small portion of our total timeshare business, has experienced a more severe downturn than our North American timeshare business in this great recession. We are selling out our residential inventory and have rolled out a new fractional product to broaden its appeal to a wider group of customers. Fractions are typically viewed as an alternative to the second home, and given customers' continued nervousness about the pace of the economic recovery, sales have not yet picked up.

As a result, in 2011, we may consider some bulk sales of fractional product or sale of undeveloped land, which could impact 2011 results. We will have a much better view of this after we complete our 2011 budget process in the fourth quarter.

To better highlight the impact on financing profits this slide shows loan originations on the bar chart and financing propensity on the line graph. In 2008, we made a strategic decision to shift focus away from driving financing with our owners as a response to the changes in the asset-backed securities market and as a way to improve cash flow on our balance sheet.

Let me be clear, financing will continue to remain an option for any qualified owner who is interested in financing their purchase. We will just no longer incent our customers or our sales associates to drive incremental financing. As a result, while loan originations increase in 2013, propensity remains in line with 2010 at roughly 45 percent, a huge decline from our record levels of over 70 percent just a few years ago.

Looking at the segment results, over the next three years, cumulative development profits should total between $330 and $350 million with a majority of this being derived from our core timeshare products. Financing is expected to remain strong during that timeframe, contributing roughly $270 million including the impact of interest expense on securitized notes. As mentioned previously, these results are predominantly driven by customers' financing timeshare purchases.

In Services Profit, although it represents a smaller percentage of our total EBITDA, represents a recurring low-risk cash flow stream that grows at rates consistent with contract sales growth. Regarding G&A, our projections assume great growth in line with inflation. Our entire management team is very focused on managing these overhead costs down by leveraging existing infrastructure to support ongoing growth.

Adding back depreciation, amortization, capitalized interest and interest expense from securitized notes, our EBITDA could total $655 million to $690 million cumulatively over the next three years. I know there's a lot of interest about our inventory levels, so let me try to provide a little bit more color on that topic.

Back in the 2006 to 2008 timeframe, we continued to build our inventory pipeline to support growing top line projections. However, you can see when sales began to slow down in the 2007/2008 timeframe, inventory levels increased, given the inability to quickly take the foot off the gas on spending, giving outstanding construction commitments. We began to work down our inventory in 2009, but we were still impacted by many of those spending commitments. We remain highly focused on construction – on our construction spending with projected sale – and aligning that with projected sale space.

However, you can see that in 2010, we are projecting an increase in our inventory levels, primarily due to two factors. First, with the implementation of FAS 166/167 earlier this year, our inventory balance was increased by roughly $100 million for inventory that may come back to MVCI as a result of future loan foreclosures. And secondly, due to an outstanding purchase commitment, we incurred roughly $100 million for a turnkey project in Vail to support our Ritz-Carlton business.

Looking ahead to 2013, we are targeting our inventory levels to approximate $1.2 billion. Recognize that to avoid inventory stock out, certain levels of completed inventory must be maintained to support projected sales volume. But of course, I want to remind you that we will not be starting any new resort projects in this timeframe.

Turning to cash flow, with modest capital needs, MVCI's contribution to the company's overall cash flow over the next several years is significant, with free cash flow of between $625 and $675 million. If you recall a little more than two years ago at our timeshare analyst day, our three-year cumulative cash flow projections were a little more modest on nearly twice the cumulative EBITDA. However, we are now operating under a new model of more moderate sales growth, more profitable sales and stronger cash flow, a model which I'm sure you'll agree is a much better model for MVCI and for Marriott.

So let me close by saying – I started out with kind of the elephant in the room as to why is this a good business. And I hope I've been able to answer that for you. We have a revised business strategy that sets us up for future success. With the launch of our points-based product this year, we are confident that we will continue to meet the dreams and expectations of our customers. With our revised cost structure, we will be much more profitable in the future as business returns. And with our new product, our business is less capital-intensive, enables us to better align our inventory levels with sales demand. As such, we are targeting significant free cash flow for the business for the foreseeable future.

So we're delighted that you're all here today and look forward to your questions. And with that, I'm going to have Amy, Simon, Paul and Laura to come back up for the Q&A session.

Question and Answer Session

<u>Moderator: Laura E. Paugh: Senior Vice President Investor Relations</u>

Laura Paugh: Well, the good news this morning is that in addition to having fantastic speakers – you guys have done a great job, we're running about 10 minutes ahead of schedule. So for those of you listening in on the Webcast, my warning is that we were scheduled to begin the afternoon session at 2:00. Instead, it'll be about 1:50, so grab your tuna fish sandwich and be back to your computer by 1:50. So let's open it up for questions.

Question: Thanks. I don't know who wants to answer it, but just on the Autograph Collection, can you just talk about how big of an opportunity that is in the sense that are you going after preferred hotels of the world or leading hotels of the world or any of those opportunities, or are they independents that you are converting into this opportunity?

Amy McPherson: I can answer that.

Laura Paugh: Amy, please.

Amy McPherson: We're going after, at least from a Europe standpoint and I think from a company standpoint, we have different applications for Autograph, so we're going after a broader customer base, so boutique, arts, modern, trendy and we're looking at the myriad of independent hotels, at least from a Europe standpoint, that – in Western Europe, there's a number of markets where we see huge potential for Autograph.

Question: How do you sell against these other affiliations or get them to sign onto your organization versus either going it alone, which I – which I understand the obvious part of that, or being affiliated with these other brand systems.

Amy McPherson: Well, we talk about the power. We talk about the power of our engines that Bob talked about, so if you look at Marriott Rewards in terms of the large membership base, growing membership base, the penetration that we have with Marriott Rewards, 50 percent of room nights around the world come from Marriott Rewards members so the opportunities for them to access our Marriott Rewards customers.

We talked about marriott.com and the top ten sites – travel sites – in the world. We talk about the access to inventory that marriott.com has for them around the world and the cross-sell opportunities and we talk about a reservations capability, so highest conversion rate, lowest cost for reservation against any system in the industry, so those three – those three revenue engines are really the bulk of the sell.

Question: Paul, in your discussion on China and India hotel development, you talked about the focus in China being on the secondary and tertiary markets and then moving ahead in India, looking at the Courtyard and the Fairfield brands. Are those two buckets of efforts, are those more franchised efforts, or is it – or is it still a focus on the franchise fees? And then another question on international development, you had mentioned currently that the fees in the Asia-Pac region, a little bit more than 50 percent is from sources other than China and India. By 2013, how much contribution is China and India of total?

Paul Foskey: OK. That, I think, from the perspective of franchising, our general view at the moment for Courtyard in China is to continue to manage. There really are not any qualified independent operators in China, at least today, at the moment. And we continue to want to try to control and manage our brands and, you know, keep control over product standards as I emphasized during the other discussion.

In India with the Fairfield vehicle, we will consider franchising. At the moment, we are talking already to a handful of different owners. And interestingly, all of those opportunities just coincidentally happen to be management. But for the right owner, we would consider franchising for that. As it relates to the growing blend of fees from India and China over time, I think we can get you that number. I don't know off the top of my head what it is, but we've calculated and I think we can get it for you.

Question: OK. And then I have a timeshare question, Steve. You mentioned next year that you may sell bulk fractional ownership inventory and land. What do you have on the timeshare balance sheet with respect to fractional ownership inventory on that? What's on the books? And then further to that, when I look at the 2013 inventory balance of 1.26 billion, does that inventory reduction from where it is at the end of 2010, does that take into account potentially what you may be selling next year?

Steve Weisz: Actually, what you see in the projections on where our inventory balances are, do not anticipate those kind of bulk sales. That's something we're contemplating. The current inventory balance of Ritz-Carlton product is book balances of $300 million, I think is a close enough number.

Laura Paugh: A question over here.

Question: What are the return on invested capital targets for the timeshare business, and is it possible to quantify what the synergies are with the leisure side of the hotel business, in terms of adding people to your frequent guest program?

Laura Paugh: Steve?

Steve Weisz: We have a – we have a target of at least mid-teens return on invested capital over time. I would also say in the same breath we're not there yet, but as we see the operating profit results of the business go up and the balance sheet go down, obviously we think we can get there. We were at close to that number back in the 2007 timeframe, so it's certainly achievable. As far as the synergies – there is – there's a great synergistic relationship that exists between timeshare owners and our hotel business. We've done many, many studies, looking at the fact of share of lodging wallet of customers before they become owners and after they become owners.

And in fact, our share of their wallet goes up appreciably after they become an owner with us.

They feel more a part of the family. There, obviously, because of some of the linkages to Marriott Rewards and everything else, that kind of compounds together with what they can do with their timeshare week and it becomes a more valuable entity as well. So we believe there's great synergy between the two businesses and obviously we're co-located in about 25 or 30 percent of our locations.

We're actually physically co-located on the same campus with a – with a Marriott hotel. And so we leverage back of the house and all sorts of infrastructure there, too, in order to try to make sure we get as good an operating leverage there as we can.

Question: As you think about your growth plans in China, what, if any, have the political, you know, have there been any political impediments to your growth plans in China? And if so, what are – what, specifically, have you experienced?

Laura Paugh: Paul?

Paul Foskey: No. There have been none. In fact, the focus of the government on growth and their ability to keep things running over the last couple of years when the global economy went through such a difficult time was a big big boom for us on the development side. And as they now turn their attention to the secondary and tertiary markets, we believe growth will follow, so the government in China tends to help us as it relates to driving incremental growth.

Laura Paugh: Questions down here.

Question: On a timeshare question, on the slide where you show the cumulative EBITDA, I'm struck that your projections show almost as much profit from financing as from development profit. And the question, I guess, is one, does that assume debt capital markets remain as robust as they are today, and two, are the development profits a bit depressed because of high legacy costs and what might you expect that mix to look like between development profit and financing profit in a stabilized environment?

Steve Weisz: Clearly, the goal will be to continue to drive development profit. One of the things that's happened over the last several years is sales and marketing costs as a percentage have gone up rather substantially. The reason being is we've had to talk to more people to net a certain amount of buyers, so the closing rate that you have of 100 people toured, what percentage of those people actually buy the product. That number had gone down rather substantially.

I'm happy to report that while as of the end of the second quarter under our old product, where our closing rates were around 10 percent, under the new product, our closing rates are around 14 percent, albeit at a lower average sale price, because now people are able to buy something less than a full week of ownership. As far as – I'm sorry, your first part of your question was about? I lost it completely.

Question: The financing.

Steve Weisz: Oh, the financing. Well, financing's a very lucrative business. I mean, our average coupon rate is between 12 and 13 percent. And, obviously, with Marriott's cost of capital, there is some fairly good arbitrage in there. As far as what's the assumption on the debt markets and everything else, I think, what we're going to find is we're going to continue to look to securitized mortgage notes on an opportunistic basis. But of course because of the timeshare accounting, I mean, those notes are still on our balance sheet, but because of the change in accounting.

Question: Thank you. Simon, you were talking earlier about the Internet in China and as we look at the distribution channels and Bob pointed out earlier that marriott.com drives 22 percent, for example, of reservations. Can you talk about how that's working in China, how people are getting to you through the channels and how you see that evolving?

Simon Cooper: It's a lower percentage in China, primarily because there was a significant reluctance to give one's credit card over the Internet.

So for example, I mentioned CTRIP being an OTA. In fact, they have 5-1/2 thousand agents on telephones, so it is more common in that part of the world to look up on the Internet but then actually book by person. So I think that trend will change over time. Obviously we're very focused upon – if there are so many users on the Internet and also are mobile, how do we reach them as customers? China has really leapfrogged a lot of the parts of the world in terms of acquisition of Internet. And as I say, 420 million is twice the U.S. number, four times India, so it is a very important vehicle for us to make sure that we figure out.

Laura Paugh: Question down in the front.

Question: Thanks. Given that, I guess, I supposed you could kind of define the emerging middle class in China fairly broadly. Is there – do you guys have any interest once you're kind of fully built out in your current initiatives to get into any other segments, say the lower-end segments, the economy segments as we define them? And if you do, how do you think about potentially going it alone versus maybe partnering with an existing operator?

Simon Cooper: I think I'll let Paul answer it in detail, but we're taking a measured approach to growth. And as you've heard and can see, we have plenty of growth opportunities in the key economic zones and not a lot of really impetus for us to spread beyond that at the present time.

Paul Foskey: Yes. I think what we – we've consistently taken a look at this over the years, because I'm sure you've seen the numbers and the expansion a lot of these economy chains in China and it's very compelling. There are really, I think, two issues that we have with that general model at the moment. Number one, by and large, that is a real estate play today. Most of that stock is leased, converted product from other uses.

And number two, room rates in that category are still very, very low, you know $20 to $25, maybe $30 in some locations. So the economics are not that compelling at the moment, but we do believe over time, with the trajectory of the middle class and given all the changes in China, rates are going to go up and eventually we'll find something that's going to work in that area kind of below the Courtyard space.

Question: In some of the prepared remarks, you guys made some comments about some organizational changes that were made to speed development over in Asia. Could you maybe elaborate on that a little bit more, specifically, how many people you have in development today in that organization versus maybe three years ago? And then secondarily, where are the decisions made to sign those agreements, are they made, you know, over in that office or are they brought back here to Maryland?

Laura Paugh: You want to start, Amy. That's – it's really a question that applies to both Europe and Asia.

Amy McPherson: Oh, I thought he was talking about Asia. We have seven people on the ground in development in Europe. That has – that number has not changed significantly in the past few years, but we expect it to change with the plans that I just announced, particularly as it relates to Eastern Europe. We plan to add a developer in Russia and also we've added some development support in the office in Zurich to help facilitate deal production. And then in terms of where the decisions are made, it's really a partnership between the development team in Zurich and our – Tony's team here on the ground in Maryland.

Paul Foskey: We have – our development organization is spread around the region, so if you include everyone working the group, feasibility, legal, development – we've got around 35 people. If you look at just purely the developers who are out negotiating the deals, we have two on the ground in Delhi. We have four on the ground in Beijing, we have one in Tokyo and we have five in Hong Kong.

We have increased that slightly in recent years and we're going to be ramping that up, we think fairly significantly, in coming years to support some of the new initiatives like Fairfield in India and also what we believe will be rapidly accelerating growth for Courtyard in China.

Question: Can you talk a little bit about the economics of the AC by Marriott agreement in Europe, in terms of capital that you're committing and also fees that you might get?

Amy McPherson: Actually we're still in negotiations, so we expect to finalize the deal by the end of the year. So I really can't comment except to say that it's structured much like the Ritz-Carlton transaction was where we will not have any type of real estate ownership. But…

Question: But those hotels will become part of your system…

Amy McPherson: Yes.

Question: … under long-term contracts and begin paying fees to you?

Amy McPherson: There'll be a joint venture management company that will manage and franchise hotels, and there's the 92 existing hotels that are in Spain, Italy and Portugal.

Laura Paugh: Any other questions? Oh, at the back there.

Question: Thanks, Laura. Just real quickly, I think I was a little surprised to see the 12 percent CAGR for timeshare contract sales growth. I think historically, we've spoken a little bit about trying to look at a run rate similar to what we've seen in, you know, '09 and 2010. Can you give me some color on how much of that 12 percent CAGR might be attributable to, you know, the points-based system which was a recent development? Thanks.

Steve Weisz: Yes. Again, I would say that the 12 percent CAGR is a – hopefully a very conservative view. However, it is predominantly driven by what's going on in our – in our core timeshare product, which is really in three areas. It's in North America, Europe and Asia. Of those three, the predominance of the growth will be North America first, Asia second, Europe third.

Laura Paugh: OK. Let's think about lunch here. Lunch is being served in the room next door. It's family style, which means get there early or don't eat. Mr. Marriott will be speaking during the appetizer portion, another incentive to move over quickly. Marriott executives have been assigned to tables. Our guests, sit wherever you like, which gives you the opportunity to ask more questions and get a little more detail if you'd like to have that. Again, we'll be back in this room at 1:50 p.m. Thanks very much.

[Break]

Luncheon Keynote Address

Laura Paugh: So if I can – if I can introduce our next speaker, everybody have a seat. If I can introduce our speaker – before I do that I'd like to extend thanks to the people who have made this meeting possible, Laura Pearce and her team, Betsy Dahm, and clearly all the terrific people here at Mike Stengel's team at the New York Marriott Marquis. Thank you so much for everything you've done for us.

I'm honored to introduce our next speaker. You will not find bigger fans of Mr. Marriott than the Marriott associates in this room. We have all benefited from his tremendous knowledge and understanding of the industry, his commitment and love for this company, its associates and its brands. I can guarantee that every member of Marriott management here in this room today has been on the receiving end of Mr. Marriott's detailed questions after submitting work one day.

His commitment to getting it right and always looking for an improvement creates powerful motivation. I see a few nodding heads. No wonder this team is incredibly loyal. He's been with the same company for over 50 years, an achievement almost unheard of in today's crop of revolving door CEOs. Believe me, for Mr. Marriott this business is extremely personal. Because of his efforts, Marriott associates have tremendous growth opportunities.

Our guest experience, terrific guest service and beautiful places to stay and all of us, the shareholders reap the profits. I, for one want to say thank you to Mr. Marriott.

<u>J.W. Marriott, Jr.: Chairman of the Board and Chief Executive Officer</u>

J. W. Marriott: Well, I, for one want to say thank you to Laura. Come on, Laura. You and your team have done a magnificent job of working this out. And I know you've been in there 24/7, the late at night and we're very, very grateful for all you do and all your team do.

I was delighted that the mayor was here. It was wonderful to hear his great comments about the growth of the city and also about tourism. And I hope you found the morning's presentations helpful.

We hope you found some good news that you can share and as you can see, we have very ambitious goals for growth between now and 2013 and we're really, really excited. Before we go any further, we have a mystery guest today that all of you know because you've seen him on television. You know, I am a big football fan. I love – I don't watch baseball. I don't watch golf. I watch football and I cry when the season's over. And I've been going to NFL games since I was 10 years old just to see the Bears and the Redskins play in Washington at Griffith Stadium in 1942.

And today we have a good customer, a good friend, Andy Reid, who's the coach of the little team down there in Philadelphia called the Eagles. He and his wife, Tammy, are here. I'd ask him just to come up and say hi.

Andy Reid: Head Coach, Philadelphia Eagles

Andy Reid: Thank you. Boy, what a surprise and quite an honor. First of all, I'm in enemy territory and then I've got one of the biggest Redskin fans in the world introducing me. But I – it is my pleasure to be here. We have a bye week this week so I'm not sneaking out on the – on the staff. Normally, I told my wife on the way up, normally I like to come to New York after – during the bye week. We always come up here during the bye week but it's always nice if you've already beat the Giants.

Now we haven't had a chance to play them. I heard that Mr. Marriott was going to be here and unfortunately the Redskins kind of slam-dangoed us a couple weeks back. But we're going to get them. We're coming back and we're going to get them. But what – I guess the best thing that I could say about the Marriotts is this is where I keep my football team. Throughout the country and around the country, as we do our away games we stay at Marriotts.

And then most of all, at home I take the team and gather them up on Saturday nights and I take them to the Airport Marriott right there at Philadelphia. And then I am in friendly territory here because Mike Stengel and George Enthom treat me and my wife, Tammy, like royalty when we come up here. They roll out the red carpet. We love coming up and seeing a little show, a few shows and today we're going to have a chance to see the Lombardi show which should be – I coached seven years in Green Bay and I lived right off of Lombardi Avenue.

So I'm excited to see the Lombardi show, get a little fired up, see how another coach did it and how he won some championships. After 12 years, I'm still looking to get that first championship. Been to the Super Bowl, won the Super Bowl as an assistant, but not as a head coach. So am looking to be as successful as all you people here. And I know from Mr. Marriott and from my support with the Marriott hotels and the great treatment that they give us, thank you for being here. Thank you.

J. W. Marriott: Jeff Fisher is the only coach who's been a head coach in the NFL longer than Andy. Been 12 years, Andy?

Andy Reid: Twelve years.

J. W. Marriott: Twelve years. You talk about a life full of stress I mean he leads the league in stress, so good luck. And we're big fans of the Eagles, too. I used to come up to their training camp many years ago and it's a great team and you're a wonderful coach and we're glad to have you and Tammy here. We're really thrilled. Well, all these new hotel rooms we've talked about are going to create a lot of opportunities for people around the world just as this hotel did 25 years ago.

You know, in celebrating a milestone like this it's really natural to look back at the distance we've traveled. I can tell you that 29 years ago when we committed to build the Marquis things looked a lot different in this neighborhood. We – and in our company we had 120 hotels back then. We were in 10 countries. We had 40,000 rooms. My father was chairman of the board and when I presented this proposal to him for the New York Marquis he almost fired me.

As time went on, he then – he thought he – why didn't he fire me? But we went ahead and we built it and it's been tremendously successful. As Mayor Bloomberg noted, Time Square is a lot different today than it was back in 1985. In fact, we held our analysts meeting here in '85. It was crashed by a bunch of ladies of the evening and I think they were looking for stock tips, but I'm not sure that's exactly what they were looking for.

But, you know, our roots go back to the restaurant business. And the restaurant business is even more detailed than the hotel business because everything has to be perfect and my father of course is a perfectionist. And back then we had a few hotels, in the late '70s and '80s as I pointed out. There was a material that was discovered back in the '70s called AstroTurf and my father thought that AstroTurf should be on every bare concrete surface throughout our company.

So he was always after me for covering the pool decks at the Key Bridge Hotel and the Twin Bridges Hotel. And it got to be really bad because cigarette butts would burn the AstroTurf, the sun would fade the AstroTurf and it would rot out. And so we'd have to replace it about every year and a half and it cost a lot of money. So this is an ongoing problem along with the fact that he never wanted me to build this hotel. But I – one day I was in my office and it was like in May of 1981 and our general counselor came in.

And he says, "You've got to make a decision on the Marquis Hotel because the option on the land expires this – tonight at midnight and you've got to decide if you're going to go ahead." And I said, "Well I haven't got my dad's approval." And he said, "Well then suck it up and decide what you're going to do." And so then the phone rang and it was the Mayor Koch calling saying, "Hey, I understand you're going to go ahead with the Marquis Hotel in New York. I want to be there for the ground-breaking so I can take credit."

And then the other phone rang and the contractor was on the phone. He said, "Hey," he says, "You know, I can't get that no strike clause you wanted in the construction contract. Are you still going ahead?" And this was – it was going crazy in my office and the phones were ringing.

And finally my secretary came in and she says, "Your father's on the phone," so I picked up the phone and I said, "Yes, Dad." And he says, "When are you going to put that AstroTurf down at Twin Bridges and Key Bridge and get those pool decks cleaned up?"

Well, you know, this is a business of really – we're focusing on the details like Andy Reid does with his team. Fostering change and getting things done well has always been in our DNA. And our willingness to take considered risk in building in offbeat locations has been a major factor to the success of this hotel as well as many other hotels we've built around the country including the newly opened L.A. LIVE JW Marriott and Ritz-Carlton in the heart of downtown Los Angeles where nobody used to go. And it's off to a great start.

So we paid $35 million for the – for two acres of land under this hotel. We spent $500 million to build it, $250,000 a room and with a 100 percent overrun. You know, my father was half right. I mean this thing cost twice what it should have cost because we'd never built a hotel in New York before and they saw us coming. Today of course, Host owns the hotel but we share the success and it has delivered significant returns over the years to our shareholders and to the owners of the hotel, Host. And we have, by the way, increased our shareholders stock value 11 times in the last 25 years since we opened this hotel.

Of course you've heard a lot today about taking care of our people. Our culture is really superb and it cannot be invented overnight. And it really does affect the bottom line. It started of course with my folks at the root beer stand, there used to say take good care of your people. And they'd take good care of their customers and they'll come back. Back then in the restaurant business you had to rely on your people tremendously.

There weren't very many of them around so if one didn't show up you had a real problem. And my dad used to go to visit them when they were sick in the hospital, get them out of the hospital and back to work. He'd go down to jail and get them out of jail after they'd been out all night doing something wrong and he was constantly following up. And then of course, when they wanted to talk to him he'd listen to them.

I was thrilled with the presentations this morning. Bob McCarthy talked about competitive advantage, branding, marketing, sales, rewards, marriott.com, all these wonderful competitive advantages. But I think the one that is really the key that the others cannot invent overnight is our culture. In this recession that just went on our strong culture enabled us to react quickly. We wrapped up our sales and marketing, reduced our costs around the board, protected our margins.

We drove cash flow and I'm very, very proud of our management team. They're here today. Let me ask them all to stand up and let's give them a round of applause. Come on, you guys, ladies, gentlemen. Thank you all very much. Thank you for all you do. You're the best. And we're continuing to innovate. You know, we – as we look back over the past few years, we were the first major – big hotel operator to go down market with me, put Courtyard on the map in 1983.

We acquired and grew Residence Inn a couple years later to create the extended-stay market. And we continue now to open Fairfields around the world, particularly in China and particularly in India and Brazil and so Fairfield's got a great platform to move forward with. And we are – have some new hotels – brands this year with the addition of Autograph and now AC Hotels in Spain.

We continue to work on our cost reduction. We have a shared service program down in Knoxville, Tennessee with 600 people. It's taken a lot of the back office cost out of our properties and administered much more efficiently, saved a lot of money there. I think we're the only hotel brand that does this. And we have a great centralized reservation system. Twenty-six years we've been at it as a leader. We have over 300,000 reservations a year. And as you heard this morning, marriott.com is number eight in all retail Websites. Perhaps the most important thing in our business is asset-light, where we don't own the property but we have the management contracts.

I remember when we announced to my dad back in '79 that we had six buyers for our six hotels and they were going to pay a lot of money and we were going to get them off the balance sheet and take management contracts. And he said, "I want to keep the hotels because I love the hotels. I don't want any debt on them. Grow the company. You can't have any debt, but you can own all the hotels you want." I said, "huh?"

Of course, it didn't work and we just went ahead without him. Hated to do it, but we had to do it. But anyway, this asset-light that what-would-you-call-it has also been adopted by many other brands and really has propelled our growth. Has enabled us to grow from a very small company into what we are today. I'm proud of our international distribution. We are really growing in Asia as you've heard. We're growing in Latin America and in Europe and around the world. We invested in Ritz-Carlton in the mid-90s.

We bought the Renaissance chains which really did – propel us in Asia. And we've more than tripled the size now of the Ritz-Carlton brand and we're excited about AC Hotels as also as you heard, Autograph. We've innovated in sales and marketing. I remember when we established Marriott Rewards. Our competitors called me up and said, "You're absolutely crazy. You're going to ruin the industry. We're going to kill you with advertising. You don't know what you're doing."

I said, "I know. I've been told that a lot." But anyway, today we have 33 million members and it accounts for 50 percent of our business. We just launched Ritz-Carlton Rewards and that's off to a good start. But our innovation continues with EDITION, with Autograph and with the EDITION hotel, first one opening in Honolulu about 10 days ago. We're really excited as you've heard, about the Cosmopolitan on the Las Vegas strip which will be part of the Autograph Collection, as well as the iconic Algonquin here in New York.

As you know, we're also pursuing rational pricing. We expect to have as you've heard a six to eight percent RevPAR growth in '11. But a lot of that's going to come from rate. We're out in front on this but we think it's the right thing to do. We're also pushing the way in public forum for sharper and better travel and visa policies to open up America's arms to the world, because it's too hard to get into this country if you have to get a visa. In Brazil there are only four offices in that big country that will provide you with a visa and you have to show up in person to be interviewed.

In the sustainability area we're committed to reducing energy and greenhouse gas emissions and our water usage by 25 percent over the next five years. Today I'm really excited as you can tell about the future of this company. I've been around awhile and I've seen these recessions come and go and I've seen the recovery of the economy and I've seen us grow 8 and 9 percent mark in RevPAR growth and for several years coming out of some of these recessions. And we're on the way out. We're going to do fine.

I'm excited about our team which is the most important asset we have and the great properties we're opening around the world. And we thank you and the investment community for your confidence, for your interest in us, for being here today to support us and listen to our story. Thank you very much.

[Break]

Laura Paugh: Can we get started? Can I have everybody take their seats so we can get started? This is the hot presentation of the afternoon. Can I get everybody to take their seats please? Today, we're going to -- our first speaker in the afternoon, we are going to introduce Kevin Kimball. Kevin is our EVP, Global Business Finance. No one knows more about incentive fees than Kevin Kimball. This is his fourth analyst meeting talking about incentive fees, and I think it's always a very interesting presentation. So, Kevin?

Kevin M. Kimball: Executive Vice President Global Business Finance

Kevin Kimball: Thanks, Laura, and good afternoon. In his remarks at lunch today, Mr. Marriott talked about the importance of culture to our success. Most of us think about a service culture from the standpoint of caring for our guests.

However, our shared service center in Knoxville, Tennessee, has 600 associates who are just as important to our success as the associates who work in our hotels. They handle the accounting functions that would be on property at many of our hotels, and they do so efficiently and effectively. With terrific teamwork and responsiveness, they help hotels focus on guest service and drive profitability at each property.

Turnover in Knoxville is low and associate satisfaction scores are impressive. They have saved the Marriott system and our owners millions of dollars over the last 10 years, and we applaud their work. Culture makes a difference in every part of our organization.

This morning, we talked about our competitive advantages and growth opportunities. It's now my job to show how our growth and RevPAR recovery translate into future operating income.

So, let's begin with base fees. Our base fees are typically calculated as a percentage of total hotel revenue. As Dave Grissen mentioned earlier, total revenue includes revenue from rooms, food and beverage, spa, golf, and even parking. The yellow bars show our historic base fee performance.

As we look ahead, the blue bars represent growing base fees at our existing hotels. With improvement in RevPAR, we estimate today's hotel portfolio will earn $635 million to $710 million by 2013. Adding in new unit additions, shown in the orange, total base fees could grow 9 percent to 13 percent by 2013.

Franchise fees are generally based on room revenue. In 2010, our existing franchise room base is expected to earn about $435 million in franchise fees. If we add no additional units, we would expect franchise fees to total $480 million to $540 million, shown here in the blue bars.

But of course, we will add rooms, which should generate another $80 million to $85 million. As a result, total franchise fees are expected to also increase 9 percent to 13 percent compounded.

Now let's talk about incentive fees. I thought we should start with an example of the operating leverage we could see in this business in the next few years. We picked the Marriott branded North America as an example because it accounts for most of our North American incentive fees today.

So let's begin with RevPAR on the top line. From 2007 to 2009, Marriott RevPAR declined 17 percent nominally. Including food, beverage, and other revenue, total property-level revenue declined 18 percent. And after deducting our operating costs, house profit per available room was down 30 percent.

But our incentive fees are based on net house profit. Net house profit includes deductions for base fees; reserves for furniture, fixtures, and equipment replacements; as well as property insurance, property taxes, and the like. Over these two years, net house profit per available room declined 42 percent.

Not surprisingly, this had a profound impact on our incentive fees, which in the U.S. are typically paid after an owner priority return. Since by 2009 most company-operated hotels no longer achieved owner priority, incentive fees for the Marriott brand in North America declined 70 percent. Of course, this implies tremendous operating leverage on the way back up as well.

Looking ahead, you can see the impact of improving RevPAR under the three scenarios. For simplicity's sake, we calculated the percentage increase for only the 7 percent scenario. Here, RevPAR increases 26 percent nominally by 2013 and total revenue per available room increases 23 percent. We expect catering revenue to lag room revenue a bit in these years.

With good cost controls, house profit per available room could increase 45 percent, net house profit could rise 70 percent, and the total incentive fees for the North American brand could increase dramatically.

Part of the incentive fee improvement is due to more hotels achieving owner priority. Here you can see the percentage of full-service hotels in North America that are expected to earn incentive fees under our three scenarios.

But you might ask, given the strength of our house profit dollars in 2013, why doesn't the percentage of full-service hotels return to 2007 levels? There are several reasons. First, some markets fell more than others in the recession and may take longer to recover. Examples would include New Orleans, Cleveland, and Scottsdale.

Also, in some cases, owners have invested additional capital for renovation and repositioning of hotels, which has increased their owners' priority. This is a significant positive for our brand quality and long-term profitability, but reduces short-term upside.

In addition, RevPAR for some market segments declined more than others in the recession. For example, while the Marriott brand net house profit is 42 percent below 2007 levels, Ritz-Carlton's net house profit is 74 percent below 2007 levels. So it may take a bit longer to get back to peak profitability.

And finally, hotels that commenced construction at the peak of the market and opened in 2009 and 2010 will take some time to earn an incentive fee. This is in part due to the normal two to three years it takes for a hotel to ramp up to stabilized occupancy, and in part due to high construction and land costs of those years, which set higher owner priorities.

Limited-service hotels are likely to recover more slowly than full-service hotels. In 2010, only 5 percent of our more than 450 Company-operated limited-service hotels are expected to pay incentive fees.

Limited-service incentive fees are constrained by higher owner priorities associated with repositioning investments, as well as significant supply growth in recent years.

In addition, most limited-service hotels are in large portfolios where hotel results are pooled in the incentive fee calculation. In these instances, either the portfolio pays, in which case all the hotels are included in the percent-paying bucket, or the portfolio doesn't pay and none of the hotels are included. Of course, the management agreements are very long with an average of 17 years remaining on the contracts, so while many may not pay incentive fees in 2013, we will likely see better performance in the future.

Looking just at international hotels, here we see very little volatility as most hotels in Asia and the Middle East do not have owner priorities and pay incentive fees based strictly on net house profit. Combining the data on a worldwide basis, the percentage reaches 39 percent to 56 percent.

Keep in mind, while the percentage paying incentive fees is interesting, it's really the dollars that count. Let's start with North America. Our hotels in North America saw considerable volatility in incentive fees in recent years, dropping nearly 80 percent from 2007 to 2009.

Going forward, we expect incentive fees to increase sharply as RevPAR recovers and hotels achieve owner priority. Looking at the graph, the blue bar represents today's in-the-money hotels, which are paying incentive fees in 2010. For these existing hotels, incentive fees are expected to grow 12 percent to 32 percent compounded as they benefit from RevPAR and margin improvement.

The purple bar represents today's properties that are out of the money, but will likely begin paying incentive fees as they achieve owners' priority. They are likely to earn $15 million to $65 million by 2013. You can't see incremental fees coming from new unit additions because typically it takes a few years for a hotel to mature before its cash flow is sufficient to cover owners' priority.

In total, incentive fees for all brands in North America could grow at a 17 percent to 49 percent compound growth rate.

Here is the same data for the international markets. Here, the upside from the existing incentive fee payers is more modest, growing only 7 percent to 13 percent by 2013.

The purple bar again represents today's out-of-the-money portfolio. These are hotels, largely in Europe, with a typical management agreement as its owner's priority. As business improves, we expect that they will generate $5 million to $15 million of incremental fees. Lots of operating leverage, but not many hotels.

The orange bar represents unit growth that adds $40 million to $50 million of incentive fees by 2013, largely coming from Asia. Most of these hotels are already under construction. So all in all, we expect international incentive fees to grow by 18 percent to 27 percent compounded.

Putting it all together, incentive fees could increase 18 percent to 36 percent compounded with growth coming from improving net house profit, hotels achieving owner priority, and unit growth.

It's gratifying to see that under the 7 percent scenario, we nearly return to peak incentive fee dollars. But it's worth mentioning that in 2013, the hotels earning those fees are likely to be quite different from those earning fees in 2007.

This chart compares the sources of incentive fees in 2007 and 2013 at the 7 percent scenario. North American full-service hotels return to approximately $125 million due to strong RevPAR and margin improvement. Incentive fees from limited-service hotels in North America reach roughly $25 million, well below their peak. While limited-service incentive fees improve by

2013, significant supply growth and higher owner priorities associated with repositionings, are likely to constrain results.

In contrast, the portion derived from international hotels expected to increase with RevPAR and unit growth, with the dollars reaching nearly $200 million, well above the $130 million earned in 2007.

So let's put all of the information I've just given you together and look at total fee revenue. On a worldwide basis, total fees reach $1.57 billion to $1.87 billion, a 10 percent to 17 percent compounded growth from 2010 levels and well above the prior 2007 peak.

As impressive as that sounds, there is upside coming from yet more unit growth. The addition of 22,000 rooms in Europe and Asia that Amy and Paul discussed earlier could take the system size to over 700,000 rooms. It's difficult to estimate the profit implications of such additional rooms as these properties are not yet identified.

However, they are likely to be joint-venture rooms like the AC deal in Europe, Autograph hotels in Europe, new four- or five-star hotels in Asia, or new rooms associated with Courtyard or Fairfield expansion in Europe and Asia. So while it's too soon to put a number on their profit potential, we are very encouraged by the development opportunities in these markets.

In North America, there is also more opportunity. Here, we are showing how much improvement in net house profit is needed before a hotel will start earning incentive fees. Ten percent of North American hotels are expected to earn an incentive fee this year, which is shown in the yellow section of the bar.

Moving to the right, the blue section represents 5 percent of our hotels which could earn an incentive fee with a 10 percent improvement in net house profit. The hotels in the orange section should earn an incentive fee with a 20 percent improvement in net house profit and purple-bar hotels will pay if net house profit grows by 30 percent.

The green section represents hotels that need more than a 30 percent improvement in net house profit. The green bar has a very heavy concentration of the large limited-service portfolios where either the entire portfolio pays or not.

By 2013, with improving RevPAR, the percentage of our North American hotels paying incentive fees increases to as much as 43 percent of hotels. And you can see how further improvements in net house profit should continue to drive incentive fees yet higher.

Now let's move down the P&L. The chart on the left shows the revenues we reported and the chart on the right shows the results net of direct expenses for owned, leased, corporate housing, and other revenue. You'll note the significant decline in revenue and profit during the 2009 recession.

Looking ahead, we expect revenues to increase 1 percent to 6 percent and profits to increase 17 percent to 37 percent, both on a compound basis. You might ask why revenues don't increase more and why there is so much operating leverage. To answer these questions, let's take a look at different revenue streams.

First, let's look at the owned and leased hotels alone. Here you can see that for the past six years, our owned and leased hotels generated a substantial amount of revenue, albeit with declines in 2009 and 2010. The recession hit our leased hotels, shown here in the yellow, particularly hard, and we booked a loss of $21 million in 2009 and are expected to lose $17 million in 2010.

The leased portfolio is made up, in part, of roughly 20 Courtyard hotels in the U.S., as well as full-service hotels in Anaheim, New York, London, Berlin, and Tokyo. We believe these hotels are likely to perform well in an economic upturn.

Owned hotels are shown in blue. We owned 17 hotels at year-end 2005 and have only six owned hotels today. Our owned hotel base turns over frequently as we buy and then flip hotels to management agreements. In fact, only one of the hotels we owned in 2005 is still owned by us today.

As a result of the weak RevPAR environment, our owned hotel profits totaled only $1 million in 2009, and we are expected to earn only $2 million in 2010.

Looking ahead, we expect only a 1 percent to 6 percent compounded growth in revenue from the owned and leased hotels. That's largely due to the decline in the expected number of properties, from nearly 50 hotels to less than 40 properties.

A portion of this decline is related to four money-losing leases which will expire in the next three years and we don't expect to renew. Incidentally, collectively we expect those four hotels will lose about $10 million in 2010.

While their numbers may decline, earnings from owned and leased hotels are expected to increase dramatically. Higher RevPAR and substantial operating leverage should take profits to somewhere between $15 million to $100 million in 2013.

So what about the rest of the owned, leased, corporate housing, and other? The green bar in this slide represents our branding fees. Branding fees are largely associated with our affinity credit card, although we also earn branding fees from the sales of residential real estate.

By the way, we don't take credit risk with the affinity credit card, and these fees show very little volatility from year to year. Just like our hotel fee business, margins from branding fees are close to 100 percent.

The purple bar represents the revenue of our corporate housing business and other items, such as termination fees, land rent, and miscellaneous revenue. In contrast to the branding fees, margins here are very low and have weakened with the difficult economy. Looking forward, we expect modest growth in both revenue and profits.

Now let's look at G&A. On the left, we are showing revenue excluding cost reimbursement, and on the right, you see total general and administrative expenses. We've reduced G&A in recent years, and today we are more than $100 million below 2007 spending levels.

Looking ahead, we believe that we will be able to leverage the many investments we've made in operating systems and technology to help control costs as we grow globally. With a compound growth rate of roughly 5 percent, we assume G&A will total roughly $765 million, or a 16 percent to 18 percent of revenue, in the next three years.

So I've talked about fees, owned, leased, and G&A this afternoon. Before lunch, Steve gave you his projections for timeshare sales and services net. So putting it all together, here are our projections for revenue and operating income under the three scenarios.

There is significant operating leverage in our business. At the peak in 2007, our operating profit margin was 27 percent. We are projecting operating margins at 28 percent to 34 percent by 2013. In total, we expect operating income to increase 14 percent to 25 percent compounded from 2010 levels.

For those of you with different RevPAR, we estimate that in 2013, one point of RevPAR in either direction would be worth approximately $20 million to $25 million on the fee line and $6 million to $7 million for owned and leased hotels. While the operating profit is pretty impressive, I think the cash flow story is even more exciting. And for that, I'd like to turn the podium over to Carolyn Handlon, our Executive Vice President and Treasurer.

<u>Carolyn B. Handlon: Executive Vice President and Global Treasurer</u>

Carolyn Handlon: Thank you, Kevin, and good afternoon, everyone. It's great to be here today and see so many good friends in the audience.

So, Kevin just did an outstanding job describing the sources of our earnings and our upside potential. What I'm going to focus on now is our capital structure philosophy and how our strong profit growth translates into substantial investment capacity, which will drive our long-term growth.

Just recently, both Moody's and Standard & Poor's upgraded Marriott's bond rating to BBB. This was not only a recognition of the improved business climate, but also a gratifying acknowledgment of our ability to reduce our debt ahead of schedule.

For many years, Marriott has had a capital structure objective of being able to maintain a strong investment-grade credit rating, which we would characterize as a BBB. We've targeted this rating to establish the right balance between a low cost of debt and sufficient leverage to fuel our growth.

In thinking about our ideal leverage, we also consider the implications of debt levels relative to our operations, particularly in the down cycle. One often overlooked risk of too much debt is that in a cyclical downturn, customer service and brand quality can deteriorate if there is excessive cost cutting, just because you have to meet your debt service. So given this, we believe our modest approach to leverage is actually a competitive advantage for the Company.

Our substantial investment capacity gives us the flexibility to co-invest in hotel deals, buy hotels outright, or pursue strategic investments like we talked about earlier, particularly with our new AC hotel joint venture.

While numerous credit statistics are used by the agencies to determine a credit rating, probably the most common measure is the adjusted debt to adjusted EBITDAR. Adjusted debt reflects adjustments for operating leases, as well as a reserve for potential future guarantee fundings. It also deconsolidates the bulk of the nonrecourse timeshare debt, especially just given the recent accounting change with respect to the treatment of the timeshare debt.

Based on recent feedback from the agencies, we believe a three times coverage level is consistent with a BBB rating and we are managing to that level. Given this coverage target and the cash flows associated with our three RevPAR scenarios, we estimate incremental debt capacity will reach $1.2 billion to $2.3 billion in 2013.

Our experience in the recent recession reaffirmed the strength of our business model and our capital structure. We did what was necessary by dramatically reducing our spending, which allowed us to reduce net debt by almost $1.5 billion since the end of 2008.

Still, our substantial cash flow allowed us to continue to invest modestly. No in-process projects were cancelled. In fact, even with nearly $550 million in investment spending and dividend payments expected in 2010, we are already back at our leverage target. The resilient cash flows from our management and franchise model, combined with the returns from the investments in our business, allow us to achieve attractive returns on invested capital.

Fundamental to our credit is the strength of our liquidity position. Our $2.4 billion bank revolver provided reasonably-priced debt in 2008 and 2009. With our recent deleveraging, we've actually brought our bank balance down to zero.

We expect to renew this bank facility next year with a multiyear agreement based on our good credit standing and also the very good relationships we enjoy with our banks. Many of these relationships span 15 to 20 years, and some even more than that.

With a strong investment grade rating, we not only have access to the public bond market at competitive prices, but also the commercial paper market, which is more than 175 basis points cheaper than the cost in today's bank pricing. We plan to reenter the commercial paper market in early 2011, where we expect pricing at roughly LIBOR plus 10 to 20 basis points. If you look at where LIBOR is today, that means a cost of financing at less than a half of a percent. So, that's a pretty darn good rate.

Additionally, we'll consider an opportunistic bond offering. Given the historically low treasury yields, in today's market we could likely get a deal done at 4 percent or even less than that, depending upon the maturity that we would select.

So looking longer term, what are the capital implications of our three business scenarios in 2013? Given the operating income that Kevin described, we expect adjusted EBITDA to return to 2007 levels by 2013, even under our most conservative RevPAR scenario of 5 percent annual growth.

Given this cash flow, our three times coverage target supports roughly $4 billion to $5 billion of debt in 2013, including roughly $750 million of the nonrecourse timeshare debt which is shown by the yellow bar at the bottom.

The growth in debt reflects our intent to use our borrowing capacity to drive growth. Our first priority is to invest in our business and then return our excess capacity to shareholders consistent with our targeted credit rating. Our estimated debt levels in 2013 assume roughly about $1 billion of commercial paper, and we would expect to fund the balance of the increase with new senior note issuances, and given our good credit strength, we expect excellent market execution.

So beyond our total debt, there are several other items worth noting on our balance sheet as of the end of 2013. With the introduction of our timeshare points program, we're taking another step to reduce our inventory in that business. We estimate our timeshare inventory balance will decline by 16 percent in 2013, yet at the same time we expect our contract sales to grow 12 percent annually, reflecting stronger demands for our products.

We've modeled other changes to the balance sheet to reflect the investments assumed, primarily related to new unit growth. These include loans, key money, minority equity, and temporary real estate ownership that Tony walked you through earlier. At the bottom of the chart, you can see going forward we would expect that our timeshare note receivable balance will decline, reflecting the lower financing propensity in the business as well as ongoing note collections.

So assuming the level of debt that we just showed you, we can now finish up the P&L that Kevin started. We assume interest income will increase by 2013 as we make loans to our hotel owners, supporting primarily new unit growth. Interest expense should rise with the higher amounts of forecasted debt and very likely increase in interest rates at some point over the time horizon.

Our joint ventures' performance should improve materially by 2013, largely as a result of the improved RevPAR environment. Our tax rate assumption is an effective rate of 36 percent.

So, all in all, you see here on the bottom line, we expect 2013 net income to range between $660 million to $880 million, depending upon the strength of the RevPAR environment. This implies a 16 percent to 29 percent compounded growth rate over the three-year time horizon.

While Marriott's recovering earnings are certainly gratifying, cash from operations is also particularly impressive. Net income for the three years, combined, is expected to total $1.6 billion to $2.1 billion. To calculate cash from operations, we first add back depreciation and amortization of $700 million for the three years, as well as a favorable $200 million adjustment for cash taxes. We expect our cash tax rate to be roughly 24 percent over this time horizon.

Timeshare activity net reflects the change in timeshare inventory and timeshare mortgage loans. It also includes an adjustment for the difference between GAAP revenues and actual cash received, but most of the $400 million you see here on the chart is driven by the decline in timeshare inventory.

Operating profit adjustments totaled $400 million. This reflects addbacks for non-cash compensation, as well as non-cash interest expense and interest income. The non-cash interest expense comes primarily from interest expense associated with our Marriott Rewards and casualty insurance liabilities. The Marriott Rewards adjustment totals $300 million for the three-year timeframe, which is really pretty consistent with what our experience has been over the last many years.

So totaling it up, net cash from operations is expected to reach $3.6 billion to $4.1 billion for the three-year time horizon.

So here on this chart, we pull it all together to show you free cash flow. Adding in $300 million to $700 million of asset sales and loan repayments, we expect to have $3.9 billion to $4.8 billion in cash flow over the next three years available for investment. We assume investments total $2.3 billion to $2.7 billion, leaving free cash flow of $1.6 billion to $2.1 billion.

So, of course, the next question is, what will we do with all this free cash flow? So with that, I'd like to turn the podium over to our Chief Financial Officer, Carl Berquist. Carl?

<u>Carl T. Berquist - Executive Vice President and Chief Financial Officer</u>

Carl Berquist: Thanks, Carolyn. Well, it's been a full day, and we're into the home stretch here.

To conclude our discussion, it's my job to talk about the spending priorities we think about, how we think about how we're going to spend that $1.6 billion to $2.1 billion of free cash flow that Carolyn just showed you, as well as the incremental debt capacity we're likely to see over the next three years. So, let's begin.

Let's begin with our investment philosophy. Here, not much has changed. First and foremost, our focus will remain on growing our management and franchise contracts. In most cases, we find limited capital is necessary related to these contracts, and that's especially true in Asia and the Middle East, as you heard this morning.

Now from time to time, we may buy an existing hotel or develop a new property. Our recent purchase of the former Seville down in Miami Beach is such an example. Our motivation behind these real estate purchases is to ultimately obtain a management agreement, enhance growth prospects for the brand, and/or enter a strategic market. In the case of the Seville, we expect to use the property as a showpiece that is going to accelerate development of our EDITION brand in North America.

On those occasions when we do buy a hotel, we also consider the prospects for the sale of the property. Capitol recycling remains an important part of our strategy.

Of course, we remain focused on value and do not intend to overpay either for a property or even a small hotel chain acquisition. All investments go through a very rigorous financial review and are expected to earn a return greater than our cost of capital over the life of the investment. We do not just set a unit growth target and then pay whatever is necessary to achieve it. Ultimately, over time, unit growth comes from a combination of investment opportunities and strong relationships with the owners and franchisees who are attracted to the quality of our brands and want to grow.

Now, as Carolyn said, our investment grade rating is a competitive advantage. In coming years, low cost of capital and strong liquidity should enable us to move quickly on deals and stay ahead of the competitors.

And while we intend to use our capital to grow our business, the model we presented to you today implies significant excess cash flow. And as we have done for the past 30 years, we expect to return excess cash to shareholders in both dividends and share repurchase.

Now, this slide shows our investment assumptions. We've prepared this analysis to help you better understand our investment priorities. One caution, though, before we get into this. It's very difficult to forecast investment spending three years into the future. And these are guidelines at best. Obviously, both the amount and nature of specific investments is going to depend on the opportunities presented and the timing of those opportunities.

So let's take a look at the pie chart on the left. We assume that we're going to invest somewhere between $2.3 billion and $2.7 billion over the next three years. We assume roughly three-quarters of our investment is going to benefit new unit development. This might take the form of property acquisition, key money, joint venture investments, or mezz loans. Naturally, the form of these investments will take could vary from the percentages, but overall these levels of investment are pretty consistent with the unit growth plan we presented today.

Roughly 5 percent of our investments through 2013 could be focused on refreshing or repositioning existing hotels and brands. Bob McCarthy talked this morning about our outstanding results our owners and franchisees have experienced by investing in new designs and fresh product. But sometimes owners and franchisees need a bit of help to get it done, especially when capital is a little tight. For example, today, we have a loan program available to Courtyard franchisees to help them with that new lobby rollout Bob talked about.

We might invest around 10 percent to 11 percent on existing assets. This would include maintenance spending on our own properties, our leased properties, and regional and corporate offices. Typically, maintenance spending runs anywhere from $50 million to $80 million a year. The existing property category that I've shown here also will include room expansions, meeting space additions, and costs to reposition existing owned or leased hotels as we talked about buying approximately two hotels a year over that three-year period.

We've assumed we'll spend around 10 percent to 11 percent, which will be invested in corporate and internal systems. These investments include replacing and updating existing finance and other systems, technology hardware, and expansion in opening new back-office locations as we expand around the world.

Not reflected in this chart is any net spending for timeshare inventory. As Steve Weisz said this morning, we expect timeshare to generate substantial cash flow over the next three years, largely using the inventory that it already has on the books. We anticipate the timeshare business will generate anywhere from $625 million to $675 million of free cash flow over this time period.

Now the pie chart on the right models the form such investments might take. Tallied together, we assume over half of our investments to take the form of capital expenditures, which, among other things, would include those property acquisitions or even a small hotel chain acquisition. We expect a disproportionate amount of this capital will go towards the expansion in Europe that Amy talked about earlier today. Little capital is typically needed in the Middle East or Asia, or for limited-service development in North America.

Now, a quarter of our investments are modeled to take the form of note advances, largely associated with new unit additions with a small part for that brand initiative I just talked about. Seventeen percent could come from contract acquisition costs that should help drive that new unit growth. And a small portion will be associated with joint venture investments.

Now of this $2.3 billion to $2.7 billion, we assume about $1.5 billion to $1.8 billion, or about two-thirds, is going to be recycled over time, with about $300 million to $700 million of that recycled during this three-year period.

Now these pie charts that have just come up compare our assumed three-year planned investments on the right to the investments in the three years beginning in 2006, represented by the pie chart on the left. We selected 2006 to 2008 as the spending in more recent years, as Carolyn pointed out, had been restricted due to the recession and our efforts to deleverage.

As you can see, our modeled investments levels are not much different from the amounts that we invested in 2006 to 2008. The most significant difference in investment spending is the dramatic decline in timeshare inventory investments.

The other noteworthy point is the increase in the assumed mezz loan investments. We believe that today's tight capital markets provide an opportunity for us to use our balance sheet in a way that's going to help us add new hotels.

So, here's the good problem. It comes from being a hotel management and franchise company. What to do with the excess cash that's left over after investing in the business and growing the debt capacity that comes with strong profits.

Starting with our free cash flow of $1.6 billion to $2.1 billion, if we maintain a three times adjusted debt to adjusted EBITDAR ratio, we would expect to borrow another $1.2 billion to $2.3 billion. Proceeds from the issuance of stock associated with compensation plans and other items should give us another $500 million to $900 million of additional cash. That would give us anywhere from $3.3 billion to $5.3 billion of cash to return to shareholders during the period 2011 to 2013.

Now, for purposes of this model, we are assuming $200 million to $400 million of that over the next three years is going to be paid out in dividends. That's just the placeholder. The specific payout will be decided by the Board and may go up or down.

But assuming we re-spend the remaining $3.1 billion to $4.9 billion on share repurchases, our share count could drop from just under 380 million diluted shares today to a range of 320 million to 349 million shares, depending on what RevPAR assumption you use and the stock price. With strengthening RevPAR and good investments, our pretax return on invested capital will reach 21 percent to 28 percent by 2013.

And as Carolyn pointed out, on a consolidated basis, this performance that we talked about today would generate $235 million to $465 million of incremental net income over the three-year period. Overwhelmingly, the majority of this increase would come from base franchise and incentive fees, driven both from the recovery of existing units and the growth of new units as well.

Given these assumptions, we think 2013 diluted EPS could range between $1.90 and $2.75, depending on what RevPAR assumption you make, for a growth of 20 percent to 36 percent compounded annual growth. In any of these scenarios, we surpass our last peak of $1.73 in 2007.

And as Kevin said, we think there is upside. This model does not reflect the upside from the additional 22,000 rooms in Europe and Asia, and as Kevin also pointed out, a modest additional increase in RevPAR would likely improve incentive management fees even further.

Incidentally, we've provided the full 2013 P&L for you on page 101 in your book. That's the last page under Appendix. I know none of you have gotten there yet. So you don't have to go at it all together.

You know, as we considered presenting these models, we discussed the risks of looking so far out, how so many macro variables might change one's view of the future. And while this is true, there is much that we do know.

We have powerful brands, and as never before, we're poised to expand internationally. We have strong owners and franchisees, and they want to grow. And we have one of the strongest balance sheets in the industry. And we have outstanding associates who deliver not only outstanding hotel services, but also new hotel development that drives shareholder value.

And finally, one thing we do know is we'll generate tremendous amounts of cash over the next three years. We are clearly looking forward to 2003 and beyond. Thank you.

I'd like to now invite Arne and my other colleagues up to the stage for Q&A.

Question and Answer Session

<u>Moderator: Laura E. Paugh: Senior Vice President Investor Relations</u>

Laura Paugh: Mr. Kent already has a question down front here.

Question: I guess I'm just struggling with what you just discussed and the financial part of what you discussed this morning, because I'm struggling with why you have to spend so much more on key money or on mezz financing given the strength of the brands and given how much growth is going to be international, where you would think the strength of the brands and internationally you really don't need mezz financing or key money to sort of get deals done. So why is that increasing so much? Why do you expect it to grow so much by 2013?

Laura Paugh: Arne, do you want to take that one?

Arne Sorenson: Yes, good question. I think the way we pull together the multiyear model is basically to say that Tony Capuano and his team of transactors around the globe, how much capital can you, should you, do you want to put to work over the next three-year plan?

You won't be surprised to learn that what comes back is repeatedly, I think, in the last decade, more than we actually spend because when the deals are really baked, there are fewer deals that meet our standards.

And so, I think this is a reasonably conservative -- meaning a reasonably high -- estimate of what we'll spend. I can't tell you exactly about the contracted acquisition costs or the loans or slice by slice of that pie, but the majority is unidentified, and we'll probably -- you know, we'll go through it.

I think the more we find opportunistic things that we might do on our own, such as Seville, portfolio of hotels, whatever, I think we could see that we might spend more than what we've got in this model. I think if we don't find those opportunities, we are likely to spend less.

And again, it's a zero-sum game in the sense that if we spend less, more will go back to shareholders. If we spend more, less will go back to shareholders.

Laura Paugh: With a generous amount being recycled in any event.

Arne Sorenson: Yes.

Question: Can you walk us through how you've modeled buybacks in the model? Either dollar amounts or how you're thinking about at what price you're buying back stock? I know you have a lot of excess free cash flow and you might be a little bit more valuation or price agnostic. But if you just walk us through that, that would be helpful.

Carl Berquist: Yes, sure. Well, I think as you look at it, what we've applied in the model is we've applied a multiple against the share price. We don't think it's too high, and applied the cash against it to drive down the outstanding shares.

At the midpoint in 2013, the share buyback accounts for about a nickel of the stock -- of the earnings.

Laura Paugh: Any other questions?

Question: Your growth of 5 percent to 9 percent assumes what type of economic scenario? So what have you modeled for GDP growth at 5 percent versus 9 percent?

Laura Paugh: Carl?

Carl Berquist: I think our GDP assumptions, we've picked up basically the market assumptions of about 2.5 percent to 3 percent GDP growth.

Laura Paugh: That's at the 7 percent scenario, right?

Carl Berquist: Yes, the 7 percent scenario. Then it's a model, and we took two points off at five, two points up from there.

Question: On slide 94, could you -- the $500 million to $900 million of issuance of common stock and other, could you give more detail on what's in that number?

Laura Paugh: Carl?

Carl Berquist: Sure. Basically, that's our compensation plan, stock options as they are being exercised and other compensation plans that are of a non-cash nature that do generate cash at the time they are exercised.

Question: And also, on the incentive fees, it seems like the older management contracts are generally more lucrative from an incentive fee perspective. As you look at the portfolio, is there any risk that over the next five years or so some of those older contracts actually expire and maybe are renewed and the hurdle gets reset?

Laura Paugh: Kevin, how about that one?

Kevin Kimball: Actually, I think we put up a slide that says the average length of our North American portfolio is roughly 18 years.

If you split that between full-service hotels, it's more like 22 years, which is the average for our portfolio. And so, generally over that period of time, we'll have an opportunity to engage owners, and when they go through a debt refinancing or a capitalization or something like that, to try to get some extensions of those contracts. So I think we have significant term left on the high incentive fee-paying hotels in North America.

Laura Paugh: Also, it's important to remember that the hotels -- the new management agreements that we're doing today have -- are more likely to be in Asia where there's no owners' priority. So, there's a little different volatility in those fees.

Question: If I'm reading the pie charts correctly, the timeshare is not consuming any investments, any capital between now and 2013. Am I reading that right? And then, if that's true, sort of how long can you sustain that and how should we think about that?

Carl Berquist: I think the way you should look at timeshare is that timeshare is not consuming any capital over what they're, in effect, selling from their cost of sales.

So as their product cost goes down -- goes out the door, they are not spending more than that. So in effect, they are in a net cash positive position, and that's why they're able to generate $620 million-plus of cash. They'll continue to do more phases as they continue to have demand. But that spending is at a level that is less than what their cost is -- their cost of sales, basically, as they go forward.

Question: Just one more on the buyback assumptions, probably for Carl. The -- I guess the repurchase -- the share counts that we're looking at on slide 94, if you were to buy back kind of $4 billion or so at the midpoint, assuming the dividend, the number that you talked about, if -- like I said, I'm just trying to think about the math for a second, but is this the average share count over, like, the three-year period? Or is this the ending share count?

Carl Berquist: No, the ending share count.

Question: This would be the ending share count.

Carl Berquist: This is the ending share count, end of 2013. And it's weighted average.

Laura Paugh: So, weighted average during 2013.

Carl Berquist: 2013, depending on what assumption you make on RevPAR, as well as stock price.

Question: And was the -- just the dividend assumption, was that $200 million or $400 million annually, or...

Carl Berquist: $200 million growing to $400 million.

Question: $200 million growing to $400 million. But is that annual or total over the period?

Carl Berquist: That's total over that timeframe.

Laura Paugh: It's accumulated over the three years.

Question: Ok. Thank you.

Question: Why do you add back the interest expense that -- to your -- when you're calculating your EBITDAR or your cash flow for the timeshare business? Isn't that a fundamental cost of generating your finance profits?

Laura Paugh: Carolyn?

Carolyn Handlon: Are you asking with respect to when we calculate our debt capacity?

Question: Or just when you think about free cash flow from timeshare, like when you generate the 13 percent, you still have to finance all the loans.

Carolyn Handlon: Sure. Starting first with the debt capacity aspect of it, as we deconsolidate our timeshare notes, we actually also deconsolidate a portion of effectively the financing EBITDAR, which picks up the interest income. As well as the interest expense.

Question: So, because you're $655 million to $690 million, it adds back the interest expense that is netted out in your financing profit, correct?

Carolyn Handlon: It would be -- including the interest income in that number is the traditional way that we calculate our EBITDA.

Laura Paugh: So it basically is netting out the interest income and the interest expense.

Arne Sorenson: It's actually a pretty real measure if you look at it. Comparison of that to cash flow, it's about the same number.

Question: So the finance profit of $265 million to $275 million is excluding your interest expense on your costs.

Laura Paugh: Yes.

Question: So then, you added back to get fewer EBITDA, correct?

Laura Paugh: Yes. Any other questions?

Question: On your North American unit growth guidance, I think your growth assumes something along the lines of 5 percent cumulatively, which is probably about a 1.6 percent CAGR or something, and we know a lot of your peers are talking about the same thing and driving unit growth. So I guess the question is, how do we get comfortable with these 1 percent supply growth projections in 2012, especially 2013 and beyond, because it seems like at some point, everybody is doing the same thing and it probably adds up to more than 1 percent. And maybe it's just a function of that being a little further out in 2013 or 2014.

Laura Paugh: Arne?

Arne Sorenson: Yes, I mean, I think full-service supply growth, particularly, is years away when you think about it in any sort of significance.

Obviously, you may have some new suburban markets where it makes sense to build a full-service hotel, but hotels are trading today at well less than their replacement costs. Given the debt markets, given the opportunities for existing assets, we'd expect that to be pretty sticky for a sustained period of time, which means for us that unit growth which is around full-service is Autograph, its conversion activity, and a few stories like DC Convention Center and some other things that we talked about which are not so much an indication of trends in the economy or trends in the industry as they are something about a cycle in a given city.

Limited-service development, by comparison, there will be a little bit of that that gets built. It's -- there's some of that which will get started this year, and we would anticipate that if the recovery goes the way that's in effect implicit in this model, we'll see a bit more of that happen. It's not likely to be as significant in terms of supply growth as we've had over the last five years.

Obviously, we don't have a unique crystal ball here.

Question: I know that part of the CapEx is a placeholder for acquisitions that may come up, but maybe if you could talk a little bit about what you're seeing in the market, acquisition wise, geographically, what type of deals you are seeing.

Laura Paugh: Arne?

Arne Sorenson: Deal pace is stepping up a bit. The Seville is an example of that. It was not exactly an auction asset. But it was also not one that was unknown and secret, and so there were other folks that were pursuing that.

That's, of course, now three or four months ago, Tony, something like that. And I can think of a handful of other assets that we are watching with our partners that are for sale in one part of the world or another, which are either existing assets that are open and operating and can be converted to our brands, or more likely are projects that were stalled and need somebody to come in and buy them as is and complete them.

But it's not a deluge of deals. I suspect that when you get into 2011, we think the CMBS maturities are increasing massively in 2011 versus 2010, maybe by five times or something like that, and as a consequence, we could see meaningfully more transactions happen. I think a lot of that is going to depend on what steps the servicers take and holders of those bonds, and we'll have to watch it and see. We'll keep kicking the tires, though, for stuff that we can get at values that seem to make sense, if they convert well into our brands.

Laura Paugh: I think we have time for one more question, down there on the end.

Question: You brought up this CMBS maturities. Are you concerned that there might be a constraint on capital to invest in this industry as a result of that?

Arne Sorenson: No, not really. There is an awful lot of equity out there, particularly that's looking at these deals and interested in investing, surprisingly and comforting amount.

I think the -- I do think we've got years ahead of us of some of these deals which are underwater today which will need to get worked out, and so as a consequence, this gets back to the supply question a little bit, I think we'll see the volume of those deals step up and presumably consume most of that equity that's available and eager to invest, and we really won't see much get diverted over into new build or anything else of the sort. There's a lot of money out there looking for deals today.

Laura Paugh: I think Carl has got some final remarks.

Carl Berquist: Okay, well, it's been a nice, long day. We gave you a lot of information, and as you can imagine, putting something like this together takes a lot of work and a lot of long hours, and a lot of departments worked pretty hard -- departments all across Marriott, including our financial reporting and our corporate and development finance groups.

But the one group that has lived this for the last several months is our investor relations department. As Mr. Marriott said today, they've done just a yeoman's job, and I'd like to just take a moment and really thank Laura Pearce and Betsy Dahm for the terrific effort of pulling this event together. Maybe we'll give them a little clap for going the extra mile.

And a special thanks to Laura Paugh, not only the best IR executive in the lodging industry, but the best IR executive in all of corporate America.

I'd also like to thank Mike Stengel and his team here at the New York Marriott Marquis who did just a great job. You'll find great service like this and terrific steaks like we had at lunch today in our hotels around the world.

You can tell we are really excited about the future. We think we will see solid growth over the next three years with a favorable new and supply environment in the U.S. and terrific development opportunities internationally. We are highly optimistic that we can create tremendous value for our shareholders.

We are delighted you could join us today and meet the team of people who are going to make this happen over the next three years. Thank you for coming. We look forward to welcoming you to one of our hotels very soon. Thank you.

END

MARRIOTT INTERNATIONAL, INC.
Segment Information, Non-GAAP Financial Measures, and Reconciliations

Segment Information

Segment Results are evaluated by management based primarily on the results of the segment without allocating corporate expenses, income taxes, or indirect general, administrative, and other expenses. With the exception of our Timeshare segment, we do not allocate interest income or interest expense to our segments. We include interest income and interest expense associated with our Timeshare segment notes in our Timeshare segment results because financing sales and securitization transactions are an integral part of that segment's business. In addition, we allocate other gains and losses, equity in earnings or losses from our joint ventures, divisional general, administrative, and other expenses, and income or losses attributable to noncontrolling interests to each of our segments.

Non-GAAP Financial Measures

We report certain financial measures that are not prescribed or authorized by U.S. generally accepted accounting principles ("GAAP"). We discuss management's reasons for reporting these non-GAAP measures below, and the tables on the following pages reconcile the most directly comparable generally accepted accounting principle measures to the non-GAAP measures (identified with the symbol "†"). Although management evaluates and presents these non-GAAP measures for the reasons described below, please be aware that these non-GAAP measures have limitations and should not be considered in isolation or as a substitute for revenue, operating income, income from continuing operations, net income, earnings per share or any other comparable operating measure prescribed by GAAP. In addition, these non-GAAP financial measures may be calculated and/or presented differently than measures with the same or similar names that are reported by other companies, and as a result, the non-GAAP measures we report may not be comparable to those reported by others.

Adjusted Diluted Earnings per Share (EPS) From Continuing Operations Excluding Certain Charges, Costs, and Other Expenses. Management evaluates adjusted diluted EPS from continuing operations that excludes the impact of Timeshare strategy - impairment charges incurred in the 2009 third quarter, restructuring costs and other charges incurred in fiscal years 2008 and 2009, and certain tax expenses incurred in fiscal years 2008 and 2009, because this allows for period-over-period comparisons of our on-going core operations before material charges. These non-GAAP measures also facilitate management's comparison of results from our on-going operations before material charges with results from other lodging companies.

Timeshare Strategy - Impairment Charges. In response to the difficult business conditions that the Timeshare segment's timeshare, luxury residential, and luxury fractional real estate development businesses experienced, we evaluated our entire Timeshare portfolio in the 2009 third quarter. In order to adjust the business strategy to reflect current market conditions at that time, on September 22, 2009, we approved plans for our Timeshare segment to take the following actions: (1) for our luxury residential projects, reduce prices, convert certain proposed projects to other uses, sell some undeveloped land, and not pursue further Marriott-funded residential development projects; (2) reduce prices for existing luxury fractional units; (3) continue short-term promotions for our U.S. timeshare business and defer the introduction of new projects and development phases; and (4) for our European timeshare and fractional resorts, continue promotional pricing and marketing incentives and not pursue further development. As a result of these decisions, we recorded third quarter 2009 charges totaling $502 million after-tax ($752 million before tax).

Restructuring Costs and Other Charges. During the latter part of 2008 we experienced a significant decline in demand for hotel rooms both domestically and internationally due, in part, to the financial crisis and the dramatic downturn in the economy. Our capital intensive Timeshare business was also hurt by the downturn in market conditions and particularly, the significant deterioration in the credit markets. These declines resulted in reduced management and franchise fees, cancellation of development projects, reduced timeshare contract sales, contract cancellation allowances, and charges and reserves associated with expected fundings, loans, Timeshare inventory, accounts receivable, contract cancellation allowances, valuation of Timeshare residual interests, hedge ineffectiveness, and asset impairments. We responded by implementing various cost saving measures. We incurred 2008 and 2009 restructuring costs and other charges directly related to the downturn of $124 million and $130 million after-tax, respectively.

Certain Tax Expenses. Certain tax expenses included the following charges in fiscal year 2008 totaling $72 million: (1) tax expense totaling $19 million primarily due to prior years' tax adjustments, including a settlement with the IRS that resulted in a lower than expected refund of taxes associated with a 1995 leasing transaction; (2) tax expense totaling $29 million primarily related to an unfavorable court decision involving a refund claim associated with a 1994 sale transaction; and (3) tax expense totaling $24 million related to the tax treatment of funds received from foreign subsidiaries. Certain tax expenses also included non-cash charges of $56 million in fiscal year 2009 primarily related to the treatment of funds received from certain foreign subsidiaries, an issue we are contesting with the Internal Revenue Service.

Earnings Before Interest and Taxes ("EBIT") and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). EBIT reflects earnings excluding the impact of interest expense and provision for income taxes, and EBITDA reflects EBIT excluding the impact of depreciation and amortization. Management considers EBITDA to be an indicator of operating performance because we use it to measure our ability to service debt, fund capital expenditures, and expand our business. We also use EBIT and EBITDA, as do analysts, lenders, investors and others, to evaluate companies because they exclude certain items that can vary widely across different industries or among companies within the same industry. For example, interest expense can be dependent on a company's capital structure, debt levels and credit ratings. Accordingly, the impact of interest expense on earnings can vary significantly among companies. The tax positions of companies can also vary because of their differing abilities to take advantage of tax benefits and because of the tax policies of the jurisdictions in which they operate. As a result, effective tax rates and provision for income taxes can vary considerably among companies. EBITDA further excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. These differences can result in considerable variability in the relative costs of productive assets and the depreciation and amortization expense among companies.

Both EBITDA and Adjusted EBITDA (described below) exclude certain cash expenses that we are obligated to make.

Adjusted EBITDA. Management also evaluates Adjusted EBITDA as an indicator of operating performance. Adjusted EBITDA for 2007 excluded: (1) the $35 million charge related to excise taxes associated with the 2007 settlement of issues raised during the IRS' and Department of Labor's examination of the employee stock ownership plan ("ESOP") feature of our Employees' Profit Sharing, Retirement and Savings Plan and Trust; and (2) the synthetic fuel business which we discontinued in November 2007. Management evaluates non-GAAP measures which exclude these impacts because those measures allow for period-over-period comparisons of our on-going core lodging operations before material charges and those measures facilitate management's comparison of our on-going results before material charges with those of other lodging companies.

Return on Invested Capital ("ROIC"). ROIC is calculated as EBIT divided by average invested capital. We consider ROIC to be a meaningful indicator of our operating performance, and we evaluate this metric because it measures how effectively we use the money invested in our lodging operations.

Free Cash Flow. We calculate free cash flow as net cash provided by operating activities less net cash used by investing activities. We consider free cash flow to be a meaningful indicator of our operating performance and evaluate this metric because it represents the cash we expect to have available for debt service requirements, incremental investments, share repurchases and other purposes.

Total Revenues Excluding Cost Reimbursements. Cost reimbursements revenue represents reimbursements of costs incurred on behalf of managed and franchised properties and relates, predominantly, to payroll costs at managed properties where we are the employer. As we record cost reimbursements based upon costs incurred with no added markup, this revenue and related expense has no impact on either our operating income or net income attributable to us because cost reimbursements revenue net of reimbursed costs expense is zero. We consider total revenues excluding costs reimbursements to be a meaningful metric as it represents that portion of revenue that impacts operating income and net income attributable to us.

Cash Used in Investing Activities, Investments Before Recycling and Timeshare Investments. We consider these non-GAAP measures to be meaningful metrics and we evaluate them as they provide detail regarding: 1) cumulative capital allocations for the three years preceding the recent economic downturn; and 2) cumulative estimated capital allocations for the 2011 to 2013 years.

Timeshare Segment 2010 Estimated Results As Adjusted. We evaluate Timeshare segment estimated results for fiscal year 2010 adjusted for the $19 million estimated gain on sale of a hotel property as this gain is not related to our core ongoing operations and it facilitates comparability with the other year presented which included no similar gain.

Timeshare Segment EBITDA. Timeshare segment EBITDA reflects Timeshare segment results excluding the impact of interest expense, tax expense and depreciation and amortization. We do not allocate taxes to our Timeshare or other segments. Management uses this non-GAAP measure for the reasons noted previously under the "Earnings Before Interest and Taxes ("EBIT") and Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")" caption.

Timeshare Segment Cumulative Free Cash Flow. The calculation of Timeshare segment cumulative free cash flow adds back to Timeshare segment EBITDA the net cash flow change in Timeshare segment inventory, non-development capital spending, working capital changes, and adjustments for non-cash items and deducts net cash used in financing activities. Management uses this non-GAAP measure for the reasons noted previously under the "Free Cash Flow" caption.

Total Debt Net of Cash and Adjusted Total Debt Net of Cash (or "Net Debt"). Total debt net of cash reflects total debt less cash and cash equivalents. Management considers total debt net of cash to be a more accurate indicator of the net debt that must be repaid or refinanced at maturity (as it gives consideration to cash resources available to retire a portion of the debt when due). In addition, management evaluates adjusted total debt net of cash, which excludes the debt that was consolidated as a result of adopting ASU Nos. 2009-16 and 2009-17, because that debt is non-recourse to the Company and is not supported by the Company's cash flows. Management believes that these financial measures provide a clearer picture of the future demands on cash to repay debt and uses these measures in making decisions regarding its borrowing capacity and future refinancing needs. Management also evaluates adjusted total debt net of cash in order to better perform year-over-year comparisons on a comparable basis.

MARRIOTT INTERNATIONAL, INC.

Non-GAAP Financial Measures

Diluted Earnings Per Share (EPS) From Continuing Operations and Adjusted Diluted EPS From Continuing Operations Attributable to Marriott Shareholders

(in millions, except per share amounts)

		Adjustments					Adjustments		
	As Reported 52 Weeks Ended January 1, 2010	**Restructuring Costs & Other Charges**	**Timeshare Strategy - Impairment Charges**	**Certain Tax Items**	**As Adjusted 52 Weeks Ended January 1, 2010 †**	**As Reported 53 Weeks Ended January 2, 2009**	**Restructuring Costs & Other Charges**	**Certain Tax Items**	**As Adjusted 53 Weeks Ended January 2, 2009 †**
NET (LOSS) / INCOME FROM CONTINUING OPERATIONS ATTRIBUTABLE TO MARRIOTT	$ (346)	$ 130	$ 502	$ 56	$ 342	$ 359	$ 124	$ 72	$ 555
(LOSSES) / EARNINGS PER SHARE - Diluted									
(Losses) / earnings from continuing operations attributable to Marriott shareholders [2]	$ (0.97)	$ 0.37	$ 1.41	$ 0.16	$ 0.93	$ 0.97	$ 0.33	$ 0.19	$ 1.49
Basic Shares [1]	356.4	356.4	356.4	356.4	356.4	355.6	355.6	355.6	355.6
Diluted Shares [1]	356.4	356.4	356.4	356.4	367.4	370.7	370.7	370.7	370.7

† Denotes non-GAAP financial measures. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.

[1] Fully diluted weighted average common shares outstanding used to calculate earnings per share from continuing operations for the periods in which we had a loss are the same as basic shares because inclusion of additional equivalents would be anti-dilutive.

[2] (Losses) / Earnings per share attributable to Marriott shareholders plus adjustment items may not equal earnings per share attributable to Marriott shareholders as adjusted due to rounding and for the period ended January 1, 2010 due to the different share amounts used in the denominators.

MARRIOTT INTERNATIONAL, INC.
Non-GAAP Financial Measures
EBITDA and Adjusted EBITDA
($ in millions)

		Range		Range		
				Fiscal Year 2013 Estimate		
	Fiscal Year 2007	Fiscal Year 2010 Estimate		5% Annual RevPAR Growth	7% Annual RevPAR Growth	9% Annual RevPAR Growth
Net Income attributable to Marriott	$ 696	$ 411	$ 424	$ 661	$ 758	$ 882
Interest expense	184	190	185	255	280	310
Tax provision, continuing operations	441	224	231	369	432	503
Tax (benefit) provision, synthetic fuel	(126)	-	-	-	-	-
Depreciation and amortization	197	180	180	232	232	232
Less: Depreciation reimbursed by third-party owners	(18)	(10)	(10)	(19)	(24)	(29)
Interest expense from unconsolidated joint ventures	24	25	25	15	15	15
Depreciation and amortization from unconsolidated joint ventures	28	30	30	27	27	27
EBITDA †	**1,426**	$ 1,050	$ 1,065	**1,540**	**1,720**	**1,940**
ESOP Settlement - Excise Tax	35	-	-	-	-	-
Discontinued operations adjustment (synthetic fuel)	119	-	-	-	-	-
Adjusted EBITDA †	**$ 1,580**	**$ 1,050**	**$ 1,065**	**$ 1,540**	**$ 1,720**	**$ 1,940**

The following items make up the discontinued operations adjustment (synthetic fuel)	
Pre-tax Synthetic Fuel losses (income)	$ 127
Synthetic Fuel depreciation	(8)
EBITDA adjustment for discontinued operations (synthetic fuel)	**$ 119**

† Denotes non-GAAP financial measures. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.

Marriott International, Inc.
Non-GAAP Financial Measures
Return on Invested Capital

The reconciliations of income (loss) from continuing operations attributable to Marriott to earnings (losses) before interest expense and income taxes are as follows:

	Fiscal Year 2013 Estimate									
($ in millions)	5% Annual RevPAR Growth	7% Annual RevPAR Growth	9% Annual RevPAR Growth	Fiscal Year 2010 Estimate [1]	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Income (loss) from continuing operations attributable to Marriott	$ 661	$ 758	$ 882	$ 417	$ (346)	$ 359	$ 697	$ 712	$ 543	$ 487
Add:										
Provision (benefit) for income taxes	369	432	503	229	(65)	350	441	380	284	265
Provision for income taxes related to noncontrolling interest in losses of consolidated subsidiaries	-	-	-	-	4	9	-	-	-	-
Interest expense	255	280	310	187	118	163	184	124	106	99
Timeshare interest [2]	15	15	15	21	24	15	24	21	24	21
Earnings (losses) before interest expense and income taxes †	$ 1,300	$ 1,485	$ 1,710	$ 854	$ (265)	$ 896	$ 1,346	$ 1,237	$ 957	$ 872

The reconciliations of assets to invested capital are as follows:

	Year-End 2013 Estimate												
($ in millions)	5% Annual RevPAR Growth	7% Annual RevPAR Growth	9% Annual RevPAR Growth	Year-End 2012 Estimate	Year-End 2010 Estimate	Beginning of Year 2010	Year-End 2009	Year-End 2008	Year-End 2007	Year-End 2006	Year-End 2005	Year-End 2004	Year-End 2003
Assets	$ 9,529	$ 9,498	$ 9,472	***	$ 9,022	$ 8,903	$ 7,933	$ 8,903	$ 8,942	$ 8,588	$ 8,530	$ 8,668	$ 8,177
Add:													
Cumulative goodwill amortization [3]	128	128	128	***	128	128	128	128	128	128	128	128	128
Current liabilities - discontinued operations [4]	-	-	-	-	-	-	-	3	13	55	63	82	16
Less:													
Current liabilities, net of current portion of long-term debt [5]	(2,287)	(2,287)	(2,287)	***	(2,263)	(2,218)	(2,223)	(2,413)	(2,701)	(2,507)	(2,086)	(2,011)	(1,779)
Assets - discontinued operations [4]	-	-	-	-	-	-	-	-	(53)	(91)	(103)	(116)	(83)
Deferred tax assets, net [6]	(1,139)	(1,101)	(1,054)	***	(1,244)	(1,348)	(1,256)	(913)	(863)	(865)	(765)	(559)	(466)
Timeshare capitalized interest [7]	(38)	(38)	(38)	***	(44)	(46)	(46)	(49)	(19)	(19)	(20)	(21)	(22)
Invested capital †	$ 6,193	$ 6,200	$ 6,221	$ 6,067	$ 5,599	$ 5,419	$ 4,536	$ 5,659	$ 5,447	$ 5,289	$ 5,747	$ 6,171	$ 5,971
Average invested capital † [8]	$ 6,130	$ 6,134	$ 6,144		$ 5,509		$ 5,098	$ 5,553	$ 5,368	$ 5,518	$ 5,959	$ 6,071	
Return on invested capital †	**21%**	**24%**	**28%**		**16%**		**-5%**	**16%**	**25%**	**22%**	**16%**	**14%**	

† Denotes non-GAAP financial measures. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.
*** Detailed guidance not provided

[1] Fiscal Year 2010 Estimate of earnings before interest expense and income taxes is based on the mid-point of guidance provided.
[2] Timeshare interest represents previously capitalized interest that is a component of product cost.
[3] Added back because, beginning with 2002, we stopped amortizing goodwill in accordance with the adoption of new accounting guidance for goodwill and other intangible assets.
[4] Assets net of current liabilities associated with discontinued operations deducted because the return on invested capital metric we analyze is related to our core lodging business (continuing operations).
[5] Deducted because they will be satisfied in the short term.
[6] Deducted because the numerator of the calculation is a pre-tax number.
[7] Deducted because the numerator of the calculation is a pre-interest expense number.
[8] Calculated as "Invested capital" for the current year and prior year, divided by two, with the exception of 2010. For comparability of beginning and ending 2010 balances, 2010 is the average of: 1) the 2010 beginning balance (reflecting the impact of the adoption on the first day of fiscal year 2010 of Financial Accounting Standards No. 166, “Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140” or Accounting Standards Update No. 2009-16 “Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets” ("ASU No. 2009-16") and Financial Accounting Standards No. 167 “Amendments to FASB Interpretation No. 46(R)” or Accounting Standards Update No. 2009-17 “Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities”) ("ASU No. 2009-17"); and 2) the 2010 estimated ending balance.

MARRIOTT INTERNATIONAL, INC.
Non-GAAP Financial Measures
Total Revenues and Total Revenues Excluding Cost Reimbursements
($ in millions)

	As Reported Fiscal Year 2007	Range Fiscal Year 2010 Estimate		Fiscal Year 2013 Estimate 5% Annual RevPAR Growth	Fiscal Year 2013 Estimate 7% Annual RevPAR Growth	Fiscal Year 2013 Estimate 9% Annual RevPAR Growth
Total revenues	$ 12,990	***	***	***	***	***
Less: Cost reimbursements	(8,575)	***	***	***	***	***
Total revenues excluding cost reimbursements †	$ 4,415	$ 3,386	$ 3,436	$ 4,245	$ 4,445	$ 4,680

† Denotes non-GAAP financial measure. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.

*** Detailed guidance not provided

MARRIOTT INTERNATIONAL, INC.
TIMESHARE SEGMENT
Non-GAAP Financial Measures
Timeshare Segment Results As Adjusted
($ in millions)

	Range			
	Fiscal Year 2010 Estimate			
Timeshare segment results	$	131	$	136
Less: gain on sale of hotel property		(19)		(19)
Timeshare segment results as adjusted †	$	112	$	117

† Denotes non-GAAP financial measure. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.

MARRIOTT INTERNATIONAL, INC.
Non-GAAP Financial Measures
Cash Used In Investing Activities, Investments, and Timeshare Investments
($ in millions)

	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Years 2006-2008	% of Investments
Reconciliation of GAAP measure to non-GAAP measure					
Net cash (provided by) used in investing activities	$ (119)	$ (125)	$ 483	$ 239	
Less cash (provided by) used in:					
Dispositions	(798)	(745)	(38)	(1,581)	
Loan collections and sales	(121)	(106)	(36)	(263)	
Sale of available for sale securities	-	(43)	(22)	(65)	
Purchase of available for sale securities and other	24	(32)	11	3	
Cash used in investing activities †	**$ 776**	**$ 801**	**$ 568**	**$ 2,145**	
Detail of Cash used in investing activities and Investments					
Capital expenditures	$ 529	$ 671	$ 357	$ 1,557	60%
Loan advances	59	31	53	143	6%
Equity and cost method investments (not including Timeshare)	3	18	20	41	2%
Equity and cost method investments (Timeshare)	92	22	5	119	
Equity and cost method investments	95	40	25	160	
Contract acquisition costs	93	59	133	285	11%
Cash used in investing activities †	776	801	568	2,145	
Add: Timeshare segment development in excess of cost of sales	83	55	299	437	
Investments †	**$ 859**	**$ 856**	**$ 867**	**$ 2,582**	100%
Detail of Timeshare investments					
Equity and cost method investments (Timeshare)	$ 92	$ 22	$ 5	$ 119	
Timeshare segment development in excess of cost of sales	83	55	299	437	
Timeshare investments †	**$ 175**	**$ 77**	**$ 304**	**$ 556**	21%

	Fiscal Year 2011E	Fiscal Year 2012E	Fiscal Year 2013E	Fiscal Years 2011E-2013E	% of Investments
Reconciliation of GAAP measure to non-GAAP measure					
Net cash used in investing activities	$ 921	$ 628	$ 427	$ 1,976	
Less cash provided by:					
Dispositions	-	(118)	(304)	(422)	
Loan collections and sales	(5)	(24)	(19)	(48)	
Other investing activities	(7)	(28)	(26)	(61)	
Cash used in investing activities †	**$ 933**	**$ 798**	**$ 776**	**$ 2,507**	
Detail of Cash used in investing activities and Investments					
Capital expenditures	$ 503	$ 479	$ 403	$ 1,385	55%
Loan advances	243	178	215	636	25%
Equity and cost method investments (not including Timeshare)	50	10	5	65	3%
Equity and cost method investments (Timeshare)	-	-	-	-	
Equity and cost method investments	50	10	5	65	
Contract acquisition costs	137	131	153	421	17%
Cash used in investing activities †	933	798	776	2,507	
Add: Timeshare segment development in excess of cost of sales	-	-	-	-	
Investments †	**$ 933**	**$ 798**	**$ 776**	**$ 2,507**	100%
Detail of Timeshare investments					
Equity and cost method investments (Timeshare)	$ -	$ -	$ -	$ -	
Timeshare segment development in excess of cost of sales [1]	-	-	-	-	
Timeshare investments †	**$ -**	**$ -**	**$ -**	**$ -**	0%

[1] Shown as zero for 2011E, 2012E and 2013E as Timeshare segment gross resort development in those years is less than cost of sales and this chart shows uses of cash not sources.

† Denotes non-GAAP financial measures. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.

MARRIOTT INTERNATIONAL, INC.
NON-GAAP FINANCIAL MEASURES
ADJUSTED TOTAL DEBT NET OF CASH
($ in millions)

	Balance at End of 2010 Third Quarter	Balance at Year-End 2008	Better / (Worse) Change
Total debt	$ 2,726	$ 3,095	$ 369
Cash and cash equivalents	(223)	(134)	89
Total debt net of cash †	2,503	2,961	458
Less the impact of ASU Nos. 2009-16 and 2009-17	(912)	-	912
Adjusted total debt net of cash † [1]	$ 1,591	$ 2,961	$ 1,370

[1] Excludes the impact of adoption of ASU No. 2009-16 and ASU No. 2009-17.

† Denotes non-GAAP financial measures. Please see pages 1 through 4 for additional information about our reasons for providing these alternative financial measures and the limitations on their use.