Note on forward-looking statements: This document contains "forward-looking statements" within the meaning of federal securities laws, including RevPAR, profit margin and earnings trends, estimates and assumptions; the number of lodging properties we expect to add to or remove from our system in the future; our expectations about investment spending; and similar statements concerning anticipated future events and expectations that are not historical facts. We caution you that these statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those we identify below and other risk factors that we identify in our most recent annual report on Form 10-K or quarterly report on Form 10-Q. Risks that could affect forward-looking statements in this document include changes in market conditions; the continuation and pace of the economic recovery; supply and demand changes for hotel rooms; competitive conditions in the lodging industry; relationships with clients and property owners; and the availability of capital to finance hotel growth and refurbishment. Any of these factors could cause actual results to differ materially from the expectations we express or imply in this document. We make these forward-looking statements as of February 20, 2013. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Marriott International, Inc.
Fourth Quarter 2012 Earnings Conference Call Transcript[1]
February 20, 2013

Operator: Welcome to the Marriott International fourth quarter 2012 earnings conference call. Today's call is being recorded. At this time for opening remarks and introductions I would like to turn the call over to the president and chief executive officer, Mr. Arne Sorenson. Please go ahead.

Arne Sorenson: Good morning, everyone. Welcome to our fourth quarter 2012 earnings conference call. Joining me today are Carl Berquist, executive vice president and chief financial officer, Laura Paugh, senior vice president, investor relations and Betsy Dahm, senior director, investor relations.

As always, before we get into the discussion of our results, let me first remind everyone that many of our 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 in the press release that we issued last night, along with our comments today, are effective only today, February 20, 2013, and will not be updated as actual events unfold. You can find a reconciliation of non-GAAP financial measures referred to in our remarks on our web site at www.marriott.com/investor.

We are very excited about our accomplishments in 2012 and encouraged by recent trends.

To be sure, Europe's economy continues to struggle with austerity but the concerns of immediate financial calamity have lessened. Mexico has seen a resurgence in demand and today our Caribbean resorts are welcoming greater numbers of travelers escaping the cold. While political uncertainty in the Middle East continues, the region is benefiting from economic growth and easy comparisons. In Asia, GDP growth has moderated a bit but continues to chug along at better than

[1] Not a verbatim transcript; extraneous material omitted and edited for clarity and misstatements.

5 percent. With the leadership transition complete, we think China travel should regain its footing later in the year. In the U.S., the economy continues to expand but we are also watching political developments carefully as the likelihood of federal budget sequestration increases to a near certainty.

In fact, it is this likelihood of sequestration that caused us to broaden the range of our 2013 RevPAR outlook. Today, business is very strong. Company-operated North America RevPAR in January increased 8 percent. But we can't ignore the risk of government spending cuts to the economy generally and to the travel industry specifically. So our guidance of 4 to 7 percent worldwide RevPAR growth for 2013 reflects the risk to lodging demand.

On the lodging supply front, North American financing has become a bit easier for limited-service construction in the past 6 months but remains challenging for full-service hotels. Overall, Smith Travel tells us that U.S. supply increased only 0.5 percent in 2012 and they expect supply growth to be only 1.0 percent in 2013.

In North America, our brands represented a whopping 24 percent of industry rooms under construction at year-end demonstrating owner and lender preference for our brands. They recognize the inherent value of our distribution. From frequent traveler programs to volume purchasing to internet marketing, we find efficiencies increase and costs per transaction declines as we grow.

Our Autograph brand is a great example. We've added 24 Autograph hotels in the U.S. in only 3 years, and nearly 40 worldwide. By leveraging Marriott Rewards and marriott.com, newly converted hotels have seen their RevPAR index increase 10 points on average during the first year after conversion and owners report significant improvement in profitability. In 2012, Marriott Rewards guests accounted for 45 percent of Autograph demand.

Our sales organization also leverages our broad distribution. While one-third of our sales staff are based on-property, typically at our largest hotels, most are off-property. And all represent the broad portfolio, from Fairfield Inn to Marriott Hotels & Resorts. At our smaller Marriott hotels that are most reliant on off-property sales staff, group RevPAR in 2012 increased nearly 10 percent. In recent years we added incentives for sales execs to book business in hotels outside their typical market area, a system that benefits all hotels. In 2012, this cross-sell revenue totaled nearly $250 million, up from roughly $100 million in 2010.

Early last year, Gaylord Entertainment sponsored a survey of large meeting planners. Not only were Marriott's brands most preferred for group business, meeting planners preferred us by more than 2:1 over our nearest competitor. This was obviously important to Ryman as they selected a manager for their Gaylord brand.

Now part of Marriott, Gaylord is also leveraging our cost structure, recognizing meaningful cost savings while maintaining the outstanding service for which both Gaylord and Marriott are known. The integration of Gaylord is going well and the brand is a great addition to our portfolio.

While broad distribution is a competitive advantage, size does not imply sameness. Multiple high-quality brands allow us to tailor products to different markets and different customer groups, while providing attractive growth platforms for owners and franchisees. And new brands open yet more opportunities for growth.

We have a very broad luxury portfolio with over 50,000 rooms worldwide in our Ritz-Carlton, Ritz-Carlton Reserve, JW Marriott, Bulgari and, our latest lifestyle luxury brand, EDITION. Our first company-developed EDITION hotel opens in London in mid-2013 with Miami and New York to follow. Over a 5-year period, we are investing roughly $900 million to jump-start the EDITION brand and we are already seeing incremental developer interest in the brand. We currently have 7 hotels in our development pipeline and a half-dozen more in early discussions. We plan to recycle our investments in EDITION as soon as possible, taking back long-term management contracts.

For our limited-service brands, we are introducing new guestroom prototypes for the Fairfield brand in India and Brazil and the Courtyard brand in Asia and Europe. In North America, the rollout of Courtyard's redefined lobby space, Courtyard Refreshing Business, should be nearly complete by the end of this year and customers love it. After conversion, we've seen RevPAR index improve and food and beverage profits increase by more than 50 percent.

For our flagship brand, Marriott Hotels & Resorts, new Greatroom lobbies have increased food and beverage sales and guest satisfaction, particularly among younger travelers. Greatroom lobbies should be rolled out worldwide by year-end 2015. You'll hear us talk more about the Marriott brand later this year as we focus on lifting the brand to new heights with additional product innovations and service initiatives.

In North America, you may recall that we were targeting special corporate rates to grow at a high single digit rate for 2013. Approximately 85 percent of our special corporate negotiated rates are now complete with room rates running up north of 5 percent, constrained a bit by uncertainty about the economy. Special corporate rates apply to nearly 15 percent of our full-service managed hotel roomnights in North America.

Group business continues to improve. As of year-end, our 2013 group revenue pace for the Marriott brand in North America was up about 6 percent with more than half of the growth coming from rate. The booking window continues to lengthen as hotel meeting space fills.

Across North America, we anticipate systemwide RevPAR in 2013 will increase 4 to 7 percent in the first quarter and full year. The high end of that range reflects today's strong demand and limited supply. The low end reflects our view that the federal government's inability to reach a comprehensive fiscal agreement will continue and the automatic sequestration will go into effect on March 1. We know that the sequestration will be a negative to the travel industry. How negative? We don't know. Our view is that the sequestration itself is a sign of the failure of our political process and that the longer it stays in place the more that failure of our political process

will become a negative to economic growth globally. In 2012, North America represented 75 percent of our worldwide fee revenue.

In Asia, we expect first quarter RevPAR to increase at a mid-single digit rate, strengthening a few points as the year progresses. We believe business in most markets is likely to gradually improve during the year as comparisons ease and travelers in China get back to work after the leadership transition. At the same time, many expect new supply will continue to constrain RevPAR growth in some markets in China. We expect Thailand and Indonesia to remain strong throughout the year.

Today we have 45,000 rooms open in the Asia Pacific region and another 37,000 in our development pipeline. In China, our hotels are currently in 16 cities and we expect to be in 50 cities by 2016. We are building on our leading upper upscale and luxury market share in Shanghai and Beijing, even as we broaden our distribution to secondary and tertiary markets in China. Incidentally, we just opened our 20th hotel in Shanghai last month. This gives us 23 percent of the upper upscale and luxury rooms in that market. And in 2012, our RevPAR index in Shanghai exceeded 130 percent, up 7 percent from 2011.

In Indonesia, we are seeing strong developer interest in resort markets; India continues to add Fairfield and Courtyard projects; and Thailand offers potential for suburban properties and resorts. In fact, we just signed a development deal that should double our presence in Thailand to nearly 7,000 rooms by 2017.

Across Asia, we plan to open a hotel on average every 2 weeks for the next few years, doubling our hotels in the region by 2016. Last year, 9 percent of our fee revenue came from Asia.

In the Caribbean and Latin America region, we expect first quarter RevPAR will increase at a mid-single digit rate, improving to a mid to high single digit rate for the full year. Here we're more bullish than in October. While economic growth has slowed a bit in Brazil, we've seen lodging demand strengthen in Mexico and the Caribbean. We are pursuing hotel development opportunities in Brazil, Mexico, Colombia, Peru and Chile. In 2012, roughly 5 percent of our fee revenue came from the Caribbean and Latin America region.

In Europe, we expect some modest improvement in GDP in 2013, but given the tough comparison to the Olympics and other events, we are still expecting flattish RevPAR growth for the quarter and the full year, similar to our outlook in October. Going forward, the region continues to offer tremendous development opportunities for limited-service hotels and conversions to the Autograph brand. We signed 6 Autographs in 2012 alone. Last year, Europe represented 8 percent of our worldwide fee revenue.

In the Middle East and Africa, we are modeling a mid-single digit increase in RevPAR consistent with our October outlook with double-digit RevPAR growth in the first quarter. In 2012, we signed 11 new projects in the region. Africa's extraordinary wealth of natural resources drives economic growth and we expect to open our first 3 Marriott hotels in Sub Saharan Africa no later than 2014. The Middle East and Africa region represents 3 percent of our fee revenue.

In fact, Alex Kyriakidis, President of Marriott's Middle East and Africa region, will be hosting a lunch and tour for investors in Dubai on March 11. Included on the tour will be our new JW Marriott Marquis Hotel and The Ritz-Carlton, Dubai International Financial Centre. Alex has deep experience in the region; prior to joining Marriott last year, he was the Global Managing Director for Travel, Hospitality & Leisure at Deloitte. So give us a call or shoot Laura an email if you'd like to attend that lunch and tour.

Worldwide for 2013, we expect to open 30,000 to 35,000 rooms. Most of these rooms are already under construction or under renovation. Nearly half of our anticipated 2013 openings will be in the U.S., including conversions to our Autograph brand and newly built limited-service hotels.

Overall, outside the U.S., our growth is accelerating. We opened roughly 8,000 rooms in international markets in 2012 and we expect to open more than 18,000 rooms outside the U.S. in 2013. While non-U.S. markets represent 22 percent of our open rooms today, they represent nearly 70 percent of our rooms under construction. We increased our international development staff by 10 percent in 2012 and are growing the team by another 20 percent in 2013, adding local talent with deep market knowledge.

The UN World Tourism Organization recently reported that international tourist arrivals topped 1 billion trips for the first time in history in 2012. We would like to see 2 billion annual trips 10 years from now. We are all working to make that vision a reality and we will be ready to serve these new travelers.

Part of that work involves encouraging governments to adopt "Smart Visa" policies to stimulate global travel. Increasingly across the world there is recognition that travel and tourism represent trade, and there is a growing consensus to remove barriers and be more strategic in addressing visas and other access issues.

Now for some more thoughts about 2012 performance and our 2013 outlook, let me turn things over to Carl.

Carl Berquist: Thanks, Arne.

Well, by now you've seen our results both for the year and for the fourth quarter, and you know they were simply terrific.

For the full year 2012, diluted earnings per share totaled $1.72. Adjusting the prior year for the timeshare spin-off and other charges, EPS increased 31 percent and EBITDA rose 16 percent. Even excluding the Courtyard gain, EPS was up 25 percent and EBITDA rose 12 percent. Full year fee revenue totaled $1.4 billion matching peak 2007 levels.

In 2012, North American systemwide RevPAR increased more than 6 percent with room rates up more than 4 percent. At company-operated hotels, property-level house profit margins rose 140 basis points.

Over 27,000 rooms entered our system during the year with 20 percent coming from conversions from other brands. We acquired the Gaylord brand with valuable long-term management agreements; the 509-room New York Essex House became a JW Marriott Hotel; and our Autograph brand increased to nearly 40 hotels spanning 4 continents.

Our development organization had a great year. We signed over 57,000 rooms in over 300 hotels, ahead of our previous record of 55,000 rooms signed in 2007. At the end of the year, our pipeline of hotels under development or pending conversion increased to nearly 130,000 rooms. Congratulations to the development team.

Fourth quarter earnings per share totaled $0.56, 2 cents ahead of the midpoint of our guidance range, largely due to better than expected fee revenue.

In North America, RevPAR growth was constrained a bit by Election Day and Hurricane Sandy but many hotels benefitted from post-storm recovery efforts late in the quarter.

RevPAR in Washington, D.C. declined 4 percent in the quarter, reflecting election distractions, a shorter congressional calendar, lower government travel and flat government per diems. But in most of the country, demand continued to strengthen. RevPAR in Atlanta rose 10 percent, San Francisco increased 11 percent and New Orleans soared 18 percent.

Across the Marriott Hotels and Resorts brand in North America, group RevPAR increased nearly 6 percent with room rates up more than 3 percent. Food and beverage revenue growth was modest, reflecting the impact of Hurricane Sandy on East Coast conventions and meetings.

Outside North America, fourth quarter systemwide constant dollar RevPAR rose 3 percent, in line with our expectations. In Europe, RevPAR increased nearly 2 percent, despite the tough economic climate. While RevPAR growth in France, Austria and the Czech Republic was strong, we saw weakening demand in London, largely due to fewer arrivals from the U.K. provinces.

RevPAR in the Middle East increased more than 10 percent in the quarter, benefiting from easy year-over-year comparisons.

In the Caribbean and Latin American region, RevPAR rose over 3 percent. Demand in Mexico and the Caribbean was strong while Brazil's economy weakened and Panama suffered from new supply.

In Greater China, RevPAR rose 3 percent in the quarter. The leadership transition was delayed a bit which caused a few group cancellations, while attendance at trade fairs in Hong Kong was disappointing. Indonesia and Thailand saw double digit RevPAR growth.

Total fee revenue increased by 9 percent in the quarter. Worldwide property-level house profit margins increased 90 basis points in the fourth quarter largely due to stronger room rates, lower energy costs and the benefit of continued efficiency improvements. This helped to drive our worldwide incentive fees up 22 percent in the quarter. In North America alone, incentive fees increased 32 percent, largely due to strong year-to-date performance in Boston and New York.

The decline in owned, leased, corporate housing and other revenue in the quarter reflected the sale of our corporate housing business earlier in 2012 and 5 fewer leased hotels. After expenses, results reflected an increase in branding fees from our corporate credit card and stronger results at the Ritz-Carlton in Tokyo. These were offset by lower branding fees from residential sales and lower termination fees.

General and administrative expenses declined 6 percent in the fourth quarter largely due to a $6 million reversal of guarantee reserves in the 2012 quarter as well as easy comparisons to 2011. Last year's G&A included guarantee reserves, loan losses and other charges.

For Marriott International, our adjusted operating profit margin, excluding the impact of reimbursed costs, increased to 40 percent in the 2012 fourth quarter from 33 percent in the 2011 quarter. EBITDA in the fourth quarter totaled $358 million, 13 percent growth over adjusted EBITDA in the prior year.

We repurchased 31 million shares during the year. Since the economic recovery began in 2010, we have returned nearly $3 billion to shareholders in repurchases and dividends, $1.3 billion in 2012 alone.

In 2013, we expect worldwide systemwide RevPAR to increase 4 to 7 percent. Fee revenue could increase 7 to 11 percent and incentive fees could rise 10 to 18 percent. Incentive fee growth will likely be constrained by more modest RevPAR growth in Europe and Asia than we've seen in recent years. License fees from Marriott Vacations Worldwide are unrelated to RevPAR but should increase modestly.

We expect owned, leased and other revenue, net of direct expenses, will decline 12 to 18 percent in 2013 reflecting several issues. First, our leased hotel in London will have a tough comparison to last year's Olympics. Second, we will be renovating two leased properties in 2013, which will be disruptive to their results. And third, lower termination and residential branding fees and higher preopening costs will work against us.

All in all, we expect fully diluted EPS will total $1.90 to $2.05 in 2013, a 10 to 19 percent increase. Excluding the impact of the $41 million pretax gain on the sale of our Courtyard JV in 2012, this is a 16 to 25 percent increase year-over-year.

Last month, our RevPAR in North America increased 8 percent. But as Arne said, we can't ignore the risk to the economy associated with federal budget cuts scheduled for March 1. Se we are

guiding first quarter RevPAR to increase 4 to 7 percent in North America and 2 to 4 percent in international markets.

Recall that the first quarter of 2013 will include 93 days compared to 84 days in the 2012 first quarter. We estimate the longer quarter alone will increase operating income by roughly $15 to $20 million for the first quarter. All in all, we expect first quarter 2013 EPS will total $0.37 to $0.42.

Our cash flow is very strong. For the full year 2013, we expect EBITDA to total roughly $1.2 billion. Investment spending could total $600 to $800 million, including about $100 million in maintenance spending. We will remain disciplined in our approach to capital investments and repurchases and expect to recycle capital. In fact, we expect to return $800 million to $1 billion to shareholders through share repurchases and dividends in 2013.

We are very proud of our performance in 2012. We are also very proud of the results of a recent Fortune magazine survey that noted that for the 16th consecutive year, Marriott was named one of the "100 Best Companies to Work For". Marriott is one of only 13 companies that have appeared on every list since it launched in 1998. Marriott's great workplace inspires the customer service that builds brand loyalty and forms the emotional connection to our brands. It is the foundation of our company culture and is largely responsible for our success.

We appreciate your interest in Marriott. So that we can speak to as many of you as possible, we ask that you limit yourself to one question and one follow up. We'll take questions now.

Question and Answer Session:

Nikhil Bhalla - FBR Capital Markets & Co: Just in terms of January RevPAR coming in 8 percent, would you give us some color on how much Washington, D.C. contributes to that?

Arne Sorenson: Who's got Washington, D.C. January numbers?

Carl Berquist: Yes, I've got that. I've got that.

Arne Sorenson: I think, we believe, that the inaugural impact was less than 1 point in our January numbers, which is maybe where your question is going. As we talk, we'll see whether we can find the Washington area RevPAR number for January or not. But it's about -- it's less than 1 point of RevPAR in that...

Carl Berquist: 0.8.

Arne Sorenson: 0.8.

Nikhil Bhalla - FBR Capital Markets & Co: 0.8. Okay. And just in terms of your group pace, the 6 percent group revenue pace for 2013, how is that looking in terms of quarters? Is that weighted more sort of towards the first half of the year or is it more of a back half phenomenon?

Arne Sorenson: Well, there's a little bit of difference quarter-to-quarter, to be sure, and some of that is driven by seasonality. I think the back half is probably a bit stronger than the front half. But group is generally a pretty positive story. I mean, you look back at bookings in Q4 as an example. We think revenue that we put on the books in the quarter for the next 12 months was up 8 percent from a year earlier. So as we closed out the year, group business continues to be a relatively encouraging sign.

Harry Curtis - Nomura Securities Co. Ltd: I just wanted to focus on CapEx. You mentioned you're targeting $600 million to $800 million. If you could give us a sense of where that money is going, how much has been identified and are you assuming any recycling of capital in your cash flow assumptions?

Carl Berquist: That $600 million to $800 million is a gross number, it's not netted out any recycling. And yes, we would anticipate recycling during 2013, as opportunities come up to do that. I think, as you break down the $600 million to $800 million, probably 1/3 of it or so are capital expenditures, the rest being things like key money and mezz loans, things like that, Harry. It would be the normal allocation that we experience. We'll probably spend $200 million to $2.25 million on our EDITION construction on the 3 hotels we're building, and that's in that number.

Harry Curtis - Nomura Securities Co. Ltd: Okay. And then, my second question is, it looks like you may have built some assumption for share repurchase into your 2013 EPS guidance. Is that correct? And if so, how much has been built in?

Carl Berquist: Yes, we would expect to return anywhere from $800 million to $1 billion share repurchase and dividends to shareholders, and that is built into our model.

Harry Curtis - Nomura Securities Co. Ltd: But how much of the $800 million to $1 billion? It doesn't look like all of it has been built in to the $1.90 to $2.05 EPS estimate. I'm trying to get a sense of how much has been built in?

Arne Sorenson: I think it's all built-in. I think one of the things you'll find Harry is that, in the year impact of share repurchase tends to be pretty insignificant. So probably, part of that is the way we model it. We assume that the stock price is staying up, going from where it is today, to a somewhat higher number by year end. And we built in sort of a steady-state share repurchase plan over the course of the year, without factoring in any possibility that there could be weaker times where we could seize more opportunities. And so if you just do the math, it doesn't produce much. It might be $0.01 or $0.02 in there, I suppose, Carl, for the full year, but it wouldn't be very significant.

Carl Berquist: Yes.

Robin Farley - UBS Investment Bank: I know you talked about your concerns about the federal budget after March 1, but it also looks like your corporate negotiated rates came in a little lower than you had -- maybe, had expected. So maybe your conservatism is more than just the federal

budget issue, and I wonder if you can talk about that. And then, just, if you had any comments, your -- when you talked about your projected cash return to shareholders this year, it's lower than what it was in 2012. And I don't know if that's just related to timing of cash on the balance sheet, or if there's something strategic there that's causing it to be lower this year?

Arne Sorenson: Yes. Robin, so a couple of questions there. I think the special corporate negotiations came out maybe a little bit lighter than we would have anticipated, but maybe by 0.5 or so. Nothing meaningfully different. We are -- I think that doesn't give us much concern. I think, if anything, that could be explained by the anxiety around the fiscal cliff and therefore, economy, that many companies were facing in the fourth quarter when a lot of those negotiations took place.

I think, as we look into the year, we see reasonably good performance from both transient and group business. And really, it's sort of a tough thing, in some respects to say, because we are -- very much, that bottom end of our range is driven by the likelihood that sequestration will take effect and our concern about the effect that, that will have on travel, even though we can't really tell you that we know how significant that impact will be because we really don't know how long the sequestration will last. But that is, singularly, what's driving our broader range and lower number in that range. When you look at...

Carl Berquist: Share repurchase.

Arne Sorenson: Share repurchase, it is a little bit lower...

Robin Farley - UBS Investment Bank: And just, in general, return to -- return of cash to shareholders, the comment was in total, I think, share repurchase and dividends, so...

Arne Sorenson: Yes, and that's about $800 million to $1 billion. I think one of the reasons we were able to drive more in 2012 was the benefit we got from ultimately getting out of the Timeshare business, both in terms of the cash taxes that were paid. We obviously recognized -- started to recognize the losses that we incurred in that business, and that had impact on cash taxes. We -- you can see when you look at year-end debt levels between 2011 and 2012, our debt levels were up almost $800 million. Part of that is EBITDA-driven, part of that is also on lease and other guarantee reserves which go into that calculation. We did cycle out of some really non- -- unprofitable leases on some hotels in Europe, which also frees up some capacity, which allowed us to return a bit more to shareholders than would probably be normal course.

David Loeb - Robert W. Baird & Co.: Can I follow up little bit on the incentive fees, Carl? I appreciated your remarks about the U.S. incentive fees growing. Can you talk a little bit about the outlook? What percentage of international hotels are earning IMF? I know last year, that was -- 2011, that was 67 percent. It seems like you're a long way from peak kind of participation in IMF, or paying IMF. Where do you think that goes in next year or 2?

Carl Berquist: Well, I think as you see the growth in margins and profits in the U.S., they're going to continue to grow. I think the reality is, as we've talked in the past, in the U.S., the likelihood of

select-service hotels paying meaningful incentive fees will be a while, but the full-service hotels continue to -- the ones that are paying today, continue to pay more as they grow their margins and their net house profit, and more hotels join in from the full-service side. But I think on the select-service side in the U.S., that's going to stay -- that will not be meaningful for quite a while. I think on the international side, though, you'll continue to see growth in the Asia Pacific region, as well as the Middle East. I think Europe, until the markets come back in Europe, that it will be lackluster a little bit from a growth standpoint in Europe. But as Asia and the Middle East continue to grow, you'll continue to see meaningful growth on that side.

David Loeb - Robert W. Baird & Co.: Great. And then, to follow up on Harry's question about asset recycling. What do you think the timing is on the sale of the London EDITION? And when do you think you'll start seeing proceeds from either condo sales or the eventual sale of the Miami hotel? And Arne, you said that was -- mid-2013 opening, there was a Miami Herald article in December that said 1Q '14, is that still on track?

Arne Sorenson: Yes, so London EDITION will open midyear this year. We are hopeful that we will sell the hotel this year, shortly after opening, but we'll see. The Miami EDITION will not open until late '13. Is it possible it could slip until early '14? I suppose it's possible. But the project is coming along well and we're excited about the way it's coming together. We have -- there are only 26 residential units in that facility. They are on the market today. We are very pleased with the response we're getting from buyers who are interested in those units. And while deposits will be made soon on many of those units as they sell, closing is likely to follow -- formal and final closing is likely to follow the opening of the hotel. So the proceeds really won't come in until late '13 or probably into '14.

Felicia Hendrix - Barclays Capital: Arne, in your prepared remarks, I think you gave us some good color around your conservatism and what that has to do with. And I think last night when we -- a lot of us were looking at the release, we thought that you were just specifically talking about your business that's specifically related to the government. But I think it sounds more like you're just concerned about the impact that sequestration, overall, is going to have on the economy and the mindset of the consumer, is that correct?

Arne Sorenson: Yes, I think it's both things, actually, Felicia. I think -- we've talked about the numbers that are driven by government travel before, we think it's about 5 percent for the industry across the United States. That number in the Washington area is probably more like 12 percent, something like that. We would expect that government and strongly government-related business, like government contractors of some sorts, will look early in the sequestration process to cut travel expenses. So that is, very much a connection to our industry, and our industry may be get hit a little bit harder than industries, on average, at least in the early stages of this. But beyond that, we are concerned that sequestration will be another ugly chapter. And you all know the details of this, but we not only have sequestration which will come on March 1, but we're going to end up with another debt ceiling issue and we're going to end up with a continuing resolution. As we watch it, we don't see that there's much reason for optimism, that there's going to be a quick resolution to

this. And depending on how ugly it gets and how long it lasts, we think it is something that could expand from sort of like government travel-related thing into something that is a broader economy.

Felicia Hendrix - Barclays Capital: Okay, because -- that's helpful. Because the question that I was asking myself is you lowered the low end by 100 basis points. And it would seem that just your exposure to government and government-related consumers alone wouldn't really have 100-basis-point impact on your RevPAR.

Arne Sorenson: Yes, I think that's fair. You got to remember that even with the -- the guidance we're giving you today is assuming the sequestration takes effect, which we think is the right assumption to make. We're still giving you a 3-point range. So while the 4 percent number is something that naturally has gotten a lot of your attention, we still think that even with sequestration, we should post numbers in the 4 percent to 7 percent range. And we don't -- we can't tell you for certain where it's going to be in that range, but obviously, 2/3 of that range is above 5.

Felicia Hendrix - Barclays Capital: Okay. And then, just curious, though, because it seems like the conventional wisdom on the economy and the outlook in the fall was actually worse than it is now when we were facing fiscal cliff and potential sequestration, then, so I'm just wondering what's changed in your mind from when you gave guidance in October until now?

Arne Sorenson: I think in October, we were a little less frightened by the fiscal cliff than we became by the time you got to December. And so you can sort of draw some lines and say that things got bleakest later in the year, not 1st of October. I think the 1st of October, we were hopeful that we would see political leadership reach a deal which was much more comprehensive and really have the capacity to put these issues behind us. And what we actually -- we got, then, quite bleak as the year progressed. And as we got into the holidays, I think there was concern that there might be no agreement whatsoever. And certainly, there was some relief that a deal was done on New Year's Eve. But having said that, that deal really resolved extraordinarily little. And the sequestration issues, obviously, were addressed in that, they were extended by 60 days. But here we are 60 days and there has been 0 progress. Debt ceiling issues are, in many respects, the same. They were extended for a very short period of time. And so right now we're looking at a series of federal fiscal crises that, in some respects, are harder to be optimistic that they'll be resolved quickly than it was the case in early October, where we were looking at the fiscal cliff generally.

Felicia Hendrix - Barclays Capital: Okay, that's really helpful. I have a very quick balance sheet question for Carl, but if I've overstayed my welcome, I'll ask him later.

Arne Sorenson: Go ahead.

Carl Berquist: What is that, Felicia?

Felicia Hendrix - Barclays Capital: So Carl, if I just look at your cash balance for year end, it seems to be the lowest that it has been historically. Obviously, you've returned a lot of cash to

shareholders. There's balance sheet, there's cash, there's a bunch of different things. Just wondering if this kind of level is the new norm, and does that protect you for a rainy day?

Carl Berquist: That's a good question. We dropped down to like $88 million, I guess. We usually try to stay around $100 million. And as long as we have access to commercial paper markets, which are robust, and our credit rating, we do, we kind of finance the business with the commercial paper markets. And that's backed with $1.75 billion revolver, so that for that rainy day, we always have that access. So we try to keep the cash balances right about $100 million. We dropped just a little below that at year end.

Joshua Attie - Citigroup Inc.: I understand qualitatively what the concerns are regarding sequestration. Can you tell us how you quantified the 100 basis point impact to RevPAR? Was that based on a view of what the GDP impact would be translated down to lodging demand? Or was there another way that you kind of came up with that estimation?

Arne Sorenson: All really good questions, Josh, and I wish we had a really powerful and precise answer. We don't. Quibbling with you a little bit, it is not the case that we're saying the sequestration will have 100 basis point impact on RevPAR. We don't know enough to know that, that is a fair number or not a fair number. All we've done is say, as we sit here today, we think we are 10 days away from something which is going to happen, which will be negative to the travel business. And as a consequence, we think, needs to be contemplated in what we say about our expectations for the way our business is going to perform. And it has broadened our range a little bit on the downside. But again, I don't -- sitting here today, we can't tell you what we think the GDP impact will be, and we can't really even tell you what we think our RevPAR impact will be. We sit around and we talk about it, we can see some signs that some government agencies are already looking at, pulling back on meetings and spend a little bit less on travel. And so we know that that's likely, that's -- what we've seen so far doesn't give us material concerns. But the sequestration, really, hasn't started.

Now there are some positives in that government is -- I talked about the 5 percent national and 12 percent-ish in the Washington area, government business is already weak. So what we're seeing over last couple of years is the government has been much more cautious about travel spending. They have been much more cautious about food and beverage spending when they do hold meetings. In fact, on a number of our hotels, we'll talk about how government groups, over the last year or 18 months, won't order lunch for their attendees in a government meeting. And so the hotels have adopted by offering, in effect, lunch bags that can be bought by them on their per diems at very inexpensive cost. Or in some markets, you see them walking down the street to the local sandwich shop. And so hopefully, this will not become an enormous impact to the business. But it won't be good for the business, and it will be in place, at least, for some period of time.

Joshua Attie - Citigroup Inc.: And I guess given that dynamic and your concerns around it, how do you think about capital allocation and specifically, return of capital? Are you considering timing your buybacks to maybe accommodate some of that risk? Or maybe shifting some of the return of capital to dividends in order to simply not make a call on your stock price, which might be volatile

under that scenario? Or is the buyback simply going to be programmatic, as cash comes in the door, it kind of goes back out to the repurchase? How should we think about that for '13?

Arne Sorenson: Well, we're always factoring in our internal cash flow dynamics as well as some perception of where the markets are when we make the fine decisions around our share repurchase decisions. I don't think that the sequestration or the fiscal situation in the United States, at least, in terms of the current crisis, is a terribly significant factor in our long-term dividend versus share repurchase policy, or even the management of our balance sheet. We've got tremendous cash generation in this model. Carl talked about returning $3 billion to shareholders in the last 3 years. Those are big numbers. There's no reason to presume that we won't continue to return big numbers to our shareholders in the years to come.

Ryan Meliker - MLV & Co LLC: Just real quickly on sequestration. It sounds like you have not yet seen any impact of the sequestration in your forward bookings, but your concern is that you will. Is that correct?

Arne Sorenson: That's essentially right. I mean, we've got a few little anecdotes of some meetings that have been canceled. But barely, when we look at our RevPAR numbers to date this year, we don't think it's showing up in any measurable way yet.

Ryan Meliker - MLV & Co LLC: Okay, great. And then, I just was hoping if you can give us some color. In 2012, it looks like -- backing out the Gaylord transaction, it looks like over 100 percent of your system expansion came from franchise system growth more than managed system growth. Is 2012 an anomaly? Or does your pipeline look heavily skewed towards franchise growth as well?

Arne Sorenson: You're -- I mean, we opened 8,000 rooms outside the United States. And I have to go back and double check, but I think many of those were managed units. I think when you look at the way the company as a whole rolls up, you get some contraction in -- the Marriott, for example, if you look at the Marriott brand year-over-year in North America, I think, we were down 1,200 rooms. And the 1,200 rooms, I mean, I can think of 2 hotels off the top of my head, each about 600 rooms, that were managed, that we took out of our system in 2012, basically, for quality reasons. And so you get some decisions like that, which new managed growth maybe refills that bucket to where it was before, and you end up with, obviously, more franchise growth than managed growth. I think as you look into 2013, add 18,000 rooms instead of 8 opening outside the United States, those will still be significantly managed, and we'll see the company numbers, as a whole, good managed growth going forward. Having said that, to be sure that as limited-service hotels begin to open, which will be a little bit in '13 but in '14 as well, that growth is mostly franchised system growth.

Ryan Meliker - MLV & Co LLC: Great, that's helpful. And then just real quickly, with -- I don't know if you could give us any color or not. We've heard anecdotally that we've seen a lot of construction delays in the Sandy-hit areas, of the northeast New York area and a little bit more in New Jersey and Mid-Atlantic. Have you guys seen any impact with regards to Sandy? Is that going to push some of your pipeline more into the back half of the year than the front half of the year as a result?

Arne Sorenson: I haven't heard that. But to be fair, I'm not sure I've asked specifically around construction progress in the Sandy -- most impacted areas from Sandy. I will note, though, just that you raised Sandy, our reported numbers in Q4 include as comp hotels, the Battery Park Ritz-Carlton and the Financial Center Marriott both in Downtown New York and both of which were closed for about 1 month. And they -- because our comp rules basically work where you look at full year performance of an asset or number of rooms available, they did not fall out of our comp set. But they did have an impact, because obviously, during the month they were closed, they posted 100 percent decline in RevPAR.

Shaun Kelley - BofA Merrill Lynch: I was going to ask one about the sequestration, but I think we've kind of beaten that one to death, so I'll move on to -- on the group revenue, you guys gave your group pace numbers as well as a look at in the quarter, for the quarter. But we've heard a lot of owners and other managers talk a little bit about a slower pace for food and beverage spending. I'm just wondering if you guys could tell us what you're seeing there and elaborate a little bit? I think Arne, in the prepared remarks, you might have mentioned that it was soft in the fourth quarter. Have you seen that bounce back at all after Hurricane Sandy?

Arne Sorenson: Yes, Sandy certainly had an impact on food and beverage in the fourth quarter because obviously those groups, some groups canceled. I think we were stronger in the West and in the South in Q4. That's probably mostly Sandy-related, but it could also be some impact of election and some other things which, obviously, have a little bit more of an impact in Washington and in some other places. I would say, generally, that food and beverage doesn't give us enormous concern going forward, that group business actually seems to be building well, and in any quarter, we may have some disconnect between food and beverage growth and rooms growth. I suspect, on a full year basis in '12, we probably saw 1 point or 2 points difference between rooms growth and F&B growth. But F&B is growing, notwithstanding, and should continue to grow in 2013.

Shaun Kelley - BofA Merrill Lynch: That's helpful. And then, my second one would simply be on China. Earlier in 2012, some things have slipped in the pipeline and the timing of some openings -- and I'm just wondering if you could give us a little bit more color in terms of how you guys are seeing the year, both from a demand and supply perspective, play out? Has anything, kind of, post the government transition, has anything slipped or changed on the pipeline? Do you guys feel a little bit more confident about the supply side? And then, how do you think RevPAR kind of trends throughout 2013?

Arne Sorenson: Yes, we are hopeful that we'll see China build over the course of the year. I think the -- there's some sense of stability returning in the months now following the Chinese government transition. Having said that, I don't think sitting here today, we could say we've seen a quick snap back to the levels that were maybe a year ago or before the impending government transition started to have some impact. But we do see some early signs of stability, which should be helpful. We did see our development openings slow in '12. As we've looked at that pipeline, those projects are still alive, they should open in '13, maybe a few in '14 at the latest. We don't think we lost any projects.

One other thing on RevPAR, we will certainly see easing comparisons as the year goes along. So if you look by quarter at China last year, we started in the 10 percent range, and I think we ended in the 3 percent or 4 percent range in the fourth quarter with sort of a steady decline quarter-over-quarter in those numbers. And so that will help us as we look at it as well going forward. And then, in terms of supply threat, generally, the South, if you look at places like Sanya on Hainan Island and Guangzhou, these are places that are going to continue to see significant hotel openings. And hotels that are in those markets are going to have to face that supply growth. And by all means, there are third parties that are calculating the supply growth in these markets. But you're talking about, in Hainan Island, 10,000 rooms opening this year, some number like that. This is not insignificant supply growth, it's a great market and it's a growing market. So over time, that supply will certainly be appropriate, but in the short term, it'll put continued pressure on RevPAR in cities like that.

William Crow - Raymond James & Associates, Inc.: Two quick questions, Arne. You referenced supply growth, and you said it's becoming incrementally easier to get financing on limited service. We're actually hearing that it's getting easier as well for full-service with the banks, the insurance companies, et cetera, getting more aggressive looking for fee income and spreads. Could you talk about that and how much easier maybe it's gotten? And is that kind of next thing we're going to have to deal with in '14 or '15?

Carl Berquist: Yes, Bill. This is Carl. It's interesting. We have seen, on the limited-service side, financing getting a little better. But it's still under terms that are requiring the developer to guarantee the debt, provide credit enhancements, and the leverage isn't what it was way back when, so to speak. But that money is becoming available, especially from regional and local banks as the CMBS market has strengthened, providing capacity for those. As for the full-service hotels, especially, whether in suburban or even urban full-service hotels, we haven't seen new construction-type financing. Now financing is starting to show up for asset sales, but not for new construction. You can always get it whether, if you have something where the city is helping out or you're getting some type of mixed-use situation. But by and large, those -- we haven't seen that construction financing becoming available without significant credit enhancements or pretty low leverage with a lot of equity in the deal.

William Crow - Raymond James & Associates, Inc.: That's helpful. Second question is that we're facing a situation with higher gas prices here over the past, what, 45 days or so, and the payroll tax hike that took effect. It seems like we're seeing pressure on the lower end consumer in other areas. As you look across your brand portfolio, is it becoming apparent that maybe there's some weakness or emerging weakness in the lower price point brands? As you look at, maybe, Spring Break, as the summer vacation season starts to get booked up, anything you're seeing there that would give early indication of struggles ahead?

Arne Sorenson: I don't think so. In fact, I think if you look through the end of the year -- and I know that's before the -- some of that tax increases kick in, payroll taxes and the like. But we've actually

seen more consistent strength on the weekends than during the weeks, which basically would tell you that the leisure business is a bit stronger than business, business, if you will.

William Crow - Raymond James & Associates, Inc.: That's true at the lower ADR hotel level?

Arne Sorenson: That's certainly true as far low as we go. And I'm not sure we are, even in Fairfield, we're likely to pick up much of the consumers who are hardest hit.

Joseph Greff - JP Morgan Chase & Co.: I had a question on group. And I know when you talk about group, it's generally limited to the Marriott brand, North America. But at this point, how much of your anticipated group room nights are booked? And how does that compare to the year ago? Then, I have a couple of small follow-ups.

Arne Sorenson: It's about the same. It's about 70 percent as of the first of the year for the MHR brand. And that really has not shifted very much. We mentioned in the prepared remarks, and I know a few of our competitors in the industry have talked about the lengthening of the booking window. And I think that is starting some, but it's not a significant factor yet.

Joseph Greff - JP Morgan Chase & Co.: Great. And within your guidance, do you still see full-service outperforming select-service? Or how do you see that transpire this year versus last year?

Arne Sorenson: It's a good question. I would -- I think they're about the same ballpark actually.

Joseph Greff - JP Morgan Chase & Co.: Earlier on the call, Arne, you were talking about how brands afford you opportunities for growth -- or the new brands afford you opportunities for growth. And I know you were talking in the context of Autograph, EDITION and Gaylord. But at this point -- do you -- and you have a pipeline obviously that gives you a steady unit growth for a while. But at this point, do you see opportunities for you to either acquire or develop incrementally new brands?

Arne Sorenson: Yes. It is -- this is sort of one of the musings we used to sort of talk about internally a bit. But the -- I think 5 years ago, and we could go back and all look at transcripts of these calls and I'm almost certain we would find questions along these lines, "How do you feel about your brand lineup? Is it complete? Do you think you've got any gaps in it?" And I think the answer is that -- we would have given, then, I personally would have given them was, "We've got a pretty full brand lineup and we don't see significant gaps. And we wouldn't encourage you to think that we're going to be adding many more brands." But then, you look at the last 5 years and we've got Autograph and we've got AC Hotels by Marriott, and we've got EDITION, and we've got Gaylord, and you look at Fairfield in India, you look at Fairfield in Brazil. Those are -- we're using the same name that we've used for a brand in the United States, but in many respects, they are different products and they are focused at a local traveling population, and they're new brands in those markets, in effect. And I think, as the last 5 years has taught us, we think that the next 5 years, as we're pursuing growth around the world, we will continue to add brands to the portfolio. Those brands may not be global, they may play a role in a given part of the world and not beyond that,

but they're still -- when you look at our brand lineup by region, there are places where we have gaps. And I think we'll fill in those gaps as we go forward.

Steven Kent - Goldman Sachs Group Inc.: Could you just talk a little bit about the EDITION brand and what your exit plan might be, or what the time frame is, as you think about that brand of buying, building and exiting it?

Arne Sorenson: Well, we have the 3 hotels under construction. We've talked about London and Miami already on the call. London will open midyear this year. We are optimistic that we'll sell it, hopefully, this year. It is probably not wise to expect, either us internally or you externally, that we will sell the others until after they open. Certainly, the way we model our balance sheet and look at the capacity we have in managing our cash flow, we would assume that Miami would not sell until probably 2014, and New York, Clock Tower building not until late '14 at the earliest, or '15. But for all 3, we remain quite optimistic here about our ability to recover all the capital that we've invested and keep decades long management contracts. And as we mentioned in our remarks, we are already seeing not just those projects come to fruition in a way that's exciting, but we've seen our partners around the world respond favorably to the commitment we've made to that brand and as a consequence, we've signed more deals and we're talking about signing even further more deals in the EDITION brand.

Patrick Scholes - SunTrust Robinson Humphrey, Inc.: Just, I wanted to get a little bit of clarification, and I don't mean to be trivial with this question, but you did say your January RevPAR was up 8 percent. But I know that for your first quarter, you do get those last 3 days of December. Just to be clear here, is that -- when you say January, is that January 1 or 31, or did you include those last 3 days?

Arne Sorenson: January 1 to 31.

Whitney Stevenson - JMP Securities: I was just wondering if you could talk a little bit about the news about the development in Aurora, Colorado and if you can state anything about your plans there, and if you have any other ideas for what you might do with the Gaylord brand?

Arne Sorenson: There's not much that can be said there other than what's been stated publicly. Obviously, Gaylord was very far along in working with the state and local authorities in Colorado to get the Aurora project financed in the way that made sense for them. With the transaction they did for us, they stepped back and essentially said they would not be pursuing that transaction. We'd obviously be interested in seeing another Gaylord Hotel if it makes sense and can make financial sense and so we've got our teams working with some prospective partners to see whether or not that makes sense but we've got nothing to announce at this point. And obviously for the Gaylord brand, generally, we love the brand, we love the 4 hotels that they've got. They are, by definition, big hotels that take years to go from idea to opening. Over time, it would be great to see us add few more, but we'll have to see how that develops and they're certainly big enough that it'd be hard to give any prediction about when that would happen.

Richard Hightower - ISI Group Inc.: Just one quick question on G&A guidance for the first quarter. It does look a little bit high compared to our model and I'm wondering if there's anything going on there other than simply the calendar change?

Carl Berquist: No. I think in the fourth quarter, we had some ins and outs, but I think for G&A for the full year and the quarter, you would assume a run rate of somewhere between 3 percent and 5 percent in G&A for '13.

Arne Sorenson: But I think the longer quarter is a piece of that...

Carl Berquist: Oh, yes, a longer quarter is a piece of -- yes, oh, I'm sorry. Yes, because we have 93 days versus 84, you'll have a higher G&A.

Ian Rennardson - Jefferies & Company, Inc.: Accor, this morning, was telling us about the actions it was taking to combat the negative effects from OTAs. Are you seeing any change in the behavior of OTAs?

Arne Sorenson: No. I mean, the OTAs are obviously, partners of ours, particularly in the leisure space and they are disproportionately more relevant in leisure destinations. We continue to work with them as best we can to make sure the relationships are constructive and fair. I think we remain reasonably pleased with the level of business which is coming through our own online channels, marriott.com, at over $8 billion in sales in 2012. We think it's one of the top 10 retail sites in the world in any industry and it may be that, because of the power of that site we've got less contribution from these independent OTAs than the industry as a whole does. We know anecdotally from a number of markets, like New York, that we get a relatively small fraction of contribution from those channels compared to many of the independents and even some of the -- some of our branded competitors. But it's a space we continue to watch very carefully.

Thank you, all, very much for your time and interest. We look forward to seeing you all soon. Travel safely.