THE SPIN-OFF REPORT

August 19, 2011

Marriott International Inc. (Pre-Spin)

Current Share Price (8/18/11): $26.79
Fair Value Estimate: $36 per share
Shares Outstanding: 352.9 million
Market Capitalization: $9.5 billion

Ticker: MAR
Dividend: $0.40
Yield: 1.5%

Marriott International Inc. (Post-Spin)

Fair Value Estimate: $31 per share
Shares Outstanding*: 352.9 million
Market Capitalization: $10.9 billion

Ticker: MAR
Dividend: $0.40
Yield: 1.3%

Marriott Vacations Worldwide Corporation

Fair Value Estimate: $4 per share
Shares Outstanding*: 352.9 million
Market Capitalization: $1.4 billion

Ticker: VAC
Dividend: Nil
Yield: N/M

*Assumes an exchange ratio of 1:1.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin MAR.

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Investment Thesis

On February 14, 2011, Marriott International Inc. (NYSE: MAR) announced plans to spin off its timeshare business through a tax-free special dividend by late 2011. The spun-off business, which will be named Marriott Vacations Worldwide Corporation, will focus on developing and operating timeshare and fractional ownership units under the Marriott and Ritz-Carlton brands. Shares of Marriott Vacations are expected to trade on the NYSE under the symbol "VAC." Following the spin-off, Marriott International will focus on lodging management and franchises. The Marriott family is expected to hold 21% of the common stock of each entity following the special dividend. The separation still requires SEC approval and an affirmative IRS ruling.

The spin-off of Vacations Worldwide ("VAC") from Marriott International has the potential to remove the near-term drag on MAR's share price. The timeshare business has been much slower to recover from the global recession, margins are low, and risks related to developing properties are higher. As a result, MAR's operating margins trail those of its peers, and growth projections are well below those for industry leader Starwood Hotels. In addition, MAR will generate annual royalty fees from VAC post-spin to allow VAC to continue to market products under the Marriott and Ritz-Carlton brands.

Post spin, MAR's growth prospects should improve, margins could widen, the valuation multiple considered by investors will likely expand, and revenue generated from the licensing agreement should partially offset the timeshare segment EBITDA contribution. As a result, one could reasonably argue that the fair value estimate of MAR will actually rise following the separation. Utilizing a variety of metrics, one can easily arrive at an estimate of $31 per share, above the current share price. An investor would essentially be getting the timeshare business for free if the stock is purchased prior to the spin.

Alternatively, VAC considered as a separate entity may have value to certain investors. Despite the extremely weak end markets, VAC is generating cash because of its reduction in capital expenditures essentially to maintenance levels. VAC continues to generate steady management fees and rental and financing revenue. In addition, investors would have the opportunity to benefit from share price appreciation if and when the timeshare market recovers (not likely before a larger housing market recovery and falling unemployment levels). Given the current environment, one could value the stock at $4 per share post spin. But in a recovery, one could see upside to $8 within the span of two to three years.

Shares of MAR are recommended for purchase prior to the separation based on a sum-of-the-parts valuation of $36 per share (does not equal the sum of the separately cited prices due to rounding). The current attractive entry point is largely the result of challenging market conditions as well as modestly disappointing company guidance following the 2Q11 earnings release. The stock has declined 28% from a recent peak above $37 per share in mid-July compared with a 14% decline for the S&P 500 over the same period.

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Company Description

The history of the Marriott family and the hospitality business go back to 1927 when JW Marriott opened a root-beer stand in Washington, DC, eventually named The Hot Shoppe. Marriott was incorporated as Hot Shoppes Inc. two years later. The company went public in 1953, growing its food service operations through the years by expanding into airline catering, the acquisition of Big Boy restaurants, and the launching of the Roy Rogers fast food chain. In 1957 Marriott opened its first hotel, located in Arlington, VA. In 1968 the stock was listed on the NYSE under the ticker "MHS." In 1984 Marriott entered the timeshare business through the purchase of American Resorts Group.

Following decades of expansion and its buildup in hotels, senior living centers, timeshares, food service, and restaurants, in 1989 Marriott announced a restructuring, including the planned sale of its family restaurants. Four years later, Marriott separated into two companies—Host Marriott, which would own the hotels and related real estate, and Marriott International, focusing on its hotel and food management services, which would include the timeshare and senior living operations.

Following several additional transactions, Host Marriott became Host Hotels & Resorts Inc. (NYSE: HST), a hotel REIT. Throughout the 1990s, Marriott continued to expand its hotel brands through acquisitions and development of new hotel concepts. In 1998 Marriott merged its food services operations with Sodexho Alliance to create Sodexho Marriott Services, while also spinning off new Marriott International (NYSE: MAR), now focused on hotel management and franchises, as well as timeshare development and senior living. Sodexho Marriott Services merged with SMS Acquisition Corporation in 2001 and became a wholly owned subsidiary of Sodexho Alliance.

MAR continued to expand internationally, opening new hotels worldwide well into the new century, although struggling following the events of 9/11. In 2002 Marriott sold its senior living operations. Worldwide tourism demand declined significantly during the global recession. In the last two years, hotel bookings and pricing have begun to rebound, although timeshare sales have continued to lag. In early 2011, MAR announced plans to spin off its timeshare business as Marriott Vacations Worldwide under the expected ticker symbol VAC.

During the three-year period through 2010, timeshare operations accounted for slightly more than 13% of total company revenue, the remainder being split among four hotel segments: North American full service, North American limited service, Luxury, and International (see Exhibit 1). Hotels and timeshare operations include 1,172 company-operated properties comprising more than 300,000 rooms, 2,417 franchised locations accounting for more than 325,000 units, and 72 properties as part of joint ventures including 7,421 rooms.

Hotel profits are strongest during periods of high tourism demand (relatively closely correlated with global GDP growth) when hotels can maximize occupancy while also charging higher rates. The key metric commonly used to examine hotel profitability is RevPAR (daily revenue per available room), which is a term that will be utilized throughout this report. Marriott's RevPAR peaked in 2007, then weakened through 2009 during the global economic malaise, before slowly rebounding in 2010. Revenue and margins across all Marriott hotel segments improved modestly

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in 2010. Notably, Marriott had less difficulty filling rooms, showing particular strength in its limited-service (lower price) brands.

Exhibit 1 Marriott International Operating Segments, 2008-–2010

(in millions)	2010	2009	2008
Revenue			
North American full-service	$5,108	$4,848	$5,631
North American limited-service	$2,149	$1,986	$2,233
International	$1,245	$1,145	$1,544
Luxury	$1,563	$1,413	$1,659
Timeshare	$1,546	$1,439	$1,750
Corporate	$80	$77	$62
Total	**$11,691**	**$10,908**	**$12,879**
Income from continuing operations			
North American full-service	$318	$272	$419
North American limited-service	$298	$265	$395
International	$169	$129	$246
Luxury	$77	$17	$78
Timeshare	$121	($679)	$28
Corporate	($326)	($318)	($324)
Total	**$657**	**($314)**	**$842**
EBITDA			
North American full-service	$436	$319	$659
North American limited-service	$352	$289	$499
International	$217	$158	$328
Luxury	$122	$38	$156
Timeshare	$184	($633)	$74
Corporate	($276)	($268)	($267)
Total	$835	($129)	$1,032
Adjustments	$208	$1,027	$266
Adjusted EBITDA	**$1,043**	**$898**	**$1,298**
EBITDA margin			
North American full-service	8.5%	6.6%	11.7%
North American limited-service	16.4%	14.5%	22.3%
International	17.4%	13.8%	21.2%
Luxury	7.8%	2.7%	9.4%
Timeshare	11.9%	-44.0%	4.2%
Total	**8.9%**	**8.2%**	**10.1%**

Source: Company reports, *The Spin-Off Report* estimates. Segment EBITDA is a calculation spreading interest expense and taxes across segments based on revenue contribution.

MAR operates or franchises hotels. Under long-term management agreements (typically 20-30 years), Marriott generates an annual fee plus an incentive based on hotel profitability. MAR is responsible for hiring and training employees at company-operated lodgings, as well as purchasing supplies (reimbursable by hotel owners). MAR provides reservation systems, national marketing, and promotions, as well as accounting services. Franchised hotels pay an application fee and then annual royalties, typically 4%-6% of room revenue and 2%-4% of food and beverage revenue. Franchised hotels also pay fees for the use of MAR's reservations system and

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participation in marketing campaigns. At year-end 2010, MAR had 1,104 properties under long-term management contracts and 2,391 franchised properties.

Marriott Vacations Worldwide, which is expected to trade under the ticker symbol VAC following the separation, develops, manages, and sells vacation-ownership properties worldwide. Over the last three years, about 78% of revenue came from North America, 8% from Europe, and 6% from Asia-Pacific (see Exhibit 2). European properties are located in the United Kingdom, Spain, and France, while Asia-Pacific properties are based in Thailand. Remaining sales were generated in the luxury segment, which includes Ritz-Carlton branded timeshares worldwide.

Exhibit 2 Marriott Vacations Worldwide: Operating Results by Segment, 2008–2010

in millions

	2010	2009	2008
Revenue			
North America	$1,251	$1,195	$1,489
Luxury	$103	$127	$130
Europe	$134	$122	$176
Asia Pacific	$96	$93	$118
Total	**$1,584**	**$1,537**	**$1,913**
Net income			
North America	$280	$14	$224
Luxury	($47)	($646)	($71)
Europe	$15	($49)	($22)
Asia Pacific	$29	($26)	$13
Total segment results	**$277**	**($707)**	**$144**
Segment EBITDA			
North America	$269	$87	$233
Luxury	($69)	($584)	($72)
Europe	($7)	$13	($23)
Asia Pacific	$6	$34	$8
Segment total	**$198**	**($451)**	**$145**
Corporate	$9	($258)	($65)
Total	$207	($709)	$80
Adjustments	($4)	($805)	($63)
Adjusted EBITDA	**$211**	**$96**	**$143**
EBITDA margin			
North America	21.5%	7.3%	15.6%
Luxury	-67.2%	-460.0%	-55.6%
Europe	-5.4%	10.5%	-13.2%
Asia Pacific	6.0%	36.3%	6.6%
Segment total	12.5%	-29.3%	7.6%
Adjusted EBITDA	13.3%	6.2%	7.5%

Source: Company reports, *The Spin-Off Report* estimates, including segment EBITD, which is a calculation spreading interest expense and taxes across segments based on revenue contribution.

VAC generates revenue through the sale of vacation ownership interests, financing of these sales, property management, and leasing of unsold units. Buyers of vacation ownership interests historically have purchased a share of a unit or the right to use that unit during a particular period of time (commonly one to two weeks) each year. More recently, Marriott has introduced a point

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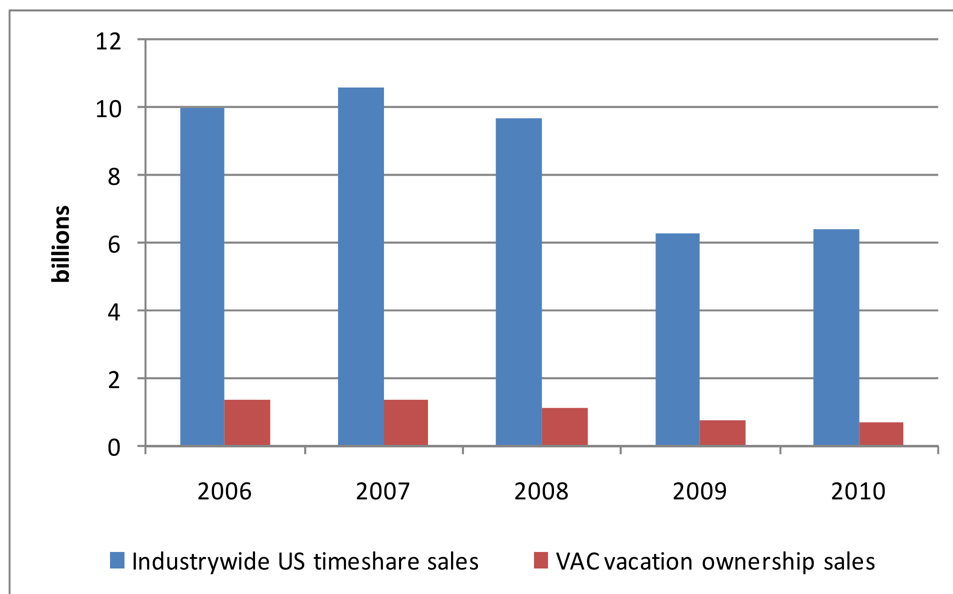
system offering buyers more flexibility. Customers purchase points that can be used at any VAC property worldwide, based on availability. A typical customer pays about $25,000 for a vacation ownership interest, making a 10%-15% down payment. VAC or a third party will provide financing. VAC attempts to minimize delinquencies or defaults through a stringent review of prospective buyers' credit history.

As a result of the economic downturn and concerns about extending financing to new customers, timeshare sales have fallen dramatically in recent years. However, financing revenue, along with property management fees and rental revenue, has provided some level of stability in the recessionary environment. Buyers of timeshares pay an annual maintenance fee, which is used by the property manager (usually Marriott) for property upkeep and repair. Upon completion of a new vacation ownership property, VAC may rent out unpurchased or underutilized units. While net sales of vacation ownership interests declined from more than $1.3 billion in 2006 and 2007 to $692 million in 2010, management fees rose modestly from $221 million in 2008 to $227 million in 2010, and rental revenue increased from $178 million in 2008 to $187 million in 2010. These smaller revenue sources at least provide stable cash flow generation during soft economic periods.

From a peak of $10.6 billion in industrywide US timeshare sales in 2007, property transactions declined at a compound annual rate of more than 15% to $6.4 billion in 2010, according to the American Resort Development association, an industry consortium. The economic recession, declining home values, and higher unemployment were factors in the weaker market. Sales appeared to stabilize in 2010. VAC worldwide sales showed a similar trend (see Exhibit 3).

Exhibit 3 US Industrywide Timeshare Sales vs. VAC Worldwide Ownership Sales



Source: American Resort Development Association, company reports.

In the years leading up to the economic downturn, VAC had been rapidly expanding its global presence and adding properties. These properties would appear to retain a competitive edge through the use of the well-known and largely respected Marriott and Ritz-Carlton brand names and also the close proximity to Marriott-branded resorts. Tours of properties can often be booked

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for visitors at Marriott hotels. Other promotions, including reduced lodging pricing or “free nights,” can also be offered to prospective timeshare buyers willing to attend tours and presentations.

During the downturn, VAC pulled back significantly in marketing and promotion efforts. The company continues to hold a significant inventory of properties, and, as a result, new development efforts were also curtailed. At the end of 1Q2011, VAC had about $1.4 billion in inventory, including almost $630 million of unsold units. In four of five years through 2006, total units grew at a double digit pace (see Exhibit 4). VAC added properties in Europe and Thailand to achieve greater geographic diversification. By expanding its worldwide reach, VAC can lessen the effect of regional economic turmoil as well as offer point buyers more vacation destination opportunities.

Exhibit 4 VAC Properties and Units, 2002–2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Resorts	53	49	51	52	57	61	67	69	71	71
Units	7,571	8,360	9,669	10,334	11,743	12,185	12,707	12,891	12,963	13,045
Unit growth	14.7%	10.4%	15.7%	6.9%	13.6%	3.8%	4.3%	1.4%	0.6%	0.6%

Source: Company reports.

VAC provides financing to customers and then periodically securitizes interests in these loans. As credit markets froze, so did the company’s ability to complete securitizations. Future disruptions could compromise VAC’s ability to provide financing at a reasonable rate. About 42% of Marriott Vacation Club buyers finance through VAC. The average interest rate for Marriott Vacation Club loans in 2010 was about 12.7%, and the average term was just more than ten years. VAC generates fees collecting and servicing loans as well as generating cash from the spread between the rates on customer loans and the securitized debt. In the event of a default, VAC has the right to foreclose and resell the property. Debt related to securitized notes receivable totaled more than $1 billion in 2010. If customers choose to make larger down payments or pay off loans at a faster rate, or if VAC were to extend credit to fewer customers, it would generate reduced financing revenue.

Unlike the future spin-off, MAR has already shown significant operating performance improvement. Occupancy improved to almost 68% in 2010 after bottoming out at just over 64% the previous year, although pricing remains at reduced levels. MAR has added more than 100,000 available rooms over the past four years (see Exhibit 5). Given the slower recovery in the timeshare segment, the higher development costs, and the greater financing risks, one might expect MAR to generate a higher multiple following the separation.

Given the significant inventory of completed units VAC has built up during the downturn, capital expenditures should remain limited for the next several years. Provided defaults remain limited, VAC could be positioned for a stronger recovery as the housing market recovers amidst an eventual sustained economic recovery.

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Exhibit 5 MAR Systemwide Operating Results

	2010	2009	2008	2007	2006
Occupancy	**67.8%**	**64.2%**	**69.5%**	**72.9%**	**73.1%**
ADR	$128.82	$128.92	$146.02	$141.60	$131.92
RevPAR	**$87.28**	**$82.83**	**$101.48**	**$103.19**	**$96.39**
Rooms (year-end count)					
Owned	986	1,785	1,448	1,316	3,156
Leased	10,957	9,277	9,165	7,729	7,610
Managed	268,820	264,533	255,959	252,859	247,989
Franchised	321,293	304,269	279,133	259,297	243,334
Ritz-Carlton	3,085	2,706	2,269	1,707	
Total	**605,141**	**582,570**	**547,974**	**522,908**	**502,089**
(Excludes time shares)					
Year-end pipeline (rms.)	105,000	100,000	125,000	125,000	100,000

Source: Company reports.

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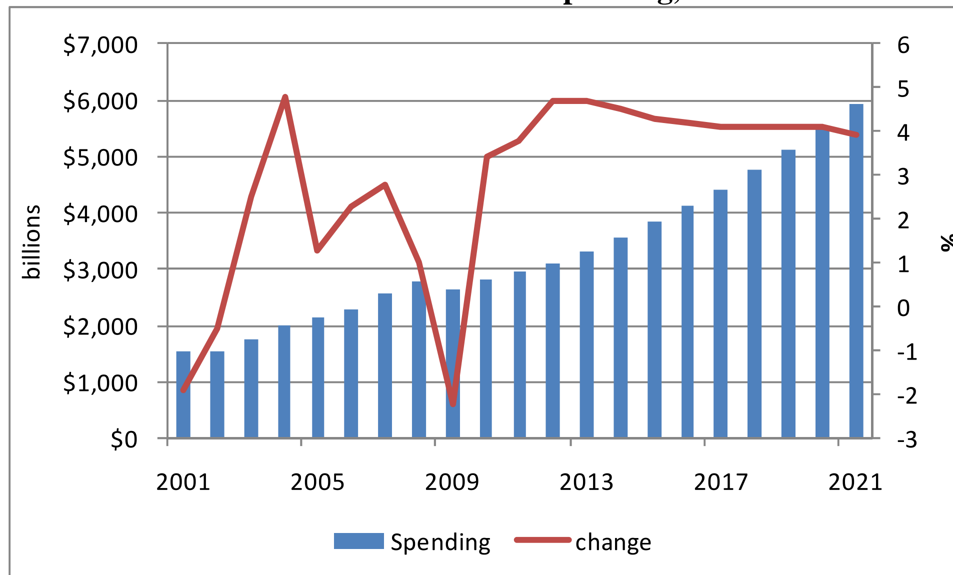
Outlook

Worldwide travel and tourism spending is projected to recover with the rest of the global economy, according to industry leaders and experts. Leisure travel spending is closely correlated with overall economic activity, but as travel and tourism has slowly crept up to account for a greater percentage of personal discretionary spending, it has grown at a faster rate than overall GDP. This trend is predicted to continue. According to the World Trade and Tourism Council (WTTC), leisure travel spending is projected to grow about 4.2% per year through 2021 (see Exhibit 6). Of course this forecast is subject to changes in economic growth. Travel and tourism (including hotels, airlines, and other transportation services) is expected to directly account for 2.9% of global GDP by 2021, up from 2.8% in 2011.

Exhibit 6 Global Travel and Tourism Spending, 2001–2021



Source: World Travel & Tourism Council.

Given the forecast industrywide recovery over the next decade, Marriott should be well positioned to raise occupancy and room rates even as it increases its worldwide room count. Given these trends, revenue, RevPAR and operating margins should all be on the upswing.

The recovery is likely to be slower for timeshare sales. However, given the significant inventory of unsold units, VAC can keep cap-ex limited for several years and continue to generate cash flow through rentals of unused rooms, management fees, and financing revenue. As credit markets improve, unemployment declines, and new home sales strengthen, the market for vacation ownership interests should rebound.

For 2011, MAR has guided for EBITDA of $1.135-1.180 billion, up 9%-13% from 2010, as fee revenue rises about 11%. MAR expects to add about 35,000 new units. RevPAR excluding Japan and the Middle East is projected to grow 6%-8%. Timeshare contract sales are forecast to be modestly lower, but segment sales and services, net of direct expenses, are expected to be up about 5%. MAR investments are projected in the range of $500-$700 million with maintenance cap-ex of $50-$100 million.

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Hotel backlog remains healthy, with ample opportunities for Marriott to grow various chains (both limited- and full-service) in multiple markets globally. Even after adding more than 22,000 rooms in 2010, the pipeline exceeded 105,000 units. With modest price improvement and a bump in utilization, one can safely project a 5% sales CAGR through the next five years barring a double-dip recession. Revenue ex-timeshare and corporate was up more than 7% in 2010 on utilization improvement and room growth. Pricing remained relatively flat and more than 11% below the 2008 peak. Assuming peak pricing ($146.02 daily room rate), pre-recession room utilization (72%), and the addition of 90,000 rooms, annual sales for post-spin MAR could improve significantly on the fees generated in 2007.

Previous separations by Marriott have proven relatively successful for investors. An examination of the March 1998 spin-off of New Marriott (today's Marriott International) from Marriott Services (renamed Sodexho Marriott Services Inc. as it was merged with the North American operations of Sodexho Alliance SA) shows only a limited effect on margins and costs. The transaction involved spinning off the larger hotel, senior living center, and timeshare operations from the smaller, low-margin, limited-growth food services operations. Operating margins topped 9% in the three years following the separation, compared to an 8.4% pro forma operating margin in the year prior to the spin, according to company filings (see Exhibit 7). Note that a strong economy bolstered hotel occupancy and room rates during this period. Corporate expense rose only modestly in this period, from 1.2% in 1997 to a peak of 1.9% in 1999 (resulting from IT upgrades to deal with perceived Y2K concerns as well as certain non-spin-off litigation expenses), returning to 1.2% in 2000.

Exhibit 7 Pre- and Post-Spin Marriott International Operating Results, 1997–2000

in millions	**2000**	**1999**	**1998**	**1997 pro forma**	**1997**
Sales	$10,017	$8,739	$7,968	$7,236	$12,034
Operating profit	$922	$830	$736	$609	$726
Operating margin	**9.2%**	**9.5%**	**9.2%**	**8.4%**	**6.0%**
Corporate expense	$120	$164	$110	$88	$94
Corporate expense as % of sales	**1.2%**	**1.9%**	**1.4%**	**1.2%**	**0.8%**
Pre-tax income	$757	$637	$632	$531	$554
Pre-tax margin	7.6%	7.3%	7.9%	7.3%	4.6%

Source: Company reports. Pro forma 1997 results are extracted from Form 10 filing; actual 1997 results are from 10K prior to separation and include food services operations that were merged into Sodexho.

Similarly, revenue and operating margins for Sodexho improved annually in the three-year period post-split from 1998 through 2000. Corporate expenses as a percentage of sales were essentially flat. In 2001 Sodexho purchased the remaining 52% stake in Sodexho Marriott for $32 per share cash. The stock traded between $24 and $31.38 in the first two months post-separation in 1998.

MAR outperformed the S&P 500 in the years following the separation, as cash flows were used to build out its hotel empire in a period of growing leisure spending. The lower-margin food services operations were no longer a drag on operating results, and management's focus was on making appropriate additions globally to the Marriott brand. MAR shares rose more than 15% in

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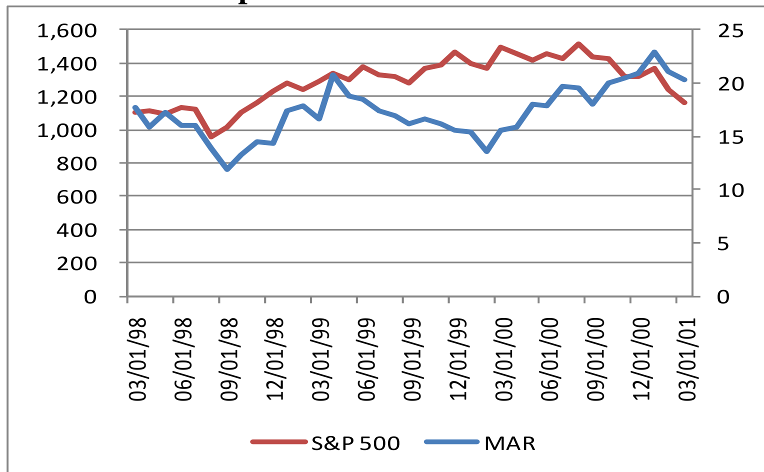
the three-year period from late March 1998 compared to a slightly more than 5% rise for the S&P 500 (see Exhibit 8).

Exhibit 8   Post-Split MAR vs. S&P 500



Source: Thomson ONE.

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Valuation Analysis

While Marriott already trades at a premium to its peer group given its strong brand name and RevPAR, one might expect a higher multiple applied to the faster growth dynamics the company could exhibit post separation from the slower to recover, potentially higher-risk timeshare business. One might argue that the inclusion of the timeshare business is in fact a drag on the share price. Taken separately, however, it is possible that the timeshare business could find favor with investors as a generator of cash even during this particularly weak period for the industry, with potential strong upside as the housing market eventually recovers and consumers reconsider making larger investments in long-term vacation opportunities.

Post-Spin Marriott International: Valuation

Comparables for Marriott International include Wyndham Worldwide Corporation (NYSE: WYN), Starwood Hotels & Resorts Worldwide (NYSE: HOT), and Intercontinental Hotels Group Inc. (NYSE: IHG). On most metrics, MAR trades at a slight premium to peers except HOT (see Exhibit 9). MAR's lower operating margin is largely the result of cost reimbursements, which are direct pass-throughs of expenses for MAR-operated hotels.

Exhibit 9 MAR: Comparable Company Valuations

share prices as of 8/15/2011

	Marriott International (NYSE: MAR)	Intercontinental Hotels Group PLC (NYSE: IHG)	Wyndham Worldwide Corporation (NYSE: WYN)	Starwood Hotels & Resorts Worldwide (NYSE: HOT)
Stock price	$28.72	$17.66	$30.92	$45.83
Market capitalization	$10,135	$5,086	$5,256	$8,570
Net debt	$2,803	$833	$3,635	$2,635
Enterprise Value	$12,938	$5,919	$8,891	$11,205
Debt to equity	1.5	17.1	3.3	1.1
Shareholders' Equity	8,791	347	2,707	9,999
ROE	5.4%	79.5%	13.7%	3.2%
Average, ex. MAR	*32.2%*			
Price/book	1.2x	14.7x	1.9x	0.9x
Average, ex. MAR	*5.8x*			
2010 EPS	$1.15	$0.96	$2.00	$1.25
2011E EPS	$1.39	$1.15	$2.29	$1.71
Price/2011E EPS	20.7x	15.4x	13.5x	26.8x
Average, ex. MAR	*18.6x*			
2012E EPS	$1.77	$1.35	$2.66	$2.37
Price/2012E EPS	16.2x	13.1x	11.6x	19.3x
Average, ex. MAR	*14.7x*			
2-year EPS cagr 2011/2012	24.1%	18.6%	15.3%	37.8%
1H 2011 Operating profit	423	205	390	297
EV/Operating profit (annualized)	15.3x	7.2x	11.4x	18.9x
Average, ex. MAR	*12.5x*			
Operating margin	7.4%	51.8%	19.1%	10.9%
1H 2011 EBITDA	499	138	480	432
EV/EBITDA (annualized)	13.0x	10.7x	9.3x	13.0x
Average, ex. MAR	*11.0x*			
EBITDA margin	8.7%	34.8%	23.5%	15.9%
Average, ex. MAR	24.7%			
2011 EBITDA	1,150	637	962	996
EV/EBITDA	11.3x	9.3x	9.2x	11.3x
Average, ex. MAR	9.9x			
2012 EBITDA	1,346	723	1,032	1,172
EV/EBITDA	9.6x	8.2x	8.6x	9.6x
Average, ex. MAR	8.8x			

Source: Thomson ONE, company reports, *The Spin-Off Report* estimates.

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The higher valuation multiples for MAR and HOT could be attributed to several factors, including the stronger brand identity of the MAR and HOT hotel franchises, higher average room rates as a result of "higher quality" brands, and analysts' higher earnings growth assumptions. The stronger growth projections likely come from healthier unit pipelines as well as from a greater ability to raise rates in an improving economic environment. Like MAR, WYN has a sizable percentage of sales generated from its timeshare business. MAR has a significantly lower operating margin than the peer group, in large part due to the drag from the timeshare business. When considering a fair value estimate for post-spin MAR, one might utilize comparable and historical multiples to expected future EBITDA or based on RevPAR and available room ratios (see Exhibit 10).

Exhibit 10 MAR: Comparable Companies RevPAR

	Marriott International (NYSE: MAR)	Intercontinental Hotels Group PLC (NYSE: IHG)	Wyndham Worldwide Corporation (NYSE: WYN)	Starwood Hotels & Resorts Worldwide (NYSE: HOT)
Most recent reported RevPAR	$91.14	$62.79	$31.55	$112.16
Available rooms	633,704	652,456	633,686	312,374
Annualized REVPAR*AR (in millions)	$21,081	$14,953	$7,297	$12,788
EV/Annualized REVPAR*AR	0.61	0.40	1.22	0.88

Source: Company reports.

MAR management has guided for 9%-13% EBITDA growth in 2011 based on the addition of 35,000 units and RevPAR expansion (ex-Japan and Middle East) of 6%-8%. One might assume, based on essentially flat timeshare sales, that the bulk of EBITDA growth will be generated by the hotels segment. Exhibit 11 displays two fair value estimate calculations: (1) utilizing 2011 EBITDA projections based on management guidance; (2) utilizing RevPAR and available rooms to establish the value of company-operated and franchised assets.

The first valuation method results in a fair value estimate of $29.21 per share. An enterprise value of $11.7 billion is reached by using 2010 hotels segment EBITDA of $1.126 billion and assuming 11% growth in 2011 (the mid-point of management guidance), then attaching 85% of 2010 corporate expenses to the hotels segment (using corporate expenses as a percentage of segment revenue), then adding $50 million in royalty fees due from VAC as a result of the spin-off agreement (which will be paid beginning in 2012) and applying a multiple of 11x, in line with HOT (the closest comparable). Stripping out debt attached to VAC in the Form 10 leaves MAR with about $1.4 billion in net debt. Valuations will be adjusted when the distribution and capital structure are finalized in revised SEC filings. Assuming a constant tax rate, the EPS projection derived from this model would be about $1.74. Based on a $31 fair value estimate, the P/E is about 18x, close to the peer average. Without the drag of the weaker-performing timeshare segment, operating margin improves to 10.5%-11% (from 7.4% generated by pre-spin MAR in 1H 11), according to this model.

The second method has a clear drawback: it treats company-owned, company-operated, and franchised units equally. It can, however, offer investors an easy way to consider the value of the hotel operations as a separate entity. Given the hefty contribution timeshares make to WYN results, that company is excluded as a comparable. The fair value estimate is based on daily room revenue, which is calculated by multiplying RevPAR (most recently reported revenue per

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available room) by available rooms. HOT's EV/annualized room revenue was 0.84, while IHG's EV/annualized room revenue was 0.4. These data points establish a fair value estimate range of $19-$45 per share, for an average of $33.71 per share.

Exhibit 11 MAR: Comparable Fair Value Calculation

in millions

2010 Segment EBITDA	**$1,126**			
2011 EBITDA (11% growth)	**$1,250**			
Corporate expenses	$276			
2011 Segment EBITDA minus corp. expenses	**$1,015**			
Royalty fee from VAC	**$50**			
2011 projected EBITDA	**$1,065**			
Multiple	11			
Enterprise value	**$11,718**			
Net debt	$1,406			
Market capitalization	$10,312			
Share count	353			
Fair value per share	**$29.21**			
REVPAR	**$91.14**			
Available rooms	**625,000**			
Days	365			
Multiple	0.4	0.64	0.88	
Enterprise value (in millions)	**$8,317**	**$13,306**	**$18,296**	
Debt	$1,406	$1,406	$1,406	
Market capitalization	$6,911	$11,900	$16,890	
Share count	353	353	353	
Fair value per share	**$19.58**	**$33.71**	**$47.85**	**$33.71**
Average	**$31.46**			

Source: Company reports, *The Spin-Off Report* estimates, Thomson ONE.

Averaging the fair value per share estimate derived from each methodology results in an estimate of $31.46 per share, notably above the current share price for MAR.

Marriott Vacations Worldwide: Valuation

Without any true comparables and no real historical trading ranges to consider, generating a fair value estimate for VAC proves more challenging. One may consider the May 2011 acquisition by Cerberus Capital Management of timeshare operator Silverleaf Resorts Inc. for $2.50 per share cash, which equated to around 9x trailing twelve-month EBITDA (see Exhibit 12).

Exhibit 12 Cerberus Timeshare Acquisition

in thousands

Cash per share	$2.50
SVLF shares outstanding	37,769
Cash	$94,423
Net debt	$373,441
Enterprise value	**$467,864**
2010 EBITDA	**$51,600**
EV/EBITDA	**9.1x**

Source: Thomson One, company reports, *The Spin-Off Report* estimates.

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One might also consider the multiple applied to the remaining publicly traded timeshare operator Bluegreen Corporation (NYSE: BXG) (see Exhibit 13). But in the cases of both BXG and Silverleaf, these valuation multiples fail to reflect the size, breadth, and global reach of VAC's operations, as well as brand equity and the affluence/credit quality of the potential customer base.

Exhibit 13 VAC: Comparable Company Valuation

	Bluegreen Corporation (NYSE: BXG)
Stock price	$2.74
Market capitalization	$86
Net debt	$723
Enterprise Value	$809
Debt to equity	2.5
Sales 1H 2011	94
Net Income Margin	2.7%
Shareholders' Equity	320
ROE	3.2%
Price/book	0.3x
1H 2011 Operating profit	21
EV/Operating profit (annualized)	19.5x
Operating margin	22.0%
1H 2011 EBITDA	24
EV/EBITDA (annualized)	8.3x
EBITDA margin	26.0%

Source: Company reports, *The Spin-Off Report* estimates, Thomson ONE.

The first approach to arriving at a valuation for VAC would be to consider modest 5% EBITDA growth to a level of the near trough 2010 results. This method assumes VAC timeshare sales remain relatively flat while revenue grows modestly due to slightly improving rental, financing, and management fees. Assuming EBITDA improves to $222 million (reduced to $172 million based on the $50 million royalty fee to the parent) and applying a 10x multiple (a premium to the Silverleaf takeout multiple given the better VAC timeshare portfolio), considering net debt of $250 million (half of the intended available credit VAC will utilize to fund receivables and ongoing liquidity) and a share count of 353 million (if the distribution is 1:1; the estimate will be adjusted when the share distribution and capital structure is finalized in revised SEC filings), a fair value estimate of $4.16 per share is reached (see Exhibit 14).

A note about debt: Most of VAC's debt is tied to the financing of its vacation ownership sales. Periodically, VAC securitizes interest on these loans, which appear as non-recourse securitized notes receivable on the balance sheet, passing along VAC's exposure to defaults. As this debt is secured by the notes receivables, one may consider excluding it from the enterprise value calculation. In addition, as the debt collector, VAC can also resell the vacation ownership interests following foreclosure. Financing revenue (cash flow) can decline in periods of larger defaults. The securitized loans have triggers when delinquencies fail to meet agreed-upon parameters. In this event, VAC's excess spread on the loans is reduced as interest is redirected to

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pay down principal. According to company filings, $6 million and $17 million in cash flow were redirected in 2010 and 2009, respectively, due to performance triggers.

While the first valuation methodology provides a reasonable fair value estimate given the current challenging industry conditions, it is worth considering the potential longer-term recovery in timeshare sales and the potential upside to the stock price. If one assumes that timeshare sales recover to the 2006 and 2007 level of $1.35 billion (up from $692 million in 2010) and that costs tied to timeshare sales (marketing and SG&A) remain at a constant percentage of revenue, EBITDA could eventually recover to $378 million. If one uses this EBITDA level, and applies a 8x multiple (to reflect the longer time horizon to return to a higher sales level, likely two years or more and the risk that a complete recovery never takes place), and makes the same debt and share count assumptions, a fair value estimate of $7.86 per share is reached (see Exhibit 14). It is worth noting that if one maintains a 10x multiple on the $378 million of EBITDA, the share price estimate is $10. Investors could consider this as a peak level estimate.

Exhibit 14 VAC: Fair Value Estimate

in millions, except per share	2010 Plus 5% Growth	Peak case
EBITDA	$172	$378
Multiple	10	8
Enterprise value	$1,720	$3,024
Net debt	$250	$250
Market capitalization	$1,470	$2,774
Share count	353	353
Fair value per share	$4.16	$7.86

Source: Company reports, *The Spin-Off Report* estimates.

For investors concerned about the ongoing health of the timeshare operations, a look at free cash flow should provide a certain level of relief. VAC's capital expenditures total only about $6 million per quarter (for technology investment or building sales and ancillary facilities at resorts). In 2010 about $359 million in free cash flow (cash flow from operations minus capital expenditures) was generated, with an additional $53 million in 1Q2011 despite anemic sales figures. Capital expenditures could rise modestly following the spin-off due to technology upgrades required to meet new accounting demands as a standalone company.

A sum-of-the-parts calculation using these fair value estimates – $31.46 per share for Marriott International and $4.16 for Marriott Vacations Worldwide – generates a pre-spin valuation for MAR of $36 per share (a rounded estimate). Given the modest upside to the current share price, the stock is recommended for purchase pre-spin. Notably, the recent pullback in the stock price following weaker guidance from management accompanying the 2Q2011 earnings release, coupled with challenging market conditions, is largely the reason for this attractive entry point. MAR lowered guidance modestly following 2Q results as it raised cost expectations related to international expansion and timeshare rentals. Revenue guidance was tightened to the lower end of the previous range.

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Conclusion

The spin-off of Vacations Worldwide from Marriott International has the potential to remove a near-term drag on MAR's share price. The timeshare business has been much slower to recover from the global recession, margins are low, and risks related to developing properties are higher. As a result, MAR's operating margins trail those of its peers, and growth projections are well below those for industry leader Starwood Hotels. In addition, MAR will generate annual royalty fees from VAC post-spin to allow VAC to continue to market products under the Marriott and Ritz-Carlton brands.

Post-spin, MAR's growth prospects should improve, margins could widen, the valuation multiple to be considered by investors will likely expand, and revenue generated from the licensing agreement should partially offset the timeshare segment EBITDA contribution. As a result, one can reasonably argue that the fair value estimate for MAR could actually rise following the separation. Utilizing a variety of metrics, one can easily arrive at an estimate of $31 per share.

Alternatively, VAC considered as a separate entity may have value for certain investors. Despite the extremely weak end markets, VAC is generating cash because of its reduction in capital expenditures essentially to maintenance levels. VAC continues to generate steady management fees and rental and financing revenue. In addition, investors would have the opportunity to benefit from share appreciation if and when the timeshare market recovers (not likely before a larger housing market recovery and falling unemployment levels). As a result, immediately post-spin, while the stock may initially trade around $4 per share (assuming a 1:1 share distribution), one can easily see the potential for the stock to rise to $8 per share if timeshare sales simply recover towards 2006-7 levels.

While risks include the VAC's likely inability to securitize loans if credit markets freeze, the potential that increased defaults could significantly reduce financing cash flow, and eventual over-development of properties overwhelming slow demand recovery, these issues may be given less weight by investors, thus presenting a post-spin buying opportunity. A price below $4 per share for VAC post-spin potentially offers that opportunity. Given a current weak timeshare outlook, a fair value estimate around 75-80% of book seems justified. Book value is presently comprised largely of inventory (unsold units and undeveloped properties) and the spread on notes receivable over debt.

Based on a sum-of-the-parts fair value estimate of $36 per share, MAR is recommended for purchase prior to the separation.

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Exhibit 15 Marriott Vacations Worldwide: Consolidated Income Statement

in millions	2010	2009	2008
Revenue	**$1,584**	**$1,596**	**$1,916**
Product sales, net	$635	$743	$1,104
Resort management	$227	$213	$221
Financing	$188	$119	$82
Rental	$187	$175	$178
Other	$29	$34	$27
Cost reimbursements	$318	$312	$304
Expenses	**$1,425**	**$1,544**	**$1,855**
Cost of products	$247	$314	$430
Marketing and sales	$344	$413	$604
Resort management	$196	$170	$192
Financing	$44	$48	$56
Rental	$194	$199	$170
General and administrative	$82	$88	$99
Cost reimbursements	$318	$312	$304
Adjusted operating income	**$159**	**$52**	**$61**
Restructuring	$0	$44	$19
Impairment	$15	$623	$44
Operating income	**$144**	**($615)**	**($2)**
Gains and other income	$21	$2	
Interest expense	($56)		
Equity in losses (earnings)	($8)	($12)	$11
Non-operating impairment reversals	$11	($138)	
Pre-tax income	$112	($763)	$9
Income tax	($45)	$231	($25)
Effective tax rate	40.2%	30.3%	277.8%
Net income	$67	($532)	($16)
Non-controlling interests		$11	$25
Net income attributable to Marriott Vacations	**$67**	**($521)**	**$9**
Adjusted operating margin	10.0%	3.3%	3.2%
Operating margin	9.1%	-38.5%	-0.1%
Pre-tax margin	7.1%	-47.8%	0.5%
Net margin	4.2%	-32.6%	0.5%

Source: Company reports, *The Spin-Off Report* estimates.

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Exhibit 16 Marriott Vacations Worldwide: Consolidated Balance Sheet

	in millions	2010	2009
ASSETS	**Cash and equivalents**	**$26**	**$32**
	Restricted cash	$66	$34
	Receivables, net	$100	$101
	Notes receivable	$1,254	$414
	Inventory	$1,412	$1,377
	Retained interests in securitized notes		$267
	PP&E, net	$310	$358
	Deferred taxes	$333	$318
	Other	$141	$135
	Total assets	**$3,642**	**$3,036**
LIABILITIES	Accounts payable	$87	$81
	Advance deposits	$48	$20
	Accrued liabilities	$92	$150
	Deferred revenue	$56	$58
	Payroll and benefits liability	$72	$56
	Liability for Rewards loyalty program	$220	$255
	Deferred compensation	$64	$61
	Debt	$1,022	$59
	Other	$77	$73
	Total liabilities	**$1,738**	**$813**
	Divisional equity	**$1,904**	**$2,223**
	Total liabilities and equity	**$3,642**	**$3,036**
	Net debt	**$996**	**$27**
	Debt to total capital	34.9%	2.6%
	Book value per share*	$5.40	$6.30
	ROE	3.2%	-23.4%
	ROA	2.0%	-17.2%

*based on 352.9 million shares

Source: Company reports, *The Spin-Off Report* estimates.

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Exhibit 17 MAR-VAC: Free Cash Flow

	2008	2009	2010	1Q 11
Marriott International				
Cash Flow From Operations	$641	$868	$1,151	$139
Capital Expenditures, net	$357	$147	$307	$62
Free cash flow	$284	$721	$844	$77
Marriott Vacations Worldwide				
Cash Flow From Operations	($392)	$177	$383	$59
Capital Expenditures, net	$89	$28	$24	$6
Free cash flow	($481)	$149	$359	$53
MAR Minus VAC				
Cash Flow From Operations	$1,033	$691	$768	$80
Capital Expenditures	$268	$119	$283	$56
Free cash flow	$765	$572	$485	$24

Source: Company reports, *The Spin-Off Report* estimates.

Exhibit 18 VAC: Resorts by Destination

	Resorts	Units
Continental United States	47	8,942
Hawaii	9	1,706
Caribbean	7	1,059
Europe	5	924
Asia	3	332
Total	71	12,963

Source: Company reports

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