

Letter to Shareholders



Arne M. Sorenson
President and Chief Executive Officer

J.W. Marriott Jr.
Executive Chairman and Chairman of the Board

2018 was a pivotal year for Marriott International as we focused on successfully completing the significant work of the integration of Starwood Hotels & Resorts while also delivering exceptional results. The strategy behind the merger was realized in numerous ways this year, including improved cost efficiencies for our hotel owners, higher guest satisfaction and a more valuable loyalty program that will be a key to our future growth.

Since we closed on the acquisition in September 2016, we have worked diligently to integrate Starwood's operations, sales, marketing, hotel development and finance organizations and systems. That work is now largely done. As a result,

we have enhanced guest satisfaction by applying Marriott's deep operational know-how to legacy-Starwood hotels. Operational costs for both legacy-Marriott and legacy-Starwood hotels were reduced as we captured synergy cost savings at properties, reduced loyalty program charge-out rates across the system and realized procurement savings. We also meaningfully lowered general and administrative expenses.

In August, we unified our three loyalty brands into one program and then in February 2019, we introduced the [Marriott Bonvoy™](#) name, replacing Marriott Rewards®, The Ritz-Carlton Rewards® and Starwood Preferred Guest® (SPG). Marriott Bonvoy

is a travel program offering members a global portfolio of extraordinary hotel brands, unforgettable experiences on Marriott Bonvoy Moments and rich benefits. Taken together with our powerful co-branded credit cards, Marriott Bonvoy is a critical differentiator, offering members unprecedented choices, opportunities and inspiration to travel and, for our owners, outstanding performance.

Our Integration

The Starwood transaction is unlocking tremendous value for our customers, owners and shareholders. As one of the largest transactions ever in the hospitality industry, integration into one unified company has been an understandably complex process. While Marriott and Starwood were both hospitality companies, the back-end systems that supported our businesses — such as property management, reservations and loyalty systems — were very different.

The integration of our loyalty programs involved the creation or update of 1.5 million property webpages and the migration of large numbers of member data records. Following the cutover to the new system, some loyalty members discovered errors in their online statements, and we experienced unexpectedly high customer service call volumes as we reconciled these issues. Call volume has returned to normal.

At the end of November, we disclosed a data security incident involving the legacy-Starwood guest reservation system that involved an estimated 383 million guest records. Upon discovery, we coordinated closely with law enforcement authorities, quickly notified our guests, set up an extensive support system to help address issues with customers and finalized the transition to Marriott's new, unified reservation system. We also accelerated planned enhancements to our information technology systems and security.

Marriott is a company that prides itself on taking care of our guests in every aspect of their stay. In these events, we did not meet the high standards that our guests expect and deserve. We deeply regret these incidents. Our management team and board are focused on both resolving any remaining concerns and, more importantly, ensuring that in the future we continue to exemplify the Marriott standard of excellence.

Our Numbers

In 2018, we produced terrific financial results. Full year 2018 adjusted diluted earnings per share totaled \$6.21, a 48 percent increase over 2017 adjusted results. Full year 2018 adjusted net income totaled \$2.2 billion, a 38 percent increase over prior year adjusted results.*

Systemwide constant dollar revenue per available room (RevPAR) increased 2.6 percent worldwide in full year 2018 and operating margins for company-operated hotels rose 40 basis points. Together with owners and franchisees, we opened nearly 500 hotels in 2018, our highest number ever in a single year. That's more than 80,000 rooms, more than 85 percent of which were new construction or adaptive reuse. We expanded our global footprint to more than 1.3 million rooms in 130 countries and territories. Last year, Marriott brands debuted in Finland, New Zealand, Lithuania, Mali and Ukraine.

Positioned to Win

The Starwood acquisition enhanced Marriott's already significant competitive advantages, positioning us for long-term success. The strength of our portfolio is defined by our 30 distinct brands across more than 6,900 properties, providing an option for every traveler and travel occasion.

Marriott Bonvoy members now earn, on average, 20 percent more points per dollar spent with the

*Adjusted results exclude merger-related costs and charges, cost reimbursement revenue, reimbursed expenses, the provisional tax charge resulting from the enactment of the U.S. Tax Cuts and Jobs Act of 2017, and the gain on the disposition of the company's ownership interest in Avendra. Please see page 99 for further information on these financial measures, including a reconciliation of adjusted financial measures to the corresponding generally accepted accounting principles (GAAP) measures.

integration of our three loyalty programs. During 2018, we added, on average, 1.5 million members per month, reaching nearly 125 million members at year-end. Our members are highly engaged. In 2018, reward redemptions increased 8 percent year-over-year and room nights sold to members increased 6 percent, both reaching record levels. Marriott Bonvoy members contributed roughly half of our room nights in 2018.

Of course, we are committed to continually driving preference for our brands. Marriott's outstanding operating strength and commitment to service is improving guest satisfaction. We removed 1.7 percent of rooms in 2018, enhancing overall system quality, while still growing our system by nearly 5 percent, net. The number of hotels undergoing renovations under our most significant brands, Marriott and Sheraton, is accelerating and delivering significant improvement in economic returns and intent-to-recommend scores. The RevPAR index at Marriott Hotels is up 7.2 percent for renovated hotels in North America twelve months post renovation, while Sheraton's global RevPAR and occupancy indexes both reached above fair share for the first time in many years.

As a result of the growing number of hotels in our system, Marriott has increased resources available for innovation, technology, sales and marketing. These growing resources position us to compete better than ever against traditional lodging operators, as well as non-traditional industry disruptors.

Owners are selecting our flags for new development because our brands deliver some of the highest revenue premiums and owner returns in the industry. We signed agreements for a record 125,000 rooms in 2018, driving our development pipeline to more than 478,000 rooms at year-end 2018. According to STR industry data, Marriott brands represented 7 percent of worldwide

market share of open rooms in 2018 and a remarkable 20 percent of industry rooms under construction. Owners not only appreciate the significant RevPAR premiums of many of our brands, but also the meaningful property-level profit improvements from cost synergies and productivity gains we've made in the last few years.

Marriott's asset-light business model, focused on managing and franchising the finest brands, is delivering rising returns on invested capital. It also provides significant scale and operating leverage such that modest growth in RevPAR combined with unit growth translates into significant increases in earnings, cash flow and returns to shareholders. Marriott returned nearly \$3.4 billion to shareholders in share repurchases and dividends in 2018 and over \$7.0 billion since the acquisition of Starwood.

As we complete the integration of Starwood, we are truly appreciative of the extraordinary achievements of our associates throughout the company who managed both the expected and unexpected challenges of the integration, while still taking care of our guests and each other. We are extremely proud of them.

Our World

As we innovate and grow, we cannot lose sight of our responsibility to serve the world. Last year, with the completion of the first full year operating with our sustainability and social impact platform, [*Serve 360: Doing Good in Every Direction*](#), we made an impact — on our business, the environment, and the communities where we operate. We announced plans to remove disposable plastic straws and stirrers from our properties worldwide by July 2019, putting us on a path to eventually eliminate the use of more than 1 billion plastic straws and a quarter of a billion stirrers per year. We also announced a plan to replace small toiletry

bottles with larger, in-shower dispensers in many of our hotels in North America. The move will enable Marriott to remove more than 35 million small plastic toiletry bottles from landfills annually in support of our 45 percent waste-to-landfill reduction goal set for 2025.

We reached a milestone in combating human trafficking, a form of modern slavery where hotels are often on the frontlines. Our mandatory human trafficking awareness training has reached 500,000 hotel workers globally, empowering them to recognize and respond to the signs of this horrific crime. Fostering a safe and welcoming experience in our hotels is at the heart of our business. This training helps us to do just that.

In Closing

Throughout our rich history, our company has thrived by creating opportunities — for our guests,

our hotel owners, our shareholders, our associates and the local neighborhoods where we operate. We have a legacy we are proud of and a future that has never been brighter. We are grateful for the privilege to lead this great company as we strive to make a lasting, positive difference in the world.

We look forward to welcoming you soon to one of our properties.



J.W. "Bill" Marriott Jr.

Executive Chairman and Chairman of the Board



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