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Volume 6
Issue 2 *Hospitality Review Volume 6/Issue 2*

Article 5

1-1-1988

An Analysis of Stock Market Performance:The Dow Jones Industrial Average and the Three Top Performing Lodging Firma: 1982-1988

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Abstract

In their dialogue - An Analysis of Stock Market Performance: The Dow Jones Industrial Average and the Three Top Performing Lodging Firms 1982 – 1988 - by N. H. Ringstrom, Professor and Elisa S. Moncarz, Associate Professor, School of Hospitality Management at Florida International University, Professors Ringstrom and Moncarz state at the outset: "An interesting comparison can be made between the Dow Jones lndustrial Average and the three top performing, publicly held lodging firms which had $100 million or more in annual lodging revenues. The authors provide that analytical comparison with Prime Motor Inns Inc., the Marriott Corporation, and Hilton Hotels Corporation."

"Based on a criterion of size, only those with $100 million in annual lodging revenues or more resulted in the inclusion of the following six major hotel firms: Prime Motor Inns, Inc., Marriott Corporation, Hilton Hotels Corporation, Ramada Inc., Holiday Corporation and La Quinta Motor Inns, Inc.," say Professors Ringstrom and Moncarz in framing this discussion with its underpinnings in the years 1982 to 1988.

The article looks at each company's fiscal and Dow Jones performance for the years in question, and presents a detailed analysis of said performance. Graphic analysis is included. It helps to have a fairly vigorous knowledge of stock market and fiscal examination criteria to digest this material. The Ringstrom and Moncarz analysis of Prime Motor Inns Incorporated occupies the first 7 pages of this article in and of itself.

Marriot Corporation also occupies a prominent position in this discussion. "Marriott, a giant in the hospitality industry, is huge and continuing to grow. Its 1987 sales were more than $6.5 billion, and its employees numbered over 200,000 individuals, which place Marriott among the 10 largest private employers in the country," Ringstrom and Moncarz parse Marriott's influence as a significant financial player. "The firm has a fantastic history of growth over the past 60 years, starting in May 1927 with a nine-seat A & W Root Beer stand in Washington, D.C.," offer the authors in initialing Marriot's portion of the discussion with a brief history lesson. The Marriot firm was officially incorporated as Hot Shoppes Inc. in 1929.

As the thesis statement for the discussion suggests the performance of these huge, hospitality giants is compared and contrasted directly to the Dow Jones Industrial Average performance. Reasons and empirical data are offered by the authors to explain the distinctions. It would be difficult to explain those distinctions without delving deeply into corporate financial history and the authors willingly do so in an effort to help you understand the growth, as well as some of the setbacks of these hospitality based juggernauts.

Ringstrom and Moncarz conclude the article with an extensive overview and analysis of the Hilton Hotels Corporation performance for the period outlined. It may well be the most fiscally dynamic of the firms presented for your perusal. "It is interesting to note that Hilton Hotels Corporation maintained a very strong financial position with relatively little debt during the years 1982-1988 ... the highest among all companies in the study," the authors paint.

Keywords

N. H. Ringstrom, Elisa S. Moncarz, An Analysis of Stock Market Performance: The Dow Jones Industrial Average and the Three Top Performing Lodging Firms 1982 – 1988, Prime Motor Inns Inc., Hilton Hotels Corporation, Marriott Corporation, Revenue, Fiscal, FIU

An Analysis of Stock Market Performance: The Dow Jones Industrial Average and the Three Top Performing Lodging Firms 1982 – 1988

by
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An interesting comparison can be made between the Dow Jones Industrial Average and the three top performing, publicly held lodging firms which had $100 million or more in annual lodging revenues. The authors provide that analytical comparison with Prime Motor Inns, Inc., the Marriott Corporation, and Hilton Hotels Corporation.

In an attempt to determine how selected hospitality stocks had fared since the beginning of the Bull Market until more recent times, a study was undertaken. Obviously a detailed examination of all hospitality firms was not feasible for the period in question. The field was thus narrowed down to only selected hotel companies. Based on a criterion of size, only those with $100 million in annual lodging revenues or more resulted in the inclusion of the following six major hotel firms: Prime Motor Inns, Inc., Marriott Corporation, Hilton Hotels Corporation, Ramada Inc., Holiday Corporation and La Quinta Motor Inns, Inc.

The study was commenced by collecting data on the closing stock prices for each company on the last day of each month for the period July 1982–January 1988 (all amounts were rounded to the nearest dollar). Preliminary analysis indicated that of these six firms, the three best performers were Prime Motor Inns, Marriott, and Hilton. More detailed study was thus limited to these last named companies.

The detailed performance of each firm's stock prices can be observed in the appropriate chart for that company. Short-term trend movements during selected time periods were observed both upward and downward. Then appropriate percentage changes, increases, or decreases were obtained for each period.

These percentage changes for each company were then matched against comparable percentage changes in the Dow Jones Industrial Average (DJIA) period-for-period. Observations could thus be made as to whether the firm outperformed the Dow during a given period

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or if in fact the company under-performed when matched against the DJIA.

Details of such comparisons can be found within the appropriate company analysis.

Prime Motor Inns, Inc.

"Beginning in the mid-1950s as single-family home builders on the East Coast, the firm (with Peter E. Simon, chairman, and three other co-founders) entered the lodging industry in the 1960s after convincing Howard Johnson that they could build motor lodges for his expanding empire at a lower cost. The quartet found out later that they also could operate lodging facilities more efficiently as well."[1]

Prime's growth, until relatively recently, has been both internal as a builder and operator of motor inns and associated restaurants and cocktail lounges under franchise from a variety of national lodging chains and external through a series of major acquisitions. Its success in construction lay in its ability to build motor inns at a lower cost than its competitors.

The firm's early focus was on properties in the Northeast, primarily in densely populated commercial areas and industrial parks near major highways and airports, convenient locations for corporate seminars, training sessions, and conferences.

Prime chose as its primary target the mid-price lodging market, centering on the corporate and business traveler as a more stable revenue base. Indeed, the business and commercial traveler represents the largest single component of Prime's customer base.

During the time under study Prime has had the over-riding, primary goals of rapid expansion and growth. Growth was achieved primarily through the acquisition of franchised or leased properties under different lodging brand names.

Although the company has constructed a number of motor inns for itself, it is also a very astute buyer of "proven" properties. Operating under a diversity of brands also means a broader market. Heavy emphasis has been placed on marketing, with promotion efforts primarily at the local level. This is a less costly strategy than building a brand name or constructing new and "unproven" properties. When the company does build for itself, it chooses to do so in proximity to other properties it owns, and in areas it knows, recognizing that demand for its product presently exists.

There has been some geographic concentration, particularly in the Northeast, Florida, and California. Prime now has units in 24 states.

Revenues Increase

In the period under study the company experienced an overall increase in revenues of 348 percent. Year-to-year increases were recorded: 1984, 43 percent; 1985, 156 percent; and 1987, 23 percent. Revenues for fiscal 1986 were virtually unchanged, registering only a slight decline. Revenue increases were achieved by an increase in number of rooms available, increases in average room rates, and the sale of existing inns.

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A steady increase in earnings per share (EPS) has also occurred during this period year-to-year. The overall increase in EPS is 218 percent (1983-1987). Details of the changes in revenues and EPS are shown below:

Exhibit 1
Five-Year Summary[2]

Fiscal Year	Revenues	EPS*
1987	301,093,000	1.75
1986	244,988,000	1.35
1985	245,734,000	.96
1984	95,952,000	.67
1983	67,197,000	.55
Growth	+348%	218%

* Per share data has been adjusted to reflect 4:3 stock splits in March 1986 and March 1985 and a 3:2 stock split in June 1983.

Prime Motor Inns, Inc., was organized under Delaware law in 1968, and the firm went public in 1969. Peter E. Simon, chairman and chief executive officer, and three other co-founders, Melvin S. Taub, Samuel Brodie, and Herbert Kay, still constitute the top management of Prime Motor Inns today. Its executive offices are located in Fairfield, New Jersey.

The company primarily owns, leases, and operates motor inns and hotels and acts as general contractor for the construction of motor lodges, restaurants, and cocktail lounges. The company selects sites and develops and constructs new motor inns as well as additions to existing motor inns for itself and other companies.

"Prime's principal business is the operation of 107 motor inns and hotels which consist of 62 Howard Johnson lodging facilities, 22 Holiday Inns, 13 Ramada Inns, five Sheraton Inns, two Days Inns, one Marriott Hotel, and two independent motor inns. In addition, Prime manages 22 motor inns owned or leased by others. A subsidiary of the company is the franchisor of 408 Howard Johnson lodging facilities."[3]

The variety of franchises offers Prime guest flexibility and opportunity in marketing and site selection, as well as precluding the need for large expenditures in "brand" promotion.

Stock Market Prices Increase

There was an astonishing increase in Prime's market prices from July 1982 to January 1988 of some 640 percent. With a few exceptions, Prime continued to move rapidly ahead during this time in its search for expansion opportunities. The growth in market prices was accompanied by strong increases in both revenues and EPS.

The Dow Jones Industrial Average during the same period of study was only up some 142 percent. In other words, Prime's increases were some 4.5 times those of the Index itself (See Exhibit 2).

Exhibit 2
Dow Jones Industrial Average

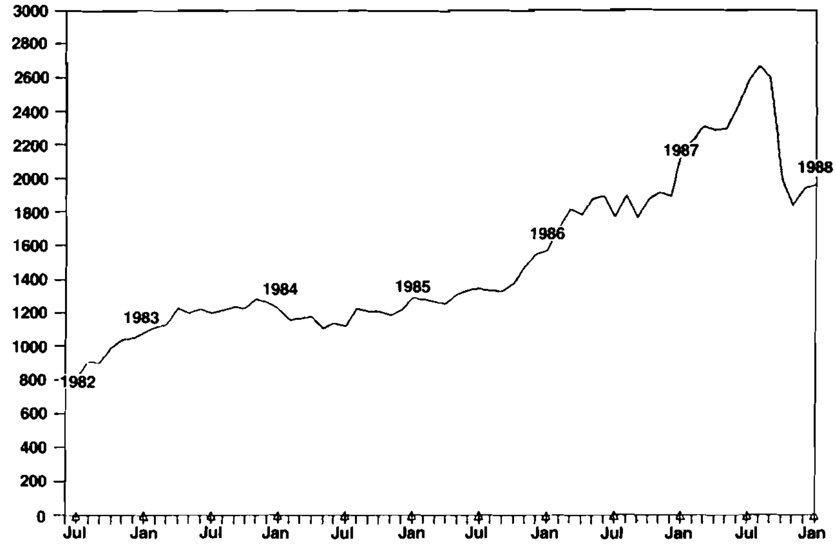
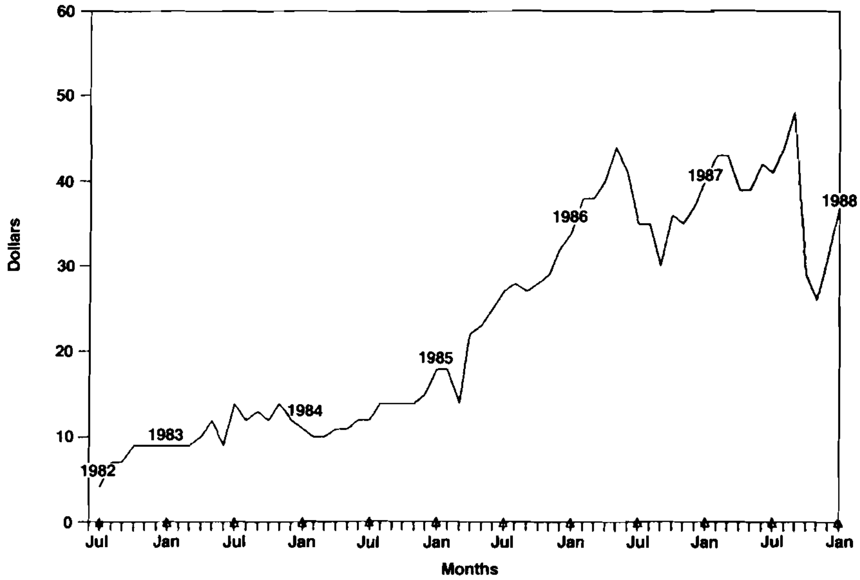


Exhibit 3
Prime Motor Inns, Inc.*



* Adjusted for 4:3 stock splits in March 1986 and March 1985 and a 3:2 stock split in June 1983.

Purchase of existing "proven" properties under franchise means little lost time in revenue production. Prime's overall growth and expansion centers largely around the acquisition of, first, American Motor Inns, a major Holiday Inn franchisee, in 1984 and, second, Howard Johnson Motor Lodges in 1985.

Exhibit 4
Prime Outperforms the DJIA
July 1982 – January 1988

	DJIA Percentage Change	Prime Percentage Change
July 1982 – Nov. 1983	+58%	+180%
Feb. 1984 – Feb. 1985	+11%	+ 80%
Feb. 1985 – May 1986	+46%	+144%
Sept. 1986 – Sept. 1987	+47%	+ 60%
Nov. 1987 – Jan. 1988	+ 7%	+ 42%

Specific Periods Reveal Trends

• **July 1982 – 1983.** In this period Prime registered a remarkable increase in its stock price of 180 percent, or over three times that of the Dow increase of 58 percent. The lodging industry in general had some record gains in the earlier part of the period resulting from the "rush to buy consumer stocks in the rally that began August 1982."[4]

Although later there were some declines generally in occupancy rates, Prime, because of its "protected" market, was less affected and revenues continued to rise. "Prime's business orientation allowed it to increase room prices at a faster clip than the industry as a whole while maintaining above-average occupancy rates."[5]

Even during fiscal year 1983, a very weak one for the lodging industry, Prime managed to raise room rates slightly while holding occupancy rates at a relatively high level.

In January 1983, "Richard Simon of Goldman & Sachs Co. was recommending Prime (along with Holiday & Marriott) which had enjoyed a higher than average occupancy rate during the 1981–82 recession."[6]

The company's objective is to continue to grow rapidly. Its primary focus is on the business traveler, and an aggressive marketing program for strategically–selected locations.

The chairman of the board, Peter E. Simon, reported to Prime's shareholders on August 30, 1983: "During the last five years Prime Motor Inn's net income and earnings per share have grown at a compounded annual rate of 53 percent and 43 percent respectively."[7]

A stock split of 3 for 2 was authorized on May 12, 1983, and paid on June 23, 1983. This increased the marketability of the shares.

In the later part of 1983, Prime shifted its expansion emphasis, changing its operation somewhat and terminating substantially all of its management contracts and switching to "own or lease." Yet they continue to remain in the middle market of the lodging industry, aimed primarily at the business and commercial traveler.

• **February 1984 – February 1985.** The year 1984 proved to be a major turning point in the company's history and a new era of company growth. Revenues increased to $95,952,000, or roughly 43 percent over the previous year; at the same time earnings per share increased some 21 percent.

The company acquired the American Motor Inns (AMI) in October 1984. "Prime paid $238 million for AMI, which operated 50 motor inns, primarily in Pennsylvania, Maryland, Virginia, and North Carolina and a resort in the Virgin Islands and held an 84 percent interest in Universal Communications Systems, Inc., an independent telephone interconnect company."[8]

This acquisition broadened Prime's asset and operational base and doubled Prime's room and revenue base. The company's stock price increase was 80 percent from February 1984 to February 1985, while the DJIA moved up only 11 percent.

• **February 1985 — May 1986.** The year 1985 was to be even more outstanding than 1984; the company was one of the most profitable and rapidly growing firms in the industry. Revenues for Prime went from $95,952,000 in 1984 to $245,734,000 in 1985, a fantastic increase of 156 percent in one year.

An improving economy had a nationally beneficial effect on revenues since average room rates were well above those of the previous year and Prime was benefiting from its concentration on the business and commercial market segment. Prime continued to utilize very aggressive pricing policies.

From February 1985 to May 1986 the company posted an increase in its stock price of 144 percent which was over three times that of the Dow, which went up only 46 percent. A stock split of 4 for 3 was paid on March 28, 1986.

"Earnings momentum continued to be very strong, helped by price increases and the American Motor Inn's acquisition of the previous year."[9]

Meanwhile the company continued with its liquidation of American Motor Inns which it had acquired in 1984. By July 1985 Prime had sold 23 of the AMI properties and had also sold the resort property, for a total of $193 million or about 80 percent of the total amount it paid for all of the properties and still retained the remaining motor inns."[10]

A major event took place in November 1985 with the acquisition of Howard Johnson Motor Inns. "Prime paid $235 million for the Howard Johnson name, which included 122 motor lodges and hotels and its 375 franchised motor lodges. The company plans were to sell all of the 122 hotels and motor lodges, using the proceeds in part to restructure the Howard Johnson franchise system."[11]

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"In spite of a very high P/E ratio (22.9), presenting an element of investment risk, Prime was still considered very timely by Value Line."[12] Value Line places a great value on earnings momentum.

• **September 1986 – September 1987.** During this period Prime enjoyed an increase of 60 percent in its stock price while the DJIA was up some 47 percent. "After acquiring Howard Johnson in November of 1985, a rebuilding and a $250 million refurbishing program and a $11 million advertising blitz are reaping very promising results."[13]

The dismantling and sale of the collection of properties acquired under the Howard Johnson brand was begun successfully in 1986 and continued through 1987.

"As of May 15, 1987, the company has sold 80 of the 122 hotels and lodges for about $250 million – $15 million more than it paid in the total transaction and continues to operate 28 of them under long-term lease agreements, or management contracts. Almost all of those properties sold remain in the franchise system, from which Prime also earns royalty fees."[14]

Accordingly, by selling Howard Johnson's units during this period Prime's cost was greatly reduced; they had also received more funds through sales of a number of the units than they had paid for the entire deal, and their debt-to-equity position was greatly improved.

"Prime's skills as a developer and operator of hotel properties have produced a 20% plus earnings growth rate over the past 10 years."[15]

"In spite of tax related overbuilding problems in the hospitality industry, Prime has posted annual average earnings gains of 30% over the past five years."[16]

Prime was considered a "most astute deal maker, one of the savviest operators in the lodging industry."[17] Hence, Prime, along with Hilton and Marriott, were receiving the highest marks from investment analysts during this period. Earnings per share for fiscal 1987 increased from $1.35 in 1986 to $1.75 in 1987, or an improvement of 30 percent.

• **November 1987 – January 1988.** Prime posted a very strong recovery from the "crash" lows of November 1987. Prime was the largest percentage gainer of the lodging stocks under study during this period. The company posted a recovery of 42 percent January 1988 over November 1987, a two-month period. The increase for Hilton at the same time was 17 percent and for Marriott 15 percent.

The Dow recovery in this same period amounted to 7 percent. According to Value Line's 3/11/88 report, "Investors apparently found Prime's temporarily depressed prices to be irresistible."[18]

"Over-supply in the lodging industry remains a problem, yet Prime's earnings continue to surge....First half of fiscal year ending 6/30/88 EPS growth was 40 percent, due to healthier occupancy rates, lower effective tax rate and rising franchise fee income."[19]

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Exhibit 5
Prime Motor Inns Outperformed by the Dow
July 1982 – January 1988

	DJIA Percentage change	Prime Percentage change
Nov. 1983 – Feb. 1984	– 9%	–29%
May 1986 – Sept. 1986	– 6%	–32%
Sept. 1987 – Nov. 1987	–29%	–46%

The first period in which Prime Motor Inns was out-performed by the Dow was between November 1983 and February 1984. Prime dropped some 29 percent, while the Dow's decline was only 9 percent.

"On March 6, 1984, Prime completed the acquisition of the remaining 58.6 percent of Cindy's (an operator of motor inns and restaurants) outstanding common shares for $4,858,000"[20]–24.4 percent had been acquired in fiscal 1981, and 16.8 percent in fiscal 1983.

As a result of the continued expansion program, coupled with the completion of a new corporate headquarters and other major expenditures, Prime experienced a $12,563,000 decrease in working capital for fiscal 1984, a first for the company. Furthermore, restrictive covenants related to major debt commitments required Prime to maintain "certain level of tangible net worth, and certain ratios including those for working capital, debt to net worth, cash flow and fixed charges."[21] They also restricted payment of dividends and stock repurchases.

Accordingly, some investors began to worry. In 1984 Prime was not yet trusted by the marketplace, which probably felt that Prime might be expanding too fast. In any case, the decline in Prime's stock prices was short-term and was sharply reversed when Prime resumed its climb upward as earnings per share continued to increase.

• **May 1986 – September 1986.** The second major period of decline occurred between May 1986 and September of that same year. While the DJIA posted a slight decrease of 6 percent, Prime dropped some 32 percent during that time.

"There were bumps and jolts in the DJIA for the second part of 1986, with major one-day drops in July and September 1986 due to rising oil prices and an uncertain economic environment."[22]

These general market conditions may have affected Prime in its downward movement. However, more possibly the price decline may have reflected a general scepticism of the marketplace that Prime could successfully digest the major acquisition of Howard Johnson. It may have appeared that Prime had bitten off more than it could chew.

Working capital and the debt-to-equity ratio were also impaired due in part to the short-term financings incurred in connection with the Howard Johnson acquisition.

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• **September 1987 – November 1987.** The last period of decline included September 1987 to November 1987 when the Dow dropped roughly 29 percent while Prime went down some 46 percent. Prime took an especially hard hit during the October 1987 stock crash, and its decline was the largest of the three lodging stocks under study since it had comparatively higher price-earnings ratio and lower asset values than other lodging firms. However, it rebounded sharply from its low point in November to return to strong levels by January 1988.

Marriott Corporation

Marriott, a giant in the hospitality industry, is huge and continuing to grow. Its 1987 sales were more than $6.5 billion, and its employees numbered over 200,000 individuals, which places Marriott among the 10 largest private employers in the country. The firm has a fantastic history of growth over the past 60 years, starting in May 1927 with a nine-seat A & W Root Beer stand in Washington, D.C.

The firm was officially incorporated in Delaware in July 1929 as Hot Shoppes, Inc. In October 1937 the company made history by serving the first airline meals (box lunches) for Eastern Airlines. Marriott's food service management business began in November 1939 with its first account at the U.S. Treasury Building in Washington, D.C.

On March 17, 1953, the company went public at $10.25 per share. On January 19, 1957, Marriott opened its first hotel in Arlington, Virginia. In April 1967 the company acquired the 22-shop Big Boy restaurant chain, marking the beginning of corporate growth through acquisitions. On January 31, 1968, Marriott began the Roy Rogers fast food restaurant division with the first shop in Falls Church, Virginia.

The company is one of only a few successful multi-concept restaurant operators.

For the company the 1970s brought new ventures and new markets. The Marriott Corporation broadened its appeal to the increasing leisure market by purchasing the Greek-based Sun Line Cruise ships (later sold). By the end of the decade the Marriott name was at the top of the lodging industry, and Marriott in-flight services had become the leading food caterer to the world's airlines. They also entered and exited theme parks in Santa Clara, California, and Gurney, Illinois. In March 1982 Marriott acquired Host International and became the country's largest operator of airport terminal food, beverage, and merchandise facilities.

Marriott is divided into three major areas of activity, each of which is a flourishing business in its own right. Overall it resembles General Motors in its historical division into Cadillac, Oldsmobile, etc.

"Marriott's lodging operations, begun in 1957, now encompass 361 hotels with a total of nearly 103,000 rooms. Today, Marriott is America's leading operator (vs. franchisor) of hotel rooms. This line of business represented 41 percent of sales and 51 percent of operating income in 1987."[23]

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In 1987, contract food services as a group accounted for 46 percent of sales and 33 percent of operating income. The group includes food and services management, airport operations, and airline catering.

The restaurant group of businesses produced 13 percent of total Marriott sales in 1987, with over 1,000 popularly-priced restaurants operated or franchised (mostly franchised) by the company.

Contract services has emerged in the past few years as the leader among the three major areas of activity, surpassing lodging in terms of aggregate sales. For example, in 1984 lodging was preeminent, contributing some 46 percent of total sales, while contract services was second with a 32 percent contribution. By 1987, lodging had been replaced as number one by contract services. Restaurants as a group had declined from 22 percent in 1984 to 13 percent in 1987.

Exhibit 6
Sales

	Lodging		Contract		Restaurants
1984	46%	1984	32%	1984	22%
1985	45%	1985	37%	1985	18%
1986	42%	1986	43%	1986	15%
1987	41%	1987	46%	1987	13%

Exhibit 7
Dow Jones Industrial Average

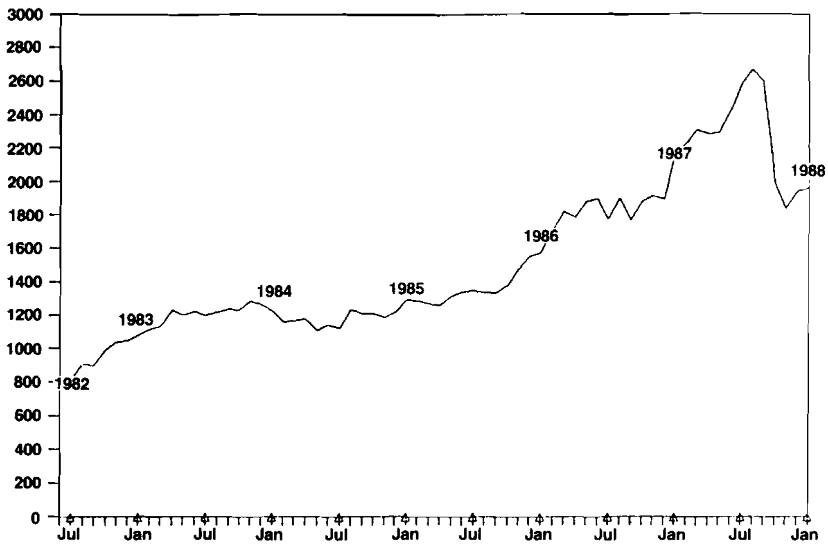

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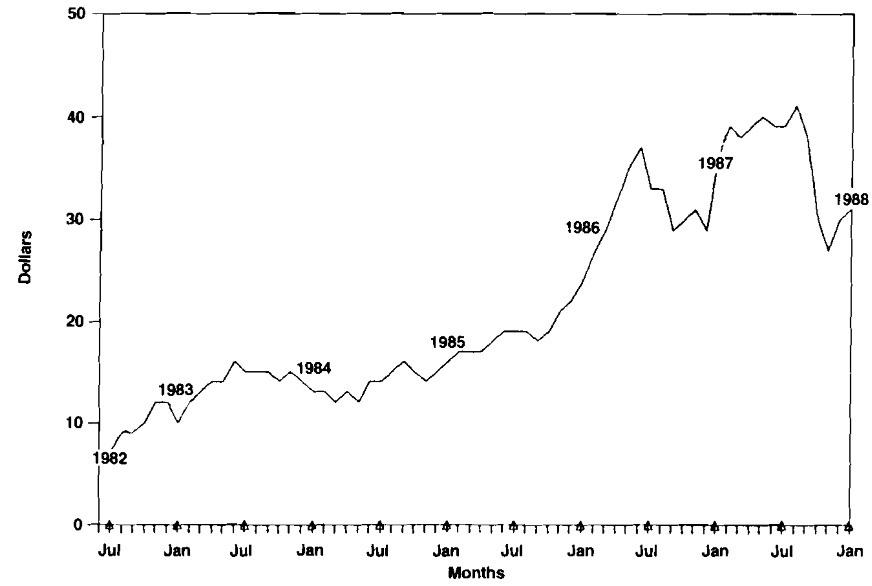
Exhibit 8
Marriott Corporation*



* Adjusted for a 5:1 stock split in June 1986.

Stock Analysis Shows Great Growth

Marriott's stock prices (adjusted for a five-for-one stock split in June 1986) increased a solid 343 percent from July 1982 to January 1988, more than twice the DJIA increase of 142 percent during the same period.

According to Marriott's management, the company's "strong relative and absolute market performance has occurred because (1) Marriott has consistently maintained high real earnings growth and high capital productivity through varying economic environments, (2) the company has demonstrated an ability to expand its existing businesses and identify new hospitality and service-related businesses which will contribute to earnings growth and (3) Marriott manages valuable real-estate-based assets that have maintained their productive capacity."[24]

Exhibit 9
Marriott Outperforms the Dow
July 1982 – January 1988

	DJIA Percentage Change	Marriott Percentage Change
July 1982–June 1983	+ 51%	+ 129%
May 1984–June 1985	+ 21%	+ 58%
Sept. 1985–June 1986	+ 42%	+ 106%
Dec. 1986–Aug. 1987	+ 40%	+ 41%
Nov. 1987–Jan. 1988	+ 7%	+ 15%

• **July 1982 – June 1983.** From July 1982 to June 1983, Marriott's stock prices showed remarkable growth by rising 129 percent, thereby outperforming the market increase of 51 percent in the DJIA. Total sales for 1982 were $2,541,353,000. Despite negative economic conditions in the lodging industry during 1982, Marriott reported a 27 percent increase in sales, a 15 percent increase in operating income, and maintained its return on equity at the 20 percent level.[25]

"In 1982, subsidiaries of the company acquired the outstanding common stock of Host International, Inc. (Host) and Gino's, Inc. (Gino's) for cash in transactions accounted for as purchases. The aggregate purchase price, including long-term liabilities assumed, was $204.7 million for Host and $112.7 million for Gino's."[26]

Gino's was acquired primarily to obtain prime real estate sites to be converted into Roy Rogers restaurants.

As a result of the Host International acquisition in March 1982, Marriott became "the country's largest operator of airport terminal food, beverage and merchandise facilities."[27]

In the first half of 1983, sales and operating income increased, reflecting strong performance in all major lines of business. The strong earning momentum, coupled with Marriott's announcement to "expand the number of its hotel rooms by at least 20 percent each year for the next three years and to sell limited partnership interests to develop and operate 11 hotels,"[28] resulted in substantial stock gains for Marriott in the first half of 1983.

• **May 1984 – June 1985.** From May 1984 to June 1985 an increase of 58 percent was noted in Marriott's stock performance, more than twice the DJIA increase of 21 percent. In early 1984 "Marriott was the only lodging stock receiving favorable ranking from Value Line Investment Services for the year ahead performance. Conversely, the Value Line hotel industry timeliness ranking was 81 of 93 during the same period."[29]

Marriott's relative strong performance in 1984, reaching record sales of $3.5 billion and a return on equity of 22.1%,[30] accompanied by an acceleration of hotel development, impacted on this positive trend in the company's stock performance for this period. The EPS rose 25 percent.

J.W. Marriott, Jr., Marriott's president and CEO, stated in the company's letter to shareholders: "We seek to build and maintain Marriott's reputation as the premier company in lodging, food service and related business areas."[31]

Mr. Marriott further noted that Marriott has become the largest chain of company-operated (not franchised) hotel rooms in America while remaining a leader in creative financing of hotel developments. "We develop and sell hotels, while maintaining long-term management agreements. Today (1984) nearly 85% of Marriott operated hotel rooms are owned by others."[32]

In 1984, Marriott sold and financed nearly $1 billion of hotels.[33] "Our lodging business includes 142 full service hotels and resorts which accounted for nearly half of Marriott's 1984 sales."[34] Marriott hotels are designed to serve individual business travelers, pleasure travelers, and groups, with nearly 61,000 rooms located in most of the top 100 U.S. markets. Results were enhanced by a strong overall demand, a wide geographic distribution, increased room rates, and special promotional efforts.

Sales for contract food services increased 17 percent in 1984. Profits were up in all divisions. Performance reflected expansion of domestic and international airline catering as well as new businesses in airport operations, food service management, and highway restaurants.

In 1984, 22 percent of Marriott's total sales were derived from the operation of restaurants. Operating income for this group was up some 24 percent over the levels of the previous year. This improvement resulted from aggressive marketing, higher customer counts, and unit expansion.

The group included the Host specialty restaurant division, Big Boy family restaurants, Roy Rogers fast food restaurants, and Hot Shoppes cafeterias and restaurants. Early in 1985 the company completed the acquisitions of Gladieux Corporation and Service Systems Corporation, diversified food service companies, for $64.4 million cash.

• **September 1985 – June 1986.** From September 1985 to June 1986, Marriott's stock did extremely well, rising 106 percent, more than twice the DJIA increase of 42 percent, a reflection of the market rally in the final months of 1985 and the first part of 1986. Despite the likelihood of tough times ahead for the lodging industry in 1985, Marriott "sales reached $4.2 billion. Net income and earnings per share increased 20 percent while return on equity remained at 22 percent."[35]

Furthermore, the company announced plans to invest more than $2 billion by the early '90s in two new products, all suite hotels and a smaller full-service hotel. At the same time, the November 1985 acquisition of Howard Johnson's provided an opportunity for the con-

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version of over 200 Howard Johnson's units to Big Boy restaurants in the next three years.

The acquisition of Saga in June 1986 and the Gladieux Corp. and Service Systems in 1985 contributed greatly to a very significant change in the makeup of total sales for Marriott. In 1984, for example, lodging accounted for 46 percent of Marriott's sales and contract services for 32 percent, but by 1986 this had changed to 42 percent for lodging and 43 percent for contract services.

Marriott continued to lead the major hotel chains in occupancy and profitability, outperforming the industry by a significant margin. Revenues were also enhanced by increased room rates. "Although those were not the best times in the hotel industry, which began to suffer from an oversupply of rooms, Marriott set itself apart from its industry through its clever use of financing in the form of management contracts and an ambitious non-lodging growth plan, particularly contract food services and its Big Boy chain of family style restaurants.[36]

Restaurant business increased only a modest 5 percent in 1986. Profits were up in highway restaurants; despite soft market conditions, Roy Rogers and Hot Shoppes profits also increased in a very competitive environment. Results, however, declined substantially in the Big Boy family line.

The Saga acquisition made Marriott the largest company in food service management."[37] Saga was acquired for approximately $700 million and "represented a unique strategic and management fit for Marriott. We targeted food service management for growth because it is a service business with a food and beverage base, and has high returns on investment."[38]

Contract food service operations showed a very significant increase, with sales up some 41 percent over the previous year. This was the largest increase for any of the three major segments. Lodging was up 18 percent and restaurants increased only 5 percent.

After a steady rise in stock prices of approximately 50 percent in the first few months of 1986, "Marriott approved a 5 for 1 stock split in the form of a stock dividend that was paid on June 20, 1986."[39]

• **December 1986 – August 1987.** From December 1986 to August 1987 Marriott's increase of 41 percent was in line with the DJIA increase of 40 percent, which was indicative of stock prices surging to unprecedented highs. Marriott posted sales of more than $5.2 billion in 1986. This was up from the levels of 1985 which were $4.2 billion plus, or a net increase of 24 percent. EPS were also higher at $1.40, 13 percent above the previous year.

By the end of 1986, "Marriott is among the ten largest private employers in the country with a labor force of nearly 200,000."[40]

"Marriott's lodging business posted strong increases in 1987. Sales rose 20 percent, while operating income increased 22 percent. One of our most significant accomplishments in 1987 was the addition of three new Marriott product lines–Marriott Suites, Residence Inn and Fairfield Inn. Marriott now is involved in a broad spectrum of lodging–

from luxury full-service hotels and resorts to economy motels,"[41] consistent with general trends in the lodging industry.

Again in 1987, Marriott led major hotel chains in occupancy and profitability, outperforming the industry by sizeable margins. These results were achieved despite continued overcapacity and soft economic conditions in some geographic markets, as well as heavy promotional expenditures and rate discounting by key competitors. The company currently operates about $7 billion of lodging assets that are principally owned and financed by others.

In July 1987 a subsidiary of Marriott purchased all assets of Residence Inns, a moderate price suite hotel chain, reflecting Marriott's continued pace of growth and profitability. "Marriott, along with other major hotel companies, was receiving highest marks from several security analysts."[42]

Very substantial gains were made during 1987 by the contract services group of businesses. Sales were up 33 percent and operating income increased 10 percent. Gains in this area were largely due to the increases in food and services management whose "business has grown more than seven-fold over the past four years. This division posted strong gains in 1987, reflecting new accounts and the 1986 Saga acquisition. Saga has been fully integrated into Marriott, reducing administrative and procurement costs."[43]

"Sales for Marriott's restaurant businesses rose 10 percent in 1987, while operating income was up 4 percent. Excluding gains and asset sales in both years, operating income increased 11 percent. Marriott's Big Boy family restaurant operations improved significantly in 1987. Declining sales and profit trends of the preceding two years were reversed, helped by new menu items, remodeling of older units and reduced administrative costs."[44]

• **November 1987 – January 1988.** From November 1987 to January 1988, Marriott's stock performance experienced a 15 percent increase, outperforming the 7 percent increase in the DJIA.

Marriott's market presence was expanded in 1987 by the addition of 44 family restaurants that were opened, acquired from franchisees, or converted from Howard Johnson's units. In 1987 "Sales grew 24 percent, while earnings per share increased 19 percent to $1.67."[45]

Marriott continued its record of exceptional growth and profitability in 1987, and entered 1988 with solid forward momentum. In light of the October 1987 market collapse, Marriott expanded its stock buyback program to 11.1 million shares. Accordingly, Marriott showed a moderate (though higher than the DJIA) recovery from its October 1987 losses that resulted from the overvalued stock prices that prevailed during most of 1987.

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Exhibit 10
Marriott Outperformed by the Dow
July 1982 – January 1988

	DJIA Percentage Change	Marriott Percentage Change
June 1983 – May 1984	– 10%	– 25%
June 1985 – Sept. 1985	– 1%	– 5%
June 1986 – Dec. 1986	– 0.2%	– 22%
Aug. 1987 – Nov. 1987	– 31%	– 34%

• **June 1983 to May 1984.** Marriott's decline of 25 percent was 15 percent points greater than the overall market decline in the DJIA of 10 percent. During this period lodging stocks did not perform well, as investors were discounting the delay in the economic recovery of the lodging industry until late 1983. Although Marriott continued to achieve increasing profitability in 1983, with a rise in revenues of 19 percent, operating income of 14 percent, and maintenance of a 20 percent ROE,[46] the company was considered a relatively high risk because of its debt to equity ratio of 2.98 to 1, evidence of a very large leverage position as compared to an industry average of 2 to 1.

In 1984 Marriott accelerated hotel development from the slow 1983 level (by Marriott's standards). Yet, investors were not paying attention to this positive outlook, and Marriott's stock prices reached bottom in May 1984. "One negative in the industry's profit outlook is the hectic pace of hotel construction, which has brought room supply to a saturation point in several locations. Construction costs have reached unprecedented levels. The glut of luxury rooms was an important factor in the persistent discounting"[47] during part of this period.

• **June 1985 – September 1985.** A brief downward trend of 5 percent affected Marriott's stock performance from June 1985 to September 1985, compared to a 1 percent decrease in the DJIA for the same period. In the summer of 1985 the stock was affected by the news of the proposed acquisition of Howard Johnson's (which was finalized in November 1985) and "the death of Marriott's founder J. Willard Marriott, Sr. in August 1985,"[48] which suggested some stock might come on the market.

• **June 1986 – December 1986.** From June 1986 to December 1986, Marriott's stock prices declined 22 percent, whereas the DJIA reflected a nominal drop of less than 1 percent. This was in spite of major one-day drops in July and September 1986 due to rising oil prices and an uncertain economic environment prior to the enactment of the Tax Reform Act of 1986 (TRA 86).

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According to Value Line Investment Surveys:

> Marriott's earnings momentum has slowed, temporarily–last June's acquisition of Saga Corp. diluted share net in the September period by about three cents and will probably clip five cents from the full-year tally.
>
> With the reversal of accrued investment tax credits holding back fourth-quarter results share earnings probably will move ahead only 13 percent in 1986.
>
> Given the current weaker price and earnings momentum, our ranking system is now neutral on the stock.[49]

Marriott continued to expand during the latter part of 1986 by acquiring Saga, a leader in the contract food service segment of the hospitality industry, in June 1986, as well as doubling its room base over the past five years. Yet, 1986 was not a very good year for Marriott from an operational standpoint, and the stock was perceived as an overvalued investment with a price earnings ratio of 21:4 in September 1986. Further, there was a big question "for Marriott concerning tax changes in the TRA 86 that might decrease real estate benefits."[50]

• **August 1987 – November 1987.** Marriot's price decrease of 34 percent from August 1987 to November 1987 was 3 percentage points worse than the DJIA decline of 31 percent, which reflected the market collapse of October 19, 1987. "Lodging and casino stocks fell in sympathy with the crashing market as the axiom of 'what goes up must come down' took on a new dimension."[51] Overall, lodging stocks did not fare well during the month of October 1987, due to fear of onset of recession or worse.

Nonetheless, Marriott's decline was not as great as some of the other lodging stocks during the month of October 1987. Prime Motor Inns declined 39.5 percent, Hilton declined 22.3 percent while Marriott's decline was only 20.5 percent. "The Lodging Index plunged a record 631.71 points, or 30.58 percent, during October 1987."[52]

Hilton Hotels Corporation

The executive offices of the Hilton Hotels Corporation, organized in Delaware in May 1946, are located in Beverly Hills, California. The company, however, dates back to 1919 when Conrad Hilton traveled to the booming Texas oil town of Cisco to buy a bank and noticed with great interest how local rooming houses were prospering; he convinced his business partners to buy a hotel. The Mobley Hotel in Cisco, Texas, was Conrad Hilton's first earnest dealing in the lodging industry. By 1930, Hilton owned or controlled eight hotels, most of them in Texas. During the Great Depression, however, he defaulted on his payments and his hotels were repossessed. By 1939 he had managed to regain control of five of his hotels and was to continue pursuing his expansion goals.

Through the '40s Hilton expanded with the purchase of a number of existing hotels, including the Stevens in Chicago, and the Roosevelt, the Plaza, and the Waldorf-Astoria in New York. In most cases, Hilton bought the properties in a depressed state for less than their original price and restored or renovated them, while revamping their management and operations. "In 1947 Hilton Hotels Corporation became the first hotel company to be listed on the New York Stock Exchange."[53]

In 1954 Hilton purchased the Statler Hotel chain for $111 million and agreed to keep the Statler name associated with the hotel. This acquisition was "at the time the largest private real estate transaction in history."[54] Next, Hilton decided to expand internationally by providing the Hilton name, management, and clientele, if the local investors would build the hotel. Accordingly, Hilton International opened its first hotel in San Juan, Puerto Rico, in 1949. Madrid, Istanbul, and Mexico City followed. Later, Hilton International would be spun-off into a different company and acquired by Trans World Airlines.

In 1965, Barron Hilton, Conrad Hilton's second son, became the president of Hilton Hotels Corporation. Under his tenure, Hilton Hotels continued growing in the domestic market, but in the late '70s the company shifted its emphasis from hotel ownership to management contracts, joint ventures, and franchise agreements. In 1971, Barron Hilton completed the merger between Hilton and International Leisure, which owned hotel casinos in Nevada. Only a year after this merger, the two Nevada hotel casinos accounted for over 40 percent of Hilton earnings.

As of December 31, 1987, "Hilton owned or leased and operated 11 hotels and managed 35 hotels partly or wholly owned by others. In addition, 224 hotels were operated under the Hilton name by others pursuant to franchises granted by a subsidiary of Hilton."[55]

Hilton has a somewhat narrow base of income contribution, depending to a very great degree on basically 13 hotel properties which were geographically dispersed. Granted, the properties are mega-sized, and excellent producers, with broad appeal. To be somewhat more specific, the gaming division is the greater contributor in terms of income, almost all of which is derived from three properties in Nevada; most of that is from the two hotel casinos in Las Vegas, namely the Las Vegas Hilton and the Flamingo Hilton and Towers.

The Flamingo Hilton with 2,927 rooms continues to operate at occupancy rates above 90 percent and remains the most profitable operation in the Hilton system. "The tower addition will give the Flamingo Hilton more than 3,500 rooms, surpassing the Las Vegas Hilton as the largest hotel in the world."[56]

The Las Vegas Hilton with 3,174 rooms is the largest hotel in the free world. The third hotel in Nevada is the Reno Hilton in Reno, acquired by Hilton in 1981; it is much smaller in size, consisting of only some 600 rooms. Hilton also has a 10 percent equity interest in the Gold Coast Conrad International Hotel and Jupiter's Casino in Queensland, Australia, which commenced full operations in February 1986. In addition, the company has a long-term management contract for this property.

The hotels which Hilton owns or operates produced $1,279,493,000 in revenue in 1987. If the revenues from management

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fees and franchise fees are added in, the total for hotel revenues amounted to $1,342,653,000, which constituted 69 percent of the total revenues for Hilton in 1987.

The hotel casinos division accounted for $589,683,000 in revenues, or 31 percent of the total for Hilton, during the same period, with the bulk of these revenues coming from the properties in Las Vegas.

In terms of "contribution to income," this picture is somewhat different. The total of all "hotel" contributions amounted to $100,650,000, while "gaming" contributions were slightly higher at $107,744,000. The "hotel" contribution to income amounted to 48 percent of Hilton's total; the 52 percent of contributions from the hotel casino division came primarily from the two major properties in Las Vegas.

Actually contribution to income more than doubled for gaming 1982-1987. In 1982 this figure amounted to $52,248,000, and by 1987 it was $107,744,000 or an increase of 106 percent. The hotel group collectively failed to achieve the same growth in income. The total income contribution in 1982 for hotels was $92,595,000; by 1987 it had reached only $100,650,000, amounting to a 9 percent gain for the period. On a comparative basis, growth in gaming income far outstripped that of hotels by a factor of almost 12:1 during the overall period 1982-1987.

Hilton Hotels Corporation is presently involved in a refurbishing plan that involves over $1 billion and most of the older properties.

Exhibit 11
Dow Jones Industrial Average

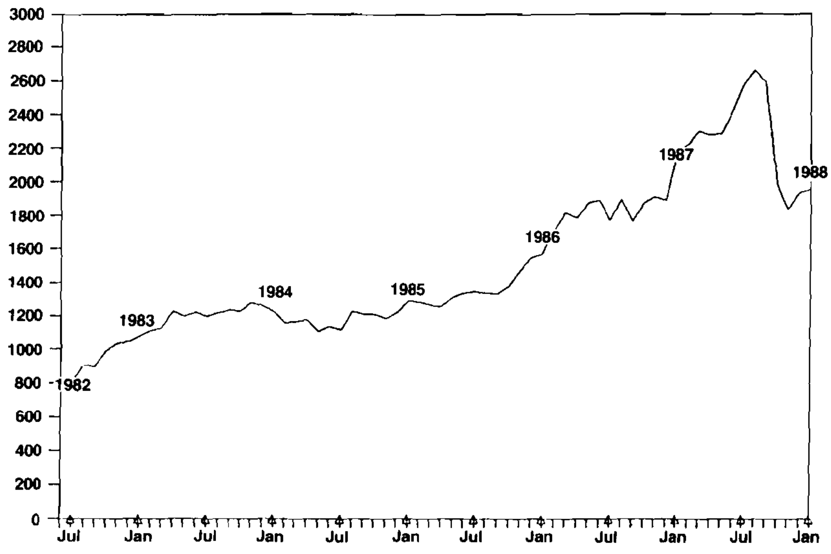
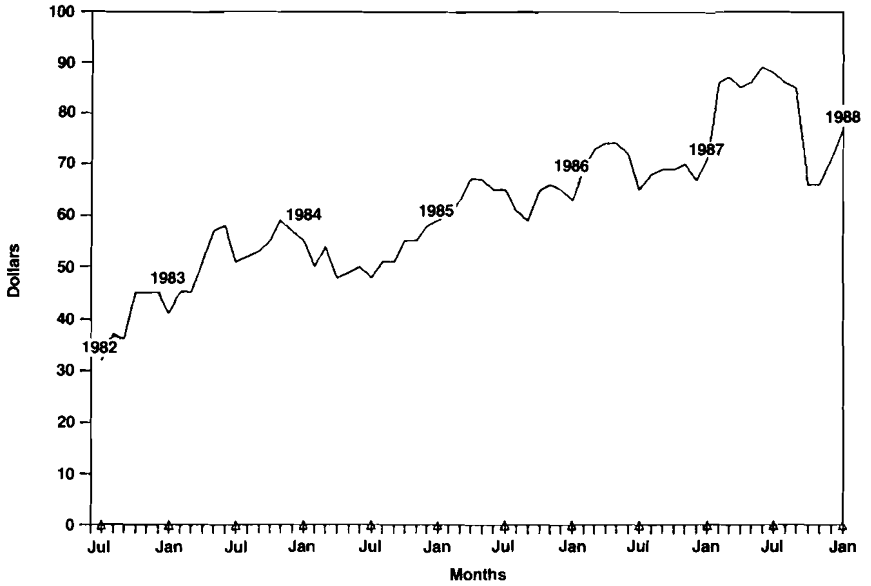


Exhibit 12
Hilton Hotels Corporation



Stock Performance Equals DJIA

Hilton's stock performance during the period commencing on July 31, 1982, and ending on January 31, 1988, indicates an increase of 141 percent, which is in line with the DJIA increase of 142 percent during the same period. Hilton outperformed the Dow during four periods under study and underperformed the market in five periods. A detailed account of each of these periods follows:

Exhibit 13
Hilton Outperforms the Dow
July 1982 – January 1988

	DJIA Percentage Change	Hilton Percentage Change
July 1982 – June 1983	+ 51%	+ 81%
July 1984 – Apr. 1985	+ 13%	+ 40%
Dec. 1986 – June 1987	+ 28%	+ 33%
Oct. 1987 – Jan. 1988	− 2%	+ 17%

• **July 1982 – June 1983.** There was a very strong upward move by Hilton during this period; stock prices were up by 81 percent. The DJIA was also up at this time, but at a lesser rate, with a 51 percent increase.

Hilton had difficulties in 1982. "Worldwide economic problems severely affected Hilton Hotels Corporation operations in 1982."[57] Strong dollars made foreign visits to the United States less desirable while pushing Americans abroad. There had been a decline in business, leisure, and international travel due to the recession at that time. (Hilton is convention business meeting sensitive.) In addition, there was a reduction in the Nevada gaming income. Net income for Hilton declined some 26 percent during 1982, while overall revenues were virtually the same as the previous year.

Hotel income contribution was off 18 percent and there was a 34 percent decline in income contribution from gaming operations at this time; Las Vegas gaming was not "recession-proof" as many had thought previously.

The economic downturn had affected virtually all of Hilton's business areas. Nonetheless, from July 1982 to June 1983, Hilton's prices gained significantly "after losing some ground in January 1983 on disappointing fourth quarter 1982 results."[58]

"The rush to buy consumer stocks in the rally that began in August 1982 resulted in some substantial gains for some hotel issues"[59] such as Hilton. In the first half of 1983, Hilton's price reflected a continuous upward trend in the overall market performance, coupled with a steady improvement in Hilton's profitability after March 1983. The earnings per share in Hilton's 1983 second quarter were $1.05, higher than the $.87 recorded in the previous year second quarter.

• **July 1984 – April 1985.** From July 1984 to April 1985, Hilton's stock analysis indicates an increase of 40 percent, significantly outperforming the DJIA move upward of 13 percent. "Hilton's net income before property transactions for 1984 increased 14 percent to $3.65 per share, or $96.1 million, compared to $3.20 per share, or $85.9 million, in 1983."[60]

There was a 7 percent increase in the income contribution of the hotel segment, resulting largely because management and franchise fees grew by 18 percent. A reduction in net interest expense and a lower effective tax rate on operations also contributed to a better showing in 1984. Hotel income contribution went from $101.0 million in 1983 to $107.8 million in 1984.

A 30-day labor strike in Las Vegas in the second quarter of 1984 hurt the income contribution of the gaming segment which went up only 2 percent for that year. The significant price gain during this period was partly a result of a very positive outlook for Hilton in anticipation of the opening of the Atlantic City casino which was expected to produce record profits.

In 1984 Hilton reported a then record earnings per share of $3.65 as a result of operational gains, combined with the positive impact of repurchasing 2,080,000 shares of its common stock outstanding. After the New Jersey Casino Control Commission denied the license for the Atlantic City property in early 1985, a takeover attempt by Golden Nugget pushed prices up to the upper sixties, reaching its peak in April 1985.

• **December 1986 – June 1987.** During this period both the DJIA and Hilton's stock prices moved up. Hilton went up a healthy 33 percent, and the Dow was close behind with a 28 percent gain. This performance was a result of sustained earnings growth for Hilton in 1987. For the first time in many years, Hilton was receiving the highest marks from several financial analysts based on a strong earnings outlook resulting from the refurbishing of hotels and increased domestic travel due to a strong foreign currency, all positive contributors to Hilton overall profitability.

Barron Hilton stated in the company's 1987 Annual Report that "1987 was the best year in our history. We can be truly proud of that achievement because the results reflect the fruits of our various programs. Net income for the year advanced by 43 percent to $139.9 million, equal to $5.59 per share from $97.8 million or $3.92 per share in the prior year."[61] Adjusting for property transactions, 1987 income from operations was $4.50 per share vs. $3.97 in 1986.

"In 1987, both the lodging and gaming segments turned in fine performances."[62] This was particularly outstanding in view of the declines in income contribution posted by the hotel division in 1986 and 1985 over their previous periods.

"Hotel income contribution in 1987 increased 20 percent from 1986's $83.6 million to $100.7 million. Income contribution in 1985 was $90.5 million."[63]

"The initial returns from our massive investments in the renewal of classic properties were reflected in 1987's results. The Waldorf-Astoria had an outstanding year. Results also climbed at the Capitol Hilton in Washington, D.C., at our all new Chicago Hilton and at the Hilton Hawaiian Village, which I regard as one of the world's most beautiful, appealing and enjoyable resorts,"[64] stated the Chairman of the Board in the 1987 Annual Report.

• **October 1987 – January 1988.** After October 1987, Hilton recovered some of the decline experienced during that month, as evidenced by a price increase of 17 percent from October 1987 to January 1988, which clearly outperformed the DJIA decrease of 2 percent during the same period. However, the January 1988 price of $77 was still lower than Hilton's trading prices for most of early 1987–in the eighties. Hilton's earnings per share for 1987 reached record highs ($5.59), aided by a stock repurchase announcement of up to 3.4 million common shares in the open market in October 1987 (.5 million shares were actually purchased in 1987) and property dispositions that included $1.09 per share from the sale of the Beverly Hills property.

Gaming revenues and income contribution were both up, by 22 percent, over the previous year, resulting both from expanded operations and a 10 percent increase in average room rates.

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"The Las Vegas operations reflect a full year's revenue from additions completed during 1986. The Flamingo Hilton completed an 800-room tower addition in that year's third quarter, while the Las Vegas Hilton opened a 33,000 square foot Race and Sports Superbook addition in the fourth quarter."[65]

Exhibit 14
Hilton Outperformed by the Dow
July 1982 – January 1988

	DJIA Percentage Change	Hilton Percentage Change
June 1983–July 1984	− 9%	− 17%
Apr. 1985–Sept. 1985	+ 6%	− 12%
Sept. 1985–Apr. 1986	+ 34%	+ 25%
Apr. 1986–Dec. 1986	+ 6%	− 9%
June 1987–Oct. 1987	− 18%	− 26%

• **June 1983 – July 1984.** From June 1983 to July 1984 Hilton's stock prices experienced a downward trend of 17 percent, a greater decline than the one shown by the DJIA of 9 percent. After the January 30, 1984, stock rally (the biggest in 50 years at the time), DJIA experienced a steady decrease in prices through July 1984.

Hilton's poor stock performance occurred despite a positive outlook for the company, which reported its first earnings gain in five years for 1983 and rebounded from the recession in the Nevada gaming market. Investors discounted much of Hilton's positive outlook, and stock prices reached bottom in July 1984 (closing at $48 on July 31) to the levels of early 1983.

• **April 1985 – September 1985.** Hilton's stock prices fell 12 percent April 1985 to September 1985. Prices remained in the mid-sixties for a few months following the failed takeover attempt since rumors remained "that Hilton was accumulating cash for a leveraged buyout or to buy back publicly held shares."[66] Yet, prices showed a steady decline in the late summer of 1985, reaching bottom in September. During this period Hilton underperformed the DJIA which increased 6 percent.

Revenues for Hilton in 1985 were up slightly over the levels reached in 1984; income from operations was up six percent per share. After property sales, however, net income declined between 1984 and 1985.

"The year 1985 presented unanticipated challenges for Hilton Hotels . . . net income for the year was $100 million or $4.03 per share, compared with $114 million or $4.33 per share in 1984. Revenues were $712 million, up four percent from last year."[67]

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The declines in income came about in part because of major renovation projects at a number of large properties and a reduction in rooms available. Other losses resulted due to a New York City hotel strike and a strike against a major airline. Other factors contributing to the decline included increases in interest and corporate expenses. As a result, income from the hotel segment was down 16 percent from the previous year.

Barron Hilton comments in the 1985 Annual Report: "Early in the year the company faced two potentially disruptive challenges. In late February we were denied a gaming license by the New Jersey Casino Control Commission. A short time later, in early April, another corporation attempted to acquire control of our stock."[68]

• **September 1985 – April 1986.** Hilton's stock performance from September 1985 to April 1986 reflected the continuous rally of the DJIA in late 1985 and early 1986 that resulted in an overall increase of 34 percent. However, Hilton underperformed the market by increasing 9 percent points less than the DJIA, or 25 percent.

During this period the hotel industry was facing a major oversupply of rooms brought on by the building boom of the mid-1980s. Furthermore, renovation programs were underway at several Hilton properties (including the Chicago Hilton and Towers and the Waldorf Astoria), contributing to declining profitability during the period. The year 1985 was a very challenging one for Hilton. The year 1986 "began with a difficult first quarter"[69] with $.70 earnings per share, the lowest level since 1983.

• **April 1986 – December 1986.** Hilton continued to underperform the market during this period, declining 9 percent, while the Dow rose some 6 percent. The year 1986 was not a particularly good one for Hilton. Revenues, overall, were up slightly from 1985. Income from operations increased two percent per share in 1986. Property sales in 1986 were a loss of $.05 per share vs. a gain of $.17 per share in 1985, resulting in a decline in net income.

"For the year, net income totaled $97,839,000, equal to $3.92 per share, compared with $100,163,000 or $4.03 per share in the prior year. Revenues for 1986 amounted to $740,366,000, an increase of 4 percent from $712,374,000 in 1985."[70]

The income contribution from gaming amounted to $88.2 million in 1986, and was up some 15 percent over 1985. The income contribution from hotels $83.6 million, off by 8 percent. Income improvements were noted not only in the gaming segment, but also in management and franchise fee income. "Results from hotels, however, continued to be restrained by the $1.1 billion program of capital enhancements at major properties. These projects are costly and time consuming, and the dislocations and loss of business due to construction are substantial."[71]

A summary of the operating performance of the company's hotel segment for three years ending December 31, 1986, was as follows:[72]

Exhibit 15
Operating Performance of Hotel Segment
(in thousands)

	1986	1985	1984
Revenue*	$1,225,770	$1,138,836	$1,086,281
Income contribution	83,572	90,503	107,807

* Owned or managed hotels

Other influencing factors were "bumps and jolts in the DJIA for the second part of 1986 with major one-day drops in July and September 1986 when oil prices started to rise signaling the beginning of the end of the low inflation environment,"[73] coupled with the uncertainty over the economic impact of the Tax Reform Act of 1986–signed into law on October 22, 1986.

Hilton's stock performance in 1986 was affected by operational difficulties experienced by the company. It was, indeed, a very difficult time for Hilton, evidenced by a decline in earnings per share for 1986 to $3.92, the lowest level in over three years.

• **June 1987 – October 1987.** From June 1987 to October 1987 Hilton's stock prices decreased 26 percent, an 8 percentage point greater decline than the DJIA decrease of 18 percent during the same period. This downward trend reflects the market collapse on October 19, 1987 (better known as Black Monday), at which time Hilton's stock was selling for a low of $60. Most of Hilton's market price decline took place during the month of October 1987 (i.e., 22 percent).

According to a study conducted by Professors Arbel and Carvell of the Cornell University School of Hotel and Restaurant Administration: "the losses suffered by the hotel industry were greater than those sustained by 88 percent of all industry sub-groups in the United States since the market perceives hotels as a luxury item, not a necessity,"[74] particularly in recessionary times.

Accordingly, lodging firms stock prices "were much more volatile than the market as a whole,"[75] thereby explaining the apparent 22 percent October decline in Hilton's prices (a lodging firm heavily involved in the upper segment of the industry, as well as in casino gaming).

Subsequent to January 1988, Hilton's stock prices showed remarkable strength, reaching the nineties during March 1988. This is perceived as investor's response to analysts' positive recommendations based on the disparity between stock prices and underlying book value. In fact, some analysts view "Hilton's market value at about $140 per share."[76]

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It is interesting to note that Hilton Hotels Corporation maintained a very strong financial position with relatively little debt during the years 1982-1988, evidenced by Value Line Safety ratings from 1-3 (mostly 1) and financial strength ratings of mostly A+, the highest among all companies in the study.

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[75]Leslie Wayne, "Unlocking Values in Hotel Stocks Market Place," *The New York Times,* (May 16, 1988), p. D-8.
[76]*Ibid.,* p. D-8.

Acknowledgements

The authors would like to express their sincere appreciation to the Corporate Offices of Hilton Hotels Corporation, Marriott Corporation and Prime Motor Inns, Inc. for their review of this work, and for their insightful comments.

We are also indebted to Edward Tavlin, senior vice-president of Josepthal and Company, for his expert review of this study, and for his valuable suggestions.