Starwood (HOT) - A Promising Bargain In Tough Times

Report date: Monday, November 24, 2008

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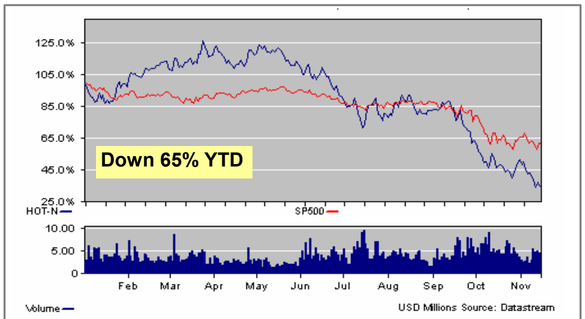
Ticker	Rating	CUR	11/24/2008 Closing Price	12-18 Mo Target Price	Diff	52-Week Range Low	52-Week Range High
HOT	Buy	USD	$14.38	$23.29	62%	$12.50	$56.00

We are initiating coverage on Starwood (HOT) with a Buy rating, and a price target of $23. While current weakness in leisure travel and timeshare is likely to continue over the next 12 to 18 months, we believe that the market's cataclysmic reaction to hospitality stocks, and Starwood (HOT) in particular, have underestimated the intrinsic value of the company. Even after taking account RevPAR declines at the scale we observed in the '91-92 Savings and Loan Crisis, or the economic slowdown of 2000 to 2001, we believe that Starwood's increasing emphasis on fee-based revenue model, and relatively healthy liquidity position, aided by 3Q sale of their Lido and Turnberry assets, will provide sufficient liquidity to weather the economic slowdown.



Source: ThomsonOne

Launch of its new brands – aloft and element – are well received and expand Starwood's portfolio in the limited service and extended stay segments. Like the W, one of Starwood's marquee brands, we believe the two flags would gain strong customer acceptance and offer a competitive value proposition for the franchises. These two brands will remain a key driver for franchise room growth for Starwood in the U.S. and abroad.

Few surprises in recent earnings call. The recent earnings call has largely confirmed our observations in the Industry Report (10/6/2008) of further deterioration of fundamentals, resulting in further declines with franchise and management fees. Based on 3Q performances released by Starwood and recent statistics from Smith Travel Research, we see 1% to 2% overall revPAR growth for Starwood in 2008.

Vacation Ownership Interests (VOI) / Timeshare sales continue to weaken. Demand weakness for timeshares will likely ensue over the next 12 to 18 months. We believe that this is not a segment that will regain its 2006-07 sales levels and profitability of its products in the U.S./Caribbean until credit conditions stabilize and the housing market begins to rebound.

Downturn is Global. We believe a YOY decline of 7 to 9% revPAR in 2009 across Starwood's worldwide portfolio is likely. (Company's guidance is 4 to 5% decline Worldwide.)

Pipeline. According to Starwood, of the 110,000 rooms in the development pipeline, 60% are financed and under construction. Of these rooms, 66% are in the upper upscale and luxury segments and 62% are in international locations. We believe most of the financed pipeline will materialize. To be conservative, we estimate 50% of those would be delivered in the next three years in our projections.

****Please see disclaimer at end of report before reading****

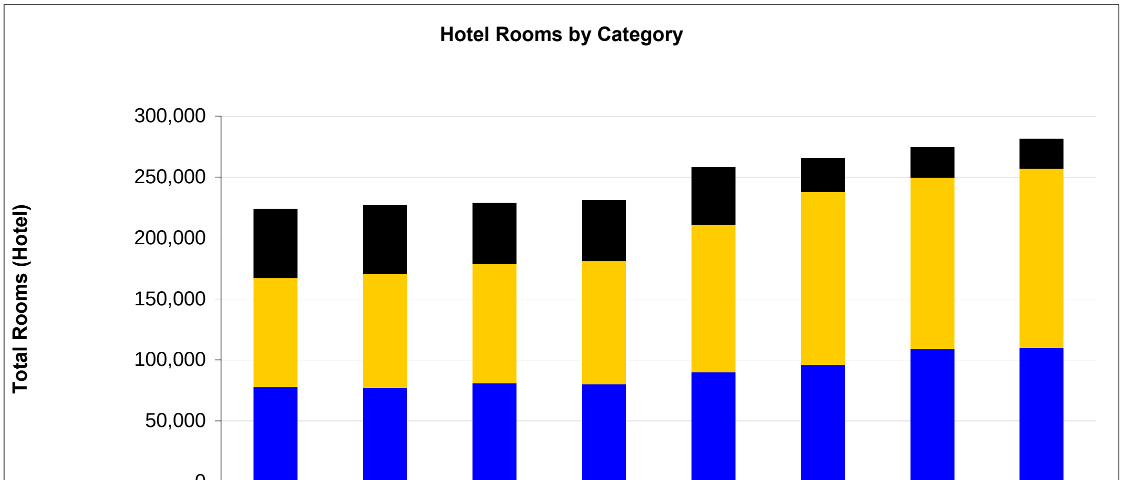
Industry and Company Overview

Innovative Steps Move Starwood Beyond the Luxury Market

Starwood is known for having some of the most distinctive brands in the hospitality industry, particularly in the upper upscale and luxury segments. They have craved out a niche in marketing unique lifestyle brands and have focused on delivering brand innovations since the inception of the company. Starwood is best known for their flagship brand – the "W". According to company data, 61%, 55%, and 47% of total Hotel revenue came from Starwood Preferred Guest members for W, St. Regis and Westin Hotel, respectively[i].

Starwood's operations are grouped into two business segments, hotels and vacation ownership and residential operations. The company's revenue and earnings are derived primarily from hotel operations, which include management and other fees earned from hotels it manages pursuant to management contracts, the receipt of franchise and other fees and the operation of its owned hotels.

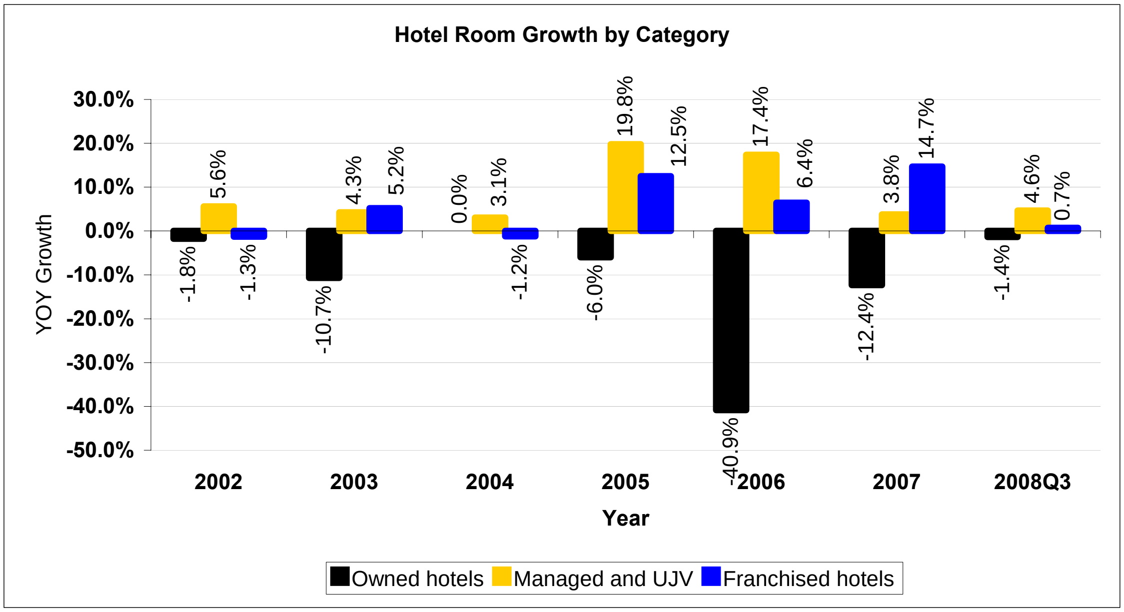
The hotel business emphasizes the global operation of hotels and resorts primarily in the luxury and upscale segment of the lodging industry. As of September 31, 2008, Starwood's hotel portfolio included owned, leased, managed and franchised hotels totaling 936 hotels, with approximately 281,000 rooms in approximately 100 countries, and is comprised of 75 hotels that the company own or lease or retain majority equity interest, 432 hotels managed by Starwood on behalf of third-party owners (including entities in which Starwood has a minority equity interest) and 429 hotels under franchise agreements.



	2001	2002	2003	2004	2005	2006	2007	2008Q3
Owned hotels	57,000	56,000	50,000	50,000	47,000	27,800	24,700	24,365
Managed and UJV	89,000	94,000	98,000	101,000	121,000	142,000	140,800	147,342
Franchised hotels	78,000	77,000	81,000	80,000	90,000	95,800	109,100	109,866

Source: Starwood 10-Qs and 10-Ks.

Starwood, like other hotel operating companies in the industry, has implemented a strategy of reducing its investment in owned real estate[ii] and increasing its focus on management and franchise business. As stated in their annual reports and letters to shareholders, the company has continued to maximize earnings and cash flow through growth of hotel management contracts and franchise agreements.



Source: Starwood 10-Qs and 10-Ks.

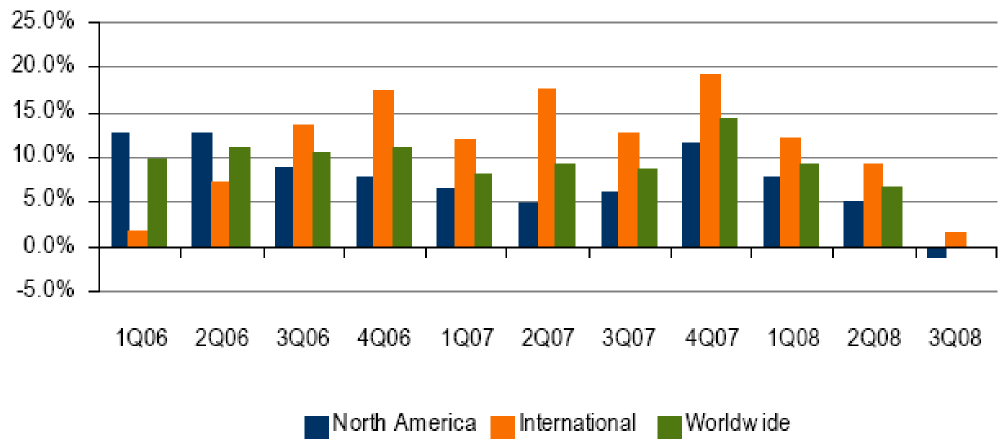
As discussed in our industry report, most of the branded properties are franchises, under which the operator pays the franchisor a fee for use of its hotel name and reservation system. The franchising business is fairly concentrated, with the six largest franchisors operating multiple brands accounting for a significant proportion of all U.S. rooms. Outside the United States, branding is much less prevalent and most markets are served primarily by independent operators, although branding is more common for new hotel development.[iii] Royalty fees typically range between 3% and 6% of room revenues.[iv]

Industry-wide, managed properties are typically structured with a base management fee, typically between 3% and 6%, with an added incentive fee ("promote" or "preferred interest") to the operator after an investor/owner achieves a preordained amount of return ("preference") net of fixed charges. In general, backend upside residual that the management ranges between 8% and 10% of this profit after a 10% owner preference has been achieved, depending on the contract terms.[v]

Franchised and management contracts typically last twenty years or longer.

Starwood has structured its international incentive fees with no owners' priority; as such the drop in international incentive fees will be less dramatic as the US incentive fees in the downturn. That said, we believe that such contract terms, however, are unlikely to remain sustainable over time. We expect less favorable management contract terms with new hotel contracts in the future, as additional competition in industry will force Starwood to offer terms more align with industry standards, which will likely be in the range of a 10% owner return preference, before profit sharing incentives kick in for the hotel management company.

Chart 1: Same-store RevPAR percentage change (owned, leased & consolidated JV)



Note: Results include the impact of FX translation. Source: Merrill Lynch, company documents

Economic Drivers, Lodging Industry

The performance of the hotel industry is closely linked to the performance of the economy. Research by PriceWaterhouseCoopers, PKF Consulting, and internal analysis[vi] have all confirmed a strong correlation between GDP and lodging demand.

One of the key metrics of assessing hotel profitability is Revenue per available room (RevPAR), which is calculated as the number of available rooms times the occupancy rate (percentage of rooms occupied), times average room price in dollars (ADR). This metric measures average dollars generated in room-sale revenue for each room available (sold and unsold).

Smith Travel Research (STR) is one of the leading data providers for the lodging industry. Their data is used by hotel operators, owners, and Wall Street analysts for their analysis. This metric does not include additional revenue sources (e.g. food and beverage) that are extremely profitable for full-service lodging companies such as Starwood. Based on industry statistics, room revenues typically comprise 55 to 65% of total revenues earned for full-service hotels.[vii]

Wall Street has long relied on RevPAR growth in analyzing lodging-stock performance. This metric, which incorporates components of occupancy and average daily (rental) rates (ADR), is particularly useful in gauging potential earnings in the managed and franchised segment.

For our analysis, we used Year over Year (YOY) RevPAR trends to estimate potential total revenues in the hotel segments (owned, managed, and franchised).

Overview, Timeshare/Vacation Ownership Interests (VOI)

Starwood also derives earnings from the development, ownership and operation of vacation ownership resorts, marketing and selling vacation ownership interests ("VOIs") in the resorts and providing financing to customers. Generally these resorts are marketed under the brand names including Westin, W, St. Regis, and Sheraton. The company also earns revenues and earnings, which are derived from the development, marketing and selling of residential units at mixed-use hotel projects owned by the company. The company as also earns fees from the marketing and selling of residential units at mixed use hotel projects developed by third-party owners of hotels operated under Starwood brands.

There are three components in the timeshare and residential business:

- Timeshares (one week intervals)
- Fractionals (4-week intervals)
- Condos

As of September 31, 2008, Starwood had 28 owned vacation ownership resorts and residential properties, including sites held for development, in the United States, Mexico, and the Bahamas. Approximately 40-50% of the timeshare business is in Hawaii.[viii]

Below is a matrix of VOI ownership products from Starwood's Timeshare presentation on November 2008.

		WESTIN	
% of Total YTD 2008 Contract Sales 1/ (originated sales)	35%	60%	5%
Price Range 2/	$8K - $120K/ Week	$14K - $125K/ Week	$176K - $760K/ Fraction
Average 2007 Contract Amount	~$16,400	~$32,400	~$400,000
Target Customer Household Income Age Net Worth	 >$50k 35-54 $75k - $750k	 >$75k 35-64 $150k - $1M	 >$150k 35-74 $1M+

1/ Excluding Harborside at Atlantis
2/ Price ranges based on annual products and of resorts in sales through September 2008

	Total Resorts	Resorts in Operation	Resorts in Active Sales	# Units 1/
	8	6	7	3,079
WESTIN	12	7	8	1,562
	2	2	2	63
Unbranded & JV	6	5	3	328
Total	28	20	20	5,032

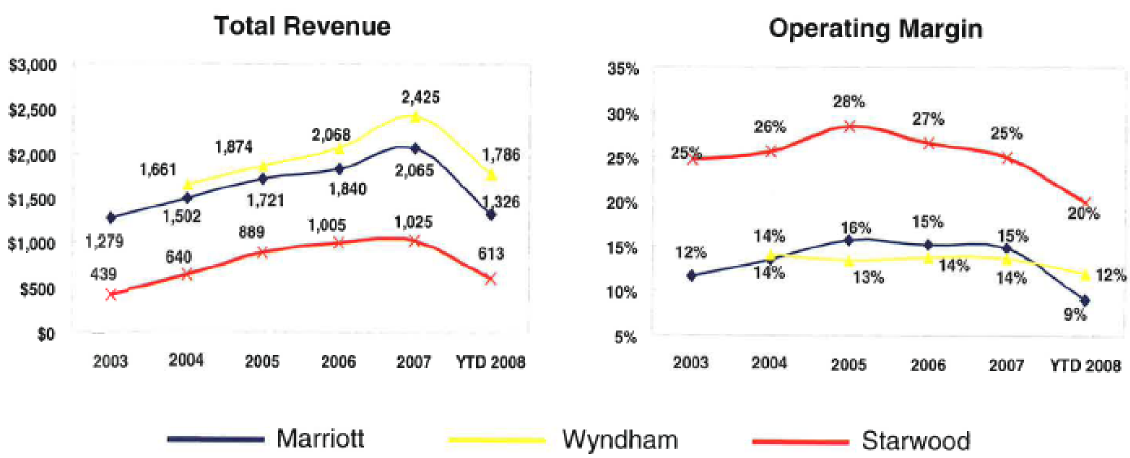
1/ Includes existing units and/or in active pre-sales / development
Updated through September 2008

As of 3Q 2008, the VOI segment has earned approximately $700 million in revenue YTD, or a 15% decline YOY. Anecdotally, VOI traffic and closings have generally dropped across multiple timeshare operators since summer 2008. Starwood specifically has seen originated contract sales for VOI inventories in 3Q2008 decline 29.5% YOY. As such, even though 3Q Timeshare results have exceeded our expectation partially due to the opening of St. Regis Singapore Residences ahead of schedule, we remained cautious with our longer-term outlook with this segment. Thus we do not expect 4Q or 2009 results to improve significantly. Given the current economic client with the general consumer's overall propensity to constrain spending, we have a rather pessimistic outlook on this segment.

Deteriorating credit conditions also continues to hamper the company's ability to securitize timeshare sales for revenues. The slowdown in demand has caused management to conserve capital by downsizing its timeshare SG&A and related spending, including CapEX, which was reflected accordingly in our valuation.

We estimate that the overall earnings from this segment will be approximately $400 million in 2009, primarily driven from the decline in demand for discretionary purchases. We believe the limited ability to access the securitization market in the near term will persist, thereby furthering constrain Starwood's ability to finance timeshare sales to its consumers.

As noted in Starwood's presentation, VOI operating margins has declined over the last few years. We assume operating margin will decline to 15% in our base case scenario.



Source: Starwood November 2008 Timeshare Presentation

Starwood securitizes or sells its timeshare notes. Total portfolio includes $496M net of loan loss provisions and $239M in off balance sheet securitizations. Total annual delinquency including default remains below 6%.[ix]

Starwood's VOI pipeline as of September 31, 2008.

Brand	# Resorts			# of Units (1)			
	Total (2)	In Operations	In Active Sales	Completed (3)	Pre-sales/ Development (4)	Future Capacity (5),(6)	Total at Buildout
Sheraton	8	6	7	2,781	298	1,394	4,473
Westin	12	7	8	1,333	229	972	2,534
St. Regis	2	2	2	63	-	-	63
The Luxury Collection	1	1	1	6	-	6	12
Unbranded	3	3	1	124	-	1	125
Total SVO, Inc.	26	19	19	4,307	527	2,373	7,207
Unconsolidated Joint Ventures (UJV's)	2	1	1	198	-	40	238
Total including UJV's	28	20	20	4,505	527	2,413	7,445
Total Intervals Including UJV's (7)				234,260	27,404	125,476	387,140

(1) Lockoff units are considered as one unit for this analysis.
(2) Includes resorts in operation and in active sales.
(3) Completed units include those units that have a certificate of occupancy.
(4) Units in Pre-sales/Development are in various stages of development (including the permitting stage), most of which are currently being offered for sale to customers.
(5) Based on owned land and average density in existing marketplaces
(6) Future units indicated above include planned timeshare units on land owned by the Company or applicable UJV that have received all major governmental land use approvals for the development of timeshare. There can be no assurance that such units will in fact be developed and, if developed, the time period of such development (which may be more than several years in the future). Some of the projects may require additional third-party approvals or permits for development and build out and may also be subject to legal challenges as well as a commitment of capital by the Company. The actual number of units to be constructed may be significantly lower than the number of future units indicated.
(7) Assumes 52 intervals per unit.

Closing thoughts. We believe that the timeshare business is a strategic fit for the company due to its traditionally high profit (20-25%) and cross leverage of Starwood's flags. However, we remain cautious on the current develop-own approach that the company is pursuing, as the high volatility of the development business seems to be ill-fitted to the long-term strategic approach of the franchise and management fee model that the company is pursuing. We are, however, quite encourage by a number of licensing agreements within the timeshare business, and believe that the greater stability in cash flow for the company will likely enhance its attractiveness to investors.

Selective-service brands alleviate pressure on luxury dependence

The launch of the Aloft and Element brand will enable Starwood to expand its reach in the select-service portfolio and will be a key driver of the company's future growth. Starwood has also revitalized its Four Points by Sheraton brand for expansion in international markets including China.

A snippet of the two brands from Starwood's press releases is included below:

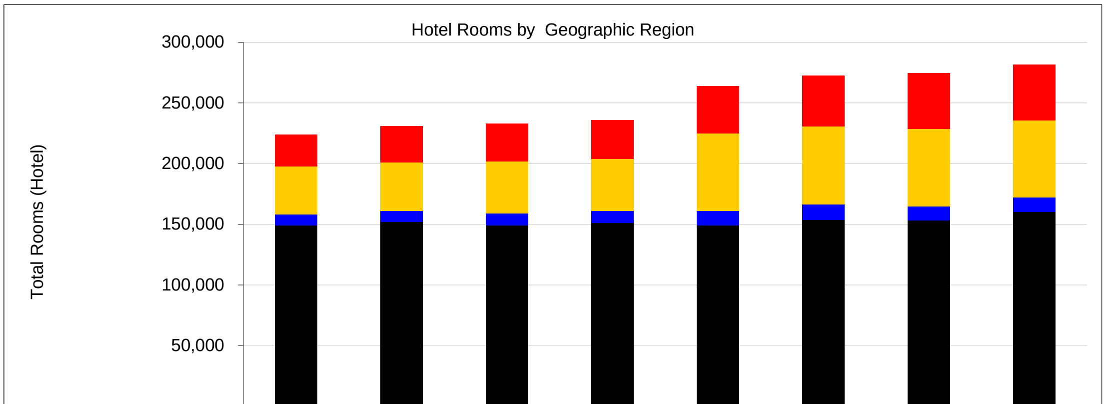
> *Conceived by the same team behind W Hotels, aloft follows the trend of ongoing democratization of design and an emerging segment of high style, low cost brands such as Mini Cooper, Target and West Elm. Featuring loft-like guest rooms, a buzzing bar scene in the open lobby, an urban-inspired grab-and go cafe and industrial design elements throughout, aloft hotels are a far cry from the conventional cookie cutter hotel brands that populate the select service space. Aloft is targeting proven markets throughout North America and dynamic international cities such as Bangalore, Bangkok and Brussels.*[x]

> *Inspired by Westin, Element establishes Starwood in the previously untapped extended stay category. Emphasizing smart design, clever use of space and natural touches, Element is focusing its early development efforts on proven markets in North America including urban centers, corporate business parks, airports, resorts and lifestyle centers, with an international rollout to follow.*[xi]

International Growth Year to date, over 55% of Starwoods fees, and over 85% of incentive fees, are generated outside of the United States.

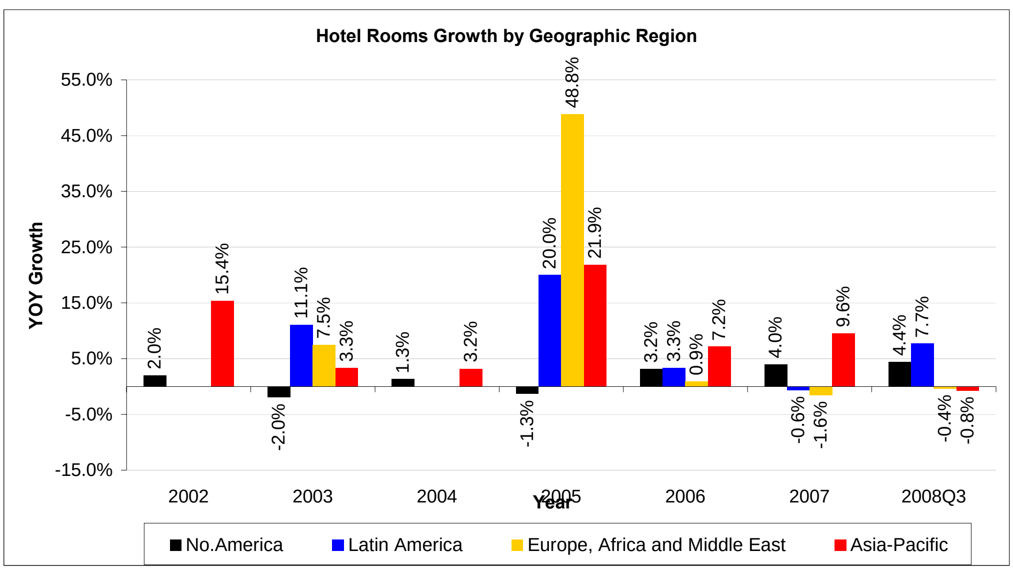
Majority of Starwood's international business is sourced locally. In Asia, 75% of their business is derived from travel within Asia, and only 12% are sourced from the US. In Europe, Africa, and the Middle East, 75% of business is sourced within the region, with 15% coming from the US.[xii]

The company opened 90 hotels this year and anticipates opening another 100 hotels in 2009.



	2001	2002	2003	2004	2005	2006	2007	2008Q3
Asia-Pacific	26,000	30,000	31,000	32,000	39,000	41,800	46,143	45,792
Europe, Africa and Middle East	40,000	40,000	43,000	43,000	64,000	64,600	63,823	63,588
Latin America	9,000	9,000	10,000	10,000	12,000	12,400	11,439	12,322
No.America	149,000	152,000	149,000	151,000	149,000	153,700	153,130	159,871

Source: Starwood 10-Qs and 10-Ks.



Source: Starwood 10-Qs and 10-Ks.

Cost cutting: Since 2008, Starwood has implemented additional cost cutting measures to soften margin erosion from decelerating RevPAR. 2008Q3 SG&A decreased 1.7% YOY. These efforts include implementing hiring freezes, renegotiations of procurement and vendor contracts, menu changes, operating hour reductions for the hospitality business, and closing underperforming sales centers for the VOI business.

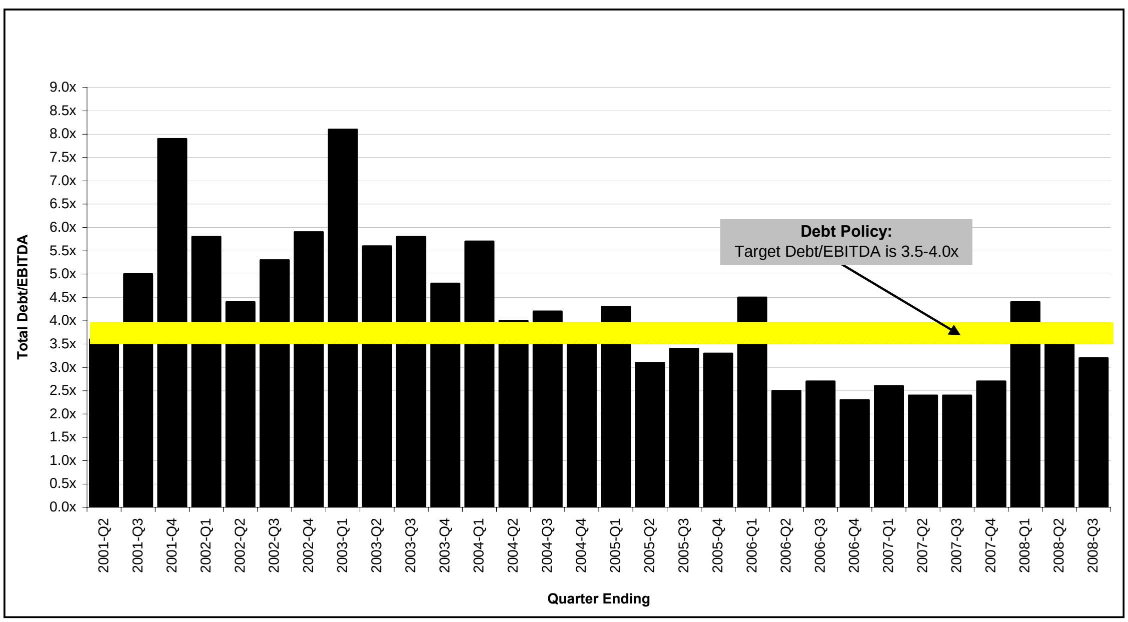
Management choices emphasize brand

A veritable revolving door in upper management has left no discernable effect on revenue and profit growth. And Starwood has continued to trod along its path emphasizing growth through a fee-based business model. However, we believe that stability in upper management is of great value, and thus remain cautiously optimistic regarding our perception of managements' ability to ride through the economic slowdown in the near term.

Starwood's current CEO, Frits van Paasschen, while lacking hospitality specific experience, has successfully created and marketed brands internationally at Coors and Nike. We believe that his expertise is consistent with Starwood's focus on creating and maintaining its position as the premier lifestyle hospitality brand in the luxury and upper upscale segments.

Financial Policy: Starwood is actively exploring asset dispositions. Proceeds from asset sales and free cash flow have been used for investments in growth[xiii] and share repurchases.

The company has a targeted leverage ratio of 3.5 to 4.0 Gross Debt over EBITDA. Over the past three years, the company carried gross debt from 3 to 4 billion dollars, at a leverage ratio between 2.5 and 4.5 Gross Debt over EBITDA. The goal is to maximize value from leverage while maintaining the company's investment grade status.[xiv]



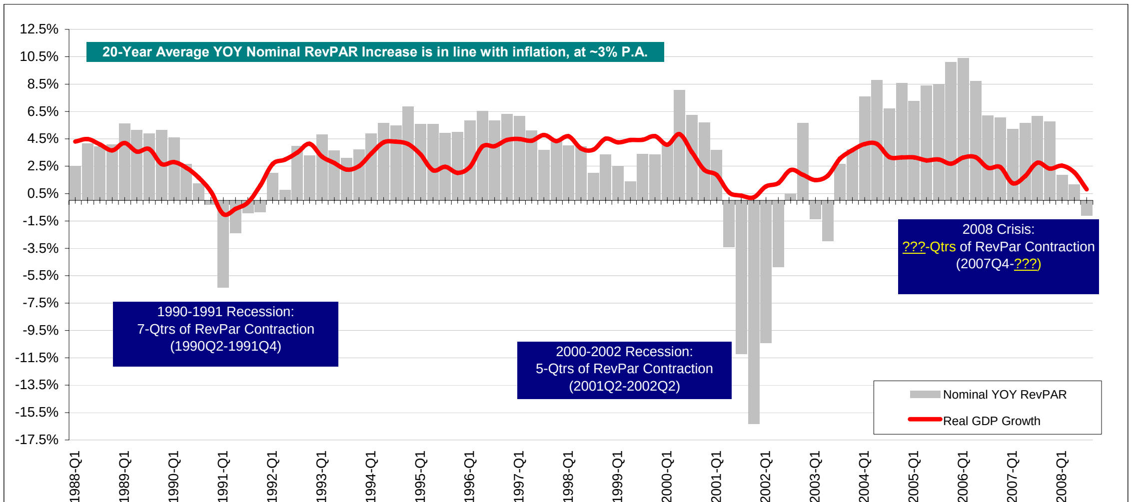
Source: Capital IQ

Reiterating Our Buy Recommendation

We are initiating coverage on Starwood with a Buy rating and a price target of $23. The target price represents an upside of 62% from the closing price of $14.38 on 11/24/08. Our price target is based on our belief of the degree and length of the economic downturn and its impact on the RevPAR and pipeline. We have also assumed a relatively pessimistic performance of the VOI business between 2008 and 2011.

Past cycles point to sharp declines in near-term revenue growth

Based on our analysis of YOY quarterly RevPAR growth in the last two recessions, we see RevPAR growth close to -9% in 2009 and essentially flat in 2010 for our base case scenario, a sharp contrast to the above average annual growth of 5% to 8% between 2004 and 2007.



Source: Smith Travel Research; BEA; SA Research© ; Note: Contraction period starts when YOY RevPAR growth declines below 3% for two or more consecutive quarters, and ends when positive RevPAR growth increases in two or more consecutive quarters

Much like the leisure (weekend) travel segment, which showed weakness earlier in the year, we are beginning to see occupancy declines with business weekday travel. Weekday occupancy is consistently performing 2% to 4% below last year's trends. While overall RevPAR, disguised through inflation level increases in ADR year to date, has held steady, declining occupancy is eating away at ADR hikes.

According to recent reports, commercial, group and leisure demand across the board have shown a downward trend. Cutbacks from investments banks and other institutions who are primary users of hotel rooms, meeting spaces, etc have decreased. Scott Berman, principal and US leader, Hospitality & Leisure consulting practice, PricewaterhouseCoopers LLP, has recently stated that cancellations (in 2009) of the group market are at 30%.

We believe the severity of the slowdown and its impact on the hospitality industry will be similar to what we observed from the last down cycles during the S&L and 2001 crises, and have constructed our base case scenario accordingly.

Investment Risks

- Worse than expected economic deterioration in duration
- Higher than expected timeshare delinquency rates
- Fundamental change in consumer travel behavior (e.g. significant "trade-down") or affinity to Starwood brand
- Foreign exchange volatility
- Stability of upper management and potential impact to brand distribution

Valuation Summary and Sensitivity Analysis

The target price is based on 3 valuation methodologies:

- DCF model under APV Method: Constant Proportion of Debt to Equity (“Constant Proportion”)
- DCF model under APV Method: Constant Dollar Debt
- Sum of Parts

In addition, we performed a sensitivity analysis around our assumptions for each methodology model. As shown in the table below, the primary variants are terminal growth rates and economic outlook assumptions as defined.

APV: Constant Proportion

			Terminal Growth Rate	
Beta/Discount Rate	Scenario	3.5%	4.0%	4.5%
Equity Beta=1.12, R_e=12.18%	Low	$10.79	$14.08	$18.35
	Base	$19.00	$23.29	$28.86
	High	$20.64	$25.10	$30.89
Equity Beta=1.25, R_e=13.16%	Low	$8.46	$11.17	$14.62
	Base	$15.97	$19.51	$23.99
	High	$17.49	$21.16	$25.83

APV: Constant Dollar Debt

			Terminal Growth Rate	
Beta/Discount Rate	Scenario	3.5%	4.0%	4.5%
Equity Beta=1.12, R_e=12.18%	Low	$24.63	$37.98	$76.30
	Base	$30.54	$44.50	$83.59
	High	$31.41	$45.45	$84.62
Equity Beta=1.25, R_e=13.16%	Low	$22.97	$35.98	$73.83
	Base	$28.33	$41.84	$80.30
	High	$29.13	$42.70	$81.24

Sum of Parts

			Terminal Growth Rate	
Beta/Discount Rate	Scenario	3.5%	4.0%	4.5%
Equity Beta=1.12, R_e=12.18%	Low	$28.95	$29.80	$30.75
	Base	$39.61	$40.54	$41.59
	High	$64.82	$65.85	$67.01
Equity Beta=1.25, R_e=13.16%	Low	$27.55	$28.23	$28.99
	Base	$38.06	$38.81	$39.64
	High	$63.10	$63.93	$64.85

Our low case scenario under the APV Constant Proportion method, was below the current stock price. This scenario reflects a recessionary scenario with RevPAR shocks slightly more drastic relative to the degree of September 11, and an extended economic deterioration of over 7 quarters. Over the past 40 years, RevPAR has never declined for more than four quarter before the 1990-91 downturn. During the 1990-91 and 2001 recessions, RevPAR declined for 7 and 5 consecutive quarters, respectively.

However, the severity of RevPAR declines differs during the two recessions. In the 1990-91 downturn, the decline (defined as periods when YOY RevPAR is less than its long term growth of 3% during recessionary period), was milder, but took 7 quarters before RevPAR growth exceeded zero. In contrast, the 2001 recession experienced a more severe but shorter period of RevPAR decline.

Business Cycle Reference Dates[1]		Duration in Quarters			During Contraction[2] Avg RevPAR Growth	
		Real GDP Growth	RevPAR Growth			
Peak	Trough	Peak to Trough[1]	Peak to Trough	Contraction[2]	Nominal	Real
July 1981(III)	November 1982 (IV)	6	NA	NA		
July 1990(III)	March 1991(I)	3	5	7	1.00%	-5.48%
March 2001(I)	November 2001 (IV)	4	6	5	-7.48%	-9.43%
2008 Crisis						

[1] As defined by BEA
[3]Excluding 2001Q3 drop of -16.34% (nominal), -17.9% (real)
[2]RevPAR contraction period ends when YOY growth exceeds 0%.

As such, we believe that this scenario is highly unlikely and feel confident with our Buy rating Scenarios, which we define as the 4% long-term growth rate of base case scenario using the APV – Constant Proportion.

Please note that we have ignored cash flows from 2008, and the valuation is based on cash flows beginning 1/1/2009.

Methodology: APV- Constant Proportion					
	Terminal Growth Rate				
Scenario	3.0%	3.5%	4.0%	4.5%	5.0%
Low	$8.18	$10.79	$14.08	$18.35	$24.15
Base	$15.61	$19.00	$23.29	$28.86	$36.40
High	$17.11	$20.64	$25.10	$30.89	$38.73

The base case scenario under both APV methodologies estimate 2009 EBITDA to be $889M, or approximately 11% below company guidance based on their 2008Q3 earning call on October 23, 2008.

Valuation

Top Line Revenue Growth: Based on an analysis of previous downturns, its length, severity in real GDP declines, and subsequent impact on RevPAR, we project a slightly more negative outlook relative to Starwood's recent guidance as presented in their 3rd Quarter earnings call. But we still believe that there is sufficient upside to warrant a buy rating.

We've constructed our base case scenario based on the historical data during the last recession as tabulated below.

Qtr	Δ RevPAR	Qtr	Δ RevPAR	Adj.*	Qtr	Δ RevPAR
1990-Q2	2.7%	2001-Q1	3.7%		2008-Q2	1.2%
1990-Q3	1.2%	2001-Q2	-3.4%		2008-Q3	-1.1%
1990-Q4	-0.3%	2001-Q3	-11.2%		2008-Q4	-12.0%
1991-Q1	-6.4%	2001-Q4	-16.3%	-10.8%	2009-Q1	-10.8%
1991-Q2	-2.4%	2002-Q1	-10.4%		2009-Q2	-10.4%
1991-Q3	-0.9%	2002-Q2	-4.9%		2009-Q3	-4.9%
1991-Q4	-0.9%	2002-Q3	0.5%		2009-Q4	-0.2%
1992-Q1	2.0%	2002-Q4	5.7%		2010-Q1	3.8%
1992-Q2	0.8%	2003-Q1	-1.4%		2010-Q2	0.0%
1992-Q3	4.0%	2003-Q2	-3.0%		2010-Q3	0.5%

In general, the descriptive assumptions for our three scenarios are as follows:

- Scenario 1: Base Case – 5 quarters of RevPAR decline, beginning 2008Q4.
- Scenario 2: Low Case – extended recession similar to 1990/1 with greater severity in RevPAR decline similar to degree of 2001/2 recession. RevPAR decline by 1.25x base case. 7 quarters of RevPar decline.
- Scenario 3: High Case – mild recession, severity similar to 1990/91. RevPAR decline by 0.75x base case. 5 quarters of RevPar decline.

Nominal RevPAR Growth					
Scenario	Description	QTRs of Contraction	Avg. RevPAR Decline	Max RevPAR Decline	Comments
1	Base Case	5	-9.60%	-12.00%	2001 Contraction Period, 2001 Max RevPAR Decline
2	Low Case	7	-9.84%	-13.52%	1.25x 2001 RevPAR Decline, 1990 Contraction Period
3	High Case	5	-7.80%	-12.00%	2001 Contraction Period, 2001; 0.75x Base Case Decline

From there we constructed our annualized revPAR assumptions using quarterly base case assumptions to establish an annualized RevPAR for our model.

Scenario 1: Base Case					
2007	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 112.36	$ 123.97	$ 123.98	$ 125.19	$ 121.38
2008	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 121.79	$ 135.91	$ 128.28	$ 110.17	$ 124.04
YOY Increase	8.4%	9.6%	3.5%	-12.0%	2.2%
2009	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 108.62	$ 121.74	$ 117.52	$ 103.16	$ 112.76
YOY Increase	-10.8%	-10.4%	-8.4%	-6.4%	-9.1%
2010	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 108.62	$ 122.35	$ 118.69	$ 103.16	$ 113.21
YOY Increase	0.0%	0.5%	1.0%	2.0%	0.4%

Scenario 2: Low Case, 7 Qtrs of Contraction, max decline 1.25X Base Case					
2008	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 121.79	$ 135.91	$ 128.28	$ 110.17	$ 124.04
YOY Increase	8.4%	9.6%	3.5%	-12.0%	2.2%
2009	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 105.33	$ 118.20	$ 114.82	$ 101.41	$ 109.94
YOY Increase	-13.5%	-13.0%	-10.5%	-7.9%	-11.4%
2010	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 96.96	$ 113.50	$ 114.82	$ 101.41	$ 106.67
YOY Increase	-7.9%	-4.0%	0.0%	1.0%	-3.0%

Scenario 3: High Case, 5 Qtrs of Contraction, max decline 0.75X Base Case)					
2008	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 121.79	$ 135.91	$ 128.28	$ 110.17	$ 124.04
YOY Increase	8.4%	9.6%	3.5%	-12.0%	2.2%
2009	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 111.91	$ 125.28	$ 120.21	$ 104.91	$ 115.58
YOY Increase	-8.1%	-7.8%	-6.3%	-4.8%	-6.8%
2010	**1Q**	**2Q**	**3Q**	**4Q**	**Average**
REVPAR ($)	$ 111.91	$ 125.75	$ 121.11	$ 104.91	$ 115.92
YOY Increase	0.0%	0.4%	0.8%	1.5%	0.3%

Source: Smith Travel Research; BEA; SA Research©

We then take the annualized RevPAR growth estimates and constructed scenarios with varying degrees of sales growth, margins analysis, etc, for the five years that we are forecasting.

Scenario		2008 E	2009 E	2010 E	2011 E	2012 E
1	Owned Hotel Growth Rate	*-4.0%*	*-2.0%*	*0.0%*	*0.0%*	*0.0%*
1	RevPAR Growth	2.2%	-9.1%	0.4%	1.0%	2.0%
1	Franchised Room Growth	5.0%	2.0%	1.0%	1.5%	2.0%
1	Managed Room Growth	6.0%	2.0%	1.0%	1.5%	2.0%
1	VOI Sales Growth	-30.0%	-40.0%	-30.0%	-10.0%	0.0%
1	Owned, leased and consolidated joint venture hotels, Gross Margin	23.0%	23.0%	23.0%	23.0%	24.5%
1	VOI, Gross Margin	15.0%	15.0%	15.0%	15.0%	15.0%
1	SG&A (% of Net Hotel Rev)	12.3%	12.3%	12.3%	12.3%	12.3%
1	Depreciation (% of owned hotel rev)	11.7%	11.7%	11.7%	11.7%	11.7%
2	Owned Hotel Growth Rate	*-4.0%*	*-2.0%*	*0.0%*	*0.0%*	*0.0%*
2	RevPAR Growth	2.2%	-11.4%	-3.0%	1.0%	2.0%
2	Franchised Room Growth	5.0%	1.5%	0.8%	1.1%	1.5%
2	Managed Room Growth	6.0%	1.5%	0.8%	1.1%	1.5%
2	VOI Sales Growth	-30.0%	-45.0%	-35.0%	-15.0%	0.0%
2	Owned, leased and consolidated joint venture hotels, Gross Margin	22.0%	22.0%	22.0%	22.0%	22.0%
2	VOI, Gross Margin	12.0%	12.0%	12.0%	12.0%	12.0%
2	SG&A (% of Net Hotel Rev)	12.3%	12.3%	12.3%	12.3%	12.3%
2	Depreciation (% of owned hotel rev)	11.7%	11.7%	11.7%	11.7%	11.7%
3	Owned Hotel Growth Rate	*-4.0%*	*-2.0%*	*0.0%*	*1.0%*	*1.0%*
3	RevPAR Growth	2.2%	-6.8%	0.3%	1.0%	2.0%
3	Franchised Room Growth	5.0%	2.0%	1.0%	1.5%	2.0%
3	Managed Room Growth	6.0%	2.0%	1.0%	1.5%	2.0%
3	VOI Sales Growth	-30.0%	-40.0%	-30.0%	-10.0%	0.0%
3	Owned, leased and consolidated joint venture hotels, Gross Margin	23.0%	23.0%	24.5%	24.5%	25.0%
3	VOI, Gross Margin	15.0%	15.0%	15.0%	15.0%	15.0%
3	SG&A (% of Net Hotel Rev)	12.3%	12.3%	12.3%	12.3%	12.3%
3	Depreciation (% of owned hotel rev)	11.7%	11.7%	11.7%	11.7%	11.7%

Revenue growth for various segments are estimated based on historical regression of data series from Starwood's 10-Qs and 10-Ks. The results of the relationship are represented below:

Owned hotel revenue is expressed as:

Ln(Gross Rev) = 5.31B + 1.06K * Ln(No.Hotels) + 0.94 * Ln(RevPar) or

Gross Rev = exp (Ln(Gross Rev))

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.99
R Square	0.97
Adjusted R Square	0.97
Standard Error	0.04
Observations	34

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	1.94	0.97	524.87	0.00
Residual	31	0.06	0.00		
Total	33	2.00			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	5.31	0.59	9.04	0.00	4.11	6.51	4.11	6.51
Ln(Hotel)	1.06	0.05	23.55	0.00	0.97	1.16	0.97	1.16
Ln(RevPAR)	0.94	0.08	11.54	0.00	0.77	1.10	0.77	1.10

Franchised Fee Revenue/Room is expressed as:

Rev/Room = -166 + 13 * (RevPAR)

Regression Statistics	
Multiple R	0.97
R Square	0.94
Adjusted R Square	0.93
Standard Error	39.92
Observations	13

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	265,855.12	265,855.12	166.81	0.00
Residual	11	17,531.56	1,593.78		
Total	12	283,386.68			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-166.53	120.13	-1.39	0.19	-430.93	97.87	-430.93	97.87
RevPar	13.26	1.03	12.92	0.00	11.00	15.52	11.00	15.52

Managed Fee (Base and Incentive) Revenue is expressed as:

Ln(Gross Rev) = -6.75 + 0.625 * Ln(managed rooms) + 1.12 * Ln(RevPar) or

Gross Rev (in millions) = exp (Ln(Gross Rev))

Regression Statistics	
Multiple R	0.93
R Square	0.86
Adjusted R Square	0.83
Standard Error	0.10
Observations	13

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	0.59	0.29	30.16	0.00
Residual	10	0.10	0.01		
Total	12	0.69			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-6.75	1.72	-3.93	0.00	-10.59	-2.92	-10.59	-2.92
ln(mgmt rooms)	0.625	0.26	2.37	0.04	0.04	1.21	0.04	1.21
ln(revpar)	1.12	0.53	2.12	0.06	-0.06	2.30	-0.06	2.30

An additional adjustment for other revenues (from affiliated products) is made based on historical trends.

Margin Analysis

Downward adjustments to VOI sales and margins reflects our assessment of originated pre-tax margin data as provided through the following sources: Starwood Timeshare Presentation, November 6, 2008; Northcourse's 2008 Fractional Interest Report; Ragatz Associates's 2007 Shared-Ownership Industry Study; Powanga's article "An economic analysis of a timeshare ownership"; and Lee's article "No Time Out for Timeshares"

We made additional downward adjustments to gross profit margins of various segments based on historical observations of gross profit margins over the past decade. These adjustments are informed by Starwood's past performance as well as additional research on common-sized income statement data from PKF Consulting and Smith Travel's HOST study to inform overall performance that can be achieved in the hotel industry.

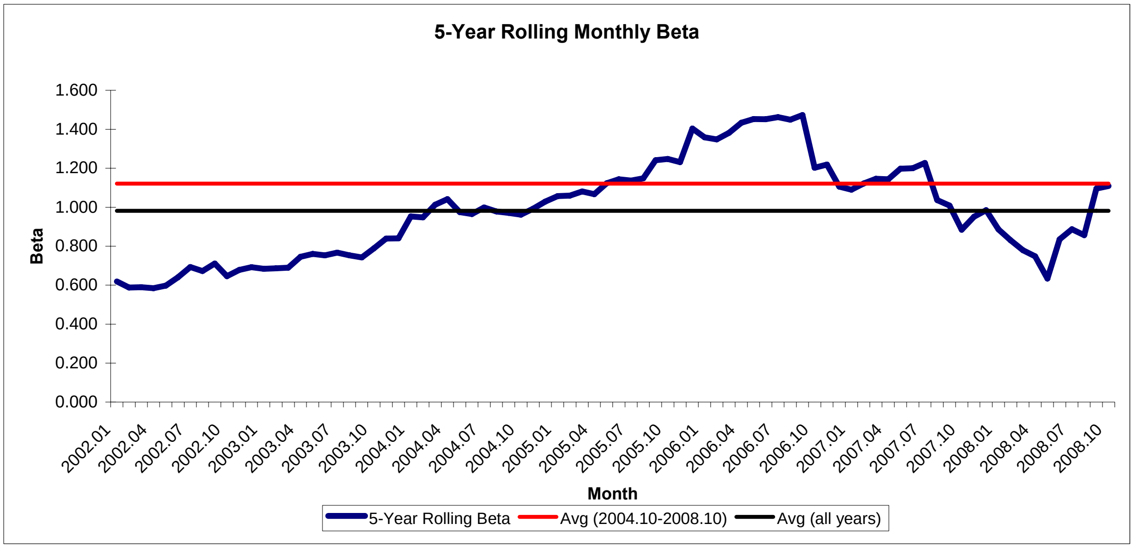
Capital expenditures are estimated based on historical company expenditures of the various categories. We've used historical rolling average (as a percent of categorical sales) for all CapEx estimates, except for VOI, where the company has expressed a cutback due to slowdown with near-term demand.

Additional "capital expenditures" relating to VOI construction costs of units for sale (inventories) are allocated to "inventories" and are accounted for under changes in working capital. 2008 and 2009 VOI inventory expenditures are adjusted per company guidance.[xv] For instance, 2009 figures include already allocated expenditure for Starwood's Bal Harbour project.

Other adjustments and basis on valuation assumptions can be found on the comments column in the attached valuation appendix.

Beta

Starwood's beta is computed by estimating the regression between the stock's total monthly return against dividend adjusted market return for the period between April 1996 and December 2007. As the beta has gradually converge to one as Starwood moves most of its hotel business towards a fee-based model. For our analysis, we used the average of the 5-year rolling betas between October 2004 and October 2008, or 1.12.



Source: WRDS - CRSP file (1997-2007); Yahoo Finance, HOT (2008.01-2008.10); Wilshire 5000 Total Return (2008.01-2008.10)

Foreign Currency Assumptions

As noted in Starwood's 3Q earnings call: "A 1% change in the US dollar versus a basket of foreign currencies impact Company-wide EBITDA by approximately 5 million [for 2009]."[xvi] Based on observation of foreign exchange impact on EBITDA, we believe this correlation is negative (i.e. a 1% increase in US Dollars will negatively impact EBITDA by approximately 5 million.) To reflect the Starwood's portfolio of increasingly global expansions, we scaled the impact by the number of rooms added to the system, assuming that 75% of room growth is contributed by oversea markets.

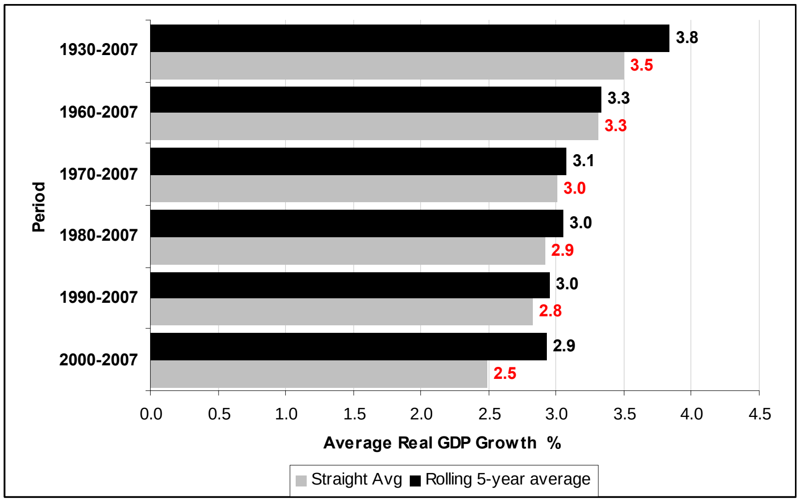
We estimated volatility of foreign exchange impact using monthly series between January 1973 and November 2008 of Foreign Exchange (Nominal) Major Currency Dollar Index[xvii] provided by the Federal Reserve Bank. In considering foreign exchange impact for the free cash flow analysis, we have assumed that the YTD foreign exchange impact is our best estimate for revenue adjustments in 2008. Additionally, we have assumed a general US Dollar appreciation of 6%[xviii] from 2009 through 2011, based on the prediction that the dollar (index) will stabilize at January 2003 level, when the index is 100.

Terminal Growth Rate

We predict the long-term growth rate for the industry will be 4% to 5%.

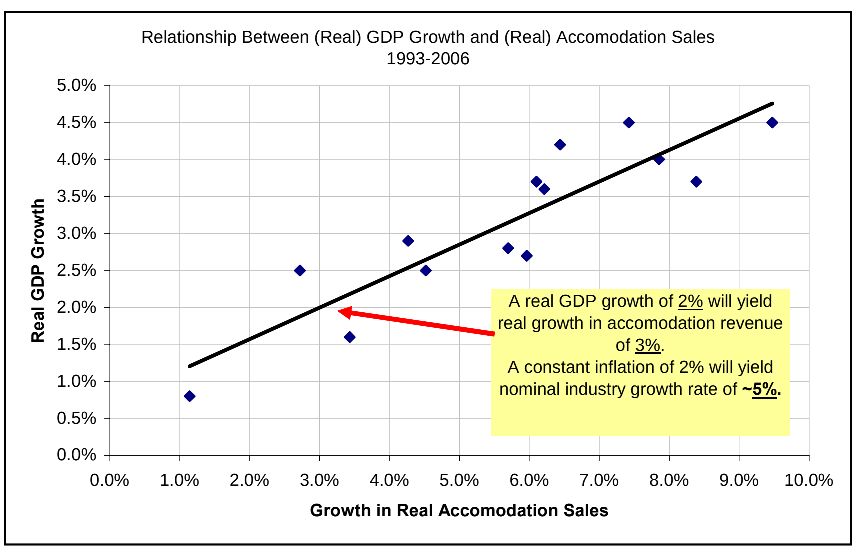
This estimate is in line with revenue growth rate as observed from Accommodation Revenue (nominal) series between 1993 and 2006 from Retail Trade Data survey provided by the U.S. Census Bureau. Using this data, we calculated the real accommodation revenue using CPI index as provided by the Bureau of Labor Statistics. We then estimated year over year growth of real revenues between 1994 and 2006. As shown in scatter chart in the following page, there is a strong relationship between real growth of lodging revenue and real GDP.[xix]

Average annual real GDP growth rate for the US has been declining steadily over the past several decades. (See figure below.)



Thus,we conservatively predict the long-term real GDP growth rate will be between 1.5 and 2.0 percent, yielding a real industry growth rate of approximately 2% to 3% (see chart). Based on historical CPI data, we estimate an long-term inflation of 2% per annum, **resulting in a nominal long-term industry growth rate of 4% to 5%**.

We assumed a base case scenario of 4% in our projections.



Source: Annual Accommodation and Food Services - 2006, Retail Trade Data, US Census;
Bureau of Economic Analysis (GDP Data); Bureau of Labor Statistics (CPI); SA Research ©

Assumptions for APV Constant Proportion - Illustrative (Base Case)

Please refer to model printout in the appendix section for final values used.

Discount Rate and Factor:	**Value**	**Source**
B_E	1.12	Average 5-Year Rolling Beta (2004.10-2008.10) is 1.12
D/E	1.55	
Debt ($B)	4.07	Book value, 10-Q (September 31, 2008)
Equity ($B)	2.63	Market Cap
R_A	7.83%	Calculated below
R_D	4.97%	RF + Debt Premium
R_E	12.18%	
R_F	3.76%	10-year Treasury, Bloomberg (11/11/2008)
$R_{M\text{-premium}}$	7.52%	WRDS; CRSP File FarmaFrench. Mkt Return 1926.01-2007.12
T_C	32.00%	Per Starwood Guidance, 2008/10/21
(A): $1-[(T_C R_D)/(1+R_D)]$	0.98	
(B): 1+D/E*(A)	2.52	
(C): D/E*(A)	1.52	
Growth Rate	4.00%	Industry growth rate is approximately 4-5% (nominal)
Debt Rating	BBB-	S&P, 2008/10/25
Interest Rate	5.72%	Avg Int Rate: 5.72% per 10-Q (2008Q3)
Debt Risk Premium	1.21%	(16)-(17)
(16) LB CCC Hi-Yield TR	10.12%	Realized Yield (CAPM Lecture)
(17) ML 5-10 Yr Treasury TR	8.91%	Realized Yield (CAPM Lecture)

Cost of Debt Calculation		
(A)Current Yield on Starwood Bonds	12.65%	Average, as of 11/21/2008, Bloomberg
(B) Current Yield on 5-Year Treasury	2.20%	
Promised Yield		
Starwood Bonds	10.45%	(A)-(B)
BB Bonds	9.38%	CAPM Lecture
B Bonds	11.77%	CAPM Lecture
CCC Bonds	18.53%	CAPM Lecture

Assumptions for APV Constant Dollar Debt – Illustrative (Base Case)

Please refer to model printout in the appendix section for final values used.

Discount Rate and Factor:	**Value**	**Source**
B_E	1.12	Average 5-Year Rolling Beta (2004.10-2008.10) is 1.12
D/E	1.55	
Debt ($B)	4.07	Book value, 10-Q (September 31, 2008)
Equity ($B)	2.63	Market Cap
R_A	8.48%	Calculated below
R_D	4.97%	RF + Risk Premium
R_E	12.18%	
R_F	3.76%	10-year Treasury, Bloomberg (11/11/2008)
$R_{M\text{-}premium}$	7.52%	WRDS; CRSP File FarmaFrench. Mkt Return 1926.01-2007.12
T_C	32.00%	Per Starwood Guidance, 2008/10/21
Growth Rate	4.00%	Industry growth rate is approximately 4-5% (nominal)
Debt Rating	BBB-	S&P, 2008/10/25
Interest Rate	5.72%	Avg Int Rate: 5.72% per 10-Q (2008Q3)
Debt Risk Premium	1.21%	(16)-(17)
(16) LB CCC Hi-Yield TR	10.12%	Realized Yield (CAPM Lecture)
(17) ML 5-10 Yr Treasury TR	8.91%	Realized Yield (CAPM Lecture)

Cost of Debt Calculation		
(A)Current Yield on Starwood Bonds	12.65%	Average, as of 11/21/2008, Bloomberg
(B) Current Yield on 5-Year Treasury	2.20%	
Promised Yield		
Starwood Bonds	10.45%	(A)-(B)
BB Bonds	3.31%	CAPM Lecture
B Bonds	5.70%	CAPM Lecture
CCC Bonds	12.46%	CAPM Lecture

Sum of Parts Analysis

We conducted a sum of parts analysis, whereby we break apart the company and sell off its assets.

Owned hotels are treated like real estate. High quality urban hotels, such as the ones in Starwood's portfolio trade between $300K and $700K per room. Starwood's recent sale of its iconic hotel, Turnberry, yielded nearly $500K per room. Mandarin Oriental, St. Regis, and Ritz Carlton assets in highly sought areas, such as NYC, have traded upwards of $1M per room.

Managed/Franchised Fee revenues are largely stable revenues over long periods of time. For simplicity, we use the dividend discount model to estimate the value of fee revenues over time.

Value for Vacation Ownership Interests is calculated using a methodology similar to residual land analysis. We began by estimating the value of undeveloped intervals[xx] if they were developed today, using average interval prices per Starwood's Timeshare Presentation (see VOI section). We assumed that the majority of the units will be developed at the Sheraton/Westin level (versus St. Regis). We factored in a discount to compensate wholesale arrangements, joint-venture interests, or developer profit to arrive at the total wholesale value of the land. We assumed 80% of the value will be required to cover construction, marketing, interim overhead costs of the developer, leaving 20% of wholesale value to the land.

We arrive at the enterprise value of the firm by summing up the value of the segment that it owns, subtracted out debt obligations to arrive at the equity value. We divided the equity value by the number of shares outstanding to arrive at the equity value per share.

Segment/Factors	Base	Low	High
Owned Hotel			
Number of Owned Hotel Rooms (as of 2008Q3)	24,365	24,366	24,367
Avg Price Per Room (Mkt Price $300K-$700K/Room)	$300,000	$250,000	$450,000
Value of Owned Hotel (M)	**$7,310**	**$6,092**	**$10,965**
Managed/Franchised Fees ($M)			
Revenues, 2009 (M)	$700	$650	$750
SG&A, as % of Rev	15%	15%	15%
Operating Profit	$595	$553	$638
FX Impact	($30)	($30)	($30)
EBITDA	$565	$523	$608
Amortization	($21)	($21)	($21)
Interest Expense (Debt = 3.75x EBITDA, Interest = 5.75%)	($121)	($112)	($130)
Taxable Income	$423	$390	$456
Taxes, 32%	($135)	($125)	($146)
Capital Expenditure	($66)	($66)	($63)
Add back Amoritzation	$21	$21	$21
Cash Flow	$242	$220	$268
Value Using Dividend Discount Model: CF/(Re-G)	**$2,961**	**$2,684**	**$3,279**
Growth Rate, G	4.00%	4.00%	4.00%
COC, Re	12.18%	12.18%	12.18%
VOI			
Future Pipeline, Intervals not in Development	125,476	125,476	125,476
Avg Price Per Interval	$65,000	$40,000	$100,000
Wholesale Discount	75%	75%	75%
Total Wholesale Value ($M)	$6,117	$3,764	$9,411
Land to Value	20%	20%	20%
VOI Land Value	**$1,223**	**$753**	**$1,882**
Enterprise Value	**$11,494**	**$9,528**	**$16,126**
Less Debt	($4,074)	($4,074)	($4,074)
Equity Value	$7,420	$5,454	$12,052
Shares Outstanding (M)	183	183	183
Value per Share	**$40.54**	**$29.80**	**$65.85**

Appendix I:

- APV Model – Constant Ratio *Base Case, 4% Growth Rate*
- Free Cash Flow
- Balance Sheet
- Income Statement
- Cash Flow Statement
- Working Capital Calculation

Scenario: 1	APV - Constant Ratio					
Free Cash Flow	**Comments**	**2008 E**	**2009 E**	**2010 E**	**2011 E**	**2012 E**
Revenue (in $M, except RevPAR figures)						
Owned Hotels						
No.Hotels (3Q)		77	75	75	75	75
Growth YOY%		*-4.0%*	*-2.0%*	*0.0%*	*0.0%*	*0.0%*
RevPar (Owned Hotels)		$164	$149	$150	$151	$154
Growth YOY%		*2.2%*	*-9.1%*	*0.4%*	*1.0%*	*2.0%*
Owned Hotels, Rev		**$2,426**	**$2,171**	**$2,179**	**$2,200**	**$2,241**
Management fees, franchise fees and other income						
Systemwide RevPar		$125	$114	$114	$116	$118
Growth YOY%		*2.2%*	*-9.1%*	*0.4%*	*1.0%*	*2.0%*
Franchised						
# Rooms (Avg)		109,271	111,457	112,571	114,260	116,545
Growth YOY%	*01-08: Avg. An growth 4-5%*	*5.0%*	*2.0%*	*1.0%*	*1.5%*	*2.0%*
Franchised Revenue		$163	$150	$152	$156	$163
Managed - Base and Incentives						
# Rooms (Avg)		149,891	152,889	154,418	156,734	159,869
Growth YOY%	*01-08: Avg. An growth 9-10%*	*6.0%*	*2.0%*	*1.0%*	*1.5%*	*2.0%*
Managed - Revenues		$456	$415	$419	$428	$443
Franchise_Mgmt Rev, Total		$619	$565	$571	$584	$606
Adj for Other Income (of Franchsed/Mgmt Rev)	25%	$155	$141	$143	$146	$151
Managed, Franchised, and Others - Total		**$774**	**$706**	**$714**	**$730**	**$757**
Vacation ownership and residential sales and services		**$718**	**$431**	**$301**	**$271**	**$271**
Growth YOY%		*-30.0%*	*-40.0%*	*-30.0%*	*-10.0%*	*0.0%*
Total Revenue		$3,917	$3,308	$3,195	$3,201	$3,269
Growth YOY%		-9%	-16%	-3%	0%	2%
Operating Expenses						
Owned, leased and consolidated joint venture hotels	*25-26% 2006-7*	($1,868)	($1,672)	($1,678)	($1,694)	($1,693)
Owned, leased and consolidated joint venture hotels, Gross Margin	*23.9% Avg. 2003-2005*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*24.5%*
Vacation ownership and residential		($610)	($366)	($256)	($231)	($231)
VOI, Gross Margin	*25.0% Avg. 2003-2007*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Selling, general, administrative and other		($393)	($353)	($355)	($359)	($368)
SG&A (% of Gross Hotel Rev)	*12.3% Avg. 2003-2007*	*12.3%*	*12.3%*	*12.3%*	*12.3%*	*12.3%*
FX Impact						
Dollar FX Volatility	%	12	6	6	6	0
Per 1% Δ Scaled by room growth, assuming 75% room growth is intl	$5M/1% Change	$5.0	$5.0	$5.0	$5.1	$5.2
Impact		($58)	($30)	($30)	($30)	$0
EBITDA		**$989**	**$887**	**$876**	**$887**	**$978**
Growth YOY%		-24%	-10%	-1%	1%	10%
Taxes	32%	($317)	($284)	($280)	($284)	($313)
Δ Working capital		$385	$538	($71)	($135)	($158)
Δ Restricted Cash		$20	$20	$20	$20	$20
Net Operating Cash Flow after Taxes		**$1,078**	**$1,161**	**$545**	**$488**	**$528**
CapEx						
Owned Hotels		($203)	($185)	($190)	($191)	($193)
Corporate/IT		($64)	($66)	($62)	($62)	($67)
VOI		($56)	($9)	($6)	($12)	($14)
CapEx, as % of Category Rev						
Owned Hotels	*100% of 5-Yr Rolling Avg*	8%	9%	9%	9%	9%
Corporate/IT (Managed/Franchised)	*100% of 5-Yr Rolling Avg*	8%	9%	9%	9%	9%
VOI	*5-year Average 6-10%*	8%	2%	2%	4%	5%
Unlevered Free Cash Flow to Firm		**$756**	**$902**	**$286**	**$223**	**$255**

Scenario: 1	APV - Constant Ratio					
APV Calculation		**2008 E**	**2009 E**	**2010 E**	**2011 E**	**2012 E**
Terminal Value Calculation						
Terminal Value Growth Rate						4.0%
Projected Free Cash Flow						$265
Teminal Enterprise Value						$6,930
Discount Rate for CF, R_A	7.83%					
Discount Factor		1.00	1.08	1.16	1.25	1.35
Discounted Unlevered Cash Flows						
Unlevered Free Cash Flow			$836	$246	$178	$189
Terminal Value						$5,126.69
Total PV of Unlevered FCF			**$6,575**			
Debt Tax Shield						
Debt Value *(Current Outstanding) - Target Debt/EBITDA*	3.75 x	$4,074	$3,533	$3,300	$3,300	$3,700
Interest Expense	5.72%	$233	$202	$189	$189	$212
Tax Rate	32.0%					
Tax Shield		$75	$65	$60	$60	$68
Terminal Value/ Growth Rate	4.00%					4.0%
Projected Free Cash Flow						$70
Teminal Enterprise Value @ Discount Factor, R_A	7.83%					$1,841
Discounted Unlevered Cash Flows - Tax Shield						
Tax Shield			$65	$60	$60	$1,909
Discount Factor			3.76%	7.83%	7.83%	7.83%
		1.000	1.038	1.119	1.206	1.301
PV Tax Shield		$0	$62	$54	$50	$1,467
Total PV of Unlevered FCF			$1,634			
Ent Val of HOT (PV of Equity + PV Debt TS)			$8,209			
Debt Value (as of September 2008)			($4,074)			
Cash (as of September 2008)			$127			
Equity Value ($M)			$4,262			
No. Shares Outstanding (th)			183,029			
Value Per Share			$23.29			
Current Price			14.38	11/24/2008		
% Difference			62%			

Discount Rate and Factor:	**Value**	**Source**
B_E	1.12	Average 5-Year Rolling Beta (2004.10-2008.10) is 1.12
D/E	1.55	
Debt ($B)	4.07	Book value, 10-Q (September 31, 2008)
Equity ($B)	2.63	Market Cap
R_A	7.83%	Calculated below
R_D	4.97%	RF + Debt Premium
R_E	12.18%	
R_F	3.76%	10-year Treasury, Bloomberg (11/11/2008)
$R_{M\text{-}premium}$	7.52%	WRDS; CRSP File FarmaFrench. Mkt Return 1926.01-2007.12
T_C	32.00%	Per Starwood Guidance, 2008/10/21
(A): $1-[(T_C R_D)/(1+R_D)]$	0.98	
(B): 1+D/E*(A)	2.52	
(C): D/E*(A)	1.52	
Growth Rate	4.00%	Industry growth rate is approximately 4-5% (nominal)
Debt Rating	BBB-	S&P, 2008/10/25
Interest Rate	5.72%	Avg Int Rate: 5.72% per 10-Q (2008Q3)
Debt Risk Premium	1.21%	(16)-(17)
(16) LB CCC Hi-Yield TR	10.12%	Realized Yield (CAPM Lecture)
(17) ML 5-10 Yr Treasury TR	8.91%	Realized Yield (CAPM Lecture)

Cost of Debt Calculation		
(A)Current Yield on Starwood Bonds	12.65%	Average, as of 11/21/2008, Bloomberg
(B) Current Yield on 5-Year Treasury	2.20%	
Promised Yield		
Starwood Bonds	10.45%	(A)-(B)
BB Bonds	9.38%	CAPM Lecture
B Bonds	11.77%	CAPM Lecture
CCC Bonds	18.53%	CAPM Lecture

Appendix: APV Model – Base Case (Constant Proportion)

Income Statement - As Reported (10-K)	2003 A	2004 A	2005 A	2006 A	2007 A	2008 E	2009 E	2010 E	2011 E	2012 E
Revenues										
Owned, leased and consolidated joint venture hotels	$3,085	$3,326	$3,517	$2,692	$2,429	$2,426	$2,171	$2,179	$2,200	$2,241
Management fees, franchise fees and other income	$851	$419	$501	$697	$839	$774	$706	$714	$730	$757
Vacation ownership and residential sales and services	$439	$640	$889	$1,005	$1,025	$718	$431	$301	$271	$271
Revenues	$4,375	$4,385	$4,907	$4,394	$4,293	$3,917	$3,308	$3,195	$3,201	$3,269
Operating Expenses										
Owned, leased and consolidated joint venture hotels	($2,392)	($2,519)	($2,634)	($2,023)	($1,805)	($1,868)	($1,672)	($1,678)	($1,694)	($1,693)
Vacation ownership and residential	($340)	($488)	($661)	($736)	($758)	($610)	($366)	($256)	($231)	($231)
Selling, general, administrative and other	($540)	($331)	($370)	($470)	($513)	($393)	($353)	($355)	($359)	($368)
Restructuring and Other Special Charges	$9	$37	($13)	($20)	($53)					
EBITDA (Excluding FX)	$1,112	$1,084	$1,229	$1,145	$1,164	$1,047	$917	$905	$917	$978
Depreciation	($410)	($413)	($387)	($280)	($280)	($336)	($255)	($256)	($258)	($263)
Depreciation (% of owned hotel rev)	*13.3%*	*12.4%*	*11.0%*	*10.4%*	*11.5%*	*11.7%*	*11.7%*	*11.7%*	*11.7%*	*11.7%*
Amortization	($19)	($18)	($20)	($26)	($26)	($21)	($21)	($21)	($21)	($21)
EBIT	$683	$653	$822	$839	$858	$690	$641	$629	$638	$695
Foreign currency translation adjustments		$79	($60)	$72	$84	($58)	($30)	($30)	($30)	$0
Interest Expense	($282)	($254)	($239)	($215)	($147)	($233)	($233)	($202)	($189)	($189)
Pre-Tax Income	$401	$478	$523	$696	$795	$399	$378	$397	$420	$506
Income Taxes	$113	($43)	($172)	$434	($189)	($128)	($121)	($127)	($134)	($162)
Net Income from Continuing Ops before Special Charges & Equity Earning	$514	$435	$351	$1,130	$606	$272	$257	$270	$285	$344

Source: Bloomberg, Company 10-K and 10-Q

Appendix: APV Model – Base Case (Constant Proportion)

Balance Sheet - As Reported (10-K)	2003 A	2004 A	2005 A	2006 A	2007 A	**2008Q3 YTD**	2008 E
Current Assets							
Cash and cash equivalents	$427	$326	$897	$183	$162	$127	$571
Restricted cash	$81	$347	$295	$329	$196	$194	$176
allowance for doubtful accounts		$58	$50	$49	$50	$48	$50
Accounts receivable, net of allowance for doubtful accounts	$418	$482	$642	$593	$616	$630	$616
Inventories	$215	$371	$280	$566	$714	$948	$980
Prepaid expenses and other	$104	$157	$169	$139	$136	$170	$136
Assets held for sale							
Total current assets	***$1,245***	***$1,683***	***$2,283***	***$1,810***	***$1,824***	***$2,069***	$2,529
Noncurrent Assets							
Investments	$415	$453	$403	$436	$423	$384	$384
Goodwill and intangible assets, net	$2,488	$2,544	$2,263	$2,302	$2,302	$3,717	$3,717
Prop., Plant & Equip	$9,686	$9,971	$5,880	$6,082	$6,214	$5,791	$6,175
Accumulated Depr.	$2,580	$2,974	$1,924	$2,251	$2,364	$2,074	$2,410
Plant, property and equipment, net	$7,106	$6,997	$3,956	$3,831	$3,850	$3,717	$3,765
Deferred tax assets				$518	$729	$723	$723
Other assets	$623	$621	$402	$381	$494	$573	$573
Assets held for sale			$3,147	$2			
Assets	**$11,894**	**$12,298**	**$12,454**	**$9,280**	**$9,622**	**$11,183**	**$11,691**
Current Liabilities							
Short-term borrowings and current maturities of long-term debt	$233	$619	$1,219	$805	$5	$541	$541
Accounts payable	$171	$200	$156	$179	$201	$198	$243
Accrued expenses	$836	$872	$1,049	$955	$1,175	$1,171	$1,002
Accrued salaries, wages and benefits	$228	$299	$297	$383	$405	$364	$331
Accrued taxes and other	$176	$138	$158	$139	$315	$343	$315
Total current liabilities	**$1,644**	**$2,128**	**$2,879**	**$2,461**	**$2,101**	**$2,617**	**$2,433**
Non Current Liabilities							
Long Term Debt	$4,393	$3,823	$2,374	$1,827	$3,590	$3,533	$3,533
Long-term debt held for sale			$552				
Deferred income taxes	$898	$880	$562	$31	$28	$28	$28
Other liabilities	$574	$652	$851	$1,928	$1,801	$1,812	$1,812
Total Liabilities	**$7,509**	**$7,483**	**$7,218**	**$6,247**	**$7,520**	**$7,990**	**$7,806**
Stockholder Equity	$4,385	$4,815	$5,236	$3,033	$2,102	$3,193	$3,885
LIABILITIES AND STOCKHOLDERS' EQUITY	**$11,894**	**$12,298**	**$12,454**	**$9,280**	**$9,622**	**$11,183**	**$11,691**
Shares outstanding (th)	201,812	208,731	217,219	213,484	190,999	183,029	183,029
Calculations and Assumptions							
Total Debt	***$4,626***	***$4,442***	***$4,145***	***$2,632***	***$3,595***	***$4,074***	***$4,074***
Debt/EBITDA (Target is between 3.5-4x) - 2007Q3 Earnings Call		***4.08***	***3.96***	***2.76***	***2.72***		***3.88***

Appendix: APV Model – Base Case (Constant Proportion)

Cash Flow Statement	Comments	2003 A	2004 A	2005 A	2006 A	2007 A	2008 E	2009 E	2010 E	2011 E	2012 E
CFO		$771	$578	$764	$500	$895	$1,078	$1,161	$545	$488	$528
CFI											
Purchases of plant, property and equipment (CapEx)		($307)	($333)	($464)	($371)	($384)	($322)	($259)	($259)	($265)	($273)
Proceeds from asset sales, net	$30 M per hotel	$1,042	$74	$510	$1,515	$133	$96	$46	$0	$0	$0
Other		$225	$156	($39)	($258)	($36)	$0	$0	$0	$0	$0
Cash from (used for) investing activities		$510	($415)	$85	$1,402	($215)	$0	$0	$0	$0	$0
CFF											
Revolving credit facility and short-term borrowings, net		($344)	($20)	$333	$73	$341	$0	$0	$0	$0	$0
Net Debt Issued		($465)	($151)	($574)	($1,532)	$601	$977	($541)	($233)	$0	$400
Dividends		($170)	($172)	($176)	($276)	($90)	($172)	($172)	($172)	($172)	($172)
Share repurchases		($28)	($310)	($228)	($1,287)	($1,787)	($1,152)	$0	$0	$0	$0
Other (e.g. Employee Stock Option Exercises)		$28	$380	$392	$387	$223	$0	$0	$153	$94	$62
Cash used for financing activities		($979)	($273)	($253)	($2,635)	($712)	($347)	($713)	($253)	($78)	$290
Net Cash		$302	($110)	$596	($733)	($32)	$409	$189	$33	$145	$545
Shares (th)		201,812	208,731	217,219	213,484	190,999	183,029	183,029	183,029	183,029	183,029

Working Capital Calclation	2003 A	2004 A	2005 A	2006 A	2007 A	2008 E	2009 E	2010 E	2011 E	2012 E
Working Capital										
+Acct Rec, Net	$418	$482	$642	$593	$616	$616	$774	$654	$632	$633
+Inv	$215	$371	$280	$566	$714	$980	$1,202	$1,040	$887	$730
+Prepaid Expenses	$104	$157	$169	$139	$136	$136	$209	$177	$171	$171
-Accounts payable	($171)	($200)	($156)	($179)	($201)	($201)	($243)	($206)	($199)	($199)
-Accrued expenses	($836)	($872)	($1,049)	($955)	($1,175)	($1,098)	($1,002)	($848)	($819)	($820)
-Accrued salaries, wages and benefits	($228)	($299)	($297)	($383)	($405)	($363)	($331)	($280)	($271)	($271)
Working Capital	($498)	($361)	($411)	($219)	($315)	$70	$608	$537	$402	$244
Changes in Working Capital		$137	($50)	$192	($96)	$385	$538	($71)	($135)	($158)
Revenue	$4,375	$4,385	$4,907	$4,394	$4,293	$4,293	$3,918	$3,314	$3,201	$3,207
+Acct Rec, Net	10%	11%	13%	13%	14%	14%	20%	20%	20%	20%
+Prepaid Expenses	2%	4%	3%	3%	3%	3%	5%	5%	5%	5%
-Accounts payable	-4%	-5%	-3%	-4%	-5%	-5%	-6%	-6%	-6%	-6%
-Accrued expenses	-19%	-20%	-21%	-22%	-27%	-26%	-26%	-26%	-26%	-26%
-Accrued salaries, wages and benefits	-5%	-7%	-6%	-9%	-9%	-8%	-8%	-8%	-8%	-8%

Appendix II:

- APV Model – Constant Debt *Base Case, 4% Growth Rate*

Scenario: 1	APV - Constant Debt					
Free Cash Flow	**Comments**	**2008 E**	**2009 E**	**2010 E**	**2011 E**	**2012 E**
Revenue (in $M, except RevPAR figures)						
Owned Hotels						
No.Hotels (3Q)		77	75	75	75	75
Growth YOY%		*-4.0%*	*-2.0%*	*0.0%*	*0.0%*	*0.0%*
RevPar (Owned Hotels)		$164	$149	$150	$151	$154
Growth YOY%		*2.2%*	*-9.1%*	*0.4%*	*1.0%*	*2.0%*
Owned Hotels, Rev		**$2,426**	**$2,171**	**$2,179**	**$2,200**	**$2,241**
Management fees, franchise fees and other income						
Systemwide RevPar		$125	$114	$114	$116	$118
Growth YOY%		*2.2%*	*-9.1%*	*0.4%*	*1.0%*	*2.0%*
Franchised						
# Rooms (Avg)		109,271	111,457	112,571	114,260	116,545
Growth YOY%	*01-08: Avg. An growth 4-5%*	*5.0%*	*2.0%*	*1.0%*	*1.5%*	*2.0%*
Franchised Revenue		$163	$150	$152	$156	$163
Managed - Base and Incentives						
# Rooms (Avg)		149,891	152,889	154,418	156,734	159,869
Growth YOY%	*01-08: Avg. An growth 9-10%*	*6.0%*	*2.0%*	*1.0%*	*1.5%*	*2.0%*
Managed - Revenues		$456	$415	$419	$428	$443
Franchise_Mgmt Rev, Total		$619	$565	$571	$584	$606
Adj for Other Income (of Franchsed/Mgmt Rev)	25%	$155	$141	$143	$146	$151
Managed, Franchised, and Others - Total		**$774**	**$706**	**$714**	**$730**	**$757**
Vacation ownership and residential sales and services		**$718**	**$431**	**$301**	**$271**	**$271**
Growth YOY%		*-30.0%*	*-40.0%*	*-30.0%*	*-10.0%*	*0.0%*
Total Revenue		$3,917	$3,308	$3,195	$3,201	$3,269
Growth YOY%		-9%	-16%	-3%	0%	2%
Operating Expenses						
Owned, leased and consolidated joint venture hotels	*25-26% 2006-7*	($1,868)	($1,672)	($1,678)	($1,694)	($1,693)
Owned, leased and consolidated joint venture hotels, Gross Margin	*23.9% Avg. 2003-2007*	*23.0%*	*23.0%*	*23.0%*	*23.0%*	*24.5%*
Vacation ownership and residential		($610)	($366)	($256)	($231)	($231)
VOI, Gross Margin	*25.0% Avg. 2003-2007*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Selling, general, administrative and other		($393)	($353)	($355)	($359)	($368)
SG&A (% of Gross Hotel Rev)	*12.3% Avg. 2003-2007*	*12.3%*	*12.3%*	*12.3%*	*12.3%*	*12.3%*
FX Impact						
Dollar FX Volatility	%	12	6	6	6	0
Per 1% Δ Scaled by room growth, assuming 75% room growth is intl	$5M/1% Change	$5.0	$5.0	$5.0	$5.1	$5.2
Impact		($58)	($30)	($30)	($30)	$0
EBITDA		**$989**	**$887**	**$876**	**$887**	**$978**
Growth YOY%		-24%	-10%	-1%	1%	10%
Taxes	32%	($317)	($284)	($280)	($284)	($313)
Δ Working capital		$385	$538	($70)	($135)	($158)
Δ Restricted Cash		$20	$20	$20	$20	$20
Net Operating Cash Flow after Taxes		**$1,078**	**$1,161**	**$546**	**$488**	**$528**
CapEx						
Owned Hotels		($203)	($185)	($190)	($191)	($193)
Corporate/IT		($64)	($66)	($62)	($62)	($67)
VOI		($56)	($9)	($6)	($12)	($14)
CapEx, as % of Category Rev						
Owned Hotels	*100% of 5-Yr Rolling Avg*	*8%*	*9%*	*9%*	*9%*	*9%*
Corporate/IT (Managed/Franchised)	*100% of 5-Yr Rolling Avg*	*8%*	*9%*	*9%*	*9%*	*9%*
VOI	*5-year Average 6-10%*	*8%*	*2%*	*2%*	*4%*	*5%*
Unlevered Free Cash Flow to Firm		**$756**	**$902**	**$287**	**$223**	**$255**

Scenario: 1		APV - Constant Debt					
APV Calculation			**2008 E**	**2009 E**	**2010 E**	**2011 E**	**2012 E**
Terminal Value Calculation							
Terminal Value Growth Rate							4.0%
Projected Free Cash Flow							$265
Teminal Enterprise Value							$5,914
Discount Rate for CF, R_A		8.48%					
Discounted Unlevered Cash Flows							
Unlevered Free Cash Flow				$831	$244	$175	$184
Terminal Value							$4,269.83
Total PV of Unlevered FCF				**$5,703**			
Debt Tax Shield							
Debt Value *(Current Outstanding) - Target Debt/EBITDA*	*3.5-4.0x*		$4,074	$3,800	$3,800	$3,800	$3,800
Interest Expense		5.72%	$233	$217	$217	$217	$217
Tax Rate		32.0%					
Tax Shield			$75	$70	$70	$70	$70
Terminal Value/ Growth Rate		4.00%					4.0%
Projected Free Cash Flow							$72
Teminal Enterprise Value @ Discount Factor, R_d		4.97%					$7,457
Discounted Unlevered Cash Flows - Tax Shield							
Tax Shield				$70	$70	$70	$7,527
Discount Factor, R_d		4.97%					
			1.000	1.050	1.102	1.157	1.214
PV Tax Shield			$0	$66	$63	$60	$6,200
Total PV of Unlevered FCF				$6,389			
Ent Val of HOT (PV of Equity + PV Debt TS)				$12,092			
Debt Value (as of September 2008)				($4,074)			
Cash (as of September 2008)				$127			
Equity Value ($M)				$8,145			
No. Shares Outstanding (th)				183,029			
Value Per Share				$44.50			
Current Price				14.38	11/24/2008		
% Difference				209%			

Discount Rate and Factor:	**Value**	**Source**
B_E	1.12	Average 5-Year Rolling Beta (2004.10-2008.10) is 1.12
D/E	1.55	
Debt ($B)	4.07	Book value, 10-Q (September 31, 2008)
Equity ($B)	2.63	Market Cap
R_A	8.48%	Calculated below
R_D	4.97%	RF + Risk Premium
R_E	12.18%	
R_F	3.76%	10-year Treasury, Bloomberg (11/11/2008)
$R_{M\text{-}premium}$	7.52%	WRDS; CRSP File FarmaFrench. Mkt Return 1926.01-2007.12
T_C	32.00%	Per Starwood Guidance, 2008/10/21
Growth Rate	4.00%	Industry growth rate is approximately 4-5% (nominal)
Debt Rating	BBB-	S&P, 2008/10/25
Interest Rate	5.72%	Avg Int Rate: 5.72% per 10-Q (2008Q3)
Debt Risk Premium	1.21%	(16)-(17)
(16) LB CCC Hi-Yield TR	10.12%	Realized Yield (CAPM Lecture)
(17) ML 5-10 Yr Treasury TR	8.91%	Realized Yield (CAPM Lecture)

Cost of Debt Calculation		
(A)Current Yield on Starwood Bonds	12.65%	Average, as of 11/21/2008, Bloomberg
(B) Current Yield on 5-Year Treasury	2.20%	
Promised Yield		
Starwood Bonds	10.45%	(A)-(B)
BB Bonds	3.31%	CAPM Lecture
B Bonds	5.70%	CAPM Lecture
CCC Bonds	12.46%	CAPM Lecture

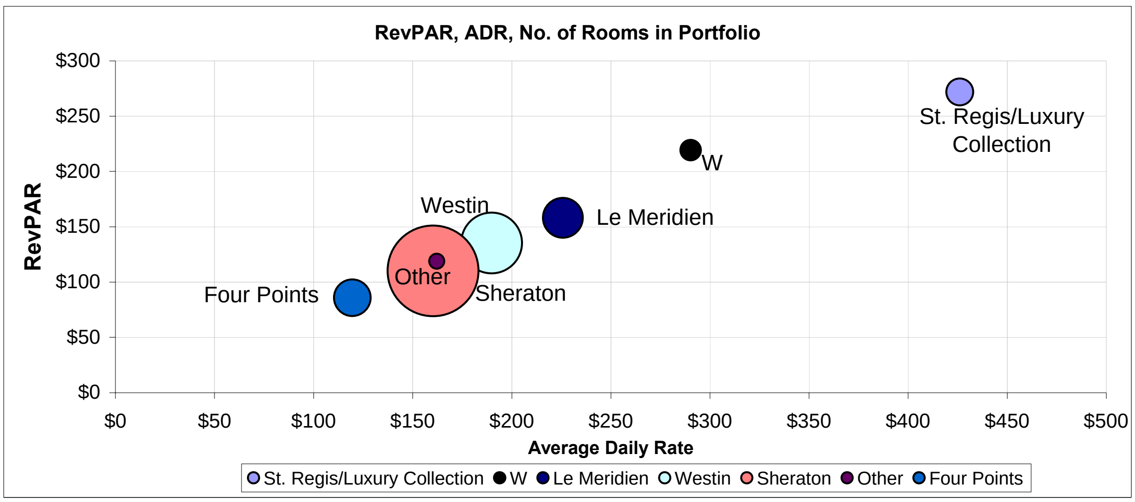
Appendix III:

- Starwood Portfolio and Segmentation
- Starwood Brands
- Brief Company History
- Additional Resources
- Footnotes

Starwood Portfolio and Segmentation (Source: Starwood Annual Reports and Presentations)

World Wide Statistics	ADR	RevPAR	Rooms	% in North America
St. Regis/Luxury Collection	$426	$272	12,642	36%
W	$290	$219	7,453	85%
Le Meridien	$226	$158	27,648	8%
Westin	$190	$135	63,964	74%
Other	$162	$119	4,072	100%
Sheraton	$160	$110	142,240	56%
Four Points	$120	$86	23,554	67%
Total Hotels	$184	$128	281,573	57%

2008Q3 10-Q



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Starwood Brands (Source: Starwood 2007 Annual Report)

St. Regis© (luxury full-service hotels, resorts and residences) are for connoisseurs who desire the finest expressions of luxury. They provide flawless and bespoke service to high-end leisure and business travelers. St. Regis hotels are located in the ultimate locations within the world's most desired destinations, important emerging markets and yet to be discovered paradises, and they typically have individual design characteristics to capture the distinctive personality of each location.

The Luxury Collection© (luxury full-service hotels and resorts) is a group of unique hotels and resorts offering exceptional service to an elite clientele. From legendary palaces and remote retreats to timeless modern classics, these remarkable hotels and resorts enable the most discerning traveler to collect a world of unique, authentic and enriching experiences indigenous to each destination that capture the sense of both luxury and place. They are distinguished by magnificent decor, spectacular settings and impeccable service.

W© (luxury and upscale full service hotels, retreats and residences) feature world class design, world class restaurants and "on trend" bars and lounges and its signature Whatever\Whenever© service standard. It's a sensory multiplex that not only indulges the senses, it delivers an emotional experience. Whether it's "behind the scenes" access at Whappenings, or our cutting edge music, lighting and scent programs, W hotels delivers an experience unmatched in the hotel segment.

Westin© (luxury and upscale full-service hotels, resorts and residences) is a lifestyle brand competing in the upper upscale sector in nearly 30 countries around the globe. Each hotel offers renewing experiences that inspire guests to be at their best. First impressions at any Westin hotel are fueled by signature sensory experiences of light, music, white tea scent and botanicals. Westin revolutionized the industry with its famous Heavenly Bed© and Heavenly Bath© and launched a multi-million dollar retail program featuring these products. Westin is the first global brand to offer in-room spa treatments at every hotel and the first to go smoke-free in North America. Westin guests stay in shape at Westin WORKOUT© Powered by Reebok(SM). The new Westin Superfoods© menu is the latest way we bring renewal to guests, with foods considered best for providing disease-fighting and health enhancing benefits due to their high nutrient and antioxidant content.

Le Méridien© (luxury and upscale full-service hotels, resorts and residences) is a European-inspired brand with a French accent. Each of its hotels, whether city, airport or resort has a distinctive character driven by its individuality and the Le Méridien brand values. With its underlying passion for food, art and style and its classic yet stylish design, Le Méridien offers a unique experience at some of the world's top travel destinations.

Sheraton© (luxury and upscale full-service hotels and resorts) is the Company's largest brand serving the needs of luxury and upscale business and leisure travelers worldwide. We offer the entire spectrum of comfort. From full-service hotels in major cities to luxurious resorts by the water, Sheraton can be found in the most sought-after cities and resort destinations around the world. Every guest at Sheraton hotels and resorts feels a warm and welcoming connection, the feeling you have when you walk into a place and your favorite song is playing —a sense of comfort and belonging. Our most recent innovation, the Link@SheratonSM with Microsoft, encourages hotel guests to come out of their rooms to enjoy the energy and social opportunities of traveling. At Sheraton, we help our guests connect to what matters most to them, the office, home and the best spots in town.

Four Points© (select-service hotels) delights the self-sufficient traveler with a new kind of comfort, approachable style and spirited, can-do service —all at the honest value our guests deserve. Our guests start their day feeling energized and finish up relaxed and free to enjoy little indulgences that make their time away from home special.

Aloft℠ (select-service hotels), a brand introduced in 2005 with the first hotel expected to open in 2008, provides new heights, an oasis where you least expect it, a spirited neighborhood outpost, a haven at the side of the road. Bringing a cozy harmony of modern elements to the classic American on-the-road tradition, aloft offers a sassy, refreshing, ultra effortless alternative for both the business and leisure traveler. Fresh, fun, and fulfilling, aloft is an experience to be discovered and rediscovered, destination after destination, as you ease on down the road.

Element℠ (extended stay hotels), a brand introduced in 2006 with the first hotel expected to open in 2008, provides a modern, upscale and intuitively designed hotel experience that allows guests to live well and feel in control. Inspired by Westin, Element hotels promote balance through a thoughtful, upscale environment. Decidedly modern with an emphasis on nature, Element is intuitively constructed with an efficient use of space that encourages guests to stay connected, feel alive, and thrive while they are away. Element is the smart, renewing haven for extended stay travel.

Brief Company History

Formed by Starwood Capital (REIT) to take advantage of a tax break (then known as Starwood Lodging)

1994	▪ Purchased Westin Hotel from Aoki Coporation
1998	▪ Acquired Sheraton, Four Points by Sheraton, and The Luxury Collection from ITT Sheraton
1999	▪ Launched “W” Hotels Boutique Brand
2004	▪ Barry Sternlicht, founder and CEO, stepped down to focus on Starwood Capital. Succeeded by Steven Heyer. ▪ Began to shed assets and focus on becoming a management and franchiser for Starwood brands
2005	▪ Announced launch of aloft, a new hotel brand based on W. ▪ Purchased Le Méridien (expanded company’s operation in Europe)
2007	▪ Heyer leave company on the request of the Board of Directors, succeeded by Frits van Paasschen[xxi], former President and CEO of Coors Brewing Company. He also worked for Disney and Nike.
2008	▪ First aloft opened in Montreal, Canada ▪ First element (eco-friendly extended stay) opened in Lexington, MA ▪ Aloft debuts in Beijing, China

SA Research

Additional Resources:

- Fitch Ratings. Liquidity Focus: US Gaming and Lodging, October 23, 2008.
- Merrill Lynch. 2009 Outlook Confirms Global Slowdown Fears, October 23, 2008.

Footnotes

[i] From W Hotel Development Brochure (November 2005). According to interviews with industry professionals, a “strong” brand typically scores 40 to 50% on this metric.
[ii] During 2006 and 2007, the company sold a total of 51 hotels for approximately $4.6 billion, including 33 properties to Host for approximately $4.1 billion in stock, cash, and debt assumption. (Starwood 2007 Annual Report)
[iii] Marriott International, 10-K (February 28,2008).
[iv] No specific information was found in Starwood Reports. Data is based on industry data, specifically using the following sources, Marriott International, 10-K (February 28,2008), Choice Hotels, 10-K (February 28, 2008), and PKF Consulting, *Trends in the Hotel Industry*, 2007.
[v] Anonymous. “Be Smart When You Negotiate (Interview with Albert Pucciarelli)”. *Lodging Hospitality* Vol 64. Issue 8 (June 2008), 14.
[vi] Please refer to Industry Report.
[vii] Smith Travel Research. 2007 Host Study. Food and Beverage (25% of total revenue) are the second largest contributing categories to total revenues.
[viii] Based on 2007Q4 earnings call. As no new sites were added, we assume overall geographic allocation to be quite similar.
[ix] According to 2008Q3 10-Q, $5M of the $296M is 90-days or more delinquent.
[x] Per Starwood’s Press Release
[xi] Per Starwood’s Press Release
[xii] 2007Q4 Earnings Call.
[xiii] Examples include product launches. According to 2007Q3 Earnings Call, Starwood invested $15 to $20 million to launch the “Lofton Element” program.
[xiv] 2007Q3 Earnings Call
[xv] 2008Q3 Earnings Call
[xvi] Starwood 2008Q3 Results (10/23/2008)
[xvii] The major currencies index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies in the broad index that circulate widely outside the country of issue. The weights are derived from those in the broad index. (Federal Reserve Bank)
[xviii] Based on annualized standard deviation of month to month fluctuations.
[xix] Correlation is 0.90
[xx] Note that we did not include any units/intervals that are currently under development in this analysis.
[xxi] Wikipedia;
https://alumni.mckinsey.com/alumni/default/public/content/jsp/alumni_news/20080812_FritsVanPaasschen_Feature.jsp

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