Marriott Vacations Worldwide
Third Quarter 2024 Earnings Call
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Presenters
Neal Goldner - Vice President, Investor Relations
John Geller - President and Chief Executive Officer
Jason Marino - EVP and Chief Financial Officer

Q&A Participants
Brandt Montour - Barclays
Ben Chaiken - Mizuho
Patrick Scholes - Truist Securities
David Katz - Jefferies

Operator
Greetings, and welcome to the Marriott Vacations Worldwide Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, Mr. Neal Goldner, Vice President, Investor Relations.

Neal Goldner
Thanks, Rob, and welcome to the Marriott Vacations Worldwide third quarter earnings conference call. I am joined today by John Geller, our President and Chief Executive Officer, and Jason Marino, our Executive Vice President and Chief Financial Officer.

I need to remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release as well as comments on this call are effective only when made and will not be updated as actual events unfold. Throughout the call, we will make references to non-GAAP financial information. You can find a reconciliation of non-GAAP financial measures in the schedules attached to our press release and on our website.

With that, it's now my pleasure to turn the call over to John Geller.

John Geller
Thanks, Neal. Good morning, everyone, and thank you for joining our third quarter earnings call. Before we begin, our thoughts go out to all the people in North Carolina, Florida, and elsewhere who were impacted by Hurricanes Helene and Milton. Fortunately, all of our associates are safe, and none of our Vacation Ownership resorts had significant damage.

Turning to our results for the quarter, as we've always said, people want to go on vacation regardless of the economic environment. And that was, again, evident this quarter, running nearly 90% resort occupancy and increasing contract sales year-over-year.

Recognizing that, while consumers continue to face economic pressures, they also place high value on experiences offered by our brands; that's why we took a series of targeted actions during the quarter focused on driving revenue, expanding our sales reach, and introducing compelling incentives for first-time buyers. For example, we adjusted our promotional strategy, resulting in an improvement in our first-time buyer VPG trends starting in August.

We continued to leverage virtual tours and non-traditional sales channels, such as our road shows and owner cruises, to reach more potential customers when they're not vacationing with us. This represented 10% of our tours this quarter, up more than 30% from a year ago. And we've had opportunities to expand this even further.

And we launched a new first-time buyer financing promotion to make it more affordable to become an owner. These strategies, the continued recovery from last year's Maui wildfires and the underlying stability in the business, helped us grow contract sales 5% year-over-year. We grew first-time buyer tours double digits compared to the prior year while our first-time buyer VPG increased 6% sequentially. First-time buyer sales increased year-over-year, and first-time buyer tours represented roughly 55% of our total tours, the highest level since 2019, as we continue to work to add new owners to the system.

Owner sales also increased compared to a year ago, as tours grew and VPG improved. We ended the quarter with nearly 270,000 preview packages in our pipeline, up 3% from a year ago, which gives us a good start to next year.

We advanced our strategy to expand our presence in key markets, opening our new 110-unit Waikiki resort in early October. Our owners are continually asking for new experiences like Waikiki, and this market will appeal to our Japanese customers as well as those from North America. We also expect the new sales center to generate $30 million to $50 million in annual contract sales within a few years, and under our capital-efficient structure, we'll pay for the inventory over three years, which better matches the anticipated sales ramp. Enthusiasm among owners for this new resort has been very high, and we continue to see strong demand in 2025.

I'm also very excited to announce that we intend to build a new Hyatt Vacation Club resort in Orlando, the first organic addition to the Hyatt Vacation ownership portfolio in more than a

decade, and the first Hyatt-branded vacation ownership resort in the Orlando area. Orlando is the largest timeshare market in the world, and this resort will be a great addition to our Hyatt portfolio when it opens in a few years. And the new sales center that will accompany it will be a nice contributor to contract sales. As with other large projects, to efficiently manage our cash flow, our goal is to build this with a capital efficient partner.

In our Exchange and Third-Party Management business, our Interval International team is already working hard to secure inventory for 2025 to drive transactions. And with the additions over the past few years, Interval is now affiliated with more than 160 all-inclusive resorts, providing even more usage options for our members.

On the IT front, we've made good progress over the last few years updating our legacy systems. While we still have more to do, these are critical steps to enable us to evolve our product offerings.

We've also been on a journey to digitize our consumer capabilities, enabling our owners to transact with us the way they want, and we've already made substantial improvements. For example, the majority of reservations are expected to be booked online this year, up substantially from only a few years ago.

We've also expanded the use of low-cost Virtual Voice Assistants throughout the company, and 85% of our users who interact with our chatbot are able to complete their transaction without talking to an agent. And our VO websites are transacting over a billion dollars in payments every year, making maintenance fee and loan payments seamless for our owners. In total, nearly 60% of booking and transaction capabilities are available digitally via self-service today, and we believe we still have substantial opportunities to increase this further, driving efficiencies across the organization.

We also have opportunities to unlock the power of data through advanced analytics to improve efficiency and drive top-line growth, and we're making good progress. For example, we continue to improve our first-time buyer propensity models using advanced data and analytics across our marketing channels to improve response rates for our direct marketing offers. These models are helping enhance our first-time buyer sales by more efficiently targeting the right customer with the right offer in the right channel.

Another example is the owner propensity model that the team recently expanded. This model drives sales by enhancing our targeting processes to onsite owners by identifying those owners with the highest likelihood of purchasing. We have also developed a robust model to better forecast and optimize available inventory at Interval. Implementing the use of this information is expected to reduce burn rates and drive incremental transactions.

And we are now live on our new Salesforce-enabled enterprise platform for owner data and should incorporate the rest of our VO customer data by the middle of next year. This is an

important step to enable us to better service our owners and other customers with personalized products and services.

The common thread across all these initiatives is our focus on enhancing the customer experience and growing the top and bottom lines. Technology is a key enabler, and the reality is that, with most of our business is 40 years old, we need to ensure that our infrastructure and digital tools keep pace and support our ability to capitalize on the appeal of our iconic brands. While we still have work to do, we've made good progress over the past five years.

While the macroeconomic environment remains dynamic, we believe many of the major headwinds that have impacted our performance are behind us. Fifteen months after the devastating Maui wildfires, all of our resorts are open, our sales team is appropriately staffed, occupancy is running above 90%, and I'm confident that our business there will fully recover within a few years if not sooner.

Similarly, we've had to navigate through the pressures of rising interest rates and higher inflation. Despite that, we are proud to have kept maintenance fee increases for our points-based products to the mid-single digits on average over the past five years while maintaining the same high standards our owners expect from us. And more importantly, we only expect maintenance fees for these products to increase in the low single digits for 2025.

These pressures came while we navigated the implementation of our Abound by Marriott Vacation program. As we've discussed in the past, the implementation is now behind us, and more importantly, our Marriott, Westin, and Sheraton Vacation Club owners can now use their points to easily move around our system of more than 90 resorts, providing ease of booking and expanded choice, which is critical for continued contract sales growth.

As we've navigated these challenges, it's also important to remember that, despite a couple of uneven years, we remain a profitable and resilient business with a solid foundation and a bright future. We have the best collection of brands in the Vacation Ownership business. Our products resonate with today's consumer, combining great accommodations at top tourist destinations with significant flexibility.

We create our own demand, and roughly 35% of our adjusted EBITDA contribution comes from high margin recurring revenue streams. We have loyal and highly satisfied owners who rely on us to provide memorable vacations for their families, and we regularly survey our owners, and they tell us year in and year out how much they love their timeshares. That's one of the reasons why nearly 70% of our sales year-to-date have come from existing owners and why our guest satisfaction scores are higher today than they were last year and in 2022.

We've added nearly 16,000 first-time buyers this year and over 80,000 since the start of 2020, despite the pandemic. And based on history, more than 40% of these new owners will buy additional points within 10 years. We're adding new resorts with properties coming in Orlando,

Savannah, Charleston, Thailand, and Bali. And with the investments we're making in technology and talent to leverage consumer insights and personalize and simplify the guest experience, we are well-positioned to realize the benefits in the years ahead.

Looking forward, we believe we have significant opportunities to accelerate our growth and drive additional operating efficiencies by continuing to modernize and evolve our business. To accelerate these initiatives, I recently created the Strategic Business Operations Office, led by one of our senior leaders who report directly to me. We believe we can drive an incremental $50 to $100 million of annual efficiencies over the next two years, which is in addition to existing cost savings we have already achieved.

We expect to reinvest some of these savings in the business to further accelerate revenue growth by enhancing our customer platforms, products, and services. We also expect to generate additional savings that will benefit our owners' maintenance fees. This effort will touch all parts of the organization, and I look forward to sharing more details with you on our next earnings call.

With that, I'll turn it over to Jason to discuss our results in more detail.

Jason Marino
Thanks, John. Today, I'm going to review our third quarter results, our balance sheet and liquidity position, and our outlook for the year.

Starting with our Vacation Ownership segment, contract sales increased 5% in the quarter compared to last year and increased nearly 2%, excluding Maui. While existing owners continued to buy additional points, we also grew first-time buyer sales in the quarter, reflecting our focus on adding new owners. Tours increased 10% year-over-year, while VPG was 4% lower, and Asian Pacific sales grew more than 40% year-over-year. Importantly, owner VPG increased year-over-year, reflecting the value owners put on vacations.

Delinquencies appear to have stabilized and were roughly flat versus our second quarter, and our sales reserve was in line with our previous guidance. As a result, development profit increased year-over-year to $105 million.

Rental occupancy increased 700 basis points year-over-year, helping us drive 9% revenue growth in our Vacation Ownership segment. Rental profit increased $14 million compared to the prior year, driven by higher revenue and $8 million of additional costs allocated to marketing and sales expense to drive tours. Management profit increased year-over-year, while financing profit was down due to higher borrowing costs. As a result, we generated $231 million of adjusted EBITDA in our Vacation Ownership segment in the quarter with a 30% margin.

Moving to our Exchange and Third-Party Management segment, adjusted EBITDA declined $7 million year-over-year, with roughly half of the decline related to lower profit at Aqua-Aston due

to the Maui wildfires and the balance due to lower transactions at Interval. As a result, total company adjusted EBITDA increased year-over-year to $198 million.

Our balance sheet remains firm, ending the quarter with more than $900 million in liquidity and no corporate debt maturities until 2026. We also ended the quarter with $1 billion of inventory, which we think is the appropriate level to run the business. Our leverage declined a half a turn sequentially to 3.9 times, reflecting our higher LTM adjusted EBITDA and lower debt balances.

We completed our second securitization of the year, raising $445 million at a blended interest rate of 4.5%, with a 98% advance rate. The interest rate on this transaction was nearly 200 basis points lower than our November 2023 securitization and roughly 100 basis points lower than our March deal.

Looking forward, we increased our full-year adjusted EBITDA guidance to reflect our strong third quarter results. We still expect contract sales to grow 1% to 3% for the year, driven by increased tours and lower VPG. We have a significant presence in Florida, and we lost a few selling days due to Hurricane Milton, which we estimate cost us around $8 million in contract sales and a few million dollars of adjusted EBITDA in the fourth quarter.

Our VO rental business had a strong third quarter, and we expect rental profit to increase in the $35 million range for the year. In our Exchange and Third-Party Management segment, we now expect adjusted EBITDA to decline approximately $30 million for the year, with roughly half of the decline related to our Aqua-Aston business. Finally, G&A is expected to be down around $20 million for the year, driven by our cost-saving initiatives.

Moving to cash flow, we expect our adjusted free cash flow will be in the $300 million to $340 million range and remain focused on reducing leverage by the end of 2025 while still returning cash to shareholders.

So, to summarize, we had a solid third quarter, growing contract sales, and adjusted EBITDA while reducing our leverage. And while consumers are still facing economic pressures, they also continue to spend on experiences like travel. This puts us in a great position to continue to grow while supporting the balance sheet and returning cash to shareholders.

It's also important to remember that our industry generates its own demand, which you can see in our 10% tour growth this quarter. We took a number of steps during the third quarter focused on driving contract sales growth, adjusting our promotional strategy, increasing our use of non-traditional sales channels, and launching new promotions geared to drive first-time buyer tours. We're also making good progress updating our legacy IT systems, enabling our customers to transact with us digitally more than ever, and unlocking the power of data and analytics to drive efficiencies and growth. And as John mentioned, we believe we have substantial opportunities to modernize and evolve our business and have already started working to achieve this.

Our initial analysis shows we can drive an incremental $50 million to $100 million of annual run rate benefits over the next two years by improving our cost structure, streamlining our operations, and driving efficiencies across our company, providing opportunities to invest in attractive growth initiatives, expand margins, and enhance our IT platforms.

With that, we'll be happy to answer your questions. Rob?

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. We ask that you please limit to one question, and one follow up. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. One moment please while we poll for questions.

Our first question comes from Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Good morning, everybody. Thanks for taking my question. So, first question, I guess it's just the first-time buyer financing strategy that you mentioned, John. It doesn't sound like anything that's not sort of normal course of business or sort of minor strategic shifts, but just curious if that's something that's going to meaningfully alter the -- sort of the way that we think about loan loss revisions or the mix that would influence that line or anything else that we should be thinking about in terms of you moving in the credit spectrum in new owner sales and the like?

John Geller
No, no, the underwriting standards didn't change in terms of FICO and all that. So, there shouldn't be any impact to your question as it relates to loan loss.

Brandt Montour
Okay, great. Thanks for that. And then on the full-year guidance, which was raised modestly at the midpoint of EBITDA, I think you guys kept contract sales unchanged, the way -- and then free cash flow was also unchanged, but that was for sort of other reasons. Is the way to think about the revisions today that there's, you know -- that really sort of on the sales side, things are progressing as expected, but you did get some of the efficiencies that you talked about in the third and fourth quarter, maybe the fourth quarter.

And then a follow up to that question is maybe you could just talk about how much of the savings, of the $50 million to $100 million over the next two years, how much of that will be in G&A versus the rest of the business?

John Geller
Yeah, yeah. So, the initiatives we're talking about are really for next year in '25, right? We're always, you know -- coming into this year, we talked about some of the savings' initiatives. You

see that in our full-year G&A, but those are all things that were in process. This is really building on those in our incremental, if you will, going forward.

We'll have more on the February call around the timing. We're working through all that. The goal is to have the $50 million to $100 million in place call it by the end of ’26. We're going to accelerate as many of those as we can, but some of them are going to take a little bit more time, and we can give you more color on that, like I said, in February.

Jason Marino
And Brandt, the guide up, as you think about it, our third quarter was a little bit better than we had originally contemplated, so not necessarily on the contract sales but in some of the other parts of the business, and that's what you see, which is why you don't see the change to the contract sales guidance.

Operator
Our next question comes from Ben Chaiken with Mizuho. Please proceed with your question.

Ben Chaiken
Hey, how's it going? Can you hear me all right?

John Geller
Yeah, Good morning, Ben.

Ben Chaiken
Thanks. Hey, good morning. So, nice quarter. You know, when we step back, your contract sales are now higher year-over-year as we lap Maui, implied 4Q, a little bit lower year-over-year. I know it sounds like there's some 4Q hurricane impact, as well, that you called out. Is there anything else that we need to consider here just in terms of moving parts as we lap year-over-year?

John Geller
No, no.

Jason Marino
Nothing that comes to mind.

Ben Chaiken
Okay. Got it. And then I guess, similarly, you had a nice 3Q. Contract sales are ramping. As we just step back, your sales and marketing expense is higher year-over-year. Can you talk about some of the puts and takes here, and do you see this as an opportunity on a go-forward to bring lower?

John Geller
Sure. And you're obviously talking based on reported revenues. So, some of it is the higher sales reserve, right, which is a deduct from our contract sales, right? And that's the revenues down. So, you know, with our reserves, which we've talked about, we're providing at a higher level. That obviously impacts the marketing and sales costs on a percentage basis.

A lot of the initiatives that we're working on and are already in place, whether that's, how we target and market and do that more efficiently, those continue to be the opportunities to get the right customers on tour that are going to drive higher VPGs, which will help your marketing and sales costs. So, that continues to be the way to improve, right, more efficient marketing, better VPGs to drive marketing and sales costs as a percentage of revenue.

Operator
Our next question comes from Patrick Scholes with Truist Security. Please proceed with your question.

Patrick Scholes
Thank you. Good morning, John and Jason. A couple of questions here - on the 2Q earnings, you had really highlighted softening of VPG on first-time buyers and the lower end of the FICO band really underperforming. Can you give us a little bit more color on what you've observed since 2Q earnings and expectations for those going forward? Thank you.

John Geller
Yeah, sure. Yeah, as we talked about on the second quarter, if you recall, you know, our year-over-year VPG to owners I think was flat in the second quarter. So, owners still love the product. We weren't seeing the softening. Where we started to see some softening in like May in the second quarter was around first-time buyers - and, you know, not surprising given the broader macro.

And when we talked about on the second quarter call in early August, we rolled out -- we changed our promotional grid that we talk about in terms of how -- the more you buy, obviously, you potentially get a higher first-day benefit and those types of things. And move that around overall as well as change the financing incentive for first-time buyers in that program a little bit, and what you saw as you went through sequentially in the quarter, because we had put the incentives in place in July, for example -- VPGs were still down double digits year-over-year.

After those incentives went in place, we saw the benefit sequentially in August and September where, all of a sudden, VPGs were down 3% to 4% year-over-year, right? So, that's where you saw the traction on some of the adjustments we made on the sales side. And we didn't get a full quarter benefit of that, but we expect to get that year-over-year and continued improvement here as we go through the fourth quarter.

Patrick Scholes
Thank you. One more question here for Jason. Certainly, on your most recent securitization versus prior over the last 18 months, better terms and net spreads. Certainly, over the last two years, we've seen those net spreads be a headwind to EBITDA growth. Assuming interest rate trends continue the way they've been going of late, when might you expect those net spread headwinds to possibly turn into a tailwind? Thank you.

Jason Marino
Yeah. Thanks, Patrick. So, as we've talked about in the past, we expect to have higher financing interest expense here going forward for the next couple of years as the interest rates that we issued securitizations at over the last few years at call it 2% thereabouts for a while roll off and we put on the higher interest costs going forward.

So, from a margin perspective, we're going to continue to see that impact over the next couple of years. But what we've said is that our revenue on the financing side should start to outpace that expense growth. So, we do expect here in 2025 to have higher financing profit in the business, but those interest expenses are going to continue to increase here going forward for a little bit longer.

John Geller
Yeah. So, on a net basis, it should be -- we should see financing profit grow in '25 versus '24 where it has been a net headwind.

Operator
Our next question is from David Katz with Jefferies. Please proceed with your question.

David Katz
Hi, good morning. Thanks for taking my question. John, I wanted to go back to some of the prepared remark about the Strategic Business Operations Office. Can you just elaborate a bit on sort of what that is, what that is designed to do and sort of how it works and what we can expect to see and or hear from it? It's quite interesting.

John Geller
Sure. Sure. Yeah, no, it's a great question, David. A lot of these initiatives and things aren't new, right? They're things that we're working on. The idea with the Strategic Business Operations is just create not only new ideas but add velocity to execution to accelerate these opportunities over the next couple of years. So, I wanted to make sure we had call it a hyper focus on growth opportunities, cost efficiencies, with detailed plans on execution and a team to work with the broader business to deliver. And it's really about adding that velocity to what we're trying to accomplish.

David Katz
So, can I follow that up and just we'll double click on the growth opportunities part of the answer? What is the -- how would you define the boundaries on what that opportunity set is? Is that more internal, tuck-in acquisitions, what kinds of stuff?

John Geller
Yeah, no, it's going to be a lot on our internal. We've got, I think, great opportunities in our core Vacation Ownership as well as our Exchange business to grow. So, it's really those initiatives and moving those along are faster and other new ideas and things that we want to get into place.

So -- but it's also -- we're always going to continue to look at, whether it's a tuck-in acquisition, potentially launching new products that are in the Vacation Ownership, right, different products than we have today. We've got a lot of work going on that front.

So, it's both call it the organic products we have today and growth there, but we are looking at adjacent opportunities. We always are. We've got some good things that we're looking at.

David Katz
Okay. Thank you.

Operator
Our next question comes from Patrick Scholes with Truist Security. Please proceed with your question.

Patrick Scholes
Great, thank you. Just a quick follow-up question regarding your cost-saving initiatives. Marriott Corporation, your former parent company, also just launched a large cost saving initiative. I'm just curious if your initiative, is this anything in conjunction with them, or is this just purely coincidental? Thank you.

John Geller
Yeah. I think you recall; you know, we spun out of Marriott back in 2011, Patrick. So, we -- yes, they're our licensor and stuff. How they run their business and how we run our business, totally coincidental. I guess that they were looking at obviously probably different initiatives for their business than we're doing for our business, but, no, totally unrelated.

Patrick Scholes
Okay. All right - just curious. Thank you. I'm all set.

John Geller
Okay. Thank you.

Jason Marino
Thanks.

Operator
We have reached the end of the question-and-answer session. I'd now like to turn the call back over to John Geller for closing comments.

John Geller
Thanks, Rob. Thank you, everyone, for joining our call today. We had a solid third quarter and reservations look strong for the balance of ’24 and into next year. Our strategies are working, and we're driving first-time buyer sales, which is good for the system. We also ended the quarter with nearly 270,000 preview packages in our pipeline, positioning us well going into next year.

We kept maintenance fee increases for our points-based products to low single-digits for next year, which we think will be well received by owners. Delinquencies and defaults have stabilized, we're updating our IT platforms to support our growth and we're using advanced data and analytics to improve efficiency and drive top line growth.

We've navigated many headwinds over the past few years from a mixed consumer environment to higher interest rates and inflation to the Abound implementation and came through it with a solid foundation for future growth. Through it all, we've remained a resilient, highly profitable, and cash-generative business.

We also have a significant opportunity to continue to leverage our strategic and competitive advantages to drive substantial recurring benefits over the next two years.

On behalf of all of our associates, owners, members, and customers around the world, I want to thank you for your continued interest in our company and hope to see you on vacation soon. Thank you.

Operator
This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.