MARRIOTT VACATIONS WORLDWIDE CORP.

Marriott Vacations Worldwide 2019 Investor Day

New York, New York

October 4, 2019

Ubiqus
61 Broadway – Suite 1400 – New York, NY 10006
Phone: 212-346-6666 ⬩ Fax: 888-412-3655

[START RECORDING]

MR. NEAL GOLDNER: Good morning. Those of you who don't know me, my name is Neal Goldner, Vice President of Investor Relations from Marriott Vacations, and it is my pleasure to welcome you to our 2019 Investor Day. Before we start, I do need to remind everyone that many of our comments today are considered forward-looking under the federal securities laws. These statements are subject to risks and uncertainties which could cause future results to differ materially from those expressed or implied by our comments.

Our forward-looking statements are effective only today and will not be updated as actual events unfold. Throughout the day we will be making references to non-GAAP financial information. You can find a reconciliation of non-GAAP financial measures in the schedules attached to this morning's presentation, which, for those listening to the webcast, can be found on our website.

So, with that out of the way, we do have a full morning planned today with multiple presentations and three different Q&A sessions. I encourage you to take advantage of the opportunity to direct questions to those members of the management team that you don't usually have a chance to talk to. With that, it is my pleasure to welcome President and Chief Executive Officer, Steve Weisz.

MR. STEVEN WEISZ: Thanks, Neal. Good morning, everyone. Thank you all for taking time out of your very busy days to be with us. We appreciate those of you that are here in the room as well as those that are on the webcast. As Neal mentioned, we have a very full agenda today, and I hope that when we're all done, you'll share in our enthusiasm that we have for our business and our future.

Since this is our first Investor Day since closing the ILG acquisition a little more than a year ago, I thought I'd lay out what I think are the most important messages you'll hear today. And they are: We have a resilient business model that generates consistent and substantial free cash flow. We are on track to maximize the transformative opportunities from combining with ILG, and we have a very clear growth strategy for the future.

So let me set the day up for you. As you saw in the agenda, we first will have Ovi Vitas discuss the exciting things we're doing in the digital arena. Then Jeanette Marbert will talk about the Exchange and Third-Party Management Business. Lee Cunningham, Lani Kane-Hanan, and Brian Miller will then present the vacation ownership business. And after these presentations, our CFO, John Geller, will bring it all together with the financial landscape and our 2022 goals. We'll also provide you ample time to ask questions both during the day and after John has presented our three-year outlook.

These six people have been with our company for an average of 23 years. We believe that matters as we occasionally get questions about how we're going to perform during the next recession whenever that happens. So it's important to note that all of today's presenters, with the exception of Ovi, were either part of our organization in 2008 or in the case of Jeanette, part of ILG. So while I'm certainly not calling for a recession, and we are not seeing anything on the horizon that would suggest one is in our near future, we do have a very seasoned team of executives that understands how to navigate through one. So let's begin with an overview of our business today.

The last time we were together for an investor day was in 2015. At that time we were generating roughly $1.3 billion in revenue, focused solely on vacation ownership, with all of our brands falling under the Marriott umbrella. Since then we have doubled our revenue. We've added four additional brands to our portfolio with our vacation ownership business. We've grown our vacation ownership business to 660,000 owners with 110 resorts in 12 countries, and we have added an Exchange and Third-Party Management business serving nearly two million members with a portfolio of more than 3,200 resorts around the world and more than 175 properties under management.

We have a broad and diverse portfolio within our company with seven of the best brands in the vacation ownership business serving the upper upscale sector of the market which now includes the Westin, Sheraton, and Hyatt brands which we did not have back in 2015. And we now have a stable Exchange and Third-Party Management business operating under the Interval International, Trading Places, VRI Americas, and Aqua Aston brands serving nearly two million members and generating substantial annual cash flow. It is our belief that our business is resilient which is a message I think you'll hear several times today.

Traditionally, timeshare companies have been viewed as being heavily reliant on the vacation ownership sales, the proverbial one-trick pony. In fact, only a few short years ago, 50% or more of our profit came from selling vacation ownership interests. Today only a little more than a quarter of our profit comes from the sale of vacation ownership products with the balance coming from the mix of other stable and higher-margin businesses. Following our last investor day, we have continued to deliver consistent revenue and profit growth, growing 52% and 63% respectively.

So before I proceed, I thought it might be helpful to report on how we performed against the outlook we provided the last time we were together. As you can see here, we met or exceeded each of the key goals we put forth in 2015, including contract sales, EBITDA, return on invested capital, and free cash flow. John will talk more about this later today. Since 2013, we've invested nearly one billion dollars in inventory and CapEx to fuel the growth of our business while at the same time returning $1.4 billion to our shareholders through a combination of dividends and share repurchases.

You will note that during 2017 and ‘18 our share repurchase activity was muted as we pursued the ILG acquisition. In a world of investor concern about the next recession, it's important to point out how different we are today than we were back in 2008. Back in ’08 we were selling a weeks-based product. Today we sell a points-based product. And I can't emphasize enough how important this distinction is.

Points enables us to report consistent sales growth year over year versus the lumpiness that comes with a weeks-based model which uses percent completion accounting as you've seen this year from one of our competitors. Operating a points-based product also means we have perpetual sales centers since we're selling the system, not a specific site which typically closes the sale center after sellout. With perpetual sales centers, we also are able to efficiently reacquire previously sold inventory and repurpose it, and it enables us to offer more vacation options to our customers as well as a vast array of non-resort experiences.

In addition to the product form differences, back in ’08 we were funding our development on balance sheet versus our capital efficient strategy today. Working with third-party investors enables us to deliver consistent free cash flow year over year. And in ’08 we were actively selling luxury whole ownership residential and fractional products. Post-recession, we made the strategic decision to move away from these products and focus new development activity exclusively on the timeshare segment.

And back then we didn't have an Exchange and Third-Party Management business, which as Jeanette will show you sailed relatively smoothly through the last recession. So while a lot of companies like to say that they're different, in our case, we really are.

We turn our focus to our vacation ownership segment. This slide shows that we operate in a strong and healthy marketplace that generated more than $10 billion in sales in North America in 2018. And it's delivered roughly 6% compounded annual growth since the recession. I'd also point out that the industry satisfaction level of timeshare owners is very strong with 70% indicating that they would repurchase again. This factor is reinforced each year at MVW where more than 50% of our annual vacation ownership sales are to our owners adding more interest to their vacation portfolio. Operating in the upper upscale segment, we estimate our addressable market to be north of 35 million households in the United States alone.

By our estimates, timeshare ownership penetration of branded vacation ownership companies within this cohort is only a little over 3%. By operating where we do, our customer demographic naturally skews a bit towards the higher end. Our typical customer is a college graduate, has a couple of kids, makes more than $130,000 annually, has a high FICO score, and a median net worth of around 1.5 million dollars.

Our exchange and third-party management business is a high-margin and stable business that generated more than $400 million in fee revenue last year on a combined basis with EBITDA margins north of 60%. Since these businesses are less capital-intensive, they provide substantial free cash flow that we can either invest in high-return projects or return to our shareholders.

So what is it that today's vacation customers are looking for? Since our founding over 35 years ago, our customers have always looked for value, product consistency, and ease of use, but in addition to that, today's vacation patterns and length of stays have evolved, and consumers are now looking for more flexible options and a wide array of vacation experiences. Today our owners and guests want to immerse themselves into their vacations to a much greater degree than ever before, and they want diversity of vacation experiences from one year to the next.

In response to the changing customer needs, we have evolved to meet those needs. For example, in the vacation ownership segment back in 2007, we identified through customer research that the vacation needs of people were changing. We found that owners were less content to return to the same resort each year and that week-long vacations were becoming more difficult to schedule. With that in mind, we mounted an extensive three-year effort to develop our current product offering, which we launched in June of 2010. Today we offer a point space product with flexibility in how to use it. You want a seven-day vacation on Marco Island? We can do that. Just want a long weekend in San Francisco? We can offer that too. How about an African Safari for two weeks? We can accommodate that.

And even if you want to go to a championship sporting event, if you have enough points, we can even do that as well. In total, we offer over 10,000 different vacation options for members of our Marriott Vacations Destination Club, and I expect that number will continue to grow. We now also have vacation properties in urban markets such as New York, San Francisco, and London. And with Sheraton, Westin, and Hyatt now in our portfolio, we will be able to offer even more travel opportunities to our owners in the future.

Our exchange business has evolved as well to meet the changing needs of its customer base. For instance, when Interval used to be a time-for-time, weeks-only exchange business, the business can now perform exchanges with points owners on a value-for-value basis. Over time, Interval has enhanced their product offering by implementing cruise and hotel exchange services for its members in addition to golf, spa, and guided-tour vacations.

In each case, these enhancements were added to serve those members that occasionally wanted something other than a traditional resort vacation. And where Interval used to sell getaway packages in week-long increments, they're now moving to shorter stay packages as well. And as you will hear from Jeanette, she and her team have begun on a foray into offering travel-related services to non-timeshare customers as a way of broadening their product offering. All of these changes that I've listed both in the vacation ownership and in the exchange business have been in response to changing customer dynamics where people increasingly want diversity in their vacation experiences.

So what do I mean when we say we have a unique and resilient business model? It means that we have diverse revenue streams across multiple business platforms. We enjoy exclusive timeshare access to both the Marriott Bonvoy and the World of Hyatt loyalty programs which encompass over 140 million members. We have a leading exchange platform with 1.7 million members and 3,200 properties in over 80 countries. That, combined with our capital efficient inventory model, enables us to deliver strong free cash flow on a consistent basis which is why we expect to drive between $440 and $490 million in free cash flow this year alone. Looking at this line, which is slide number 23 for those on the webcast, should give you a sense of how roughly a $30,000 initial timeshare purchase results in roughly $60,000 in revenue for us over five years.

You might think of it as our flywheel of the business. It typically starts with someone staying at one of our resorts and taking a tour, whether from previously purchasing a preview package, an owner utilizing their time, or from an open market rental. Typically, following the tour around 15% of the people make a purchase, and approximately 60% of those buyers take financing. We also receive recurring fee revenue from membership in our destination club, and rental income from unsold developer inventory or rentals on behalf of our owners. Each new buyer is also enrolled as a new member of Interval International which generates annual membership fees as well as income from exchanges, membership upgrades, and travel services. New owners also bring us management fees which are a percentage of their annual maintenance fee, and we earn ancillary revenues for providing services like food and beverage offerings or a round of golf. Plus, satisfied owners are happy to make referrals, which is very favorable in generating cost-effective leads to potential new buyers. And a meaningful percentage of existing owners buy again at some point in time, and it starts all over again.

Lee will walk you through some of the numbers on this later this morning. Now let's shift our focus to our growth strategy. We think about growing the business in three ways. First, driving consistent profitable revenue growth. Second, transforming our business with the ILG acquisition. And third, having a balanced approach to capital deployment. But none of this would be achievable without a relentless attention to customer satisfaction and world-class associate engagement.

So let's start with profitable revenue growth. As you'll hear from the vacation ownership team today, we expect to grow our contract sales by developing new properties and high-demand vacation destinations, growing sales to both existing owners and first-time buyers, capturing what we believe is a large digital opportunity, and leveraging our exclusive rights to the use of the Marriott and Hyatt brands in the vacation ownership space. And as Jeanette will discuss, our exchange and third-party management team expects to grow by adding new properties, diversifying the business, and increasing revenue per member.

But what I'm most excited about is the opportunity we have to fundamentally transform our business through new ways of working. For example, it currently costs us roughly $0.50 in sales and marketing dollars to generate one dollar of vacation ownership sales. We are focused on the opportunity to apply cutting-edge digital tools to become more efficient in the ways in which we target potential owners and the marketing channels we use, which Ovi will talk about next. In addition, bringing Marriott Vacations and ILG together means we now have the rights to the Marriott, Ritz-Carlton, St. Regis, Sheraton, and Westin brands, which gives us the opportunity to develop new product forms to leverage all of the brands under the Marriott umbrella to the benefit of our owners.

And with this once-in-a-lifetime combination, we now have a much larger platform to leverage investments in technology that will drive greater automation to increase sales and reduce operating costs. We also expect to generate more than $125 million in run-rate synergies by 2021 from the acquisition. You will note that this is higher than our recent guidance of a $100 million dollars, and two-thirds larger than our original expectations when we announced the transaction in the end of April of 2018.

And all of this is before the top-line growth benefits that we expect to generate by improving VPG at the Legacy-ILG business and adding more linkage hotels at Vistana, which Brian will talk about. So when we put it all together, it means from 2019 to 2022 we expect to generate 5% to 8% compounded annual top line revenue growth, and 7% to 11% EBITDA growth driven by 7% to 11% of vacation ownership compounded annual contract sales growth. We also expect to generate $1.3 to $1.5 billion of free cash flow between 2020 and 2022. I would remind you this is in addition to the $440 to $490 million we expect to generate this year.

And with this free cash flow, we can pursue strategic M&A or return it to shareholders in the form of share repurchases and dividends. And once again I would remind you that all of this is after investing in development projects and strategic IT investments to grow the system and to grow sales. So in summary, we expect to drive 7% to 11% contract sales growth on average over the next three years and are on track to generate at least $125 million in run-rate cost synergies in addition to the top-line growth we are projecting.

We are transforming our business with digital initiatives that we project will have meaningful impacts on nearly everything we do, and we expect to generate substantial free cash flow year in and year out, and we have an experienced management team with a track record of delivering results. I trust that you'll agree with me that all of these factors combined lead to a conclusion that Marriott Vacations Worldwide has a business model that is very well-positioned to deliver substantial profitable growth well into the future.

And with that, it's my pleasure to welcome Ovi Vitas to talk all about the exciting things we're doing in the digital arena. Ovi?

MR. OVI VITAS: Thank you Steve. Everyone hear me okay? Good? Great. Excellent. Well, thank you very much for joining us this morning. I'm extremely excited to share with you the advancements we're making from the digital realm, and the role that Marriott Vacations Worldwide will play in that future. So to start, I'd like to talk a little bit about what the agenda looks like.

First, an overview of the digital landscape today, what's going on within the digital landscape. I'm sure many of you are aware of all the advancements that are being made, but the question becomes, what role does Marriott Vacations Worldwide play in this new normal? Second, strengths for leveraging. As Steve mentioned, we’re part of one large organization now with over seven brands and a multitude of businesses. We're looking across those organizations to understand what digital infrastructure capacities help leverage the business overall holistically. And then third, our transformational growth strategy. How will we meet our ambitions to drive our business to a new norm in the future? So let's start here. With over 7.2 billion devices around the planet by 2020, it's a pretty astronomical number.

While the number is a huge number, what really becomes interesting is the fact that there are people behind each one of these devices. And the reason I say there's people behind each one of these devices is because it's our responsibility to help build relationships through digital capacity with each one of those individuals behind those devices. And that is one of the unique things I believe we do as an organization, is we view all of our digital transactions, all of our digital interactions, through the lens of this customer journey.

We'll talk a little bit about what that means. So with that responsibility, that relationship that we'll be building with customers over time, the question is how do we do that? We've been talking about data for the last 20 years. We've been talking about the role that data plays, and we’ve been talking about the fact that data is overwhelming. The issue isn’t the amount of data, the issue is how to effectively use that data. We'll talk a little bit about the 9X more in the last two years of major enabler of machine learning, meaning artificial intelligence, role in advanced analytics, and how those capacities help us take that data, do better targeting, and while we're doing better targeting, we're able to effectively, again, have better relationships with each one of those customers behind those 7.2 billion devices.

And the last thing I'll mention here is two billion are digital natives. When we use the term digital natives here internally at Marriott Vacations Worldwide, we're not referring to an age. We're not referring to a year. We're referring to people who use digital in their daily lives to interact, and the expectations that they have with that digital capacity. So if you think about being a timeshare owner or taking a vacation or flying on an airplane or buying a car, what role does digital play in your lives? What expectations do you have for the role that digital has to play?

Well, it starts here. It's a tricky, tricky thing, right? We’ve got 7.2 billion devices, 7.2 billion customers behind those devices, and each one of those individuals has unique personality and a unique way in which they want to interact with your business. So I'm going to provide a quick example here. I'm assuming there are a few New York Giant fans here in the room. So let's assume you're going online, you're reading about Eli Manning. You're on ESPN.com, you're reading the article about Eli Manning, that he's no longer the quarterback. And you go over to the New York Giant's web page, you read a little bit more about that. You close it out and you go about your day.

Later on you're looking at Facebook, and you see an ad that says, "Would you like to buy a New York Giant's jersey," right? It's not rocket science. They know where you've been. We've cookied you. We know exactly what websites you've been looking at. And you click on the ad, and it takes you to the NFLshop.com, and you actually create your jersey, right? A custom jersey. For me, it would say Vitas #22 on the back. And we go to the checkout. Right before I'm about to checkout, let's assume I don't for one of two reasons. Number one, I get distracted. Things happen. I close out the window. I'm on my way. The other reason, let's say I'm price sensitive. I'm not sure that the jersey is worth $95. Full disclosure, I don't know that the jersey actually is marketed today at $95, but let's assume it is. I don't know that the jersey is worth the money, $95. So I close out for that reason. We call that cart abandonment.

The question is, how do we capture those people who have abandoned the cart and quickly get them back into the cart to make that final purchase. Well, this is where we call the need-state comes in, right? So there are lots of different ways in which I can get information, but the end goal here is the right offer at the right place to the right customer at the right time. So following that example through, I'm going about my day again, and now I'm on Instagram. And now I see an ad for the New York Giant's jersey, and it says Vitas #22 on the back, and that's really the epitome of personalization, right? I've created a custom jersey. I see my name. I see my number on that jersey. And while that's really interesting, the really interesting thing that happens is what happens when I click on that button, right?

So we go back to the two scenarios of why I abandoned the cart. Number one, I got distracted. So if I got distracted, the data and analytics and the propensity models that we've built are going to tell us, when Ovi clicks on that ad, he's a distracted customer. Take him immediately to the checkout flow. That's going to help my conversion rate. I'm going to convert at a higher rate. If their propensity model says Ovi is somebody who is price sensitive, it's going to take me to some content that talks about the technology behind the fabric, the wicking technology, the hand stitching that goes into the product itself. It's going to build a value proposition around the $95 sensitivity cap I had.

That's going to make me a more informed customer. So if you think about a funnel, think about any digital funnel, a more informed customer, consideration customer, to ultimately purchase [inaudible]. Again, we go back to this notion of the right place, the right offer, the right time. Hopefully that example provides a really high-level idea of how we're using data and analytics to marry back a direct offer to customers and making sure that they convert at the right point in time. The last thing I'll say here as we talk about the overall digital landscape is it's not just about generating new leads, generating new customers. Obviously that is our bread and butter, but we need to also make sure that we're retaining those customers.

Steve talked a lot about the fact that we have a hyper-focus on our customers and on our owners, and that is while an excellent ambition for Marriott Vacations Worldwide and a tenet that we hold near and dear, it's really an expectation for all customers for any business that they're interacting with today. Again, no surprise I'm sure to all of you in this room. But if you think about 93% of people want to have updates on their flight status, 90% want the ability to check in at home, 81% want to track bags. So do you think that American, United, Jet Blue, Delta said we need to have the ability to check in, or the ability to track bags because it's going to generate more sales for us.

What they were doing here is they were meeting an expectation that customers have. Customers have the expectation to be able to check their bags. Customers have the expectation to be able to check in online. It is in service to this notion of a self-service utopia. How customers want to be able to interact with your business is they want to be able to self-service, whether that's booking a reservation with Marriott Vacations Worldwide, interacting with one of our associates via chat, the ability to look at the multitude of vacations you can take out online and then be able to enact on that. And we’re going to talk about the results of those ambitions a little bit later on today.

So let's talk about the strengths we're leveraging. We are a fortunate organization. We have over 36 million annual visitors come to our website with over 1.7 million followers across our social channels. And that's a great, great area for us to have conversations with owners, control a lot of the narrative between some of the mistruths that may be out there associated with timeshare, and also engage with our owners to get real-time feedback and what it is they like about our product, what they don't like about our product and really service them in a way that they expect to be serviced. And then the question becomes what do we do with this great foundation that we have, this great digital foundation that we have. Well, before we make any decisions internally, we always push things through a framework which we call the virtuous circle, and it consists of three tenants.

Number one, how do we generate demand digitally. This is topline growth. How are we looking at areas across the digital infrastructure to drive more and more people to either learn about our product, buy packages - and we’re going to talk a lot about packages today - buy packages to come and visit and tour with us, or feel more empowered and more informed when they walk into that sales gallery. So again, we have a better opportunity to convert them because they are a more informed customer. Number two, getting people on vacation faster and more frequently. This is pretty cut and dry. If I own timeshare, how are you going to help me get on vacation faster and more frequently.

And the reason that matters to the customer, again, it's the expectation. More pointedly, the reason it matters to the business is if we're getting owners on vacation faster and more frequently, that means that they're using their points more efficiently. So they're seeing the value proposition, their burning through their points. Remember, we sell a points-based product. They're burning through their points, and if they're burning through their points more quickly, and they're seeing the value proposition more explicitly, we have the opportunity to upsell them on more and more points.

And third, enhance experiences before, during and after vacation. I'm going to beat a drum here a little bit, all right? So this is again, meeting the expectation of the customer. How do we ensure that every vacation they have they're informed on what activities they can do? How can they share those activities with other members of their family? How can they favorite them? How can they add them to their calendar? How can we make sure that the experiences that they're having on our properties allow them to experience the best possible vacation they can?

We have a saying internally which is, "Vacations come around too infrequently, so you better make sure you get them right." The role that digital plays is ensuring that that vacation gets done right. You don't want to spend a lot of time troubleshooting while you're on vacation. This is the critical part of something we're going to talk about a little bit later here. So let's talk about that second element of the framework, getting people on vacation faster and more frequently. From 2016 to 2018, we saw 28% compound annual growth rate in online points transactions. So what that means is people are spending points online using digital at this growth rate. I'm going to provide a quick example.

So today you could go, and you could buy 7,000 points with us. You go to a sales center, you decide you want to become an owner with us, you buy 7,000 points. So you can take those 7,000 points, and you can go online, and you can search across the multitude of properties we have around the world, and you can decide to use those 7,000 points, and for example, take a vacation in Maui in a two-bedroom Villa. That's pretty straightforward. Or you could say, you know what, this year, 2019, is our 20th wedding anniversary. I want to borrow from the year that is 2020 and take my 7,000 points and build a 14,000-point vacation destination. Now maybe you're doing two weeks in Maui. Remember you're splitting it up, and you're starting to see the flexibility of the product.

And again, the adage here is we are building a website, we're building digital experiences, we're building digital tools that meet the flexibility and the dynamicism of our products. So in that example, we're borrowing from the future, we're using those 14,000 points to build a great vacation. Or you could decide this is the year I actually want to go and do some things and experience some of the great hotels within the Marriott International system. So I'm going to take my 7000 Marriott Vacation Club points, and I'm going to transform them, I'm going to convert them into Marriott Bonvoy points. And now you're playing in the hotel game.

While that gives an overview of how our product operates, the growth that you're seeing here is a direct result of the functionality that we've been building within our digital infrastructure and pipeline to meet those types of transactions, those types of self-service enhancements that we're seeing. And it's not going to stop there. We have high ambitions to make sure that all of our transactions ultimately, or the majority of our transactions I should say, take place online. And we're going to talk about why that's important, but I'm guessing you guys are already inferring why that's important. But the idea here is by 2022 over 50% of our transactions will take place online versus offline. And why that's important, and the way we're going to get there, again, is through more and more product enhancements in service to the self-service customer.

We talked about the 7.2 billion devices. We talked about the 2 billion digital natives. We talked about the expectations we're meeting. We talked about a flexible product. We have to make sure that this product is- that the digital tools we're using are dynamic enough to serve this. So the product pipeline that we have in place to get us from 2018 to 2022 is going to help us realize this ambition, and with over 50% of the transactions taking place online versus offline, we anticipate to see a dynamic change, or a large change, in the composition and makeup of the calls that are going into our call centers today.

We're already seeing it today in terms of the types of calls that are happening at the call center, that we're moving from an area where they're taking less calls, or the calls of the call center that we can't service online, they're handled in a more high-touch fashion because they're more complex transactions. The more straightforward transactions we talked about today are driving the growth that we talked about earlier. So we anticipate a better cost efficiency in terms of bottom line efficiency with driving more and more transactions online.

We also anticipate an opportunity to drive more ancillary products through a checkout flow. You guys can think about this in terms of Amazon. "Would you like to add this to your cart? Customers who have purchased this also recommend this." You could think about that in terms of maybe trip insurance, converting trip insurance over the phone versus converting trip insurance through an automated checkout flow. You can anticipate it's going to have a higher conversion. And then lastly, we talk about our satisfaction with our customers, which will equate into a better lifetime value. Lifetime value is computed largely by how long you own the product. By ensuring that we're making these advancements and enhancements in our digital product strategy, we're ensuring a longevity with our customers. So let's talk about our transformational growth strategy. Where is it we're looking to be, and what are we going to be articulating here today? Three main areas.

Number one, strengthening our digital infrastructure. If we strengthen our digital infrastructure, we're going to drive a more cost-efficient business overall. We're going to talk about how we're doing that. Number two, growing online packages. If we grow online packages, ultimately we're going to grow topline growth. I'm just for 30 seconds going to describe what we mean by packages. Packages are, "Would you like to come to Orlando for $799 or $599 for five days in exchange for taking a 90-minute timeshare tour with one of our sales associates?”

So when we refer to packages, that's what we're referring to. Brian's going to talk a lot about packages in terms of the impact that they're having on our business today, but suffice it to say, it's a great way to get people to experience our product, and the question becomes what role does digital play in identifying new customers and having them raise their hands to say, I want to learn more about timeshare, and this highly-discounted vacation as a way to try that product out seems good to me. And then third, enhancing our experiences. How are we helping to retain and maximize our upsale opportunities with our customers?

So, enhancing our digital infrastructure. Brian is going to talk a lot today about a fantastic marketing infrastructure that we have, and our challenge is how do we help either augment or act as a catalyst within that marketing infrastructure. So I'm not going to read through each one of these, but I will call out on a few.

Number one, in-house marketing. In-house marketing is - and these are the areas we're focused on today, that we're making great enhancements on - in-house marketing you can think about that as coming to one of our properties. You check in, and the end goal is having you come and meet with one of our marketing desk associates, and the conversation looks something like, when you get to the marketing desk, “Well, it's great to have you here. Would you like to come and take a tour? If you take a tour, we'd love to provide you free tickets to an attraction or more Marriott Bonvoy points.” So the question is how do we get people to actually get to that marketing desk. And one of the ways we're doing that is we're using incentives. This is nothing new, right? An incentive to come to the marketing desk.

If you come to the marketing desk, you can get 500 Bonvoy points and have that conversation. Or if you come to the marketing desk, you can get $25 off a local food and beverage outlet. Or if you come to the marketing desk, you can have a discount on some park tickets. Those are three different examples I just provided you. And the power that digital provides, is it allows us to target different customers with different incentives at different times, and ultimately be able to track back that incentive offer all the way down through the sale of the timeshare. So it used to be, let's offer one incentive and let's see what happens. We are currently offering a multitude of incentives at different sites and optimizing those against the cost per attributable tour.

So if we can bring in an incentive that may on the surface look a little bit more expensive, but we know we're going to have a much better conversion rate and ultimately much better success rate in the sales galleries, we're going to have a much more cost-efficient marketing model. That's one of the things we're doing today, and we're very excited about that. The second, I'm just going to go over here to digital partnerships. We have, as you can imagine, a very close partnership with Marriott International.

One of the areas we're looking at is how can we look at customers who have booked hotels through Marriott International or through confirmations and/or through cancellations and understand what are the opportunities for us to engage with those customers, to sell more and more digital packages.

We're in the early days with that conversation, and we're starting to see lots of growth and potential there, and we'll continue to monitor that very closely. And then lastly, I'll just talk about digital package growth. Today we are advertised on the two largest advertising platforms on the planet, namely on Facebook and Instagram, and over the course of the last six months we've seen drastic reductions in terms of our cost-per-leads, the amount of money we're willing to pay for lead to come into our system. Our quality scores remain exceedingly high, so they're highly qualified which means we're doing an excellent job in our targeting of these new audiences, and we're branching out into larger and more audiences by virtue of the fact that the infrastructure that Facebook and Instagram namely provide today are much broader in scale.

Ultimately, this is helping us generate a much more efficient cost-per-package tour that we're bringing back into the sales center. Our future focus - Brian is going to talk a little bit about hotel linkage marketing, direct digital sales, so some of the things we're looking at in the future. If you've come and you've stayed with us and you're interested in buying more, but maybe you took a tour and you're having second thoughts, or you're not quite sure if a tour is what you want to do today, we're having early conversations about how do you actually sell someone a bounce back package or a return package to come and stay at one of our sites using digital.

And then lastly, in-app sales. Our customer retention is to focus on delivering against the customer expectation first. So we have to make sure that we're meeting the customer expectation. So a lot of what we're going to be building in our apps moving forward, in our digital capacities moving forward, provides utility for a customer. I talked a little bit about the ability to book an activity, the ability to see what activities are available to you. It's different than staying in a hotel, obviously. You're staying, 7, 10, 14 days at a resort with lots of activities on a large property.

The interesting thing becomes if I can understand behaviorally what you are looking at in terms of your interest of the types of activities you're looking at, or the types of activities you're signing up for, that data and that information becomes used to drive and develop even more incentives. We talked about how the incentives are being used today, now we're actually developing incentives as opposed to testing, optimizing, learning. It's using even more data to inform those tests before we optimize and learn.

Three more here to cover. Digital Initiative self-service booking tool. Today when you buy a package with us, you go online, you fill out a form, and then one of our sales center associates calls you on the phone. In the future, you can imagine that's going to be a self-service tool which will allow customers to go online, select the date, select a location, and be able to check out and purchase that package in one step.

That's a big advancement we'll be making here in terms of digital products. Real-time offer engines, again, this is pretty self-explanatory, but we're building infrastructure to ensure that all of the examples I provided and talked about earlier can be met to the customer in real-time. Again, 7.2 billion devices. Those are small little marketing channels, so we have an opportunity again to engage and develop a robust relationship with our customers. And then pre-arrival marketing offers.

Doing the best of what we do today, engaging with customers before they come to our sites, and then learning how and understanding what opportunities digital has, and making sure that we have an opportunity to engage with them before their arrival to potentially have them come and sit and talk with one of our marketing associates. The last piece I'll cover here is using digital to enhance our experiences. We've got some great community planning tools that are coming out of the Vistana business, so as community planning tools allow customers and owners to share in real time, what are the best tips, what are the best tricks? How do I get on vacation more quickly? Where are the great places to go? What are the unique things to do there?

So we're going to be taking a lot of those community planning tools and a lot of the infrastructure that exists today and applying that across our business more broadly. We have a proprietary activity planning tool interface that we're designing, that's going to help customers do a lot of what I just made an example of today. That's coming out of the Marriott Vacation Club business, and again we'll be providing that across the enterprise as well.

And then lastly, we're looking at our partners at Interval International to help understand how to make the best world-class app interface and usability. We talk about user experience and user interface. Today if you go in the app store, you'll see that the Interval International app has a 4.8-star rating in the app store. We're going to be taking that team and that those best practices and applying it against everything we do from an app design and perspective as well. Which leads us here.

We talked about 50% of online versus offline transactions and overall customer experience, and we've provided some pretty discrete examples of how we're going to get there, but ultimately, a $300 million digital transaction business. Steve said the words, “digital to help power everything,” and this really is an end result of that powering, that empowerment. So if we're doing things the right way, we're driving more transactions through some of the ancillary business, better efficiencies through driving more sales through the pipeline and funnel through better targeting, and ultimately, more ways to drive more top-line growth through online digital package sales.

So in closing, if we create meaningful relationships, we're going to end up with better retention and upsale opportunities. By improving our targeting, we're going to reduce our costs. And lastly, aligning our behaviors with our needs and technology is going to drive bottom line efficiencies and top-line growth. The big takeaway for me here is a holistic approach. We're focused on data, we're focused on technology, but lastly, we're really focused on relationships, which will lead to these more cost-efficient campaigns and drive our company into the future.

Thank you very much, and I believe now we're going to open it up for some Q & A.

MR. WEISZ: Go for it. Let’s do this. For people on the webcast, we’ve got mics coming around. So if you don’t mind… so everybody can hear.

MALE VOICE 1: When do you expect to launch self-service booking?

MR. VITAS: Well, self-service booking we're going to be piloting Q4 of this year or Q1 of next year. So we'll be rolling into pilot within the next six months.

MALE VOICE 2: I think I was probably following up that question also. I think one of the areas we’re trying to figure out is, as Marriott builds their loyalty program on the hotel side, the degree to which I’m booking a room, booking a Marriott room, I get a pop-up or some sort of digital engagement on the timeshare side. Can you just give us as much detail as you can around the prospects for that now, and embedded into the next few years, and what that really means?

MR. VITAS: Sure. So the first thing I’ll say is it’s early stages. We are approaching this collectively and collaboratively together, meaning Marriott Vacations Worldwide and Marriott International. The mandate is we cannot - and this is from our collective sites - impact the customer experience negatively. So that being the foundation. So pop-ups, if you're seeing pop-ups, please let me know. You shouldn't be seeing pop-ups from our side.

MALE VOICE 3: [inaudible]

MR. VITAS: Understood. But the end goal is to offer a customer something when they're within their actual flow that is going to be of value to them. So let me get to your question specifically. On confirmation pages for specific brands within the Marriott International Group, we are offering up a digital package tour. So we're driving you to the website that says, would you like to come to Orlando for $799, as an example. We are looking very, very discretely though at those audience segments, at the brands that we're interacting with, with Marriott International, and also we're tracking the performance of each one of these campaigns.

So the reason I say we're starting small is because we're doing just that. So we're looking at the confirmation pages, so if you book a Marriott Hotel and you get served up a confirmation page, you're going to see an offer for that. Or a cancellation page. So cancellations and confirmations for discrete sets of brands are the areas that we're focused on today. But we're starting small because we want to make sure that, (a) we're not negatively impacting the customer experience, and all signs of course point to we’re not. But secondly, how do we make sure that we are optimizing as much as we possibly can? We can talk very specifically about form completion optimization, and click-through optimization, and creative, and all of those things, but those are the conversations that are happening in the background. We anticipate that business to grow as we start to iterate and attenuate our creative and our copy.

MR. WEISZ: And Ovi, I’d add that even the tests we’re doing is to a very discrete customer segment. The notion is, go try it. See how it works. As you probably know, in the digital space, it’s fail fast, move onto something else if it needs to be tweaked. Here we’ve done it, and we’re very optimistic about the early results we’ve seen. All of this in the context of we’re doing this in partnership with Marriott, and they have certain technology things that they have to also do. You’re probably very well aware of the fact that they’ve to put two reservations systems together, and a few other things that they’ve had to deal with. So that’s impacted our ability to move a little faster. In the back?

MALE VOICE 4: In terms of testing, could you provide some color of how much time would you test this small? And what is the expectation to go out a little bit larger? Within a year? Six months?

MR. VITAS: Are you talking in general how we approach our business? Or specifically with our partnership with Marriott?

MALE VOICE 4: Specifically with this partnership with Marriott, and in general towards these digital initiatives.

MR. VITAS: So, at a very high level, the work’s never done. So we are continually-people change, technology changes, so we have to continually attenuate and modify our business and modify our tests. So usually what it looks like is we start with a very small sample size. We start with a very small audience, and then we’ll test discrete aspects of a flow.

So I’m going to get specific here for a second, apologies, but what we’ll do is we’ll look at a click-through rate, which is a measure of, “Are people engaged? Are people interested in the ad that they’re seeing?” That’s the very top of the funnel. Once they get to the form page, we start iterating against the form page. Are we getting to baseline where people are filling out the form? Is it 5%? Is it 10% of the people who land there? Of the people that fill out the form page, are they actually transacting? So we’re very, very process-oriented in going from the top of the funnel to making sure that the interest is there, and then specifically going and making iteration changes.

Now the question becomes, when are we comfortable with the amount of iteration changes that we’ve made? Do we feel like we’re statistically significant in hitting the thresholds we want? So we start widening the aperture, and that's when the volume starts to come in. But we don't open up the volume until we've optimized against those click-through rates, those form completion rates, and ultimately those conversion rates.

Because what will end up happening is we'll burn our audience. If we go too wide on the audience, they're going to be fatigued. And the second is, we're going to spend money that won't be performant as when we've done these small tests. Specifically, your question on how long it takes, the reality is it depends. It depends on the traction that happens with the impressions that are served up, and it also depends on how comfortable we feel in terms of the performance, of when we're going to decide to exit, to Steve's point, or move forward. All signs point to us definitely moving forward on the Marriott International issue.

MR. WEISZ: I think one of the things that - and this is some learning for me coming from a guy like Ovi who is obviously very well-versed in this area - is the speed with which you can do stuff. Why don't you just give him the example of number of iterations you did on the initial Facebook test.

MR. VITAS: Sure. So with the initial Facebook test, we've been in market for nine months. We at one point in time had 400 ads running concurrently. And the reason why we're doing 400 ads running concurrently is because you take - could be day by day or week by week - you take the best performing ad, that ad becomes the test ad, and then you put a multitude of tests against that one. And the winning one from there becomes the test sign, and the multitude test is that one. We could talk about Bayesian Inference Models, we have two data scientists on the team that really- I mean, this is the stuff that starts to blow your mind, but they don't look necessarily at absolute numbers because it takes too long to get to fruition. We look at these inference models, and once these inference models prove out, we can get to 48-hour, 72-hours, a result in understanding what's working and what's not to move us to the next test. But the tests never stop.

But I would say if we're launching a new campaign, in general, in 48-72 hours we'll know which campaign is most performant. And believe it not, there are things like click here, or buy now, the action, that matters. Where we put the copy matters. The type of imagery we use matters. And sometimes it's really counter-intuitive. I can give you a variety of examples of where we instinctually think a beautiful picture of a sunset over one of our properties will perform better than a walkway out to a beach, doesn't prove out.

MALE VOICE 5: What percentage of overall tours come from the digital channel, and if different, what percentage of overall vacation packages come from that channel? And then also if you could, what are the conversion rates relative to more standard marketing channels?

MR. WEISZ: I think maybe if you don't mind, if you'll hold that question for when Brian comes up. It probably fits better in the flow of what we're going to talk about there. Any other questions?

MR. GOLDNER: Okay. So we're going to have a break now. If everybody can be back by 9:45. There should coffee and some little snacks outside. Please.

MR. WEISZ: Feel free to engage with any members of the management team during the coffee break as well.

MR. GOLDNER: We're about to re-start. So before we start, apparently there was little bit of confusion this morning, and I just want to clear it out. Some of you that looked towards the end and saw the revenue guidance in our CFO section, I have gotten the question about why the revenue guidance was relatively low. You have to look at the footnote to see that the revenue guidance excludes cost reimbursement. I want to make sure that all of you understood that because Bloomberg had a one-liner that obviously did not read the footnote. With that out of the way, again, we're going to restart. It is my pleasure to bring Jeanette Marbert on the stage to talk about the Exchange and Third-Party business.

MS. JEANETTE MARBERT: Thank you, Neal, and good morning everyone. It's my pleasure to share with you today an overview of the Exchange and Third-Party Management segment, review the principal business lines, and finally highlight the segment's key strengths and strategic growth priorities. Our Exchange and Third-Party Management segment is comprised of two principal business lines. The Exchange business which represents about 80% of the segment's total adjusted EBITDA, while the Third-Party Management businesses account for the remaining 20%. A few key things to remember about the segment. Our revenues are primarily fee-for-service. We have high resilient margins with strong free cash flow due to the low capital requirements for these businesses. This strong free cash flow is helping support the growth strategy for MVW.

First let me provide a little more detail on the Exchange business. As previously mentioned, Exchange represents about 80% of adjusted EBITDA for the segment. We serve nearly two million member families through our value-added products. Through our core exchange memberships we provide customers with the ability to exchange their usage rights at a particular resort or club for a different vacation ownership resort, hotel accommodations, or other leisure accommodations such as cruise or experiential vacation. Our Exchange business is comprised of Interval International, an industry-leading external exchange company, and a direct-to-consumer exchange platform, Trading Places International.

To become a member of Interval, you must own at a resort which is affiliated to the network. Both resort developers and homeowners' associations affiliate their properties to the Interval network. Today we have nearly 1.7 members who have access to a network of 3,200 resorts globally. Trading Places International is not membership-based and not reliant on resort affiliation. It was developed as an alternative to the larger external programs.

Founded in 1976, Interval's focus has always been about quality over quantity, affiliating leading resorts in key regional and international destinations. This has enabled us to develop strong multi-year exclusive relationships with resort developers globally and has helped us maintain strong customer retention which is averaged at 88% over the last five years. We have also maintained an impressive 93% utilization rate since 2014 for the Exchange inventory that has been deposited into the network. This inventory is prioritized for Exchange and then made available for rental to ensure maximum usage.

External exchange has always been a key factor in supporting the vacation ownership sale as it added flexibility to the purchase. Agreements with our affiliated developers provide that all new purchasers will be enrolled as members of Interval. We currently offer four different membership options. These memberships range in cost from $99 to $238 annually and provide access to Interval's Resort Network for exchange as well as additional vacation rental opportunities through our getaway program, and then varying additional travel and leisure benefits for each level of membership. These benefits include cruise and hotel exchange, short-stay exchange and varying discounts on getaways and other travel products.

Additionally, our Club Interval Gold membership is a points-based exchange overlay which was designed to allow a week-based owner to convert his or her timeshare into points, adding greater flexibility and enhancing ease of use. Currently, approximately 56% of all Interval members are what we refer to as Traditional. This means that they renew their memberships directly with us for a term of one to five years.

The remainder are enrolled as Corporate members and renewed by the developer throughout the term of their affiliation. Approximately 61% of these Corporate members are now part of our family under the Marriott, Sheraton, Westin and Hyatt brands.

Moving now to our non-exchange leisure and lifestyle products, Leisure Time Passport is a travel and leisure membership program which offers many of the benefits found in our Interval Gold product, and Dream Vacation Week is a certificate product that is used as an incentive, and helps us distribute resort inventory not used in Exchange.

These products have traditionally been used by timeshare developers as enhancements to their trial ownership programs or as a tour incentive, but they are now also being used by companies outside of the vacation ownership industry to complement affinity-based membership programs. We feel that there is tremendous opportunity for introducing our leisure and lifestyle products and services to non-timeshare consumers, and I'll touch a little bit on this space shortly.

Turning our attention now to the Third-Party Management business. As a reminder, this contributes about 20% of the segment's adjusted EBITDA. This part of the business is comprised of VRI Americas which is timeshare management, and Aqua Aston Hospitality, which is hotel and second-home condominium management. Each provide professional onsite resort management, financial management, and rental distribution services.

At Aqua Aston we have a broad range of accommodations to meet various consumer preferences. We operate under our own brands as well as serve as an approved manager for globally recognized hospitality brands, including the Autograph Collection within the Marriott International portfolio of brands. Today, Aqua Aston operates principally in the Hawaiian Islands, but intends to grow on the mainland through recognized hospitality brands and strategic leisure destinations.

Moving now to VRI Americas. We currently manage over 335,000 intervals at 140,0000 resort properties in North America. Our management agreements in this business generally range from 1 to 10 years, with many of them automatically renewable. We have a long history with many of our clients, with an average tenure of 16 years. Revenues from this business, again, are fee-based and highly predictable. Now moving onto our key strengths.

The Interval Exchange business has several compelling attributes and key strengths. I'll touch on each of these items in the coming slides. First, a significant portion of our revenue is both recurring and predictable. This is primarily driven by our membership model and related transaction fees. In 2018, more than 92% of our revenues fall into this category. Second, we have a very loyal customer base with strong demographics.

Exchange has consistently been cited by customers as an important reason for purchasing timeshare. This is further demonstrated by our high member retention, which as you saw earlier, has averaged 88% since 2014. And additionally, our members are highly engaged with 45% having an upgraded membership product with us. Third, Exchange is highly complementary to the vacation ownership segment, and has been extremely efficient at utilizing the branded inventory made available to the network. 97% of the branded inventory that was made available to the Interval network since 2015 has been utilized by the program. And finally, as Steve referenced in his opening remarks, Interval has a track record of stability during economic downturns. As you can see, Interval member revenues were stable during the last economic recession, where we benefited from the prepaid nature of the product as well as an increase in quality inventory deposited into the exchange network during that time.

And now onto our growth priorities. Our growth priorities for this segment are focused on increasing our share of wallet by continuing to enhance our product offerings, expanding our distribution channels, and growing our affiliations and management contracts. We are committed to consistently exceeding our customer expectations. As such, we continue to leverage customer insights to evolve our offerings, develop new products that enhance experiences while providing top-rated service to our customers.

We are focused on continuously evolving and transforming our digital and social footprint to meet the ever-changing needs of our members as we service, sell, and communicate to them. Today more than 57% of our exchange and getaway transactions occur in our digital channels. Our goal is to allow our customers to interact with us wherever, whenever and however they choose. Our recent enhancements to the Interval mobile app, including the introduction of Exchange, have been met with high user ratings from both iPhone and Android users. We believe these efforts will result in increased engagement and enhanced affinity which will drive our recurring revenue streams.

Another prong of our strategy is to develop new distribution channels to reach new customers. We are focused on expanding Interval's non-exchange membership products into verticals outside of vacation ownership and marketing to other affinity groups. To support these initiatives, we are using our Leisure Time Passport and Dream Vacation Week platforms, which were originally developed for the timeshare industry.

Our Leisure Time Passport product allows us to customize offerings for our clients, featuring travel and leisure benefits with great value. As an example, in July we launched a relationship with Planet Fitness where we are providing travel benefits including special resort deals and hotel discounts to the approximately eight million Black Card members. Under this partnership, Planet Fitness is leveraging our platform to deliver these benefits and are driving marketing to their members with our guidance and input.

Other examples include Caribbean Airlines and Thermas Hot World in Brazil, which are using the Leisure Time Passport product in its entirety to add value to their offerings by delivering year-round leisure and lifestyle benefits. These partnerships are just a few examples of how Interval is beginning to leverage its technology and services to grow its footprint outside of the timeshare industry.

And finally, we will continue to drive recurring revenue and profit in this segment by growing new affiliations and management contracts. For Interval, this comes through the continued expansion of the network. At Aqua Aston our strategy is focused on growing with global brands, and independent hotels, and targeted North American markets, and maintaining our strong position in the Hawaiian Islands. And at VRI, new contracts will come by converting properties from self-managed and other independent property managers.

Turning now to the segment's three-year growth outlook, we expect 2% to 4% compounded annual growth in revenue, and 3% to 4% compounded annual growth in adjusted EBITDA. The segment will continue to provide significant free cash flow

which will help support the growth for the entire company.
In summary, I hope you have a clearer understanding today of the Exchange and Third-Party Management segment and our core strengths.

These include a strong financial profile demonstrated by high margin, recurring, fee-based revenue streams, a suite of product offerings highly complementary to vacation ownership, low capital requirements, and finally strong market positions with a diversified product offering. Interval, a leader in external exchange, which includes members and resorts from our Marriott, Sheraton, Westin and Hyatt clubs, Aqua Aston a significant player in the Hawaiian market with the opportunity to grow with global brands and independent hotels, and VRI Americas, one of the largest independent providers of resort and homeowner association management services in North America.

Thank you. And next I would like to welcome or introduce Lee Cunningham, the Chief Operating Officer for the vacation ownership segment. Thank you.

MR. LEE CUNNINGHAM: Thank you, Jeanette, and good morning everyone. I'd like to start things off with an update on our vacation ownership business. Then Lani will discuss our development growth strategy and the approach we take to add new resorts and sales centers to our overall portfolio. Brian will then provide some insight into the primary drivers of our future contract sales growth, and I'll return to wrap things up and provide you with our growth targets for the next few years. So let's get started.

Our vacation ownership segment is made up of four primary sources of revenue with the sale of vacation ownership products providing roughly half of our total vacation ownership revenues. Brian will discuss the drivers of our marketing and sales operations in a few minutes, so let me spend some time now discussing some of our more sticky and stable revenue streams that represent roughly two-thirds of our vacation ownership segment adjusted EBITDA.

In our resort management business, as we add new resorts and owners to the system, our management fee, club dues and onsite ancillary revenues grow. The primary drivers of adjusted EBITDA growth in the resort management business are management fees and club dues.

Our management contracts are typically cost-plus contracts with those costs including everything to operate the resort as well as fund necessary FF&E reserves. With this low-risk and high-margin structure, our fees increase as the number of units managed across the system grow, along with inflationary increases and operating costs. That's much more stable than your typical hotel management agreement. And each of our club members pay annual club dues that average roughly $200 a year. So as we add new members those revenues grow too.

In our financing business, roughly 60% of our buyers finance their purchase with us. These loans provide convenient, straightforward financing options for our owners.

Fixed rate, fully amortizing, and prepayable at any time at interest rates that average roughly 13%, delivering us a nice, consistent income stream. We regularly package those high-quality loans and securitize them in the non-recourse ABS market, most recently providing a 98% advance rate and generating excess spreads of over 10%. As a reminder, the timeshare ABS asset class was the second-best performing asset class during the Great Recession, once again demonstrating the reliability and strong performance of these high-quality notes. As you can see, these higher margin earnings streams are very important to the strength and stability of our vacation ownership business model.

We're very fortunate to have the best brands in the vacation ownership industry. Our license agreements with Marriott International and Hyatt Hotels Corporation not only allow us to leverage the great brand recognition of Marriott, Westin, Sheraton, and Hyatt, but they also provide us exclusive access to the Marriott Bonvoy and world of Hyatt loyalty programs for marketing vacation ownership products to their members. These agreements also provide us with marketing opportunities at select hotels within each company's hotel portfolio and provide access to their respective reservation centers and digital platforms as well. Brian will touch more on this a little bit later.

Our Legacy-MVW business has a history of strong contract sales growth. In fact, we've grown contract sales at roughly 8% per year since our last Investor Day with nearly half of that growth coming from new sales distributions and the remaining coming from higher tour volumes and improved VPG.

This strong growth not only fuels our vacation ownership revenues, but it also feeds the growth of the other parts of our business. And you can see the positive impact that our sales growth has had on all of the revenue streams, driving overall revenue growth and strong adjusted EBITDA growth. And the great news is that our acquired brands have a similar legacy of strong contract sales growth with Legacy-ILG contract sales delivering 12% compounded annual growth from 2015 to 2018.

We are confident that this strong performance will continue in the future as we leverage best practices across all of the vacation ownership brands. As you might expect, we understand the importance of sales not only to the traditional boomer population, but also to Millennials and Gen Xers. We are pleased with our performance on this front with roughly a third of our sales being to these younger consumers.

Not only do we have a heritage of strong contract sales and revenue growth, but Legacy-Marriott Vacations Worldwide has a heritage of delivering outstanding satisfaction scores for sales and service. Our owners and guests have consistently rated their satisfaction with these in these areas at 90% or better for the past five years in a row. And what’s more impressive, is that these scores are a compilation of nearly 250,000 survey responses that we receive annually from our owners and guests across the critical points of interaction, including resort stays, sales tours, and interactions with one of our owner services agents located around the world. And let me assure you that our acquired brands have a similar legacy of service excellence.

We understand the importance of adding new owners to the system, and we are seeing strong new owner growth across our vacation ownership business. In fact, with a 13% annual growth rate from 2016 to 2018, this growth has actually outpaced sales growth to existing owners. Brian will provide further details on first-time buyer growth and the marketing channels we leverage to produce first-time buyer tours to fuel that growth into the future.

As Steve previously mentioned, sales to new owners provide revenue growth well beyond the initial sale. On average, within the first five years of purchase we estimate that a typical new owner generates roughly $60,000 in revenues, or approximately twice their initial purchase price. New owners also offer an added benefit as they provide new members to our Exchange business as well. For our entire business, driving new owner growth is more than a temporary point of focus. It's a permanent part of our overall strategy.

Another key to our past and future growth is the strength of the capital-efficient, points-based products that we sell.
The points-based model that we employ enables us to deliver inventory for sale that is aligned with the pace of sales that we experience and project into the future. Additionally, this model allows us to establish perpetual sales centers. As you're probably aware, as we deliver new resorts in inventory, we typically deliver a new sales center at that location. However, since we sell a product that is not location specific, but rather provides owners access to all the inventory in the portfolio, we are able to continue selling from these locations in perpetuity.

The result is that we're able to deliver consistent sales and free cash flow growth and avoid any meaningful impact from lack of inventory availability. One of the great attributes of our acquired brands is that they, too, sell a points-based product. Given that our three largest vacation ownership brands in North America - Marriott Vacation Club, Sheraton Vacation Club, and Westin Vacation Club - are all licensed from Marriott International, we have a great opportunity to enhance the overall value of those products by linking them together to benefit our owners.

We see this evolution occurring in two steps. The first step will be to link usage by owners of these brands in a seamless fashion using a common points currency. As you might imagine, there are numerous usage rules and technologies that need to be integrated in order to achieve that objective. We hope to be in a position to announce and deliver this first step sometime mid to late next year.

The second step of the evolution will be to transition to selling a single points-based product that is able to accommodate nearly all of the Marriott, Sheraton, and Westin resorts in North America. Not only will this be a win for our owners, providing them with additional usage options and enhanced flexibility, it will enable us to better leverage the capital-efficient nature of our Legacy-MVW points program that Lani will speak to shortly.

Again, there are numerous technology, legal, and product hurdles to overcome prior to taking this step. However, the business and customer benefits of consolidating to a single product for the Marriott license portion of the North America vacation ownership business definitely makes the journey worthwhile. In the meantime, we will continue to grow our network of resorts and sales centers for all brands to help fuel our longer-term growth targets.

With that in mind. I would like to introduce Lani Kane-Hanan, Chief Development and Product Officer, to talk about our exciting plans for future growth. Lani?

MS. LANI KANE-HANAN: Thank you, Lee, good morning everyone.
It is my pleasure to be here today to have the opportunity to discuss with you our growth and development strategy, and the progress and changes that we've made since we were last together four years ago. Our development strategy is reflective of the transformation of our company and the enviable position of growing the Marriott, Westin, Sheraton, and Hyatt Vacation Club products.

As Lee shared with you, we're focused on adding owners to our system and growing our sales volume. So how does development strategy fit into all of that? Well we do it by sourcing and adding new profitable sales distributions and resorts in highly sought-after destinations. And of course, we do each new deal that we bring on in a focused, on-balance, and capital-efficient inventory manner.

When we were last together, we discussed how migrating to a points-based business model changed the way we can source and absorb inventory. Because we pool our inventory together and seed it into a Florida trust, we can point all of our distributions to selling the same homogenous product.

In 2015, we had three simple goals. First, add new resorts and sales centers. Second, do it efficiently. And third, match inventory spend with the pace in which inventory is sold. So now let's talk about how we did against these goals. In the last four years, we have opened nine Marriott Vacation Club resorts with two more under construction. Each deal was developed with our balanced approach to inventory sourcing in mind. And in 2017, after two years of development, we launched a new brand called Marriott Vacation Club Pulse.

Pulse is our experiential brand that is located in the heart of any urban destination. These resorts have all the same quality as a Marriott Vacation Club Resort, but in a smaller footprint given their urban location. Many of the new deals we'll talk about carry the Pulse branding. So let me give you a few examples.

These four resorts were in the works when we talked last in 2015. For example, we had a deal underway to take one of the towers in the Waikoloa Marriott on the Big Island of Hawaii and convert it to 112 timeshare units. We successfully re-structured that deal to turn it into a turnkey commitment, and we closed on the inventory post-conversion in 2017. This next tranche of four resorts weren't on the horizon when we last spoke. One of our examples is the Mayflower Marriott Vacation Club Pulse in Washington, D.C.

In this transaction, we acquired the seventh floor of this historical hotel located a couple of blocks from the White House, and as part of this capital-light transaction, the owner renovated the rooms and completed the inventory. We purchased the inventory just prior to committing it into our trust.

Another great example is our Pulse project in New York. In January of 2016, one of our capital-efficient partners acquired the 177-unit Strand Hotel many of you may know, located in Midtown. The intent was for them to convert it to timeshare. We assumed the management rebranded the property Marriott Vacation Club Pulse right after they closed on the asset. And while we have not closed on any of the inventory to date in that location, we have generated over $100 million of sales from that sales center. Our owners can use the property as they would any other property, they just use it through our internal exchange network. It is important to note, so I'll say it again. We've generated $100 million of sales from this location and have yet to purchase a single piece of inventory.

In January of 2018, one of our capital-efficient partners acquired the Pier 2620 in San Francisco, located right at Fishermen's Wharf. They converted the asset, and we recently closed on the first tranche of three expected tranches of inventory. This resort located in Fishermen's Wharf has been a long-awaited addition to our portfolio. And in addition to these nine resorts that have recently opened, we have two under construction.

One in Bali, Bali Nusa Dua Terraces, which is an 88-unit turnkey project located in the Renaissance Resort. Both the hotel and the timeshare are under construction, and we anticipate acquiring inventory and commencing sales in that location in mid to late next year. And many of you might have seen this morning, we just released notification that we executed an agreement to purchase, on a turnkey basis, 24 two-bedroom purpose-built units as part of the redevelopment of the Marriott Los Suenos project in Costa Rica.

We will acquire that inventory and open the sales center in early 2021. Now you can see that over the last seven years we've converted, opened, or have under construction some incredible additions to our portfolios. These 11 resorts will represent $300 million of incremental annual sales volume when they are complete and stabilized. And perhaps as impressive is that of the $785 million of investment associated with these 11 projects, despite the fact that nine of them are open, we've spent less than half of that committed inventory to date.

Now let's talk about how we've done on investment efficiency since we were last together in 2015. For years you've heard us say that our development model is a balanced, capital-efficient sourcing model, and you can see from the investments that we've done, we've structured our deals in a variety of capital-efficient ways. But new deals aren't our only source of inventory.

Sources also include inventory we repurchase at below replacement cost, and a blending of these sources allows us to keep inventory investment more consistent from year to year. The chart on the left represents the inventory sold each year since 2016. An easy way to look at this is, this is what's come off the balance sheet. The chart on the right is the corresponding annual inventory investment we've made to replenish the inventory sold, but more importantly, also to open new sales centers to fuel topline growth. And although it varies slightly from year to year, as you can see, on average, our inventory additions line up very well with our inventory reductions. So the balance mission has been accomplished.

Now let's talk about why we believe we can maintain this efficiency. Those of you who remember when we operated with a solely weeks-based product know our development strategy used to be very tied to existing markets as we had to maintain completed inventory levels at every sales location so that they had something to sell. This created a drag on our balance sheet and did not create new destinations or new distributions. But today the characteristics of our development model give us much more agility. Our pooled inventory model allows for quick and targeted absorption of our inventory.

This facilitates our ability to attract capital-light partners and reduces the amount of capital required in any given year. Moreover, because our sales centers are perpetual, they add long-term value to our partners when they're located in their hotels and high efficiency for us. As we have demonstrated, our business model allows for flexibility to expedite inventory delivery or contract that delivery to correspond with economic cycles. And our structure was set up to easily resell low-cost inventory repurchases. And finally, the great news is, while not identical, the Sheraton, Westin, Marriott, and Hyatt Vacation Clubs all have a similar enough product form that we can enjoy these advantages when developing any of our brands across the portfolio.

Now let's take a minute and look at how we decide where we're going to grow. We begin by setting our target markets for each brand as each is in a different stage of development. And at our simplest definition, our targets are set based on one, where our customers want to go, and two, where we can leverage our existing sales and operational infrastructure costs.

So let's start with the first one. Let's start with where our existing and potential customers want to go. Well, we gather a multitude of intelligence on this topic. We study customer travel patterns within and outside of our system. We constantly survey our owners as well as our tour prospects that don't buy with us. And finally, we can even test a prospective destination by putting it into our internal Exchange network and seeing how our owners respond to it. These efforts result in a list of markets with high owner and rental appeal, strong year-round demand patterns, and tangible opportunities for cost-effective tour generation and sales distribution.

Now let's take the second piece of that. Our target markets additionally consider where we can leverage our existing sales infrastructure and market knowledge. As you can see from this chart, most of our newly acquired brands are not located in Marriott Vacation Clubs' most successful sales locations. This gives us a huge unique opportunity to add new resorts and distributions in the Westin, Sheraton, and Hyatt portfolios in markets where we already have sales power, and we already have the know-how to conduct business.

As you can see from this map, we operate today 110 resorts across 12 countries. So where does that leave us for growth? Well, it leaves us with a great, comprehensive, stable portfolio of resorts that still have huge potential for new additions. We know that our owners are seeking city-centric leisure destinations, and that type of offering is still limited and new in our Marriott Vacation Club portfolio, and non-existent in our Sheraton, Westin and Hyatt brands. Therefore experiential urban markets continue to be a large target across the entire collection.

And in addition to urban resorts, our owners are continuously requesting experiences in Hawaii, like in Waikiki and the Big Island. These markets will appeal to our Asia Pacific as well as our North American owners. And beach and Caribbean resorts run at near capacity across our entire portfolio, so we are constantly looking to add flags in these types of markets.

Our recent transaction of ILG included hotels and other assets throughout Mexico in locations like those Los Cabos, Puerta Vallarta and Cancun. Mexico has consistently been one of the top destinations where our owners exchange to outside of our system. Therefore our near-term development strategy will leverage these assets we got in the acquisition to help satisfy owner demand cost effectively.

And as you saw on the prior slide, we will leverage our success in markets like Orlando and Las Vegas to grow our newly-acquired brands. Outside of the Americas, the Asia Pacific region is where we're looking to add inventory and distributions to fuel growth. We're looking at key markets in Japan like Okinawa, and markets in Thailand to come to complement the success we've already had in our Phuket project. So I'm sure you'll agree that this list of markets provides significant opportunity for future growth in many cases by converting existing assets and leveraging existing expertise to ensure our continued efficient, balanced approach to growth.

So let me sum it up by reviewing one last time this balanced approach to development. It really has three pieces. The first piece is we will continue our asset-efficient inventory repurchases, approximately $80 to $85 million worth per year across all of our brands. As part of our balanced growth strategy, it is faster to market, and we generally acquire it below product cost.

Second, we plan to continue to self-develop projects as we have done in the past with projects like San Diego and South Beach. The completion of this inventory requires the most time on the balance sheet, but without the added transaction costs and higher risks associated with asset-light structures.

And lastly, we'll continue to acquire inventory under various capital efficient structures as we have done with projects like Marco Island, New York, and Washington D.C. And while carrying it costs associated with these third-party transactions, such structures provide a more efficient use of our balance sheet and capital and allow us the flexibility to do multiple projects in any given year.

The result of this strategy implementation is that even with our sizeable pipeline of capital efficient deals, our inventory commitments are still very manageable. In fact, these commitments total just about $300 million over the next couple of years. And that's out of a targeted inventory spend of roughly $1.3 billion. So while today we have just over two years of inventory on hand that's either completed or in progress because of the acquisition, we expect that this targeted mix of inventory sources will allow us to achieve our product cost goal of approximately 25% and years on hand of inventory of two years or less.

So to sum it up, why a balanced approach? Because we have a lot of things to consider when it comes to inventory sourcing. We want to lighten our balance sheet by completing remaining phases at existing resorts. At the same time, we need to grow our top line, which means adding new destinations and new distributions.

We want to continue to do this with an increased focus, but not sole reliance on capital-efficient sources. And we want to utilize inventory repurchases to round out our strategy to optimize our product cost. So I hope I've left you with a good understanding of our approach to growth, our flexibility, and our boundless potential with our iconic brands.

With that, let me turn it over to Brian Miller to discuss how we will market and sell this growing portfolio.

MR. BRIAN MILLER: Thank you, Lani. Good morning everybody. I've got the privilege to talk to you about how we're going to grow contract sales this morning, which I think is something that is pretty important to everybody in the room. I know it's important to my boss. So let me quickly get to what we think will ground you, and what we think are some of the key drivers out of contract sales. Lani already talked about new development. The key word that she mentioned was footprint. Let me tell you what footprint means from a sales and marketing standpoint.

It really means three things. First of all, it puts us in a new tourism market, whether that be an urban market or a resort market, it's access to tourists that we may not have access to in our other markets and that gives us multiple opportunities to market to them. The second thing is it gives us more sales capacity. New sales center - we've talked about in previous presentations, our sales centers are permanent now. So when we add a new sales center, it's a permanent addition to our sales capacity.

And then last, and maybe most importantly, it adds rooms, units to our portfolio. It's rooms and units for our owners and our renters to stay in for our in-house program, which is very cost effective. We move hundreds of thousands of packages around our system on a global basis annually, and we're the largest user of rooms outside of our owners at our resorts. So rooms are very important to adding footprint. That allows us to grow tours. I'm going to talk to you today about how we're going to be able to grow our onsite programs, and also how we're going to continue to invest in our large-scale marketing, open-market platforms to continue to achieve toward growth over the next three years.

Expanding VPG, always a big part of our business. I'll show you that we've expanded. We've been very consistent in increasing VPG over the last six years in both the Legacy-MVC business as well as the acquired brands. We've got a gap between the acquired brands and the MVC performance, and closing that gap as well as continued improvement is a good opportunity to also grow contract sales. And lastly, I'm going to show you several examples of revenue synergies that we've already recognized from the acquisition.

Lee talked about customer segmentation a little bit, some of the generational success we've had. I just want to provide a little more color on it. I think timeshare has always been considered kind of a baby boomer product which is fair, right, because the timeshare business kind of grew up as the baby boomers matured, and they were the primary buyer of it over the years. Over the last two years we've seen Gen X actually outperform baby boomers from a VPG and sales efficiency basis. And why is that?

Gen Xers are about from age 39 to 55, right? That's our demographic wheelhouse. We believe our product, our core timeshare product, to be a life stage product. It's a high- ticket, discretionary income, alternative to a second home type of product. And what we found historically is people that are more likely to consider that product are typically people who are married, who own their home, and have probably presence of children in their home.

That's not our only target, but that's what has consistently been a primary target over the years. So as Gen X has moved into that demographic wheelhouse force, they're performing better than baby boomers. Now, we're still doing okay with Millennials, but you have to think about this. The oldest Millennial is 38, and they also are getting married later than previous generations, and they're buying homes later than previous generations. So they only make up about 10% or 15% of our tour flow today, but we do okay with them. And so I think as we evolve our product and utilize technology like Ovi talked about, and make it more flexible, we think as they move into our demographic wheelhouse that they're going to perform similarly to previous generations.

But we're not sitting in our hands waiting for the Millennials to get older. We've got some product strategies in place that we think can appeal to them now. We're working on several iterations of some short-term products where it would have a lower initial price point and a lower time commitment that might be more attractive to that group. We're also looking at some pure membership type of programs that don't have any fees associated with it, where we would provide benefits throughout our system to people, build relationships with them over time. As they did get older they might be interested in a short-term product or maybe our core timeshare product, and be more receptive to us marketing to them as a result of their prior relationship. So we're excited about our ability to continue to access other segments of the customer base as well as other generations.

Both Lee and Steve talked about the importance of first-time buyers added to our systems, and what they do for reoccurring revenues in addition to what an owner reload would offer us. You can see here we've added 75,000 first-time buyers into our system over the last three years. That represents just over two billion dollars in sales to first-time buyers over that period of time. Most of the large-scale marketing platforms that I'm going to talk about in a few minutes are focused on first-time buyers, and that's where we see a lot of growth. So we believe that we're going to be able to continue to grow first-time buyers both on an absolute basis and as a percentage of sales over the next three years.

I think a lot of people think the timeshare business is largely made up of direct marketing and call center type of activity, real expensive stuff. I thought it might be interesting for you to see that about 80% of our sales are actually generated from our onsite sales operations and activities around our resorts or in those markets. And that's made up of our in-house program which Ovi’s already talked about, so you understand what that is. That's hotel marketing, branded hotel marketing in the local markets. That’s cost-effective off-premises contact or OPC-type business. We also sell tens of thousands of packages at our resorts.

We have people sitting at marketing desks in hotels and at our resorts and other places. If someone is on vacation or on a business trip and can't take a tour with us, a direct tour at that point in time, we'll sell them a package either to come back to that resort or to go to another resort within our system. And as you can imagine, that person is already sitting there or already paying rent. That's a very cost-effective package sale. All we're doing is further penetrating those customer contracts by selling packages, so that's a very important part of our onsite business.

And lastly, we sell our trial program, our Encore program, at our sites. So when someone says no to our core product, we give them an opportunity to purchase an 18-month window trial product where they come back to one of our resorts during that period of time. They take another tour. If they decide to buy at that point in time, they can use the cost of that package as a credit against the down payment. So a very cost-effective program, very high closing rate, almost double the closing rate of the original tour because they have the down-payment in hand.

So all that stuff is sold on site, which again makes up about 80% of our sales activity. And what I want you to take away from that is our resorts operate at well over 90% occupancy on an annual basis. So these programs are not only some of our more cost-effective programs, but they're stable and they're very predictable. And they're very consistent.

So now getting outside of the sites and look at what some of our global platform opportunities are. Lee and Steve have both already talked about our hotel loyalty programs, quite sizeable. Marriott has stated that they expect their Bonvoy program on a global basis to be over 200 million members in three to five years. So we're going to continue our very effective direct marketing with Marriott and the Bonvoy program, and we expect to grow our activity with them over that period of time.

The middle column is just a sampling of some of the global partners with which we do business. You can see those are very sizeable companies. They have very sizeable databases. They have very good data on those customers. We do extensive data mining and analytics with these partners, trying to match profiles of people in their database who have a propensity buy a timeshare. Then we apply our traditional direct marketing programs, whether that be electronic, digital, or whether that be direct mail. We do call transfer with several of our partners. We've done digital transfer with several of our partners. This has been a channel that's been growing pretty rapidly over the last few years. We've put some renewed focus on it. We believe it's a big opportunity for growth over the next three years.

And Ovi’s already talked about digital and social. Maybe I'll answer your question right now. It makes up about 2% to 3% of our tours today, and that doesn't sound like much. That's the good news, right, because we have tremendous opportunity there. But remember, we only got into the market about nine months ago, and less than that with Marriott.com. And we're selling packages, so it takes anywhere from four to six months for those packages even to start showing. So we've been having some success, but we're just at really early stages, and it's building so we expect that to grow dramatically over time.

Steve talked about the fact that our product has over 10,000 experiences available to our point-based owners. That coupled with the fact that we prefer for someone to stay at one of our resorts prior to taking a sales tour so they can experience what it's like, means that onsite sales is going to be an integral part of our distribution strategy for the foreseeable future, which means we've got to have laser-like focus on direct sales excellence.

It starts with world-class recruiting and training. In 2010, when we went to a points-based system, we moved our training to a central location in Orlando. It had been done at the sites prior to that because they were all selling different weeks-based products. I've been fortunate to be able to speak with every sales class every month since 2010 at the end of their training, and I generally get a chance to get in early and have individual chats with them. About half the time I ask, how’s the training been? It’d been into their 3rd week at that point, and almost without exception, they tell me it's by far the best sales training they've ever had. And this is not just people from the timeshare industry. We do bring in a lot of timeshare experienced people. These are people from sales professions from outside of our industry.

We're real proud of that training, and our ongoing training that happens once they get out in the field. We have to continue to develop engaging sales environments. I'm going to talk about that in a couple of slides. And another thing we try to do is provide effective sales tools to our salespeople for our customers. And the reason that's important is because you've got to think, remember, these people are on vacation, so they're out spending money at parks and restaurants and rental cars and everything else, so they're loading up their credit card.

So sometimes making a purchase with us while they're in the midst of that is financially daunting. So a couple of examples of things we utilize. We have the American Express Bonvoy card as a point of sale tool. We can approve the vast majority of our buyers at point of sale with that American Express Bonvoy card. They can immediately put the down payment on the card at point of sale, and they don't have to make a payment and don't have to pay any interest for 12 months, greatly removing the pain of that down payment from the point of purchase. That's a great tool.

Another great tool we have is our equity upgrade program, or our mortgage wrap program. So this is for existing owners who may have a loan with us that's got some equity in it. They may have paid off a loan, therefore they have full equity, or they may have purchased in cash and have equity. We can give those customers the opportunity to use that equity as the down payment, and if they have a loan, we take that old loan, wrap it with the new purchase, give them one loan. In some cases their monthly payment doesn't even go up. If they're five years into a ten-year loan, and we extend it back to 10, their monthly payment might not even go up, and they got no money down, and they just doubled their points portfolio. So it's another great tool. So we have more than that. I'm not going to bore you. I just wanted to give you a couple of examples, but we think that's critical for the type of sale we do to try to get it done while they're on vacation with us.

So that direct sales excellence, as you can see, has driven pretty consistent VPG growth. The blue bars being the Marriott Vacation Club brand. That's been very consistent over the years; we plan for that to continue. You can also see there’s been pretty consistent growth with the Legacy-ILG brand. But there is a gap there, and we believe the big opportunity for growing contract sales over the next few years is to keep Marriott moving in the right direction but close that gap.

This next slide shows you where the gap is. Owner VPG's are fairly consistent between the brands. So that's good news. But 40% higher Marriott Vacation Club on first-time buyers. So how are we going to do that? Well, the first thing is we're going to apply our principles of direct sales excellence that I talked about previously to the Vistana brands, to Westin and Sheraton. We also already have increased qualifications for a vast majority of programs that they were operating. Some programs didn't have any qualifications at all, some were in the $50,000 range, $75,000 income range.

In the Marriott brand, we tend to operate a minimum $100,000 household income. Steve showed you what our owners looked like earlier. So we've then already increased and seen great upticks in VPG and local programs, but we have a pipeline of things that were sold with lower qualifications that we're still working through and that will leak into next year. So as we continue to burn those pipelines and tour those folks at lower VPG's, we're replacing them with higher qualified folks. And the last opportunity is channel optimization.

We're taking high cost, low yield marketing channels, and gradually replacing them - trying not to lose contract sales - gradually replacing them with lower cost, higher yield programs. There's a lot of examples of that. I'm not going to bore you with them but suffice it to say there is a lot of opportunity there. Those three things will allow us to do this. You have to remember though this is going to be a multi-year process. You don't change out sales force performance quickly. Talking about 700, 800 salespeople across 30 or 40 operations. You don't burn pipelines quickly, so you may be looking for results on this very quickly. I can tell you already this year we've increased VPG in the Legacy-Vistana brands from last year. So that's good news, but it's going to take us a couple of years to really realize and close hopefully that entire gap.

We need to keep investing in some of the things Ovi talked about today. I'm going to give you a couple of different examples of things that kind of really directly impact our sales and marketing operation immediately. One is advanced analytics in our marketing programs. We put about six or seven tests in place over the last six months. Most of them showed great promise in increasing efficiencies, in selling packages, increasing propensity to tour, and increasing VPG's and sales efficiencies on the back end.

We're in the final stages of selecting a world-class partner to be our advanced analytics partner over the next few years. We're going to apply advanced analytics and machine learning to every aspect of our sales and marketing platform to yield better efficiencies in the sales process as well as better returns and better targeting in the marketing process.

Another example, we've already started a fairly large investment in a global customer relationship management system. We have several CRM systems today, but we need one big, powerful one from a global standpoint. We've already implemented the first phase in our Salt Lake City owner services center, and we plan over the next couple of years to roll it out globally. Let me give you a couple of examples of how that's going to impact our business. Being able to deliver really good information on a customer to a marketing associate prior to a phone call to that owner or guest, or prior to them visiting them at a marketing desk is just going to help them make the right offer to that person that's going to be relevant to them to increase propensity and maybe take a tour with us.

Another example that we've already piloted in two locations and is working extremely well is providing salespeople with very robust historical information on how an owner they're about to tour has been using the product. Obviously that gives the salesperson an opportunity to strategize with his or her manager, determine what might be the best sales strategy to get this owner to increase their portfolio with us based on what they've been doing. So as we get this rolled out system-wide over the next couple of years, we know it's going to dramatically impact VPG to the positive.

I also mentioned creating engaging sale centers earlier. That's very important; we're investing heavily there. We have pretty robust sales center technology today. It's technology that's desktop with a big screen in our sales center rooms. It's primarily run by the sales executive, and the sales executive kind of sifts through those 10,000 experiences based on what he heard from the customer, and presents and creates a five-year planner for them that kind of spits out a recommendation for the number of points that they should purchase in order to accomplish that vacation plan. It's really good technology. We're constantly improving it. I've got a whole team that works on it.

But the customer is not as engaged with it as the salesman is, right? And it's the same thing in our galleries. We want to start to create technology and tools in our galleries where a customer is- it's more interactive- where customers feel like they're exploring vacation opportunities with us as opposed to us telling them about vacation opportunities. So we've got some outside resources that we've just hired working on this with us, but the bottom line is our goal is to create gallery environments where our customers feel more like it's a buying experience and an exploration experience about our vacation system as opposed to a sales experience.
That's the ultimate goal, and I think with the use of technology and working closely with Ovi's team, we're going to be able to accomplish that.

And lastly, I told you I'd give you a couple of examples of revenue synergies that we plan to achieve and have already realized with the acquisition. Start on the left with hotel marketing. In the Marriott brand, we are in five times the number of Marriott branded hotels for marketing purposes than we are with the Westin and Sheraton brands, and Hyatt is not terribly well represented either. So we believe there is a tremendous opportunity to further penetrate markets where we have Sheraton and Westin Hotels to market into other Marriott branded hotels. Call transfer. I think most of you that have been following us know we've been successfully running a call transfer program with Marriott for the last three or four years. We believe that we're going to continue to grow that. Marriott just combined their call centers with the Legacy-Starwood call centers. That increased their call volume by 50%. So we believe call transfer is going to continue to grow as a program as a result of that.

We don't do it at all for Westin, Sheraton, or Hyatt. We're going to probably early next year turn it on for Westin and Sheraton, and we have an agreed upon pilot with Hyatt to kick off next year as well. So there's some growth opportunities there. In-house penetration. We found some real good best practices from the Westin and Sheraton brands here that we weren't utilizing with the Marriott brand. They operate a very high-touch concierge type of check-in process run by the marketing department as opposed to the resort ops team.

They provide a lot of service, a lot of high-touch service to the customers as they check them in, and book them on restaurant reservations and activities in the local market or what have you. And it just allows them to get a much higher penetration in in-house on owners and renters than we achieve in the Marriott brand, and they achieve- this is not small potatoes. They're 20% to 30% higher than us on in-house penetration. I say us, higher than the Marriott brand. Still bad habits to break, right? So we think there's tremendous opportunity there.

And then lastly, on the trial program side the penetration that we have on the Marriott brand with our trial program was twice what it was with the Sheraton, Westin, and Hyatt brands. So we changed their products that they were selling, we changed some compensation plans, and we changed some sales process. And proud to say, we've got them already up 50% of the way to the Marriott level, and we expect over the next six to eight months we'll get them all the way up to that level. That's a big program for us. It's several hundred million dollars, and it's one of our lowest cost programs. So that's a big opportunity for good, high-value growth going forward.

So all these things coupled with things I talked about earlier, we think we've got a great opportunity to drive this business to the higher end of our contract sales growth guidance, and we're excited to do it.

So with that, I'm going to turn it back over to Lee to close out vacation ownership.

MR. CUNNINGHAM: Thanks Brian and Lani. Before we wrap up and move to questions, I want to provide you with a range of revenue and adjusted EBITDA growth targets for the vacation ownership segment of our business. We expect contract sales from 2019 to 2022 to grow at an annual compounded rate of 7% to 11%. With that level of sales growth as well as continued strong performance from the rest of the vacation ownership business, we expect segment adjusted EBITDA growth over that same timeframe at a compounded annual growth rate of 6% to 9%.

We're very excited about what lies ahead for the vacation ownership business. We have great momentum. We have new opportunities as a result of the ILG acquisition. We have a proven track record of strong sales growth. We're adding new owners to our system at a growing rate. And as Lani demonstrated, we have substantial development opportunities available. With the industry's best brands and our highly efficient product offerings, we are confident that we will continue to see strong contract sales growth well into the future which will fuel the growth of our overall vacation ownership business. With that, I'd like to ask Steve and the rest of the team to come back up for the Q & A session.

MR. WEISZ: Okay, we gave you a drink of water out of a fire hose, so we should probably give you a shot to direct questions to any of us up here now, and then there will be, as I said earlier, there will be another question and answer session after we have John come up and talk about the financial results.

MALE VOICE 6: Great, thanks. On the contract sales growth outlook that you gave us, 7% to 11%, just wondering if you could help us break that out between maybe tour growth versus VPG growth. And then again, sort of what is baked into that maybe in the later years of the VPG gap closure that you hope to get all of in the near future.

MR. MILLER: Yeah, we obviously have that in our plan. I'm going to quote you numbers that are going to be rough numbers. About half of that growth over that period of time is going to be from new resorts opening into new markets. Then you're going to get- we typically look for about 2.5 to 3% a year of VPG growth, slightly higher on the acquired brands as we try to close that gap. And then the rest of it'll be tour growth from the larger scale programs that I talked about.

MALE VOICE 7: I think you had- it was like slide 91 or something. It was showing the inventory sold versus the inventory investment, so kind of that $170 a year in and $170 a year out. How should we think about that on a return on capital basis? In other words, the $170 of sales, is that a 20% something, 25% margin that's- and therefore you're running a 25% return on capital? Is it higher because it includes repurchase inventory at a higher margin? How do we think about that on our ROIC?

MR. JOHN GELLER: In terms of the return on the just the investment in that inventory or…?

MALE VOICE 7: Yeah, in other words, if you're spending $170 million a year to replenish inventory…

MR. GELLER: [Interposing] That we're selling off the shelf, yeah.

MALE VOICE 7: What's the return on that average spend?

MR. GELLER: Well, I mean in any year we're making just on the development margin alone, which is the sale of that product, we run generally on the North America side, call it 24-25% development margin or profit on those sales. Big picture how we look at any investment that we put up there, we're looking at it in terms of all parts of the business. So we're looking at it from not only the sale side and the profit we're going to get there, but the financing profits and the future management fee streams that are going to come off that inventory. And there we always target an all-in product of call it north of a 15% after tax IRR. That's what we're looking for when you put together all of those pieces.

MALE VOICE 7: Okay. Thanks.

MR. WEISZ: Other questions?

MALE VOICE 8: So just quickly on Brian’s segment of the presentation, you had referenced that consumers use credit cards and loan extensions to drive cash down payments. What percentage of your cash down payments are driven by the use of the Bonvoy credit card and loan extensions?

MR. MILLER: I don't have that number offhand. Let me just first say that we're just rolling out the Bonvoy American Express card in the Marriott brand over the next two months. We’re only using it now in the Westin, the Sheraton, and Hyatt brands. Excuse me, not Hyatt. The Westin and Sheraton brands. I don’t even want to guess; I really don’t. On the equity upgrade side, that's probably a good third of our owner purchases from in-house, people coming in with equity and utilize it to upgrade their portfolio.

MALE VOICE 8: And then do the consumers get to use points from that Bonvoy card in order to vacation with you? Or is that strictly with the Marriott brand?

MR. MILLER: The Bonvoy points that they get are utilized in the Marriott Bonvoy program, in the Marriott Hotel system, yes. They're not useable back into our resorts. As part of that purchase- that's Marriott's card. That's what we have to use. That's the branded card. We also give our customers single use points in our systems as well, so they get additional usage in our systems when they purchase as incentives and financing incentives as well. We try to make sure they get opportunities in both point systems.

MALE VOICE 9: Hi, good morning. Just going back to the contract sales, or the question on the synergies. I think previously you were targeting revenue synergies to be greater than cost synergies over time. Today you took up the cost synergies to $125. How are you thinking about revenue synergies in that 7% to 11% number? I guess from 2019 to 2022, how much in revenue synergies have you assumed there? And then just separately with 7% to 11% contract sales growth, I think you're targeting

6% to 9% EBITDA growth for the vacation ownership segment. Can you talk about why there's not more leverage in that business over the next three years? Thank you.

MR. WEISZ: Let me try the first part of this. We've had numerous discussions with investors about well, give us a revenue synergy number. Here's the challenge. If we increase VPG in the Legacy Vistana resorts, and you can say okay fine, we took VPG from here to here, how much of that was because we had better sales training? How much of that was because we changed the qualification program for people that were coming in on tours, et cetera. It’s a soft number. So we've taken the approach to say we're going to build into the 7% to 11% contract sales growth guidance that you see, what we think is the upside in terms of the revenue side.

Now you're asking for a specific number, and I'm not going to give you that number, okay? I will tell you that it is a meaningful portion in there. What we've said is when we give you the synergy number, is that's the 125, that's hard, quantifiable. You can look at the P&L and see exactly where those cost savings are going to be. And that's where it's going to show up. Okay, so I'm sorry, the second half of your question was what?

MALE VOICE 9: So the second half of the question was the adjusted EBITDA for the vacation ownership is growing 6% to 9%, a little bit less than the 7% to 11%, so why wouldn't there be leverage in that? And I guess just to follow up on the point you just made, if I do assume the synergies are better than the cost synergies, then I would think the contract sales could potentially grow more than 7% to 11%, so do you think there is potential upside to that, or do you feel like that's a pretty robust number that is going to be challenging to get to.

MR. WEISZ: I think hopefully you know our history as an organization by now. Our goal is to not only meet the guidance and the prognostications that we give you but also try to do our best to try to beat them. So I think you should take the numbers that we've given you with a fairly high degree of assurance that we think we're going to make it, and with the high hopes that we're going to exceed.

MR. GOLDNER: And then the question about 7% to 11%, and 6% to 9%. That was his derivative. He is now at three out of two questions.

MR. GELLER: I'm sorry. I’m just on the flow through. So from a vacation ownership perspective - and I'll walk this through in my presentation on the key drivers - vacation ownership contract sales grow the 7% to 11%. So say they grow to the midpoint of 9%, the other parts of the vacation ownership segment like financing, the management fees, and rentals will grow but probably not as quickly on the revenue side. And to the extent we improve margins and get some of the flow through you'll see it there.

The piece that's missing is overall corporate G&A which is really what's going to allow us to drive that 7% to 11%, factor in the Third-Party and Exchange business, and then ultimately deliver on that 7% to 11%, somewhere in the 7% to 11% EBITDA growth for the company, call it a midpoint of 9%. So, historically when we've grown our vacation ownership business, prior to the acquisition, we got more leverage out of the G&A overall which drove- if you got 7% or 8 % contract sales growth, we were generally driving, call it 8% to 10% EBITDA growth.

MR. WEISZ: Any other questions?

MALE VOICE 10: Yes, I was just curious if on the Exchange business, how are you going to grow revenues in EBITDA for that business if just generally the membership has been flat to declining, and the same is true for Wyndham's RCI?

MS. MARBERT: Well we are continuing to- I mean, we have obviously been affected by consolidation in the industry, and there are opportunities outside of North America where the business is much more fragmented in opportunities. But we're growing the products that we're offering to our customers and complementing the products. We intend to enhance those products and focus on customer loyalty and engagement. And then as I shared, we are really focused on expanding our distribution of our travel and leisure products outside the vacation ownership industry which obviously has a potential for a lot more growth.

MALE VOICE 11: So just quickly, on consumers from the technology channels, had those tours started to materialize yet in showrooms? And if so, what are the closing rates like compared with your traditionally sourced consumers?

MR. MILLER: Yes, we have had, and it's probably material enough to get some data. It's just like any direct marketing program in early stages you've got to test, test, test like Ovi was about talking earlier. We've had some misses, we've had some programs that didn't perform so well, we've had some that have performed at an acceptable level. It's direct marketing, it's just a new platform to do it within, and over time we're going to refine and test and constant improvement, and we're going to get good yield out of those tours. The good news is they're very cost effective. So it's just a matter now of making sure we get the backend right.

MR. WEISZ: Anything else? All right. To keep us on time, quick coffee break. Try to reconvene back at 11:15, and we'll try to bring it home with all the financial numbers.

MR. GOLDNER: Okay. To a man who requires no introduction, John Geller, Chief Financial and Administrative Officer.

MR. GELLER: Thanks Neal. Welcome back everybody, and I want to personally thank everyone for joining us here for our 2019 Investor Day. Now that you've had a chance to hear from our executive leadership team about our longer-term strategies, growth opportunities, as well as our capital efficient model, I will try and bring it all together in terms of what that looks like in a longer-term financial outlook as well as the ability to generate strong free cash flow over the next three years.

But before I get into the outlook, I do want to take a few minutes to share some more highlights on our financial performance since our last Investor Day back in 2015. I also want to talk a little bit more about changes that we've made to our business model since the last recession in 2008, and how that positions us much better for the next downturn whenever that may come.

Next I'll update you on our synergy efforts. As Steve mentioned, I'm happy to report we've taken our annual run rate synergy target up to a minimum of $125 million a year by the end of 2021. And then I'll spend a little bit of time just once again highlighting the power of our strong free cash flow model, and basically how we'll translate that ultimately into how we think about our capital allocation. So let's get started.

As Steve touched upon briefly, you can see we performed very well against our 2015 key goals. Adjusted EBITDA finished towards the high end of the target range despite contract sales being just above the lower end of the range that we had guided. I think this really highlights the strength of our diversified business model and our ability to drive better margin improvement, as well as leverage slower-growing G&A and the royalty fees that we pay to Marriott.

Our development margin improvement in that period of time was also helped significantly by lower product costs. We had implemented our program to repurchase inventory on the secondary market at below replacement costs, and it was very successful in improving development margin. And then when you looked at the other parts of the business, whether that be the financing or resort management in our rentals business, across the board we drove better margin improvement to deliver those EBITDA results.

But I think what's most important is what we did on the free cash flow side. We generated over $900 million of adjusted free cash flow, over $130 million over the high end of our range, and this is primarily driven by the capital efficient development model that Lani took you through. We were able to add as you saw nine new resorts, hundreds of millions of dollars of annual sales, but we were able to add that inventory in a way that we didn't over-invest in the balance sheet which freed up the cash flow that we could deliver.

So we're really happy, and we're proud of what we did. And as you'll see shortly, we expect strong performance in the business over the next few years as well. With the acquisition of ILG - you can see some of the key metrics here - we've more than doubled in size. Probably the most important metric on the board is the second one which shows how the acquisition of the Interval and the Third-Party Exchange business further diversifies our revenue streams. These, as we've talked about, are more recurring, resilient, sticky in nature, and they also come with a higher margin that flows through in terms of the bottom line.

However, what you don't see on this slide is how this increased scale provides the platform and ability to unlock other benefits including leveraging investments in technology to deliver new ways of working. We talked about some of those today on the marketing side with Ovi through digital marketing, data analytics, automation of processes, etc., doing this across a much broader platform to deliver more synergies.

In addition, we're in the midst of creating back of house centers of excellence around a lot of our HR, IT, finance, and accounting. Once again, the ability to leverage that over a much larger platform. So what happens when we have the next recession, what happens to the business? This is a question that Steve and I get more frequently now than before for obvious reasons. Obviously in terms of how the business has changed, in addition to the benefits of the increased scale and diversification from the higher-margin Interval and Third-Party Management business, I do want to highlight some significant changes that we've made to our vacation ownership business since the last recession in 2008.

I think after you go through, hopefully you will agree that when you look at these changes, we’re much better positioned as a company for that next downturn. Steve’s touched on a few of those changes but let me provide a little further context here. First, we have right sized our luxury fractional business and sold through all that excess inventory. We've exited out of the luxury residential business. We ceased new inventory development in Europe where we weren't getting the proper returns on that inventory.

We've disposed of underperforming assets in the ancillary side of the business, including golf courses. But perhaps most important, we've eliminated higher cost, underperforming marketing channels in our vacation ownership business to improve our overall margins. And we did not turn those lower performing channels back on post-recession. As we've grown- Brian talked about what we've been doing on the marketing side. We've done it by leveraging more efficient channels, but the one thing I should highlight, and I think ultimately is probably even the most important when you talk about the change, was the launch of our North America points product in 2010. This was a win-win for both us and our customers, providing our owners with a lot more flexibility in how they use their project as well as a lot more usage options, while allowing us to unlock how we deploy our capital in terms of new inventory investment.

So as a reminder, we hit on some of these earlier. Today we're selling a system, not a site. Each sale center is now in perpetual sales. I talked about our successful inventory repurchase program and our ability to recycle weeks off the secondary market at below replacement cost. But most importantly, the points allow us to optimize our inventory investment by better aligning our spend with our sales pace. As a point of reference, back at the end of 2008, we had over two billion dollars of inventory investment on our balance sheet. Today we have less than half of that on much higher sales volume than we had back in 2008.

In addition, remember back then we sold a weeks-based product, so we had over 10 resorts in active construction. In fact, we spent a billion dollars on inventory in 2008 and 2009 alone to support what we needed at each of those sites. We were still on site-based or weeks-based- we needed all that inventory to support our sales centers at that point in time.

Today we are finishing up renovations at our Sheraton Kauai, which we got in the ILG acquisition, and that'll be completed shortly. We have nothing under development on our balance sheet. And as Lani went through, we have a very manageable just over $300 million dollars of commitments. And as I'll talk about here in a minute, we've got to spend over a billion dollars over the next three years just to replace the inventory that we're selling off the shelf. And so that in and of itself is probably the most significant change in terms of the VO business.

Turning to the Exchange business, as you can see that business performed very well. Revenues between 7% and 11%, fairly flat, very resilient. And when you take that change plus the changes we've made in our vacation ownership business, including, as I said, our ability to manage our free cash flow and our development spend, hopefully you will agree that we've positioned this platform to be much better in the event of the next downturn.

So now I'm going to talk a little bit about synergy targets. As I said, we've increased our annual run rate of synergies to a minimum of $125 million dollars, and it's $50 million higher already than what we announced at the time of the acquisition. By the end of this year, we expect that we'll have roughly half of those run-rate savings in place with most of those savings coming from more of the blocking and tackling integration type things, redundancies and senior management public company cost, and certain G&A functions.

Looking ahead, we expect that the remaining synergies will still be coming from some of the G&A areas as we get more efficient, but it's also going to require more of the transformational changes we're talking about. Those investments in technology to leverage automation, data analytics, those types of things, and aligning our processes more broadly across our vacation ownership platforms. As I said, we expect to get to these full run-rate savings minimum of $125, and as we've done so far we'll continue to look for more opportunities going forward.

In terms of our capital allocation, nothing has changed since the acquisition of ILG. Going forward, we're still going to look for opportunities to grow the business through strategic M&A activities like we did with the acquisition of ILG, and those need to have the right financial returns for our shareholders. After that, we're going to return capital to shareholders.

And then finally, on the leverage side, we structured the transaction with ILG to be a mix of stock or equity and debt. And we did that in such a way that we would have a very flexible balance sheet post-acquisition. And in fact, as we've talked about, we're just over two to two and a half times on our targeted leverage range, two to two and a half times of EBITDA. And we expect that we'll get to that range here with the EBITDA growth that we're going to talk about in a few minutes.

In terms of our free cash flow, I do want to highlight- and once again, this is really driven by our ability to drive capital efficient growth on the vacation ownership side. You can see the consistent cash flow that we've delivered over the last four years, and then obviously in '19 with the acquisition of ILG, we're well positioned to deliver similar type consistent growing cash flow just on a much more significant basis.

So let's talk a little bit more about what the cash flow overall was back between '15 and '18, over that four-year period. As you can see here, we generated close to $1.8 billion before development inventory spend and our corporate cap-ex spend. Which for corporate cap-ex, as a reminder, investments in new sales centers, technology, and our ancillary businesses.

So with that, we've invested nearly $900 million. So to get to that growth, if you recall from Lee's slide, we had 8% contract sales growth over that 4-year period on a compounded annual growth rate. That was with $900 million. So we're doing that investment. And then after that, we had over $900 million dollars of adjusted free cash flow, of which we've had the ability to return just about 80% back to shareholders. So we're very proud of what we accomplished during that 4-year period.

Let's jump into what this means in terms of our financial outlook over the next three years. So we talked about with Jeanette and Lee- with their revenue opportunities and growth, we expect revenues, before cost reimbursements, to grow at a compounded annual growth rate of call it roughly 7%. That will lead to roughly 7% to 11% compounded annual growth rate on our adjusted EBITDA, or roughly 9% to the midpoint.

So before I go into a little bit more detail on that, I do want to highlight that those growth rates, when we get to our cash flows, include call it roughly $1.4 to $1.5, a little over $1.5 billion to grow the business, both from an inventory perspective as well as the corporate cap-ex areas I talked about a few minutes ago.

So let's talk a little bit about the key drivers when you look at the different parts of the business, and really kind of what needs to be true to get us towards the higher end of the range. So let's start with vacation ownership. All of vacation ownership starts with contract sales.

So on the development margin, to the extent we're delivering higher contract sales, obviously that's going to deliver more development margin growth. But the other key opportunities which give us more upside is really around the marketing and sales spend. So all the opportunities around digital, the opportunities to increase VPG on the Legacy-Vistana business. And overall, the ability to grow contract sales and leverage more of our fixed marketing and sales costs give us the opportunity over time here to outperform and continue to grow our development margin.

On the resort management business, as Lee talked about, that's driven by new resorts, new resorts and units under management, as well as growth in the operating costs at those resorts because we typically get a management fee of roughly 10% to 15% of the all-in costs to operate those resorts.

On the financing side of the business, that's going to be driven by contract sales. And we've run, historically, call it a low 60% financing propensity. The ability to continue to push that financing propensity slightly higher will help drive more profit in this area, as well as maintain our excess spread on interest rates.

I do want to highlight, we did price our second securitization of the year a few days ago. I couldn't be more proud of the team and the execution. We securitized $315 million in notes at a 98% advance rate, and an all-in cost of funds of 2.29%. So to put that into perspective, the deal we did earlier in the year, our first securitization, was a little over 2.9%. And from a historical basis, that ranks up there in one of our top three deals in terms of interest rates. So, Lee talked about the securitization market, but I think that just goes to show the investor demand for that paper.

On the rental side of the business, as the system grows there's more exchanges, people move around the system, creates more inventory for us to rent. Our ability to drive occupancy and ultimately our ADR will help drive margin and profit improvements there.

And then finally in vacation ownership, the royalty business, or excuse me, the royalty fee. Your royalty fee for the most part is fixed in nature. It goes up every five years at call it half inflation, and there is a small variable piece. So you can see at both the low and the high, it's at 4%. So whether we go contract sales 7% or 11%, the more we can grow them, the more we can leverage that slower-growing fee.

Turning to the Exchange and Third-Party Management business, as Jeanette went through, our growth and efforts in here will continue in terms of increasing share of wallet, new contracts on the Third-Party Management side, as well as new customers.

And then finally from a G&A perspective, given the synergies we've talked about as well as our ability to manage our overall G&A usually around inflation, we expect three years from now G&A to be flat or down on a growth basis when you roll that all together.

So with all that, that brings us to our free cash flow outlook. So using the adjusted

EBITDA ranges that I just gave you, our adjusted free cash flow would be somewhere between $1.3 and $1.5 billion. We talked about earlier in the year we were performing a review of our excess vacation ownership assets, we've recently completed that. We are going to work to dispose of these excess assets over the next couple of years, and we expect those to generate- these numbers here are kind of outside free cash flow as we typically talk about it. So the disposition proceeds from there should be roughly $160 to $220 million of more cash.

From a leverage capacity, we talked about a range of two to two and a half times. Given our EBITDA growth, at the high end of the range, you would create leverage capacity of somewhere between $110 and $450 million of additional cash potential.

Lani talked about our inventory. We have a little bit more than two years-worth of inventory on our books today. We've talked about a range of one and a half to two. To the extent we're more efficient, that could create up to another $200 million of free cash flow.

The next one on here, non-traditional securitization. We've been working hard. We've never been able to include our Asia Pacific papers in our traditional securitizations here in the US. So we've been working through some alternative arrangements, and we do expect this year, actually, to securitize those notes, and it'll generate roughly $60 to $70 million of cash flow in ’19 which isn't in any of the numbers we've talked about historically. But I wanted to bring that up because going forward, we think the ability to continue to monetize those within Asia Pacific will generate another $30 to $60 million over that three-year period.

And lastly transformation cost. We still have, like I said, roughly $65 million dollars of synergies to get to our run rate. We typically look at it as roughly one and a half to two times for our cost perspective. So two times at the high end would be roughly $130 million. Now when you put that all together, we expect to, between free cash flow and these additional cash opportunities, generate between $1.5 and $2.3 billion. And as we did on the ‘15 Investor Day, we’ll do everything we can, obviously, to maximize our cash flow.

So that gets back to our disciplined capital deployment. As I talked about, you got the three different buckets here. I wanted to highlight that, once again, Steve said from a share repurchase perspective, we've bought back 15 million shares since we started our program back in 2013, returning over $1.1 billion dollars. We've paid dividends since we started that in 2014 of call it roughly $235 million. And we've increased our dividend over that four-year period by 80%, compounded annual growth rate of call it roughly 16%. And our strategy on dividends is a combination of both EBITDA growth as well as share repurchases. The more shares we buy back, the more our EBIDTA grows. That's how we're thinking about continuing to push dividend increases going forward.
Now we could always pay down debt as I said, but as you can see here, we have

minimal near-term debt maturities, and I expect a lot of you saw we recently refinanced the $230 million dollars of 5 5/8% bonds that were due in 2023 that we assumed in the ILG acquisition with a new eight-year paper, $350 million dollars, 4 3/4% was the rate on that, almost a full point lower. So with that, our nearest term is our $230 million convert which has an interest rate of 1 1/2%. And then after that you can see no new near-term maturities. And right now our all-in cost on our corporate debt is about 4.9%. And as I said, just over our high end of our range, we expect to get within our net leverage target here with the EBITDA growth we just went through.

So before concluding, one other update I'll provide is we recently settled our open BI claim from ILG related to the Westin St. John property, we'll collect here in the fourth quarter a little bit less than $40 million to close out that remaining claim. Once again, that was in- and BI's not in our cash flow guidance. We would back that in any way, but obviously it's cash.

I hope everyone has enjoyed this morning's discussion and it's proven valuable in terms of our overall growth strategy for the business as well as our financial outlook over the next three years. I guess if I could highlight a couple of key points that hopefully you would take away.

One, we've created a diversified business model both with the acquisition of ILG, as well as changes that we've made to our model since the last downturn. Collectively, I think these changes position us well to deliver strong growth, strong key cash flow numbers over the next three years, as well as better position us to weather the next recession. We have a disciplined approach to driving growth and free cash flow, and ultimately returning that capital to shareholders. And lastly, our success to date should provide some deal of comfort in terms of our ability to achieve our longer-term goals, ultimately, delivering strong EBITDA growth and cash flow over the next three years.

As always, thanks for your interest in Marriott Vacations Worldwide. And with that, I'll ask the executive team to come back up on stage, and we'll do one last round of Q & A.

MR. WEISZ: Free fire zone. Go ahead.

MALE VOICE 12: Two questions if I may. Firstly, with regards to your free cash flow projections cumulatively over the next three years. If you look at the free cash flow you're generating in 2019 and triple that, you basically get to the range of what you're projecting for the next three years, but the business is going to compound quite nicely at call it 9% EBITDA growth for the next three years.

So why is that number in terms of the forecast free cash flow cumulative production not somewhat higher, or is there something about the capital intensity that's changing? And then the second question I have is with regards to M&A. What does the field of potential targets look like, and where will you be focused in those efforts? Thank you.

MR. WEISZ: I'm sorry, the last… I missed…

MALE VOICE 12: M&A. What does the list of potential targets look like, and where are you focused in M&A?

MR. WEISZ: So you got the first part about-

MR. GELLER: I didn't get all of it.

MR. WEISZ: So if we do $440 to $490 in free cash flow this year, you take it times three, that gives you the kind of the baseline of the $1.5 billion. In terms of why isn't it more. The reality is, I believe, the fact that we've got a disproportionate amount of capital spend in ’19 that we’ve pushed out because we were able to. A lot of that had to do with the inventory that we got from the ILG transaction and everything else. So we've got more free cash flow, but eventually you're going to spend it to be able to put that inventory back on the balance sheet as you sell it off.

MR. GELLER: Yeah, that's right. We've historically talked about our free cash flow on a normalized basis, which would be if you spent what you were selling off your balance sheet for inventory. To Steve's point, in our midpoint of our range for this year the $440 to $490, there's probably roughly $30 to $40 million of inventory spend that is going to be below what's coming off the balance sheet. And once again, that continues to be our opportunity with more than two times of inventory that we get in any near-term year, the ability to leverage that and get a better return on our investment on inventory.

MR. WEISZ: And literally quarter to quarter we look at how that inventory spend works, and to what degree we can continue to push it out, we will continue to push it out.

MR.GELLER: To your question on M&A, obviously I'm not going to sit up here and say oh, we're going to buy this, this and this. The reality is that- and I think those you have followed our story for some time know that there is a number of different things we look at from an M&A transaction. Number one, is it going to give us a broader footprint in the industry that we're in, which is the timeshare industry. Secondly, is there going to be a good cultural fit. And thirdly, is it going to be meaningfully accretive to our shareholders.

Those are the three criteria. Even shortly after we spun out, we went on a few dates, and we never popped the question. And it wasn't until the ILG transaction came up that we found that it really ticked all the boxes there for us, and that's why we got excited about being able to pursue that. We will continue to use those same three criteria going forward, and if the right thing comes along, you could expect to hear from us. Yes.

MALE VOICE 13: Can you maybe give a little bit of color on the economic backdrop your long-term targets assume relative to the last couple of years that you've seen in the business?

MR. WEISZ: So what is the broader economic market and what influence does that have on the numbers?

MALE VOICE 13: What have you assumed?

MR. GELLER: We've not assumed any major inflection points either up or down in our long-term prognosis. I mean, safe to say that there will be a recession at some point in time. We're no smarter than anybody else is to know exactly when that's going to happen. We haven't assumed that there is going to be a recession in the numbers you received, nor have we assumed that there is going to be a great expansion in the economy either. So it's pretty much a static view of how we think about the economy. Is that your question? Okay.

DAVID: John, I was hoping you could talk about the share buybacks aspect of the framework philosophically. Because if we look back, there's only been a very brief period where it's hard to argue that your stock isn't undervalued, right? And multiples are always a point of discussion around the group and around yours. How do you think about stock buybacks in that context, and in the context of that framework given that you’re almost always looking at a stock that that looks cheap?

MR. GELLER: Right. We would agree. But that being said, I think we've been creating great long-term value for our shareholders at the prices we've been able to buy the shares at, and we gave you some updated numbers in there. Inherent is that we’ve bought back since the acquisition I think a little over 5 million shares at this point, and probably closer to call it 3/8, 3/9 year to date, and so we continue to see it as a nice way to return capital to our shareholders, especially given the growth opportunities we have here going forward and the additional cash flow we're going to be generating.

DAVID: [inaudible] available as the capital structure provides for it, rather than [inaudible].

MR. GELLER: Well, I think at any given point in time, David, if there's movements in the stock price, we try and get more aggressive at any given point in time in the shares, but it is programmatic. I mean, we're going to continue to return money to shareholders that way.

MR. WEISZ: Obviously, we do an intrinsic value calculation on what we think our stock is worth, given the growth plans ahead of it. And obviously, if we see that the stock's selling at a price below that, and we're in a position to be able to be in the market, we're in the market. Patrick?

PATRICK: Yes, thank you. In your three-year EBITDA growth scenario, how should we think about sort of the ramp of that? And I relate that to when I look at our numbers and consensus. Certainly for 2020, we're above that 9% range, but then lower in the outer years. Is that a right way to think about it?

MR. GELLER: In our way we've kind of programmed it out, we expect pretty consistent growth over the next three years. There will be ramp, I would argue, towards the latter part. The opportunity as we close some of those gaps on the Legacy-Vistana VPG's, the ability to outperform there, and a lot of the digital initiatives that Ovi went through as we get more traction, get more efficiencies. I think the hard part with a lot of this is we've got a lot of new great stuff going on, and we've tried to program it in there, and hopefully we'll do our best to outperform.

PATRICK: Okay. Thank you. Then just one quick follow-up question here. On the dispositions that you listed at the end of the booklet here, what type of EBITDA multiple do you expect to generate from those? And were those sales part of the original hotels that that ILG got with Vistana?

MR. GELLER: Yeah, it's a mix between some operating assets and land. Call it the adjusted EBITDA impact on all of those assets would be roughly 10 million dollars, give or take on a run-rate, so that would be the impact.

MALE VOICE 14: Thanks. I can understand why timeshare providers would want to sell points directly to owners, but why do you think there's not more of a resale market where people can buy points at a steep discount?

MR. WEISZ: Yeah, I'll take a stab, and Brian can jump in. You've got to have a sales system to be able to sell it. Everybody thinks oh, I'll just put it on eBay, or I'll do something like that, and people buy it. It doesn't quite work out that way for a couple of different reasons. One of the ways, we encumber the sale with a first right of refusal so that if somebody doesn't want to own it anymore, we have the right to match a price that they're willing to sell it, if they want to sell on their own.

Secondly, there are certain use rights that don't convey if you sell it on your own to someone else. For instance, the ability to use your points to go outside our system in the destination club and things like that. Part of that is very intentional, to be honest with you because we want to control what we think the perceived value and price of our product is versus being something on sale.

And last but not least, I think the other problem is everybody thinks it's easy to sell timeshare. It's not. As you heard Brian articulate, there is a lot that goes into it to make it all work. That's why there's really not much of a secondary market out there, at least for our product. You will see some other products, particularly the down-market stuff that's out there, but not for us.

MALE VOICE 14: Thank you.

MR. MILLER: Lani's team monitors the resale market 24 hours a day, and if there is anything out there that's dirt cheap, 30, 40 cents on the dollar, we buy it immediately. We try to keep the market clean. If it gets slightly above that, then it starts to make more sense to buy it from the developer, we can finance it, we can give a first-day benefit, so it makes more sense to buy from us. But we try to keep it clean.

And we also have in our documentation the ability to turn on the right to repurchase points at any given time, solely at our discretion. So about every year we'll turn that on, and we'll clean up the market that way too. People register with us because they know that we have that mechanism. It's not guaranteed by any means, but they know that we have that mechanism in our control, and that we try to keep the market clean that way.

MALE VOICE 15: Thank you. Obviously timeshare is a highly discretionary purchase which we all know. Maybe you could just talk about the macro and how sensitive you think that your close rates within the VO businesses is to general recessionary headlines that we see in the media every day.

MR. WEISZ: Yeah, there's a reasonably good correlation. I don’t think you'd say the R-squared is as high as some other things, but as close as you can get between consumer confidence rates and closing rates. Closing rates being if you had talked to 100 people, what percentage of the people bought. So as a consumer confidence number, and you know where it's been about and it's been bouncing around a little bit, 120, 130 that kind of thing.

But it’s meaningfully higher than it has been in the last, previous years. If you saw the consumer confidence numbers start to drop, it's probably appropriate to intuit that it could have some effect on the closing rates. Obviously we have a few things that we can put in place, and Brian's team has some leverage to pull that can help kind of modulate that in terms of what their first day benefit is. We can do things in terms of pricing, et cetera, to be able to kind of mitigate some of that stuff.

But I won't suggest to you that we're completely insulated from economic trends and markets that goes up- because to the point, I mean I wish I could stand in front of you and tell you that your life will not be fulfilled if you don't own timeshare, but I'd be a little disingenuous. The reality is that it's a discretionary purchase that is not insignificant in price. Some people get to a point where they say I'd love to own it because I think it'd be a great way to vacation, but I just can't afford it right now.

MS. KANE-HANAN: People use the product during recessionary periods.

MR. WEISZ: Because it’s paid for.

MS. KANE-HANAN: Right, it’s paid for, and that’s the good news.

MR. MILLER: The color I can add to it is I’ve been in this business 35 years, so I’ve been through at least three, maybe four recessions, and the previous ones prior to ‘08 and ‘09, we actually grew the business. If you look at who we target and who owns our product, upper middle class, college educated, married, home-owning consumers aren't nearly as affected by a mild recession as lower socioeconomic segments, right? So the last one was a doozy, and it affected every business. So I would say if we don't have something like that, a major structural disruption, I think we'll probably be in decent shape as we have been in the past.

MR. WEISZ: And in fact, the numbers that Brian talked about is proven out of ARDA, the American Resort Development Association, which is the timeshare trade association of - by the way, I should point out Jason Gamble. Jason, raise your hand. He is the President and CEO of ARDA. He's sitting in with us today, so feel free to pick his brain if you'd like at the end or whatever - would show you statistically that in every other recession, the industry has grown with the exception of the obviously ‘08, ‘09 kind of major impact that we had. Other questions?

MALE VOICE 15: Brian, when you talked about cleaning house by buying points in the open market, how much are you spending on average per year doing that? And do you make money off of it, or is that…?

MS. KANE-HANAN: So what we're talking about there is our repurchase program, where you have about $80 to $85 million dollars over the next several years we’ll be spending each year on inventory repurchases, which part of that is cleaning it out, part of it is defaults, et cetera. And the overall average product cost is 25% because that tranche of inventory comes materially below that level and helps us to average there. So it's below replacement costs, below what it would cost us to acquire or build it.

MR. WEISZ: Maybe I'll use an opportunity to give you a point of view. We made a decision well over 10 years ago to get in the business of buying back inventory from owners that for whatever reasons decided they didn't want to own it. Oftentimes these are people that have owned it 15, 20 years. They had some sort of a life event where divorce, death, people can’t travel, et cetera, et cetera, et cetera. And so we started modestly.

I think we started with- we internally call it our own kind of revolver. We put $20 or $25 million dollars out there, and every time we’d burn it, and then we sell it back out again. Well obviously with points, it's a lot easier for us to do this. We take that inventory, we put it right back into our points program, it becomes points, it gets sold out.

There are some developers that have not embraced that notion as broadly as others. I call it getting on the freeway with no exit ramp. And that's tough. And so, we think it's a win for both sides. The owner that's been very happy and wants out, we give them a way to get out in very short order. No cost to them, and oftentimes they walk away with a check in their pocket. We are very happy. We get the inventory back at below replacement cost. We put it in the points program, sell it again. We think it's a win for both sides. I should say to you that I wished every major timeshare developer embraced that same notion, but not everybody's gotten there yet.

MS. KANE-HANAN: We restructured our product with that anticipation. So when you see many land trusts that are out there, developers have to contribute units to those trusts. We structured our trust products so that you contribute weeks. So we can take those weeks-based owners, and we can take that product back and put them right into the trust product much more expeditiously than trying to wait and hold and cobble back. So we anticipated trying to do this for the customer and built it into the product to facilitate it.

MALE VOICE 16: Just a question. Given the upcoming presidential election, the fact that Elizabeth Warren is surging in the polls here, she seems to have very principled policy opinions about many different industries. I'm just wondering if you guys have a sense of what her view of the timeshare industry is. Thank you.

MR. MILLER: Probably wants to tax it.

MR. WEISZ: I don't know that I've ever heard any specific comments about our industry. I would generally characterize her platform to be less pro-business than maybe the current administration, but I can't really comment any further. Anything else? Yeah.

MALE VOICE 16: Thanks, John. Can you just explain in the $1.3 to $1.5 billion cumulative cash flow, the net securitization activity? The $310 to $470? Explain the scenarios between the low and the high end of the delta and that cash flow.

MR. GELLER: On the billion three to billion five? Yeah, I mean your biggest driver once again is going to be around your inventory spend, right? We program this out to do what we've done over the last three years. But we've also said at times, for the right opportunity, if we had to do something on balance sheet or make a near-term investment, that we could do that, right, build up inventory a little bit.

Not what we're expecting to do, but that would be the biggest probably variable if between those two numbers that would push you down a little bit lower. Other than that, it's really just going to be your EBITDA. Typically we get about a 55-ish% to 60% flow through of adjusted EBITDA to free cash flow. That's kind of the math if you back into it. So the EBITDA range in and of itself is going to create some of that lower free cash flow.

MALE VOICE 17: Hey, John, just to actually follow up on that question really quick. So I think to a previous question you said there is about $30 to $40 million of one-time good guys on inventory in this year's cash flow. So if I back that out, I think you're probably somewhere around $430 million run-rate for this year. Is there any reason why that shouldn't grow at your 7% to 11% EBITDA growth, and sort of that 55% conversion factor? Are there any other one-time things that we should aware of?

MR. GELLER: It's really timing of your inventory spend, development, that type of stuff.

MALE VOICE 17: Okay. Thank you.

MR. WEISZ: That's it. Okay. All right. Let me close if I could. I think it's probably important to probably end where we began by kind of reiterating our key messages.

We have a very resilient business model that generates consistent and substantial cash flow. We expect to generate 7% to 11% compounded annual EBIDTA growth over the next three years, and we have a clear growth strategy to get us there. We are well on our way towards maximizing the transformative opportunities that have been provided by the ILG acquisition, and lastly, we have a dedicated team of seasoned leaders that are excited to capitalize on the opportunities that we see ahead of us.

I want to thank all of you for attending today. And always remember, enjoy your next vacation. Thank you.

[END RECORDING]