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Marriott Vacations Worldwide Corp. (VAC)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Marriott Vacations Worldwide Business Update Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Neal Goldner, Vice President, Investor Relations. Thank you. You may begin.

Neal Goldner

Vice President-Investor Relations, Marriott Vacations Worldwide Corp.

Thank you, Rob, and welcome to the Marriott Vacations Worldwide March 2020 update conference call. I am joined today by Steve Weisz, President and Chief Executive Officer; and John Geller, Executive Vice President and Chief Financial and Administrative Officer.

I do need to remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties as described in our SEC filings, which could cause future results to differ materially from those expressed and/or implied by our comments. Forward-looking statements in the press release that we issued this morning along with our comments on this call are effective only at the time they are made and will not be updated as actual events unfold.

It is now my pleasure to turn the call over to Steve Weisz, President and Chief Executive Officer of Marriott Vacations Worldwide.

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Thanks, Neal. Good morning. I want to take this opportunity to give you an update on the impact the coronavirus or COVID-19 is having on our customers and our business. As I join you today, I know that I don't need to tell you that we are facing an unparalleled global crisis. But we – while we've never seen anything of this magnitude, let's remember that we have seen other disruptions to our business and to our lives, and we've made our way through them and I'm confident we will again.

Throughout Marriott Vacations Worldwide, across our brands, businesses and regions, I'm continually impressed by what our associates are doing by coming together and adapting and innovating in so many ways to take care of our customers, our resorts, and one another.

Every year, around the world, millions of vacation owners, guests and exchange members entrust us with their precious vacation time. It's a trust that we take very seriously. And now, at this unique point in history, as countries are advising people not to travel, not to leave their homes, we are feeling the impact deeply.

In my 48 years in hospitality, 24 of them with Marriott Vacations, I've seen a lot of disruptions in this industry and the economy. We lived through 9/11 and the Great Recession of 2008. In our business, over the past five years alone, we've experienced no shortage of natural disasters; things like hurricanes, wildfires, volcanic eruptions and earthquakes. But unlike those largely localized events, this is a worldwide issue. From Singapore to London to Hawaii, the effect on our business is both widespread and profound.

We started the year strong. However, amid quickly accelerating travel restrictions and local restrictions on business operations, our occupancies continued to drop sharply and we too are having to close certain resorts and company facilities. Throughout, we've been responding diligently to take care of our customers. From early on, we implemented increased cleaning and sanitation guidelines. We relaxed our cancellation policies and expanded reservation windows for customers to rebook to better accommodate their changing travel plans.

We have information hubs online to provide the most current COVID-19 updates to all of our customers. And while they are losing their vacation for now, we're working hard to give them good options for the future because, like us, they know that this too will pass even if we don't know when.

Meanwhile, our global contact centers are collaborating to help cover a record high number of calls, at the same time they've been closing offices and moving to work remotely where possible, not to mention the added challenge of a recent earthquake that affected our team members in our main call center in Salt Lake City.

We also continue to partner with our many resort condominium owners associations to ensure good stewardship during this time of great uncertainty. In short, we're doing all we can that is reasonable, proper and fair. And I couldn't be prouder of the dedication across this organization to make that happen.

As we're working to care for our customers, we're working just as passionately to care for our associates. In the interest of both, we've recently closed all sales centers in our vacation ownership North American business. These unprecedented but necessary closures will create implications to our short-term business.

We are also closing our resorts for rental guests with stays at our branded North America vacation ownership resorts for the next 30 days, and are reducing operations and amenities at all of our resorts based on various governmental mandates and advisories, as well as to align with occupancy. Further, we have taken steps to encourage our owners to consider delaying their vacation until the crisis is passed, while providing them with alternative options for later this year. As new developments unfold, we'll continue to make decisions on other property and office closures based on current advisories and circumstances.

Without a doubt, these shutdown decisions have been some of the most difficult and heartbreaking of my career. We've put new policies in place to help provide interim assistance and we'll continue to evaluate how to best care for our associates.

We're doing everything in our power to keep people safe. We are focused on our associates, encouraging above-property associates to work from home, while simultaneously ensuring that our business is ready to grow and thrive once this crisis passes. In order to do so, effective immediately, our executive officers and I are taking a 50% pay cut. In the coming weeks, throughout the organization, there will be other necessary reductions. We're freezing all new hires except for mission critical needs and we'll undoubtedly begin implementing furloughs and reduced work hours at property, above-property, and corporate locations.

In the US where we're deferring merit increases for those positions who were eligible for them in March. We're also suspending 401(k) match payments for now and, simultaneously, we will be pursuing other financial cost measures to preserve cash. Examples include reducing capital expenditures, eliminating travel and meetings, and reducing all discretionary expenses.

While we certainly don't know how long the current environment will last, we believe the changes we've made to our operating model and our capital allocation decisions will enable us to operate the business at close to cash flow neutral until business returns to more normal levels.

In addition, in conjunction with ARDA, we will continue to lobby Washington for assistance in maintaining salary and benefits for all staff who are forced to stop working due to closures, social distancing needs, or demand reductions, It was only just a few short months ago when we brought many of you together to show you how our business model had changed and how resilient it is, while we certainly didn't envision a global pandemic that day. I believe the current weeks and months ahead will prove out just how right we are. I'm absolutely convinced that while we don't know how long this will last, there will be an end. And when that end comes, I firmly believe we will emerge from this even stronger.

I'll now turn the call over to John to go through more detail the measures we are taking, and we'll be prepared to take your questions at the end. John?

John E. Geller, Jr.

Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

Thanks, Steve. My comments today will focus on our resilient business model, our cost structure, and what we're doing to generate cost savings to help mitigate top line softness and, finally, our balance sheet position and liquidity. In the near-term, we are managing the business and making decisions to preserve cash flow.

We've spoken with many of you in the past about the resilience of our business model and how a large portion of our revenue and profit comes from recurring revenue sources. Breaking it down into its components, about 36% of our adjusted EBITDA contribution comes from our management and exchange businesses, with about 80% of this coming from recurring revenue sources including the revenue we generate for managing the resorts. Importantly, the revenue we generate for managing the resorts is generally based on a percentage of budgeted cost to operate the resorts for the year and is funded by the annual maintenance fees collected at the beginning of the year from our timeshare owners. This is incredibly sticky in recurring revenue.

Our financing business represents nearly 20% of our adjusted EBITDA contribution, with nearly 85% of the financing revenue we generated last year coming from notes we securitized in prior years. Combined, these recurring revenue streams represent nearly 45% of our annual EBITDA contribution.

Even in normal business environments, we have a highly variable cost structure, with only a little more than 50% of our costs being more fixed in nature. But given the current environment, we are making aggressive cost cutting decisions across all of our businesses until we have a better view of the duration of our shutdowns.

Now, let's turn to the two parts of the businesses most impacted by the closures; development and rentals. The expenses in our development business are largely variable with non-cash inventory costs being expensed only when a sale occurs in roughly half of the marketing and sales costs relating directly to the sale. For the remaining marketing and sales costs that we have historically referred to as more fixed in nature, in the near-term, we have developed plans to reduce these costs to a level that would support any sales while these sales centers were closed so that the development – so that development is cash flow neutral or better.

In our rental business, the fixed and largest component of our expenses are maintenance fees we pay on unsold inventory, importantly, though, almost all the 2020 maintenance fees were paid in January of 2020. As a result, given the variable cost nature of the business, even if revenues were to fall by 70% to 75% from last year over the next six months, we expect to still operate the rental business at cash flow breakeven or better.

Finally, when you think about the rest of our cost structure for exchange and third-party management, and our financing businesses, as well as G&A, we put plans together that include expense savings, shortened work weeks, and other initiatives to substantially reduce these costs. In addition, we will continue to focus on transforming our business model and focusing on pulling forward future synergy opportunities.

Moving to the balance sheet, it's almost impossible to predict the impact to our EBITDA in the near-term, so we are focused on minimizing inventory, CapEx, and project spend. As you might remember, embedded in our original free cash flow guidance for the year was an expectation that we would invest at least $425 million in inventory and corporate CapEx this year. At this point, roughly 30% has been spent, with most of that spend on inventory commitments that we had in January and February for New York and San Francisco, and some inventory repurchases. Of the remaining $300 million of planned spend, we think we can reduce that by up to 80% or around $240 million, if necessary. We're also deferring all near-term integration and transformational spend which we originally estimated would be $60 million to $80 million for the year, unless delivering on our near-term synergy goals and having an offsetting cash payback this year. As a result, we expect our integration and transformation spend to be as little as $25 million for the balance of the year.

To conserve cash, we have also suspended all share repurchases for now and we will work with our board to make decisions on future dividend payments as we have more clarity on the operating environment. With the changes we can make to our operating model and our capital allocation decisions, we expect that we can run the business at close to cash flow neutral until business returns to more normal levels.

As you know, we have a $350 million warehouse facility that we use between term securitizations. As of last week, we had only used about 60% of the capacity in our warehouse. But to make sure we have enough capacity in case of the securitization markets are not available to us at acceptable terms, we have been having constructive discussions with our banks to increase our warehouse capacity by up to another $150 million to $200 million.

At the same time, we're working towards a May securitization. We've also received indications from institutional investors that have previously invested in our term securitizations about their interest in doing private deals. Considering that we currently have around $670 million of cash and $140 million of gross notes receivable that will be available for securitization, as well as our ability to manage our future cash flow spend at close to neutral, we believe we have more than enough liquidity to get us through this difficult time.

Before I end, I want to talk about our covenants. We have only one financial ratio covenant under our credit agreement which is a first lien leverage of under 3 times adjusted EBITDA for covenant purposes. Including the $670 million of cash we have on our balance sheet today and using our 2019 adjusted EBITDA for covenant purposes of more than $800 million, our leverage for covenant purposes stands at only 1.1 times. To put this in context, even if you ignore the cash on our balance sheet, our adjusted EBITDA for covenant purposes would have to decline by more than 35% to around $500 million for us to have a covenant issue.

Finally, we have no corporate debt maturities until September of 2022, which is our convertible note and that's only $230 million. After that, our next corporate debt maturity is in 2025.

To summarize, we have a resilient business model with nearly half of our adjusted EBITDA contribution from recurring revenue streams, we expect to reduce our operating and G&A costs to reflect the current operating environment, reduce capital expenditures and inventory investment by up to $240 million, and are looking to accelerate synergies where possible. Finally, we have $670 million of cash on our balance sheet, no debt maturities until 2022, and no covenant concerns. As hard as this is for all of us, thanks to the resilience of our business model and the extremely difficult decisions we are making, we will be extremely well-positioned when traveler returns.

With that, Steve and I will be happy to answer your questions. Rob?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Jared Shojaian with Wolfe Research. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Hi, Jared.

Jared Shojaian
Analyst, Wolfe Research LLC

Q

Hi. Good morning, everyone. I hope you're doing well, and I appreciate you doing this call. I think this is helpful. So, for my first question, I wanted to ask about the loan portfolio. And maybe specifically within the last several days, have you had any borrowers reach out needing help with their loans, I guess, what's your plan there going forward? And then, on that same idea, can you just remind us what happened to the loan portfolio in 2008-2009, and if you saw that again, how should we think about the cash flow impact? Thank you.

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah. Hey, Jared. It's John. Yeah, today, probably not surprisingly, we haven't seen a lot of impact on or any real impact on people calling about their timeshare loan. Remember, these are roughly, call it, $300 to $400 a month monthly payments. We've talked about the customer that typically buys our product with household income in the $100,000 to $125,000 or more. And so, if you go back to the financial crisis, while we did see an increase, if you will, in defaults, I think as we've talked about in the past, ABS for timeshare was the second best performing asset class behind automotive.

So, clearly, something we're keeping an eye on. There are triggers that could come into play at some point in the future depending on what delinquencies and defaults do. We do have the ability and based on what we do today, as defaults go higher, we can clear default triggers by repurchasing pars – or, excuse me, repurchasing the notes at par. So, that's obviously something we'll continue to do here in the near-term.

If there was a trigger that occurred that we couldn't clear, that would result in that specific securitization of excess cash until the triggers cleared would be against your pay-down principal on your highest rated debt within that securitization, so call it the AAA. And so, we did back in 2008-2009, there were a couple securitizations at times that went in and out of trigger, but it wasn't like we saw every securitization go into trigger either. So, obviously, we're going to keep an eye on. There's clearly could be some government assistance or things that come out we're keeping an eye on that. And, obviously, we'll do what we need to do to make sure we maximize cash flows in that area.

Jared Shojaian
Analyst, Wolfe Research LLC

Q

Okay. Thank you. Maybe just following up on that, I mean, if we were to see defaults like what saw in 2008 and 2009, and maybe you could just help us understand the cash flow impact [indiscernible] (00:19:32) if you did choose to go back and repurchase that inventory, historically you always have, I mean, are we talking about a

$100 million impact, a $200 million impact, how do we think about that cash flow impact, again, assuming the same kind of defaults you saw in 2008 and 2009?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah. I mean, I don't have the numbers in front of me, we'll have to go back and do some work on that. What I can say is, if you look at all the securitizations we had, defaults never got higher in any month than the excess cash flow that comes off those, if you will. So – and once again, it would vary by securitizations, not all the securitizations hit triggers. But, yeah, that would be we go back and do some more work on it. It'll be facts and circumstances here based on how long we have I think some of this shutdown and duration of the shutdown.

Jared Shojaian
Analyst, Wolfe Research LLC

Q

Okay. Thank you. And then, just a point of clarification. You're talking about all the changes you've made potentially running the business at close to cash flow neutral, is that scenario assuming zero tours, zero open sales centers, basically zero in rentals, is that the expectation? And maybe more specifically, close to cash flow neutral, I mean, how much cash burn, I guess, roughly per month would you be thinking under that scenario?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah. The – we've run scenarios where sales centers and no rentals for six, seven, eight, nine months, if you will, through the balance of the year. And under those scenarios, we would expect that you're going to have – depending on timing of payments and things like that, there could be months where you have some cash flow burn, in other months where it's generally positive.

The point is, we don't know, right, but we've run scenarios and we have the ability to make decisions to reduce costs to get back to over an extended period of time generally cash flow neutral type outcome. So, not knowing exactly how everything is going to play out, we've run some very stressed type looks, and we know we have things, while extremely difficult decisions we need to make here in the near-term, we have things we could do to offset a longer negative shutdown, if you will.

Jared Shojaian
Analyst, Wolfe Research LLC

Q

All right. Thank you very much.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Thank you.

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Thanks.

Operator: The next question comes from Patrick Scholes with SunTrust. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Good morning, Pat.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning, everyone.

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Good morning.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. Several questions here. Just a point of clarification, when you talk about cash flow neutral, does that assume still paying the dividend out in that scenario?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

No. I mean, we've – that would be basically no repurchases, no dividends, obviously on the capital allocation side, if things were shut down for a long extended period of time, I would expect that our dividend wouldn't – our board wouldn't be making a dividend at that point.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. As far as how has visitation or occupancy going from your existing owner/guests?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Yeah. Let me give you a little bit of color on that, Patrick. So, up through, call it, the middle of March, our average resort occupancy in our MVC business, and I'll just focus there first, obviously in the Vistana business is slightly different, but not materially different. We were averaging 87% occupancy across the board.

Now, let me just put that in perspective, that was actually 8% lower than same time last – for those same two weeks. Just recently, what's happened is, those occupancies have started to fall rather precipitously. So, for instance, from the 15 to the 22, that average was 66%, down 31% from prior year. And this week, I believe, we are running closer to the 30% level across the resorts. As I'm sure, you are aware or have heard of places like Hawaii which is a very popular destination at all times of the year, the Governor basically told people not to come to the island; and if they did, they needed to shelter in place in isolation for a 14-day period. So, you can imagine that the people that are there eventually will terminate their vacation and head home and there'll be virtually no new arrivals.

We have other situations, where we have resorts that are closed because of government mandates. For instance, we've got three properties in Key West that are closed; our Pulse property in South Beach is closed; San Francisco, again, because of a government mandate, is closed; the two properties that we have in Breckenridge are closed; New York Pulse is on the verge of closing, et cetera. So, obviously, as they're closed, the occupancy will be zero. So, I'll assume that in the near-term, you will see these occupancies get down to be more hotel-like from what you hear from our hotel [ph] brothering (00:25:08) than what we traditionally run.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Just a couple more questions here. You noted in the press release and the call that sales centers are closed now. Are you still doing outreach for telephone upgrade sales at this point and how...

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Yes.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

...what type of response are you getting from customers there?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Yeah. I mean, we closed the sales centers effectively this weekend. The actual effective date was yesterday. But for the most part, they were closed starting on Saturday. Yes, telesales is still operational, and we will still encourage our sales executives to work their book of business on telephonically as best they can. It is way too early for me to give you any indication as to how vibrant that will be. But we're going to do our best to try to continue to get sales flowing through the system even though the physical sales centers are closed.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you. And my last question for John. Hypothetically, let's say in the next couple of weeks you were going to do a securitization. I note that the one you did last fall, your – the interest rate was about from the Class A notes was 2.22%. Any rough idea today what that equivalent interest rate would be and what sort of advance rates you're looking at, ballpark?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah. I mean, we just – obviously, there haven't been, to my knowledge, any vacation ownership securitizations yet this year. So, we're working through all that. That said, we're moving forward on ours. It's probably a little bit premature. What I would say is, at least directionally, interest rates versus last year could be 150 basis points based on what we're seeing today plus or minus higher, notwithstanding the risk-free rates down, given the environment, you're seeing a greater spread requirement. And then, once again, advance rates, I haven't seen anything in stuff we're looking at that would suggest that they would be significantly less at this point. But it's an evolving situation and we'll continue to monitor that part of the reason why in the near-term getting a little excess capacity on our warehouse, yeah, we think is prudent. So, we can make sure that we don't like the terms, then we have some flexibility to hold off for a bit.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

And Patrick, if I could just chime in for a moment. Working through ARDA and trying to influence as best we can, things that are being contemplated on the hill, there are two areas that the principal focus is. One of which is, any kind of relief for associates that are displaced from work; and secondly, is to try to find a way to make sure that the credit markets for things like term securitizations remain open. And again, we're hopeful that something will happen in both cases, but we're working hard to make that happen.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you, everybody, for having this call. Very helpful.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Thank you.

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Thanks, Patrick.

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

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Hi, David.

David Katz
Analyst, Jefferies LLC

Q

Hi, good morning, everyone, and thanks for all the information which is pretty copious. So, I just want to be clear, John, did you say that you are – you have or you are pursuing expanding the warehouse facility, and is that balance drawn against at this point, or is that an available balance that you gave us, is there anything drawn on it?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah. We've got – I think, we've used about 60% of the $350 million in terms of the draw, and we're looking to expand. So, we have 40% left, right, on the $350 million, and we're looking at – we've been in pretty active discussions with our bank group to expand that by another $150 million to $200 million. We're hopeful we'll get something done here in the near-term. We started those discussions a while back and we're just working through it.

David Katz
Analyst, Jefferies LLC

Q

And with respect to the resorts, right, which are obviously a localized decision as to whether to shut down based on shut down entirely, when you think about ramping back up again and the mechanics of how that works and what that looks like, obviously, when you furlough employees or lay off employees, et cetera, getting them back presents a series of questions. How have you thought about that?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.
A

Well, as you point out, if you've got a resort that's completely shut down or even a resort that has [ph] materially (00:30:25) reduced the work force because of occupancy levels, et cetera, you put people on furlough. When they're on furlough, the objective is to make sure they get enough cash in hand so that they can cover their medical benefits while they are not working, and then begin to reach – we stay in constant contact with them, we reach out to them and say, okay, fine, we're now ready to bring back X number of people and we'd like to see when you can report to work, next Monday, kind of thing.

There will be – we know, there will be some people that for whatever reason decided that they no longer wanted to come back to work for us because they took a job at the Amazon warehouse or the local CVS, we know that, and there will be some mild disruption. I would say, however, that you would probably think about us reopening properties or ramping them back up on a stage basis. So, if we had 500 associates at a resort, chances are we're not going to bring 500 back on day 1. So, we would have to ebb and flow accordingly.

I think everybody in our business, and quite frankly in the hotel business, are going to face exactly the same thing. And so – but we believe we can manage our way through it. We've seen these kinds of things before. I would simply call your attention to the fact that we had resorts that over the last several years that have been closed because of hurricanes, sometimes for upwards of a month or two or three, in some cases a full year. And that's the same process we've used there. So, we've got some great learnings that we've been able to apply there, and I think, I feel fairly confident that we'll be back in operation and fully up to speed whenever we need to be.

David Katz
Analyst, Jefferies LLC
Q

Okay. Thank you.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.
A

Thank you.

Operator: Our next question comes from Brandt Montour with JPMorgan. Please proceed with your question.

Brandt Montour
Analyst, JPMorgan Securities LLC
Q

Hey. Good morning, everyone. Thanks for taking...

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.
A

Good morning.

Brandt Montour
Analyst, JPMorgan Securities LLC
Q

Good morning. Thanks for taking the time and doing this call, it's really helpful. I wanted to just flush out just the comments around G&A and the cut to discretionary spending within G&A. Just when you look at that line, what sort of residual G&A do you feel still there's still flex, this kind of goes to the next stage of sort of danger zone?

And then, does that include sort of digital projects that you've talked a lot about in the past, have they been put on hold at all?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah, I mean, big picture, yeah, any decision we make, we worry about the longer-term impact of a reduced work weeks and what that does to our associates. And so, we're taking all that very seriously here. But yeah, I mean, we'll make the decisions here in the near-term to continue to operate the business and reduce G&A and overhead appropriately.

In terms of some of the projects, yeah, there are certain things in place, some of the digital work, things like that, we'll continue to do at a slower, smaller scale here in the near-term. We clearly, as I talked about, are looking to defer up to 80% of our remaining CapEx as well as on the synergy side we originally had $60 million to $80 million of spend based on where we're at in some of these projects and integration and transformation. We've pulled that back.

But in the near-term, we should get in-the-year savings, if you will, for doing some of that remaining synergy spend. So, we're going through everything with a kind of fine-tooth comb making sure that if it's not mission critical here over the next couple months, it's not like we're not going to do it, we're just going to defer it out a little bit till our sales center – our resorts start to open, right. And the nice thing there is, owners are 60% to 70% of our occupancy typically. So – and reservations are on the book, so assuming people want to get back to traveling, we should see a pretty quick pick-up in occupancy just from owners. And then, with that sales centers getting back open, et cetera, and then obviously as things start to improve and evolve, we'll continue to evaluate all our spend and bring it back as needed.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Hey, Brandt. I'd just add one other thing to you. The – you think about tours that are on the books, of which many tourists were scheduled to come through our sales centers over this next period of sale centers are closed, as an example. The great news is that I'm going to throw out a number that our sales and marketing folks have quoted to me, which is 99% are rebooking their tour, not canceling it. I would tell you, there may be another shoe to drop there when that may drop down a little bit.

But the great news is that people are still very interested in vacationing, they're still interested in trying to understand how our product may fit well with their needs going forward. So, we go from there. With that said, we are dialing back some of our digital tour generation spend right now because as people are being told to sit in their homes and not go anywhere, it doesn't make a lot of sense for us to be asking them to schedule a tour to come talk to us. But that again is just simply a timing issue. When things are back and operational, which we hope is sooner rather than later, you'll see all this stuff in full force.

Brandt Montour
Analyst, JPMorgan Securities LLC

Q

Got it. That's really helpful. And then, just curious on the member side and sort of the near-term disruption to all the people that sort of maybe have lost their vacations in the near-term. Are you kind of thinking about, is there a situation where you think you might be giving point refunds to the extent that people can't find a time this year to rebook those vacations?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.
A

What we've done is, we have given – so, if you're a point member and let's say you were supposed to travel to a resort this week, and you had made your reservation and because of the travel restrictions or health concerns or whatever it is, you can't use your time; what we've done is, we'll return your points to what we call it hold points, there's a slight distinction between hold points and regular points. Hold points will be used some time this year. We've expanded the window for when people can use those or rebook those points. We're trying to being as accommodated as best we possibly can. The one thing you can't do with hold points is, you can't bank them to next year. We will continue to reassess our situation there. And if we have to make other changes, we will. Again, we're going on the hope and prayer that this is going to be shorter rather than longer. If things extend out, we'll make adjustments accordingly.

Brandt Montour
Analyst, JPMorgan Securities LLC
Q

All right. Great. Thanks for everything, guys. Good luck.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.
A

Thank you.

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.
A

Thank you.

Operator: Our next question comes from Jared Shojaian with Wolfe Research. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.
A

He's back.

Jared Shojaian
Analyst, Wolfe Research LLC
Q

Hi, there, again. Thanks for taking my follow-up. So, just like a clarification. You said 40% remaining on the $350 million warehouse, which is the $140 million. What are your receivables that are currently not securitized that you would expect to be eligible for securitization within the next several months, how are you thinking about that?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.
A

Well, we've got about $140 million coincidentally of gross notes on our books today plus or minus. Obviously, that additional note balance, we'll have some closings here, things like that, so that will continue to go up over the next 30 days give or take with closings. And so, with the shutdown, though, obviously, there's going to be a lot less sales. So, in the near-term, that pipeline won't be growing as fast. And that's why, at least for the foreseeable future, even the $150 million to $200 million of additional capacity, on top of that, you got to decide how long – what sales are going to be over the next couple months, how long that's going to last, those types of things. But I think that gives us enough additional run room here in the near-term. Plus, like I said, I'm confident that we'll be able to get some broader term securitization done, and maybe at slightly higher interest rates like I said. But when you're down at, call it, 2.3% and maybe it's 3.5% to 4%, obviously, not exactly what you want, but still pretty good rate. So, we'll make sure we look at everything and the extra capacity just gives us a little bit more flexibility.

Jared Shojaian
Analyst, Wolfe Research LLC

Q

Got it. Thank you. That's helpful. And then, is there a working capital impact in closing the resorts for the rental guests for the next 30 days? And, I guess, what I'm asking is, have you already received cash from those rental guests that you now have to go back and refund? I mean, do you have a sense of what that magnitude could be at all?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

No. There's very, very little advance deposit activity in the rental space. It's – they pay when they check in, et cetera. So, there's no liability or...

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Yeah, nothing material, not like on the lodging businesses.

Jared Shojaian
Analyst, Wolfe Research LLC

Q

Got it. Okay. That's very helpful. Thank you very much.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Thank you.

Operator: Our next question comes from Brian Dobson with Nomura. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Hi, Brian.

Brian H. Dobson
Analyst, Nomura/Instinet

Q

Hi, good morning. Thanks for having. Hey. So, quick question on your ABS conduit, so you've done 85% advance rate on that conduit, would the extension that you're negotiating be the similar you've been through?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Yeah. We would expect, net-net, the terms to be pretty not materially different than where we're at today.

Brian H. Dobson
Analyst, Nomura/Instinet

Q

Sure. And then, for your breakeven cash flow analysis, does that include continued telesales upgrades?

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

At this point, a lot – it depends on which analysis you're talking about. But as we talk about being more breakeven, the assumption is that, we have enough sales and, therefore, cash coming from those sales to be breakeven at the development cash flow line item i.e., covering your marketing and sales costs. So, we'll right-size our remaining kind of more fixed marketing costs that we've always talked about, so that at a minimum it's breakeven, that's kind of the worst case assumption. The idea, right, is that, we have a little bit of cash flow in the near-term that would be coming off that and that's what we're working towards.

Brian H. Dobson
Analyst, Nomura/Instinet

Q

That's helpful. So, you mentioned that marketing towards the rebooking at like a 99% rate. In terms of your existing owner, when are you seeing those customers rebooking? Is it mostly for the second half or for 2021? And, I guess, how are those booking trends looking?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Well, the owners – I assume you're talking about owner occupancy, or are you talking about owner tours, Brian?

Brian H. Dobson
Analyst, Nomura/Instinet

Q

Well, I'm talking about owners who have been canceling their vacations or rebooking.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Yeah, yeah. The way in which the cancellation-rebook policy works is, the vast majority are attempting to book into the second half of the year. Now, there are some people that are having to [indiscernible] (00:42:17) international certificates which allows them with a broader window to rebook if, in fact, they can't travel between now and the end of the year. But anecdotally, we are seeing a significant increase in the amount of bookings into the second half of the year. I would put a caveat around all of that is, is depending on how long this lasts and how deep it goes, that condition can change rapidly. If all of a sudden, America gets back on the move here in the shorter-term, I would expect the bookings to actually pick up into the summer. If it's longer, I would expect it will fall off into the fall. We just have to wait and see. We're obviously looking at it on a day-by-day, almost hour-by-hour basis to try to understand what the implication is.

Brian H. Dobson
Analyst, Nomura/Instinet

Q

Well, thanks. That's helpful. And then, in terms of the last recession, as we'll likely find ourselves in a fairly serious recession after this passes, could you remind us how your occupancy tour flow behaved during the 2009 downturn?

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Yeah. I don't have obviously the numbers here in front of me, except to say the following. Occupancy came back pretty quickly and in full force. That's the interesting dynamic, is that owners still want to go on vacation. You've probably heard us say before that sometimes even behaving what I would consider to be somewhat irrationally and people whose houses were in foreclosure were still going on vacation.

But with all that said, I don't think owner occupancy is going to be an issue. I think probably what we'll see would be some slight deduction or reduction in transient rental occupancy, I mean, that will flow with how the economy goes. And then, of course, one of the things we were able to do in the 2008-2009, we actually went out with an owner offer to give them some incentive to buy additional products, as you might imagine. That's one of the things that we are actively considering as we speak.

Brian H. Dobson
Analyst, Nomura/Instinet

Q

Great. Thank you. This has been very helpful.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

A

Thank you.

John E. Geller, Jr.
Executive Vice President & Chief Financial and Administrative Officer, Marriott Vacations Worldwide Corp.

A

Thanks, Brian.

Operator: We have reached the end of the question-and-answer session. At this time, I'd like to turn the call back over to Steve Weisz for closing comments.

Stephen P. Weisz
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Thank you, Rob. I'd like to assure you that I and every member of our leadership team are focused on trying to make sure that we are well-positioned not only for the near-term but for the long-term. I am absolutely convinced that while we don't know how long this will last, there will be an end. And when that end comes, we will emerge from this even stronger. I wish you well. I encourage you to be safe. Take care of yourself and join me in knowing that our team here at Marriott Vacations Worldwide will do our very best to take care of this great company. And hopefully, in the not-too-distant future, we will all be able to enjoy our next vacation. Thank you very much.

Operator: This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation. Today's conference call has ended. Please disconnect your lines at this time.