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Marriott Vacations Worldwide Corp. *(VAC)*

Q4 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Marriott Vacations Worldwide Fourth Quarter and Fiscal Year 2012 Earnings Conference Call on the 21 February, 2013. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. [Operator Instructions]

I would now hand the conference over to Jeff Hansen. Please go ahead, sir.

Jeff Hansen
Vice President-Investor Relations, Marriott Vacations Worldwide Corp.

Thank you, Kev, and welcome to the Marriott Vacations Worldwide fourth quarter 2012 earnings conference call. I'm joined today by Steve Weisz, President and CEO; and John Geller, Executive Vice President and CFO.

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 in 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 today, February 21, 2013 and will not be updated as actual events unfold. Throughout the call, we will make references to non-GAAP financial information. You can find a reconciliation of non-GAAP financial measures referred to in our remarks in the schedules attached to our press release as well as the Investor Relations page on our website at www.mvwc.com.

I will now turn it over to Steve Weisz, President and CEO of Marriott Vacations Worldwide.

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Stephen P. Weisz

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

Thanks, Jeff. Good morning, everyone, and thank you for joining our fourth quarter 2012 earnings call. This morning, I'll discuss the fourth quarter results and the continued successes we saw as we ended 2012, and we'll also share our expectations and guidance for the upcoming year. I'll then turn the call over to John as he reviews our results in more detail, and then we'll open up the call for your questions.

I'm very pleased to report that our fourth quarter performance continued much like the previous three quarters. Fourth quarter 2012 adjusted EBITDA was $48 million, up $18 million over the fourth quarter of last year. And 2012 full-year adjusted EBIDTA was $138 million, $42 million higher than 2011 and at the high end of our guidance range.

Contract sales in the fourth quarter were $195 million, up 2% over last year. As expected, this was driven by our core North America segment, which increased contract sales over 10% to $164 million for the quarter. Full-year total contract sales were up 2% over 2011, within our guidance range of 2% to 4%.

Finally, fourth quarter adjusted development margin increased to 17.9% from 6.6% in 2011, while full-year 2012 adjusted development margin more than doubled from 7.4% to 16.1%. Our full-year adjusted development margin increase of 8.7 percentage points over 2011 consisted of 5 points of product cost and almost 4 points of marketing and sales margin improvement.

The marketing and sales improvements were driven by a full 2 percentage point increase in our closing efficiency in 2011. This resulted in volume per guest or VPG in our North American segment increasing 18% over last year, illustrating the attractiveness of our points product in the marketplace and our ability to sell more effectively through more efficient sales channels. In addition, we closed underperforming sales locations as we continued to focus on improving our margins.

Turning to product cost, we continued to make progress in lowering cost. While much of our product cost improvements were the result of certain true-ups required under GAAP, these true-ups were the result of our ability to drive higher revenues as well as delivering projects for less construction spending than we originally anticipated. For 2013, we expect to deliver product cost margins similar to those we achieved in 2012.

Our rental business was strong year-over-year, as total keys rented were up almost 10%. This was due to more owners choosing to exchange their usage point for alternative options through our Explorer program. For the full year, total company rental revenues net of expenses were breakeven versus a loss of $8 million in 2011, reflecting the increased keys rented and a $5 million reduction in unsold maintenance fees. This improvement was despite $7 million of headwinds from higher Marriott Rewards costs related to points issued prior to the spin.

Full-year 2012 resort management and other services revenue net of expenses improved $14 million for the total company over last year. This was driven by revenue growth from annual club dues and management fees while costs were relatively flat to 2011.

Let me update you on our organizational and separation-related efforts. Our fourth quarter results include $8 million of costs incurred in this area, $1 million of which has been capitalized. These costs are primarily related to establishing certain independent human resources services and information technology system. We incurred $18 million of cost in 2012, of which $2 million were capitalized while achieving $5 million in savings. As we stated in the third quarter, we expect these overall efforts to continue through 2014 and generate a total of approximately $15 million to $20 million of annualized savings once completed.

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In Asia-Pacific, revenue net of expenses in the fourth quarter was $4 million after adjusting for cost to shut down certain off-site sales locations, versus $1 million in 2011 while revenues were down $4 million to $24 million. This highlights the benefits of the shutdown of less efficient off-site sales locations during the fourth quarter as we were able to drive higher profits on lower sales.

We also opened a new resort in Macau at the end of the fourth quarter, providing an exciting new destination for our owners. While Macau does not provide on-site sales distribution, we continue our efforts to seek out new inventory acquisitions, which will provide additional on-site distribution in Asia-Pacific.

Turning to Luxury, we continue to make progress on our plan to sell our remaining inventory to our North America points program. Vail is almost completely sold and other inventory is slated to begin selling over the next few years. Additionally, we took a fourth quarter charge of $39 million related to the litigation involving certain residential owners at our Ritz-Carlton Club and Residences in San Francisco. It is important to note that the nature of this litigation is specific to the San Francisco property and does not have broader implications to any other properties in the portfolio.

Highlighting our efforts to dispose of excess land and Luxury inventory, in December of 2012, we were pleased to announce the sale of the Ritz-Carlton Golf Course Clubhouse and Spa in Jupiter, Florida. This sale has generated an $8 million gain in the fourth quarter and should improve our results in the resort management and other services business by almost $4 million per year. Additionally, we are seeing continued interest in our remaining excess land and we'll continue to update you on other dispositions as those sales occur.

I'm extremely proud of what our team has been able to accomplish in such a short time as an independent company and I'm equally excited about what lies ahead. I also want to point out how gratifying it is to see those accomplishments confirmed through our stock price, which provided an almost 150% return to our shareholders in our first full year as a public company.

Regarding our strategy of capital allocation of use of cash, a topic which we know is on the forefront of many of your minds, we recognize the importance of a strong consistent strategy. To that end, we continue to focus on the best uses of cash, first, to grow our business through investments or acquisitions that will provide appropriate returns to our shareholders. Examples include adding inventory along with sales distribution in new markets where our portfolio is not currently represented or acquisitions of existing timeshare businesses allowing us to add management fee streams or other non-Marriott brand. After those needs are met, we will work with our board to determine the best time and method for distributing excess cash to our shareholders.

As we look ahead, we have every expectations of continuing to improve in our stated areas of focus. We believe our longer-term development margin target of 20% or higher is well within reach. And our cost structure will continue to be aligned to our company size and strategy. Based on our expectations, we've established 2013 adjusted EBITDA guidance at $150 million to $165 million, and total company contract sales to be flat to 5% growth, driven by expected North America contract sales improvement of 5% to 10% over 2012.

With that, I'll turn the call over to John.

John E. Geller

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

Thank you, Steve, and good morning. Our fourth quarter was a continuation of the trends and the execution of the strategies that we have been communicating throughout 2012. North America, our primary segment in core

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business led the way with double-digit improvement in contract sales, VPG and development margin, all providing a strong finish to the successful first full year as a standalone public company.

Total company contract sales in the fourth quarter were $195 million, a $3 million improvement over the fourth quarter of 2011. This increase was led by the North America segment which improved by 10% to $164 million and was offset by lower sales in our other segments, primarily in Asia Pacific where we closed underperforming off-site sales centers in order to drive development margin expansion.

VPG continued to reflect double-digit growth in North America improving 22% over the fourth quarter of 2011 to just over $2,900, and full year VPG was even higher at $2,963 reflecting an 18% increase over 2011.

Fourth quarter reported development margin continued the strong trend as well more than doubling from 9.2% to 19.8% over 2011. As expected, revenue reportability which negatively impacted the previous three quarters accounted for just over 4 points of margin improvement in the quarter. However, on a full year basis, the combined impact of revenue reportability on development margin netted to less than one-half of a percentage point of margin.

We have provided supplemental information on schedules A-12 through A-15 in the earnings release that illustrate the impact of revenue reportability and other charges on the development margins for the total company as well as for North America.

In the fourth quarter, adjusted development margin improved 11.3 percentage points once again driven by both reduced marketing and sales cost and lower cost of vacation ownership products. Marketing and sales accounted for almost 7 percentage points of this improvement continuing our 2012 trend of improving closing efficiency and as a result VPG which allowed us to leverage our fixed cost.

We also continue to rationalize our higher cost marketing channels and realize the benefit of shutting down less efficient off-site sales locations. Cost of vacation ownership products serve the remaining 4.5 percentage point improvement as a result of product cost true-ups that occurred in the fourth quarter. These true-ups resulted primarily from a change in how much usage we assigned to each unit we sell. For example, when we sold weeks, we assigned roughly 51.5 weeks as a potential 52 weeks for each unit with extra time being set aside for maintenance. With the launch of our points program in 2010, we did not have a history of how our owners would use their points and what amount of points would go unused in a given year or what we refer to as breakage.

While we could have sold 100% of the usage which is not uncommon in the industry, we elected to assign the equivalent of nearly 48 weeks of usage for each unit sold to ensure we can facilitate owners' vacation at their most requested destinations and times. As the program has continued to mature and the product offerings within our Explorer program have expanded, we have gained a better understanding of our customers vacation as well as the natural breakage that occurs in the system. As a result, we continue to fine-tune the program and we're now targeting approximately 49 weeks of usage per unit on a system-wide basis. This means that we will have additional revenue from each unit. However, since the cost of that unit has not changed, we must true-up the previously recognized product cost based on the increase in projected revenues.

On a full year basis, the cost of vacation ownership products improved by over 5 percentage points from 37.8% in 2011 to 32.6% in 2012. While these product cost true-ups related to previous sales provided the majority of this benefit in 2012, we do expect 2013 product costs to remain at this level due to the success of our buyback program which we'll continue to pursue in 2013 and beyond. Based on these achievements in marketing and sales cost and product cost for 2012, we expect 2013 reported development margins to be between 16.5% and 17.5%.

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Shifting to our rental business, rental revenues were $58 million in the fourth quarter, down $6 million from the fourth quarter of 2011 due to our reduced dependency on plus points as incentives for enrollment in our points program. Plus points are one-time points for use within our portfolio of resorts that typically expire one year to two years from issuance.

During 2010 and 2011 as we focused on enrolling our weeks-based owners in the points program, we offered these points as an additional incentive for our owners to enroll. However, since the enrollments have naturally slowed during 2012, the issuance of plus points and the resultant revenues have reduced as well.

Rental revenue net of expenses was down $2 million from the fourth quarter of 2011 to a loss of $9 million. These results reflect the reduction in revenues as well as $3 million of higher redemption cost associated with the Marriott Rewards program for points issued prior to the spin-off.

On a full year basis, rental revenues improved $13 million to $225 million and rental revenues net of expenses were breakeven, up $8 million from 2011. These improved results occurred despite the full year including $7 million of higher redemption cost from Marriott Rewards points issued prior to the spin. While we have seen year-over-year increases in Marriott Rewards redemption cost for those points, we expect that with recently announced changes that Marriott is making in the overall Marriott Rewards program, redemption cost should moderate in 2013. As we look ahead, we expect continued year-over-year improvement in our rental results.

Our resort management and other services business posted positive fourth quarter results, increasing year-over-year revenues by $4 million, while reducing cost by $1 million. This resulted in $18 million of resort management and other services revenue net of expenses driven by higher annual club dues and increased management fee revenue. Full year results were equally positive with resort management and other services revenues net of expenses totaling $54 million up from $40 million in 2011.

In our financing business, our notes receivable balance continues to decline as prior year notes are burning off faster than we are originating new notes. Financing revenues net of expenses decreased $4 million from the fourth quarter of 2011 to $37 million. However, financing profit after subtracting interest expense on our securitized debt was $26 million in the fourth quarter, flat to 2011. With the strong securitization market that has continued since last summer and our expectation that this will continue into the coming year, we expect a financing profit after interest expense on our securitized debt to begin increasing in 2013.

Moving on to Asia Pacific segment, while revenue from the sale of vacation ownership products was down $6 million to $14 million in the quarter, adjusted segment results were up $3 million to $4 million. This is a result of our decision last quarter to shut down less efficient off-site sales galleries in Tokyo and Hong Kong, thereby reducing top line sales, but gaining margin. We expect this trend to continue in 2013, while we seek out exciting new destinations with strong on-site sales opportunities.

In our Luxury segment, adjusted segment results were a loss of $3 million compared to breakeven in the fourth quarter of 2011. This is primarily due to a decrease in contract sales resulting from the strategy to sell Luxury inventory as an additional offering within our North America points program. Inventory from our Vale property has been added and sold through this program, and we intend to place most of our remaining Luxury inventory into the program over the next few years. We've also repositioned several Luxury sale centers to sell in North America points product.

Staying within our Luxury segment, in December we disclosed we'd take a charge related to settled and continued litigation at our Luxury project in San Francisco. It is important to note that fourth quarter of $39 million charge excludes the repurchase of certain residential units as part of the settlement. The purchase price of these units

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have been capitalized into inventory. We believe this charge should be sufficient to cover our remaining exposure in this matter.

As Steve mentioned earlier, we sold the Golf Club & Spa at our Ritz-Carlton Club and Residences project in Jupiter, Florida. This was impactful for several reasons, including improving future results in our resort management and other services business by roughly $4 million per year, of which nearly half is non-cash and eliminating $29 million of liabilities related to refundable member deposits that were assumed by the buyer.

As an update to our organizational separation-related activity, $8 million of cost were incurred in the fourth quarter of 2012, $1 million of which were capitalized. Spending to-date has primarily been to transition certain human resources services, including payroll services previously provided by Marriott International to a third-party provider who can provide the scope of services required for a company of our size at a lower cost.

Additional future spending is expected to occur from 2014 totaling $22 million to $27 million. Once completed in 2014, we expect these efforts to generate approximately $15 million to $20 million in annualized savings, of which $5 million was captured in 2012.

Turning to our balance sheet and liquidity position, since the beginning of the year, real estate inventory balances declined $79 million to $874 million, and total debt outstanding declined $172 million to $718 million, including $674 million of nonrecourse debt associated with secured vacation ownership notes and $40 million of mandatorily redeemable preferred stock.

At year-end, cash and cash equivalents totaled $103 million and we had $136 million of vacation ownership notes receivable available for securitization through our warehouse facility. The company also had $194 million in available capacity under its revolving credit facility at the end of the year.

With that update of 2012, let me now expand upon our high-level guidance for 2013. We expect adjusted EBITDA excluding organizational and separation-related charges to be between $150 million and $165 million. Total company contract sales are expected to grow between 0% and 5% over 2012 with North America contract sales expected to grow 5% to 10% over 2012, and we anticipate development margin to be between 16.5% and 17.5% for the year.

2012 was obviously a successful year for us as a new standalone public company, and as you can see from our guidance, we fully expect this trend to continue into 2013. As a new public company, in our first full year, we were focused on improving our development margin, reducing costs, and strengthening our balance sheet, all of which we have accomplished but we'll continue to improve upon in 2013 and beyond.

We are still focused on realizing and surpassing our longer-term development margin goal of 20% and our goals of reducing inventory and selling our excess land to generate incremental cash flow remain top of mind.

As always, we appreciate your interest in Marriott Vacations Worldwide. And with that, we will now open the call up for questions. Kev?

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QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] The first question comes from Robert Higginbotham from SunTrust Robinson Humphrey. Please go ahead.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Hey guys, good morning. Thanks for the question.

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

A

Good morning.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

I'd like to dig into guidance on a couple of fronts. The first is your free cash flow guidance, which has been getting a lot of focus from investors this morning. And I'd love to understand better why the way you guide to the numbers that you're going to go from something like $130 million in 2012 to roughly $40 million this year and when you look at the way you break it out, which is a little confusing frankly, it looks as if you're baking in zero working capital benefit, so maybe you could explain that?

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

A

Sure, Robert. Yeah, in terms of the 2012, there were a couple things that helped in 2012. I mentioned that our inventory spend was about $70 million less than the non-cash inventory coming off our books. So we were investing less, bringing our inventory balance down, and so we got a big benefit there. And when we look at 2013, while there is some benefit, it's a little bit less than – or significantly less than that because we were able in 2012 to actually defer more of that inventory spend than we originally anticipated. So we pulled a little bit of that forward from 2013.

When you look at the 2013 guidance and what we've given is kind of a $45 million to – or call it $40 million to $45 million and that is really excluding the impact of those Mello-Roos settlements that had not occurred at the end of the year as well as the organizational separation costs which were one-time in nature. So those should be in that $40 million to $45 million range, so after that it's $35 million to $50 million. The big negative year-over-year is really the Marriott Rewards liability. And if you remember at the date of the spin, we had assumed a Marriott Rewards liability that would get paid down over the next four years and then post-spin, we now pay for our new Marriott Rewards points that we issue as we go. So we're getting that double hit of cash flow.

Well, that's going to cost us here in 2013, call it $40 million to $50 million of that liability continues to pay down. And then the other issue with the spin was – and I shouldn't say issue, but the reality was, there were tax bases that Marriott kept and as a result, our cash taxes here in the near term have been higher than what our provision has been and there is still probably a little bit of that next year, maybe $10 million to $15 million. So if you have the $35 million to $50 million and then you add the – call it the $40 million to $50 million related to the Marriott Rewards that will go away over the next couple of years as well as the higher taxes which once again will start to go

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away too, you probably at a more normalized amount of about $100 million, but we do have these timing issues right now on some of the cash flow because of the spin.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Well, so a couple of follow-ups on that, excuse me if I've missed it, but did you talk to a 2013 development inventory spend number?

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

A

We did not. We have not provided any guidance on that. What we – when we think about it this year, we do expect it to be positive from a cash flow, meaning, we're going to spend less than what we expect the product costs are coming off our books. But the benefit is at least right now we don't expect it to be as much as what we saw last year. And like I said part of that was last year, we were able to defer more given some of the buyback things we were doing and really pulled some of that benefit forward from 2013.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Fair enough. I guess, I'm just still – and we can talk further offline of course, but I'm still a little confused as to why the Marriot Rewards Loyalty Program should have been due this year, sorry in 2012 as well, I'm not sure why that would be incremental with your cash flow dynamics.

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

A

Sure. And I can answer that. So this year, the actual pay down of the liability on a full-year basis was around $70 million, you'll see that in the cash flow. The way that works, at least for the first year, is we issue a significant amount of Marriott Rewards points in the fourth quarter of each year related to people that exchange their weeks for Marriott Rewards points, that's an annual election. We, as part of our agreement with Marriott, we didn't have to pay that amount in 2012. It's actually not due until May of 2013 that's about $40 some million, so it's kind of a one-time pickup in terms of the working capital, which offset the actual cash pay down of this $70 million I talked about. So, that benefit kind of muted the impact at least in the first year on the Marriott rewards.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Sorry, if I didn't fully follow that, but you benefited $70 million in 2012 and what – sorry, $70 million negative in 2012 as you paid it down, what do you expect that to be this year for comparison?

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

A

It should be $40 million to $50 million. And then that working capital, or the payable, that will continue here, so there is no net-net improvement or detriment, if you will, related to the working capital piece of the timing of the actual fourth quarter payment.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Okay. I'll need to follow up with that offline, frankly...

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

A

Okay.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

A lot of moving pieces and there're some concern out there on the topic, but let me ask you another question on guidance. When you look at your 2013 margin guidance, you're 16.5% to 17.5%, you just did 17.9% adjusted in 4Q, why would your 2013 margins not be at least that good?

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

A

Sure. It really is the product cost side of things, so if you look at our product costs in the fourth quarter, because of the product cost true-up we took, our product costs were probably around 30%. If you look at it on a full year basis, our product costs were more around that 33%. And so, you're getting two to three points of kind of pick-up in the fourth quarter. And what we've said is that, if you look at 2012 on an annualized basis, we expect to at least for 2013, to be somewhere in that, call it 33% product costs for 2013. So, we've a little bit of an extra benefit in the fourth quarter.

The good news is when you look at the full year and while the benefit, there is some – for lack of better term – one-time benefit to that product cost as it relates to prior period sales, because the programs that we're running around some of our repurchase and other things that we've done. And really the ability to push our pricing and continue to drive revenues is allowing us to go forward, at least achieve what we saw in 2012 on a full-year basis, and obviously we'll continue to strive to do better than that.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Okay. One last question and I'll hand it over. Did you talk quantitatively to what your change in closing rates were this quarter, you had in the past?

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

A

We said that closing rates improved by two points.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

By two points. Okay. So, similar trend. And so, when you look at what absolute level are you currently running and how does that compare to the industry as you see it, and where do you think that that can go over time?

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

A

Yeah. We don't disclose the absolute number. Suffice it to say that we, in the heyday of timeshare, call it kind of pre-2008, we were in the mid-teens range and we are approaching that now.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

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You are approaching to, already to peak levels. Is that...?

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

A

We're approaching it. I am not saying we're there yet.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Fair enough.

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

A

But we're getting closer.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Okay. I'll hand it over. Thanks a lot.

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

A

Thank you.

Operator: Thank you. The next question comes from Eli Hackel from Goldman Sachs. Please go ahead.

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

A

Hi, Eli.

Eli Hackel
Analyst, Goldman Sachs & Co.

Q

Hi. Good morning. I guess one comment and then – or comment question and then another question. Just to Rob's first question. I think it would be extremely helpful if you guys, in addition to your cash flow, free cash flow guidance was helpful, just to break out and provide a table of some of those changes year-over-year, whether it be deferred taxes or working capital inventory, because it is frankly very confusing and it is an important part of the story. So if there's any way to provide us a table with 2012, 2013.

And then, I know you talked to normalized cash flow, it sounded like of $100 million or just, maybe what would be more one-time or how those things will be going forward, just to make it a little bit easier because it is very confusing for us to understand not in the company, so that's just the comment question. And then, the real question I just wanted to ask was, just on the G&A in the quarter year-over-year, year ago was $19 million, this year was $27 million. Was there anything special in that $27 million?

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

A

Yeah. Probably the biggest increase there year-over-year, if you remember back to our 2011 results, we kind of finished from a performance operating results at the low end of where we thought we'd come out. This year we

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obviously did better than we had originally – and as a result that impacted bonuses,. So last year a big component of all management bonuses is based around the operating results of the company. So last year bonuses were lower and we probably actually, in the fourth quarter last year given where the results came out, had less accrual or benefit reversal of probably some earlier accruals in the year going one way and then in the fourth quarter of this year, we had higher accruals. So net-net, that's probably about $5 million of the change year-over-year and it's really driven to the variability of the results of the business.

And then the other piece is really just higher costs, if you will, related to just being a standalone public company and all the things we've had to stand up and that's kind of burned the run rate. The good news is, we've talked about we've got all these initiatives going forward to continue to drive those costs down longer term, but in the near term, until we get some of those savings in there, they're going to be a little bit higher.

And we'll look into providing a little bit more detail, Eli, to your first comment. The one thing, and I think we've talked about this, Eli, in the next year or two, yeah, there are some puts and takes because of the spin items. But as we've talked about on a longer term basis when you think about our cash flow, free cash flow that we can generate, it should on a more normalized basis, really it'd be your adjusted EBITDA less cash taxes and then we always have a small amount each year of maybe $15 million or so for investment back into ancillary businesses, sales centers, things like that. And over time, as we've talked about, the benefit of things or the timing of inventory spend, things like that will kind of match each other. So it'll take a year or two as we work through some of the timing on the Marriott Rewards and the cash tax stuff, but on a longer term basis, that will kind of take care of itself.

Eli Hackel Q
Analyst, Goldman Sachs & Co.

No, no, understood but just trying to discern between the difference between cash taxes, what they're going to be last year versus this year and going forward. So, because if you could separate what is sort of one-time, meaning the next year or two, and then what is maybe one or two years beyond that, I think it will be hugely, hugely helpful, so.

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

That's good feedback, Eli. We'll make every effort to do that.

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

And the other thing is that, and I mean, I think you're aware of this. We don't have in those cash flow numbers anything on dispositions.

Eli Hackel Q
Analyst, Goldman Sachs & Co.

Right.

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

We're going to have to make some more progress against that year in the near term, but that would be upside in terms of just overall additional cash.

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Eli Hackel
Analyst, Goldman Sachs & Co.

Q

Right. Understood. Okay. Thank you very much.

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

A

Yes.

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

A

Thank you.

Operator: Thank you. The next question comes from Christopher Agnew from MKM Partners. Please go ahead.

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

A

Hi, Chris.

Christopher Agnew
Analyst, MKM Partners LLC

Q

Thanks very much. Good morning. Stephen, just on your comments about capital allocation and you said your first priority was to add investments in self-distribution and inventory, and also look at acquisitions of existing timeshare. I just wonder, can you outline what sort of pipeline currently is for those sort of acquisitions or additions? And also on the inventory front, are you looking to add completed inventory? I'm just wondering, to put it in context, I know you have identified this excess land, has there been any change to your outlook on what - your needs for I guess new development?

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

A

Yeah, those are great questions, Chris. Let me kind of take them in pieces. We have a very extensive pipeline report looking at various and sundry development opportunities in places where we don't have a presence today. The criteria that we have used all along is, when we get into a market, we want to make sure it comes with an onsite sales distribution. I would be the first to tell you that there are a number of very active negotiations and discussions going on in that area, but we're just not at a point to be able to disclose that to you at this point in time just given where those various things are.

With that in mind, the intent would be whenever possible to do it on an asset light approach, whereas either you buy completed inventory or you work with another party to sell completed inventory over time, et cetera, where it takes some of the development risk out and quite frankly it helps the – in the whole return on invested capital calculation.

And then as it relates to your question about dispositions, we haven't really changed our point of view about dispositions that we've articulated in that $150 million to $200 million range. The reason why those exist on our list of possible dispositions is because we just don't believe we're going to need that inventory in the foreseeable future to be able to develop. Obviously, if the economy became supercharged and sales went up in a very material

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way that we'll constantly be reevaluating that, but that does not in any way impact the fact that we've already got these properties listed and we're in very active negotiations with several parties about some of the dispositions.

Christopher Agnew
Analyst, MKM Partners LLC

Q

Got you. Thank you. And then on the acquisition of existing timeshare businesses?

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

A

Yeah.

Christopher Agnew
Analyst, MKM Partners LLC

Q

Are these like sort of tuck-in property management opportunities you're looking at or are there larger opportunities and I know it's – you've reflected maybe in the past as a longer-term opportunity, I don't know if you can give us any sort of sense of timescale?

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

A

Yeah, you probably would think about us, an analogy I would use is we're kind of like a duck. On the surface, we look like we're nice and calm, and down below the surface we're paddling pretty hard. And that is in both the management space as well as looking at other potential acquisitions of existing timeshare companies in their entirety. Again, as you might imagine, given the way those kinds of discussions progress, et cetera, we would not be in a position today to share anything with you. But you can rest assure that if we do make something happen in those spaces, you will be one of the first to know.

Christopher Agnew
Analyst, MKM Partners LLC

Q

Okay, thanks. And then last question just on Europe. Can you touch on how do you feel the pace of sell-throughs going there and any change or uptick?

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

A

No material change. We believe that we will be out of developer sales there in the next two years and we will still have a very attractive management business in place and we will continue to provide great vacations to our European owners. What we did do, I think we disclosed this in our third quarter call, if I'm not mistaken, we did put a points overlay, made that available to our European owners, and that's gotten a number of people interested, and they've signed up where they can in fact instead of using a full week, much as the same as our legacy North America owners, they can convert their week of use to points and use that across the system.

But I think I know where you're headed with the question is, given the kind of the uncertainties of the European economies, we have not seen a material change from what we've been in the last several quarters.

Christopher Agnew
Analyst, MKM Partners LLC

Q

Excellent. Thank you.

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

A

Thank you.

Operator: There appear to be no further questions. Please continue.

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

Okay. Well, as you've heard, we are very pleased with our performance in the fourth quarter and throughout 2012, and we look forward to reporting on our progress in 2013. Thank you again for your participation on our call today and your continued interest in Marriott Vacations Worldwide. And finally, to everyone on the call and your families, enjoy your next vacation. Take care.

Operator: Thank you. This concludes the Marriott Vacations Worldwide fourth quarter and fiscal year 2012 earnings conference call. Thank you for participating. You may now disconnect.

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