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# Marriott Vacations Worldwide Corp. (VAC)

Q3 2016 Earnings Call

#### CORPORATE PARTICIPANTS

#### Jeff Hansen

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#### Stephen P. Weisz

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#### OTHER PARTICIPANTS

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#### MANAGEMENT DISCUSSION SECTION

**Operator**: Greetings and welcome to Marriott Vacations Worldwide Third Quarter 2016 Earnings 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] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host for today's call Jeff Hansen, Vice President, Investor Relations. Thank you. You may begin.

#### Jeff Hansen

Vice President-Investor Relations, Marriott Vacations Worldwide Corp.

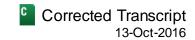
Thank you, Rob. And welcome everyone to the Marriott Vacations Worldwide third quarter 2016 earnings conference call. I am joined today by Steve Weisz, President and CEO, and John Geller, Executive Vice President and CFO.

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, October 13, 2016, 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 ir.mvwc.com.

I will now turn the call 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 third quarter earnings call. This morning, I'll discuss our third quarter performance as well as our contract sales growth for the remainder of this year. I'll then turn the call over to John to provide a more detailed look at our third quarter results, as well as our outlook for the fourth quarter, before we open the call to your questions.

But first, let me take a moment to address Hurricane Matthew, which has taken a heavy toll on the southeastern coast of the United States. My heart goes out to the victims of this powerful storm, and we're hopeful that its impacts will subside as soon as possible for those affected from Miami to the hardest hit Carolinas. As it pertains to our operations, ensuring the safety of our owners, guests and associates has been our top priority. Fortunately, our resorts on the east coast of Florida were reopened over the weekend, sustaining minimal damage and have begun their efforts to get back to normal operations.

Further to the north into the Carolinas, we have still not been able to reopen our properties in Hilton Head and Myrtle Beach. I'm very pleased to say that there are no injuries to report, but we have been closed there since the storm and are still ascertaining the extent of any damage. Presumably, there's nothing that can't be fixed and we can be back to full operations in short order.

Now turning to our business results. Third quarter company contract sales were \$169.8 million, up \$10 million or 6.3% over the third quarter of last year. This was driven primarily by our North America segment with a 9.1% increase in tours, offset partially by a 1.7% decrease in VPG to \$3,371. In our growth segments of North America and Asia Pacific, contract sales grew 8.3% quarter-over-quarter.

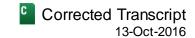
While our contract sales growth was short of what we laid out on our last call, it's important to remember that we are in the early stages of a longer term growth strategy, and the fundamentals that drove our growth this quarter continue to provide the foundation for growth in the coming year. Last quarter, we discussed two major initiatives that are driving our growth strategy. The first being tours from new marketing programs, namely, our call transfer and universal Encore programs and secondly, new sales distributions at our six new locations opening this year.

In addition, we had expectations that the headwinds we faced in our Latin American channels would begin to subside. So let me walk you through our progress on each one. Beginning in our Latin American channels, contract sales were down slightly. While it was our best year-over-year performance in over a year, it was just short of our expectations. While we saw growth in sales from our in-region broker network, sales in Orlando continue to be impacted by travel from Brazil and other Latin American regions. Going forward, we believe the positive year-over-year trends will continue, and we will get back to more normalized sales growth.

Looking at our new marketing programs, the activated tours from these programs arrived as expected in the quarter, contributing over \$8 million or five points of our contract sales growth. However, while the tour growth in the quarter was strong and drove solid incremental volume, the total contract sales volumes from these programs were somewhat below our expectations due primarily to lower VPGs. It is important to note, however, the VPGs of these new programs was over \$4,000 in the quarter, well above our average in North America.

As always, we are focused on optimizing VPG as our tour mix shifts, while we drive contract sales and EBITDA growth. Now, let me spend a few moments walking through each of our new sales centers as together these new locations contributed almost \$6 million of contract sales with almost four points of our growth, in line with our expectations for the quarter. We opened our permanent sales center in Washington DC in the beginning of the

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third quarter and are excited about what we have seen from our sales team in the early stages of its growth. At about the same time, we opened our on-site sales center in New York and couldn't be happier with what we've seen in the short time it has been operating.

We anticipate opening the larger additional New York sales center nearby early next year and have high expectations for the sales it will produce well into the future. In mid-July, we opened our sales center in San Diego located in our property adjacent to the Gaslamp District. Like DC and New York, early indications are very positive as our San Diego team is off to a great start at this terrific location.

In the early part of September, we announced the opening of our sales location at the Waikoloa Marriott. This fantastic destination is just beginning to ramp up, and while not benefiting our third quarter, is expected to be another solid driver of future contract sales growth as the hotel completes its renovation in January and our 112 units open for occupancy early in the second quarter of next year.

In South Beach, we are continuing the renovation of the common areas and units on Ocean Drive, and expect to open the nearby sales center at the end of this year. And finally, in Surfers Paradise, Australia, contract sales growth continues to build. As we move into high season for travel in this region, we are confident this location will drive continued improvement in the fourth quarter and into 2017.

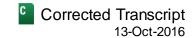
I'm very pleased with how these new sales locations have started, primarily due to the strong VPG from our new sites in North America, which at over \$3,100 is close to our North America third quarter average in just their first quarter of sales. This performance gives me great confidence that our future growth strategy has a solid foundation from the five sites currently open, South Beach opening at the end of this year and Bali in 2017. In addition, we are continuously searching for the next great location to grow our system of resorts.

Now let me take a moment to discuss what Marriott International's completed merger with Starwood Hotels and Resorts means to us. Marriott International continue to maintain its Marriott Rewards program separate from the Starwood Preferred Guest program. While it will be able to integrate certain aspects of the programs, Marriott International will maintain separate member list for vacation ownership marketing, and we continue to have our exclusive rights to market to Marriott Rewards members, the exception being those customers who going forward either already were or in the future become Starwood Preferred Guest members and then later join Marriott Rewards.

We've also continued to have our exclusive rights with respect to the reservation systems, websites, and call centers that support Marriott branded properties, as Marriott will continue to operate those separately from those used for Starwood properties. Another key benefit to us is our increased access to Silver, Gold, and Platinum Marriott Reward Elite status upgrades, which will allow us to enhance the owner recognition level benefits that we provide to our owners. We look forward to continuing a long and prosperous relationship with Marriott International, now the world's largest and best hotel company.

Turning to our contract sales guidance, we expect to generate roughly 4% growth for the full year, the lower end of our initial guidance of 4% to 8%. Obviously, Hurricane Matthews has affected our sales operations at several locations from mandatory evacuations, shutdowns, and cancellations this past week. It is too early to know exactly what impact Matthew has had primarily at our Hilton Head and Myrtle Beach locations. However, we are focused on getting back up to speed as quickly and safely as possible and on minimizing Matthew's impacts to our contract sales and rental performance in the fourth quarter.

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Now let me focus on our contract sales outlook for the remainder of the year. In the third quarter, Asia Pacific and North America grew by over 8%, driven by new marketing channels and a strong start from our new sales locations. And we are continuing to see acceleration in year-over-year contract sales in the fourth quarter, as quarter-to-date contract sales are up double digits over last year.

Based on this, we would expect the contract sales growth percentage in the fourth quarter to be in the mid-teens. The two significant drivers of this growth continue to be our new marketing programs and new sales distributions. To that end, we expect our new marketing programs to contribute six points to seven points of growth in the fourth quarter, building on nearly five points of growth in the third quarter. And our new sales centers, which you'll recall contributed nearly four points of growth in the third quarter, are continuing to ramp up with expectations of another six points to seven points of our fourth quarter growth.

In addition, we expect our Latin America and in-house channels to provide several points of additional growth to achieve our fourth quarter goal. All of this points to a solid trend through the end of the year, as we are well on our way to the long-term contract sales growth we've been discussing throughout the year.

With that, I'll turn the call over to John to provide a more detailed look at our third quarter results and outlook for the fourth quarter. John?

#### John E. Geller, Jr.

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

Thank you, Steve. And good morning, everyone. Adjusted EBITDA totaled \$50.6 million, \$4.1 million lower than the third quarter of 2015. While these results are not adjusted for the timing of revenue reportability, it is important to highlight that our adjusted EBITDA was unfavorably impacted by \$12.4 million of revenue reportability in the third quarter of 2016, a majority of which we expect will be recognized in the fourth quarter.

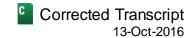
Adjusting both years for the timing of revenue reportability, adjusted EBITDA would have been nearly \$63 million in the third quarter of 2016, a \$1.3 million or 2% increase from the third quarter of 2015. For the quarter, company contract sales were up 6.3% or \$10.1 million. In our key North America and Asia Pacific segments, contract sales were up 8.3% or \$12.5 million. However, this growth was offset by \$2.4 million of lower sales in our Europe segment as we continue to sell through our remaining developer inventory.

Company adjusted development margin was 19.7%. In North America, adjusted development margin was 22%. Resort management and other services margin improved \$3.7 million or nearly 14% as compared to last year. And financing margin outperformed the prior year by \$1.3 million or 8%. In our North America segment, adjusted development margin decreased \$1.4 million to \$29.2 million in the third quarter, and adjusted development margin percentage was 22%, down 1.1 points from the prior year quarter.

While adjusted development margin was down year-over-year, it did reflect the improvement of \$4.2 million from the lower product cost, primarily from continued success of our inventory repurchase program and \$1.9 million from higher contract sales volumes in the quarter. However, that improvement was more than offset by \$3.9 million from higher sales reserve activity, of which roughly half of that increase related to higher financing propensity levels, and half was due to higher default activity associated with our Latin American customers; \$2.3 million from higher marketing and sales costs, related to the ramp-up of new sales distributions; and \$1.3 million from higher plus points issued.

It is important to understand, however, that the majority of these higher costs are expected to provide benefit to us in the future. The higher sales reserve activity, which driven in part by 18% increase in financing propensity on

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higher contract sales, which we expect will drive stronger financing profits in the future. The ramp-up costs associated with the new sales distributions, not only drove sales growth for us in this quarter, but will continue to drive incremental sales for us in the future.

And the plus points will eventually become rental revenues when these points are utilized. In our financing business, revenues net of related expenses was \$18.9 million or up \$1.3 million or almost 8% from the third quarter of last year. The program we launched last summer to help drive financing propensity has continued to be successful with our North America propensity, up nearly 10 percentage points to over 62% in the third quarter.

With these higher financing propensity levels, as well as targeted increases in contract sales in the fourth quarter, we expect significant year-over-year growth from this business for the full year 2016. And our purchasers remain very creditworthy as the average FICO score grew seven points to 740 for the third quarter of this year. During the third quarter, we also successfully completed a \$259 million notes receivable securitization at an interest rate of 2.28% and a 96.5% advance rate. This transaction generated \$250 million of gross proceeds, of which \$50 million was released from restricted cash in the fourth quarter as the remaining notes were sold in accordance with the terms of the securitization.

Turning to our rental business. Total company rental revenues were \$73.8 million, \$2.3 million below the prior year. This reflected \$2.7 million of lower revenue at our San Diego property during its conversion to vacation ownership inventory and from the portion of our hotel in Australia that we disposed of earlier this year.

In addition, we experienced lower plus points revenues and a 2% decrease in average transient rate. These decreases were partially offset by an increase in preview keys and a 3% increase in transient keys rented. Rental revenues net of expenses were \$12.8 million, down \$700,000 from the prior year.

In our resort management and other services business, company results improved \$3.7 million or nearly 14% to \$30.1 million in the quarter. Results reflected higher fees for managing our portfolio of resorts, improved exchange company activity and higher customer services margin.

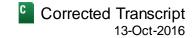
In our Asia Pacific segment, contract sales improved \$4.3 million or 62% quarter-over-quarter, driven by both improved performance at our existing sales locations, as well as the continued ramp-up in sales from our new location in Australia. Total adjusted segment results were up \$700,000 from the prior year, driven mainly by improved results in our development and rental business.

Turning to our return of capital to shareholders, year-to-date through the end of the third quarter, we have repurchased 2.8 million shares, roughly 10% of our shares outstanding for \$163.4 million and paid quarterly dividends, totaling \$26.1 million. We did not repurchase any shares during the third quarter given the accelerated share repurchase agreement we entered into at the end of the second quarter, which effectively accelerated third quarter repurchase activity.

Moving to our balance sheet, at the end of the quarter, cash-and-cash equivalents totaled \$175 million. Our total debt outstanding at the end of the quarter totaled \$815 million consisting of approximately \$807 million of non-recourse debt associated with our securitized notes. In addition, \$40 million of mandatorily redeemable preferred stock remains outstanding, which we plan to redeem later this month.

Now, let me turn to our adjusted EBITDA for the fourth quarter and the outlook for the remainder of the year. As you just heard, we have lowered our contract sales guidance to adjust for our third quarter growth. In conjunction with that, we are lowering the high-end of our adjusted EBITDA guidance to \$266 million for a new full-year

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adjusted EBITDA guidance range of \$261 million to \$266 million. Our adjusted EBITDA in the fourth quarter is expected to be at least \$95 million, a \$22 million increase from the fourth quarter of 2015.

So let me take a moment to provide some color around how we expect to accomplish this. First, our development business is projected to increase between \$10 million and \$14 million year-over-year with the projected contract sales growth in the fourth quarter and the turnaround of unfavorable revenue reportability from the third quarter. Resort management and other services is projected to provide \$4 million to \$6 million of adjusted EBITDA growth.

Our financing business should provide \$2 million to \$4 million of adjusted EBITDA growth on the increasing contract sales and strong propensity levels. We expect our rental business to outperform the prior year. And lastly, our fourth quarter adjusted EBITDA should benefit from lower G&A costs relative to 2015.

While we did not change the lower end of the adjusted EBITDA guidance range, we have increased the low end of our adjusted net income range by \$3 million to \$129 million, mainly reflecting a lower effective tax rate for the year. Our adjusted EPS guidance range has been updated accordingly to \$4.55 to \$4.65 per share, representing 24% growth over 2015 at the midpoint of the range. This highlights the strength of our capital efficient business model, which allows us to grow and programmatically return capital to drive EPS growth.

Turning to free cash flow. We continue to focus on maximizing our free cash flow and are raising our guidance from \$135 million to \$155 million to a range of \$145 million to \$160 million. As we always do, we'll continue to evaluate all of our capital needs with the intent of deferring spending, wherever appropriate.

In summary, we are proud of the 8.3% sales growth we achieved in North America and Asia Pacific. As we begin the fourth quarter, we are excited about the positive trends that position us to deliver our best quarter as a public company. I look forward to ending the year strong and discussing our performance and our outlook for 2017 on our next call.

As always, we appreciate your interest in Marriott Vacations Worldwide. And with that, we'll open up the call for Q&A. Rob?

#### QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from Patrick Scholes with SunTrust Robinson Humphrey. Please proceed with your question.

Stephen P. Weisz

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

Good morning, Patrick.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

A couple of questions here. In your guidance here, you're taking it down to the low end for the sales growth and you had briefly mentioned possibly Hilton Head and Myrtle Beach impacting that. But can you give a little more specific on what locations do you think are taking that range down? Certainly, we've heard that not – maybe not you folks, but New York in general has been not quite as strong as one might have earlier anticipated.

Stephen P. Weisz

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

Well, sure. Thank you for the question. There are two things. Number one, the lower end of the guidance of around 4% really reflects what we think the fourth quarter will produce, which I think we said in our prepared remarks should be in the mid-teens of contract sales growth, and just doing the arithmetic for where we were as of the end of the third quarter, that's how you get to the lower end of the 4%.

The only two sites that are currently impacted by the storm of Matthew are our sales center on Hilton Head and on Myrtle Beach. Our current understanding is that there is a chance that Myrtle Beach will open by this weekend, but more than likely not because of physical or structural damage, but because there are other infrastructure problems on the island, it may be towards the middle to the end of next week before Hilton Head is up and operational again.

Regarding to your specific question about New York, we've not seen any downside in our sales activity there. And in fact to the contrary, we're very pleased with what we see thus far, and we look forward to actually getting our larger sales center open up in the first quarter.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Let me just follow up on that, and I apologize if I'm being redundant here. When you first had that 8%, now you're 4%, can you cite any specific locations that make it 4% instead of 8% right now?

Stephen P. Weisz

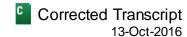
President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Well, again, our initial guidance at the beginning of the year was 4% to 8%.

### Marriott Vacations Worldwide Corp. (VAC) Corrected Transcript Q3 2016 Earnings Call 13-Oct-2016 Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc. Right. Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. We didn't say 8%. We said 4% to 8%. Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc. Got you. Okay. Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. If you took the midpoint of that at 6%, now at 4%, we're down a couple of points. In previous calls, we've talked about the surprise to us that took place in the first quarter, where there was a meaningful decline in our owner reload activity, largely because we have such a strong first quarter in 2015 from owner reloads. And so really the only difference in our opinion is this roughly two points drop from the midpoint and that's as a result of the third quarter. Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc. Okay. Next question. With Hilton Head and Myrtle Beach being closed, do you have any type of business disruption insurance that might cover any type of shortfall there, and if so what is the deductable on that? John E. Geller, Jr. Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp. Sure. Hey, Patrick. It's John. Yeah, we do obviously have business interruption insurance. The deductable for the storm and you have to look at it in terms of all the projects together, is \$10 million. Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc. Okay. John E. Geller, Jr. Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp. And so we're working on what the impact's going to be, but that covers everything from the COAs and the onsite locations in our properties as well as marketing and sales disruptions, and so we're still kind of penciling what all that's going to be and we'll know more here and update you here in the fourth guarter. Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc.

Okay. But in a nutshell, to make sure I understand, you are on the hook basically for the first \$10 million, correct?

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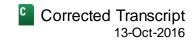


John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.	A
That's correct.	
Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc.	Q
Okay. Moving on, two more questions. Latin American defaults, what percentage of your loans are Latin American customers?	outstanding today
John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.  Let me see if we can	A
Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc.	Q
Ballpark.	
John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.	A
Ballpark. The number here probably about 12%, 15%.	
Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc. Okay.	Q
John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.	A
So under 15%, but I think it's slightly higher than 10%.	
Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc.	Q
Okay. And the ones that are defaulting, what was sort of the average age of the loan outstanding that – that you would have seen increase in default?	ng, where these
John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.	A

Yeah. Let me give you a little color here, just on – yeah, it's clearly – yeah, as we've talked about in prior calls, you had the foreign currency declines against the U.S. dollar, which occurred call it early third quarter of last year. For the most part, I think we see the higher default activity really over the last year, so not surprisingly is related to the loans that were originated, not too far before that, and so had the least amount of payments if you will against those loans. It's not across the board that way, but generally.

The good news is, based on where we are at here at the end of the third quarter is the overall Latin delinquencies are back in line with call it June of last year. So we think we've seen the bulk of those defaults move through the

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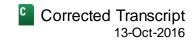


pipeline, if you will, as we've gotten back. Yeah, we could see some impact a little bit in the fourth quarter, we expected to be significantly less than the \$3 million or so impact we saw here in the third quarter.

The other point I'll highlight is if you pull the Latin out with the much higher financing propensity, our defaults on the rest of the North America or 85%-plus of the loans are actually basically flat. So we've seen defaults actually on a percentage basis less on the other 85% of the loans. Our portfolio is performing outstanding and you hate to say it couldn't get better, but we haven't seen it much better in terms of performance. So I think the Latin is probably behind this year as we move through the fourth quarter, but we could see a little bit of impact.

Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc.	Q
Okay. Thank you. Last question here, somewhat released recently, obviously, Wyndham and Diamond have bee vocal about seeing a uptick in third-party induced defaults. Have you seen any similar activity for your brands?	
John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.	A
No. No, we haven't.	
Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc.	Q
Okay. Fair enough. Thank you very much.	
Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.	A
Thanks, Patrick.	
Operator: Our next question comes from Benjamin Chaiken with Credit Suiss question.	se. Please proceed with your
Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.	A
Good morning, Ben.	
Benjamin Chaiken Vice President, Equity Research, Credit Suisse	Q
Hey, everyone.	
John E. Geller, Jr.  Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp.	A
Good morning.	
Benjamin Chaiken Vice President, Equity Research, Credit Suisse	Q

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When looking at 4Q, it sounds like there is two variables for the lower guidance, you have lower VPG coming from the Call Transfer and Encore, then the impact of the hurricane. How would you rank those two? And then any color on what is driving the lower VPG?

Stephen P. Weisz

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

A

Well, a couple of things. Keep in mind as I said in my remarks, the combination of the call transfer and universal Encore still ran a VPG of over \$4,000, which is well above our system average. The fact of the matter is one of the reasons why the third quarter VPG number came in a little less than we thought it was going to be, while as we actually expected that \$4,000 number to be even little higher.

With that said, it's largely a function of how we think about the tour mix shifting over the course of any given period of time. So give you a little perspective. So tours from new tour channels were up about 3,300 tours in total. And 2,000 of those were first-time buyers. So it takes a little while for the sales team to go through the adjustment period of who they're seeing in terms of taking tours.

We think for the most part that education and that shift of the way the sales force performs has already taken place in the third quarter. So again, I go back to what I said to Patrick in his question, the 4% number is largely arithmetic. You take where we are through three quarters and you add to it mid-teens contract sales growth in the fourth quarter, that's where you get to the roughly 4% growth.

The reason why we are a little bit – why we say roughly is, we don't know the impact directly from what's happening in the closure of our sales centers and the closure of our resorts on Hilton Head and Myrtle Beach. So that's probably the most uncertain thing to us right now. I believe the way in which the new marketing programs and the new sales centers are performing is far more certain to us.

John E. Geller, Jr.

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

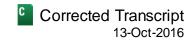


Yeah. Just a little bit more color – because this is the second question on kind of what's changed. Quite frankly, our outlook for the fourth quarter hasn't changed from where we were from the third quarter of last year. So we haven't necessarily taken down. I think what, yeah, Steve articulated here is really the ramp-up that coming into the third quarter, we were seeing it, it just ramped a little bit slower. We discussed why a little bit on lower VPGs on the call transfer and Encore programs.

Latin probably cost us. We thought that might give us about a point of growth, and it was basically flat down slightly. So those were the couple of percentage points, say, really kind of hurt us from the ramp. But as Steve also mentioned in his prepared remarks, what we'd actually seen here since we started the fourth quarter is, we're on track for what we expect to do and that hasn't, like I said, changed from where we were last quarter. We got double-digit growth year-over-year, as first month in here, the little bit of the wildcard and is really that final impact on the hurricane. So we're doing our best to try and mitigate some of that, but we'll know more, but we feel great about where we're at in the ramping.

And quite frankly, going into next year, we've got the foundation in place with these programs. The pipeline of tours on those key marketing programs continues to build, so that bodes well going into next year. And the new sales centers that we're talking about opening up that we didn't get the benefit here in the third quarter, as we knew, from the opening of Waikoloa, but we'll start to get that, Miami, at the end of the year, the larger sales center in New York going into next year. So, yeah, the good news is those are all doing great and we expect that to build here as we move into next year.

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#### Benjamin Chaiken

Vice President, Equity Research, Credit Suisse

Got it. It's helpful. Just to clarify two things. So with the customer base shifting a little bit with Encore and call transfer, to your comment, are you implying that the close rate with those customers was just slightly lower than what you were expecting? And then, the second part of that clarification is, are you saying that your expectations for 4Q are the same today as they were when you finished - when you were going into 3Q, is that what you're

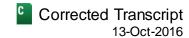
saying? Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. John E. Geller, Jr. Executive Vice President and Chief Financial Officer, Marriott Vacations Worldwide Corp. High level, yeah. Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. At a level high, yes. And the close rate, again, it's not [indiscernible] (33:36). I remind everybody on the call that 1.7% drop in VPG is roughly \$50. It's not a huge issue. But clearly, they didn't perform guite as well as we thought they were; however, they still average over \$4,000 in VPG. Benjamin Chaiken Vice President, Equity Research, Credit Suisse Got it. But it sounds like that's correcting itself... Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. Yes. Benjamin Chaiken Vice President, Equity Research, Credit Suisse [ph] Filling in. (33:58) Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. Yeah. So far, as John mentioned, I mean we've already got one accounting period of results for the fourth quarter in the bank. And we have seen those contract sales numbers and VPGs to be very reflective of what we're projecting to be in the fourth quarter.

## Benjamin Chaiken

Vice President, Equity Research, Credit Suisse

Okay. Awesome. Thank you.

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

Thank you.

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

Stephen P. Weisz

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

Hi. David.

David Katz

Analyst, Telsey Advisory Group LLC

Hi. Good morning, everyone. I think it would be helpful if you could just explain a little more about the reportability. And specifically, as I look at the page A-7 in the release where you have one of your reconciliations and a footnote about the lack of required down payment or contract sales, I think it'd be helpful if we just got a little more color on exactly what was in there and how this occurred and how it slides into the back half.

John E. Geller, Jr.

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

Sure.

David Katz

Analyst, Telsey Advisory Group LLC

Please.

John E. Geller, Jr.

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

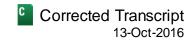
Yeah. Hey, David. It's John. So, for us revenue reportability quarter-to-quarter, it's one of the reasons we don't provide quarterly guidance, quite frankly, because the GAAP accounting requires that you collect a 10% down payment. And it's not just 10% of the purchase price. It includes things like recovering the value of First Day Benefit, closing costs on your loan, and things like that. So we're always adjusting incentive programs, things like that throughout the year.

Our focus and what we've done every year is, from a full year perspective, we adjust the programs and the down payment requirements, so that on a full year basis, the reportability really isn't much impact, but given whatever programs we're running, higher financing propensity like we saw in the third quarter, that's where you see you can have some outsized impact. So what do we do? Like we did – and this was an issue, if you will, in terms of reportability in the third quarter of last year, we had similar things.

We had introduced some new financing incentives back then. We had higher financing propensity. We tweaked the amount of the down payment to get a little bit more, and we've already put that in place here for fourth quarter sales. So what ends up happening is, we get a couple of the payments on the sales in the third quarter on the loans, we hit the reportability, that hits – we get the benefit of that here in the fourth quarter.

And then the new sales that we're doing with slightly higher down payments to reflect the incentives and the financing propensity levels, those should for the most part hit reportability in the fourth guarter. They won't get

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pushed out to next year. And that's how you kind of think about it. But reportability impacts us quarter-to-quarter, but it can impact us slightly more or less and then we adjust for that to balance it out.

Stephen P. Weisz

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

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Hey, David. This is Steve.

David Katz

Analyst, Telsey Advisory Group LLC

Okay. Yeah.

Stephen P. Weisz

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

Δ

I'd add one more thing to that and just a remainder of it, the way in which timeshare accounting works, you record the sales cost except for a small amount of the commission expense at the time of the contract sale is written, and so you have — there is a disconnect built in to the way in which GAAP works. That you have the sales and marketing cost mismatch from the revenues, so we have a disproportionate amount of sales and marketing cost in the third quarter, not matched up to reportable revenues, which will show up in the fourth quarter.

David Katz

Analyst, Telsey Advisory Group LLC

Understood. So, just putting that in the context of what appears to be pretty high confidence, that the fourth quarter is going to stack up well irrespective of storm impact. And some of Steve's comments about this fourth quarter setting up the way you anticipated almost a year ago, I assume baked into all of that expectation was some of this reportability, fluidity for a lack of a better word, was contemplated in there. In other words, there is no fundamental change in what you were looking for in the fourth quarter, going back as far as you've discussed it. Is that a fair statement?

Stephen P. Weisz

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

Yeah. I think in general that's correct, with one minor modification. Our financing propensity is actually running even higher than we thought it was going to. That's good news over the long term because obviously you get financing revenues for a long time to come out of all this. It does affect your reportability. So yes, I would say to you, we probably have more reportability in the fourth quarter than we originally thought we were going to have, but all the other underlying fundamentals that we've talked about in terms of building this contract sales volume and everything else has remained relatively unchanged.

David Katz

Analyst, Telsey Advisory Group LLC

Very good. Thanks very much.

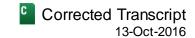
Stephen P. Weisz

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

Thank you.

Operator: At this time, I'd like to turn the call back to Steve Weisz for closing comments.

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#### Stephen P. Weisz

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

Thanks very much, Rob. The third quarter was our best quarter of contract sales growth in over a year, as contract sales growth in our key North America and Asia Pacific segments were up 8% on strong tour flow from new distributions and new marketing channels. Even more positive, as we enter the fourth quarter, the current trend is on track for solid mid-teens growth to the end of the year, laying the foundation for contract sales growth going into 2017.

I look forward to updating you on our fourth quarter performance and our outlook for 2017 on our February call. And finally, to everyone on the call and your families, enjoy your next vacation. Thank you.

**Operator**: This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.

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