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Marriott Vacations Worldwide Corp. (VAC)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Marriott Vacations Worldwide First Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow this formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Mr. Jeff Hansen, Vice President, Investor Relations. Thank you. You may begin.

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

Thank you, Rob. Welcome to the Marriott Vacations Worldwide first quarter 2018 earnings 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 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, May 3, 2018, 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.

Stephen P. Weisz

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

Thanks, Jeff. Good morning, everyone, and thank you for joining our first quarter earnings call. Earlier this week, we announced that we have agreed to acquire ILG, a leading provider of premier vacation experiences with over 40 properties and more than 250,000 owners and its Vistana Signature Experiences and Hyatt Vacation Ownership portfolios. This is in addition to their world-class exchange networks that comprise nearly 2 million members and over 3,200 resorts worldwide. We are excited about this transaction and are turning our attention to integration planning in advance of the closing, which we are targeting for the end of the third quarter this year.

We'll offer some more comments on this transaction shortly. But first, I'll walk through our performance in the first quarter and our expectations for the full year. John will then provide a more detailed look at our performance including continued color on the recent revenue recognition changes, which went into effect at the beginning of the year. And as a reminder, we have restated our prior year results to incorporate these revenue recognition changes, which provides a more meaningful year-over-year comparison.

In the first quarter, company contract sales were $204 million, up 2% over the first quarter of last year and adjusted EBITDA was $63 million, up 17% over 2017. In North America, contract sales were up just over 2% as expected and VPG in the quarter was one of our best as a public company, improving to $3,728.

Additionally, tours of first-time buyers continued to grow, improving almost 5% over the first quarter of last year. As it relates to our contract sales performance, there were a couple of headwinds that we had anticipated in the quarter, which were impacting our growth early in the year. First in St. Thomas, our Vacation Club property remained closed until mid-February due to the continued impact from the hurricanes in 2017. And while the resort opened a small onsite sales center in the middle of the first quarter, the adjacent hotel which had previously housed our sales center is not expected to reopen until 2020. The lack of hotel linkage tours and the smaller onsite sales center will continue to impact our ability to generate sales delivering less than half the volume generated under normal operations.

Additionally, at the end of the quarter, we opened 116 new units on Marco Island adding incremental tour generation by more than doubling the size of the property. While we are pleased that this addition opened at the end of March after several months of delays, we estimate that these combined opening delays impacted our first quarter contract sales growth by more than 3 percentage points. Lastly, as relates to first quarter headwinds, it's important to note that with the change to our reporting calendar last year, the first quarter of 2018 had two less days equal to roughly 2 percentage points of negative impact. Excluding the impact of all of these headwinds, our contract sales growth would have been more than 6% in the quarter.

With that said, let me walk through a few items that will impact the cadence of sales growth as we move through the year starting with the impact of the 2017 hurricanes. As I mentioned, sales centers at the properties that continue to be impacted in the first quarter of 2018 are now open. And while St. Thomas is ramping back up without the linkage channel from the adjacent hotel, we expect to see additional contribution from these properties throughout the remainder of the year. And if you'll recall, the impact of the hurricanes had on our operations reached much farther than these two properties as it forced the closure of several sales centers ranging from the Caribbean throughout Florida and up to East Coast. In total, we estimate the hurricanes negatively impacted our contract sales performance in the second half of 2017 by more than $20 million. So as we lap this impact, the overall comparison to 2017 becomes somewhat easier.

As it relates to our key marketing channels, tour flow from our Encore and call transfer programs grew 8% over the same time last year. Even more importantly, at the end of the first quarter, our package pipeline from these tours is up 13% year-over-year, and activated tours with an anticipated 2018 arrival date are up over 12%. This is a very positive indicator of our ability to generate contract sales growth from these important channels as we move throughout the year.

With respect to hotel linkage agreement, we remain focused on adding new arrangements with Marriott and legacy Starwood branded hotels. To that end, I am happy to report that we've recently signed a linkage agreement at the 1,200-room Sheraton Hotel in San Diego and expect to have several more signed in other locations in the coming months, fueling our ability to drive incremental tour flow.

Lastly we expect to see continued growth from our sales distributions that have opened since 2016. In the first quarter, these new locations continued to sustain their growth trends almost doubling their contract sales volume from the first quarter of last year and continued to grow VPG up almost 2%. Most of these distributions are beginning in the second half of their three- to four-year maturation process, and for that reason, we expect this growth will continue as we move through the year.

Staying with our newest distributions, let me take a moment to talk about destinations we plan to have open in sales in the near term. In our Asia Pacific segment, we are looking forward to opening our Bali Sales Center later in the second quarter providing incremental sales growth. This new property combined with new tour generation from marketing channels across the Asia Pacific region should provide additional growth in the second half of the year. In North America, we are on track to open our next Marriott Vacation Club Pulse property in the Fisherman's Wharf district of San Francisco in the early part of 2019. As always, we continue to look to add new locations with strong sales potential to fuel our growth.

Last quarter, we laid out our expectations for full year contract sales growth targeting 7% to 12% over 2017. I'm very pleased to say that we continue to drive strong results through the execution of our sales strategy. The majority of the headwinds from the hurricanes are behind us and our newest sales centers continue to grow. And that we have new sales centers coming online soon which combined with a strong pipeline of tours already on the books for the remainder of the year and a second half comparison that is in our favor, we are reaffirming our guidance for 2018 contract sales growth of 7% to 12%.

I'd like to take just a moment to reflect on our ILG announcement. As I said, we are extremely excited about this transaction which will provide us with significantly enhanced marketing potential and opportunities to drive sales growth and shareholder value creation. We appreciate the positive response we've received from analysts and shareholders since we announced the transaction.

As we discussed on our conference call on Monday, when we combined with ILG, we will have seven upper upscale and luxury brands with over 100 vacation ownership properties around the world. Together, we will have access to 100 million members in the Marriott Rewards, Starwood Preferred Guest and Ritz-Carlton Rewards loyalty programs for our six Marriott vacation ownership brands and access to almost 10 million members in the World of Hyatt loyalty program to fuel the growth of the Hyatt Vacation Ownership business.

We have shared our expectations that we will achieve a minimum of $75 million in annual cost savings within the first two years. We view this as a realistic and achievable expectation, but do not plan to stop there as we believe we will be able to find significant operational efficiencies and revenue opportunities through our integration efforts.

Additionally, as we've mentioned, the transaction will be accretive to shareholders in the first full year following the close. To be clear, while we have not provided any estimate for the referenced revenue opportunities, we feel very strongly that they are substantial and in fact will prove to be one of the longer term benefits of this transaction. We see tremendous potential from the combination of the Marriott Vacation Club brands with Vistana Signature Experiences, not only from the additional linkage opportunities [indiscernible] (00:10:59) provide, but also from our ability to maximize tour generation from our call transfer program across their broader portfolio.

Additionally, while we are already optimistic about the future contract sales growth potential of the digital transfer opportunity we will begin soon with Marriott, the additional marketing opportunities of our combined company creates even more ability to generate incremental sales volume. Simply put, this transaction is strategically and financially compelling for many reasons.

In summary, we are excited about what we can achieve with ILG and we see this combination as a clear win for shareholders, owners and our associates.

Now, let me hand the call over to John to walk through a further detail on the revenue recognition changes and our first quarter results. John?

John E. Geller, Jr.

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

Thank you, Steve, and good morning everyone. I'm very pleased with our strong first quarter results. Adjusted EBITDA totaled $63 million, which is $9 million or 17% higher than the first quarter of 2017. As I mentioned on our last earnings call, we adopted the new revenue recognition accounting standard at the beginning of 2018. With the adoption of this new standard, we have restated our prior year financial information. To help you better understand the impact to the prior year, we have included additional schedules in our earnings release to reconcile restated information for each quarter in 2017 to our previously reported financial results.

As you may recall, one of the major changes from adopting this standard is the timing of when revenue from the sale of vacation ownership products gets recognized. Previously, we recognize this revenue when the contract was out of its statutory recession period and we had received a minimum 10% down payment. However, with the new guidance, we now defer revenue recognition until the contract is actually closed. We estimate that this change defers revenue previously recognized in the last 30 to 40 days of the quarter to the following quarter. Therefore, when we have higher contract sales in the last 30 to 40 days of a quarter than in a previous quarter, our results will be impacted by unfavorable revenue reportability. And this is exactly what we experienced in the first quarter of 2018 with our adjusted EBITDA being negatively impacted by roughly $8 million from the deferral of revenue.

Contract sales from the fourth quarter of 2017 that were recognized as revenue in this year's first quarter included sales between Thanksgiving and Christmas, a slower than normal sales period due to the season. However, the revenue being deferred out of the first quarter includes the spring break and Easter seasons which generate much higher contract sales. Again, this is simply timing in nature. Excluding the impact of this revenue reportability, adjusted EBITDA in the first quarter of 2018 would have been roughly $71 million.

In our development business, contract sales were up 2% to nearly $204 million in the first quarter, driven by a 2% increase in contract sales to $187 million in our North America segment. As Steve mentioned, the 2017 hurricanes continued to have a negative impact on our first quarter performance. Adjusting for the estimated impact as well as for the 2017 first quarter having two more days of sales due to our finance reporting calendar change last year, total company and North America contract sales would have grown by more than 6% and nearly 7% respectively.

Our development margin in the first quarter was $22 million, flat to the prior year. Adjusting for the impact of revenue reportability, adjusted devolvement margin was $30 million, down $2 million from the prior year and adjusted development margin percentage was 16% compared to 18% in the prior year. The margin decline in the quarter resulted primarily from higher marketing and sales costs driven by our increased investment in tour packages, the cost of which is expensed when incurred.

As Steve mentioned, compared to this time last year, we've grown our activated tour pipeline with 2018 arrivals by more than 12%, affecting our development margin today while driving future contract sales growth. With that said, we continue to expect total company development margin to be in excess of 20% for the full year 2018.

In our financing business, revenues increased $3 million or 10% to $35 million in the first quarter of 2018. Financing revenue, net of expenses and consumer financing interest expense, increased $2 million or 11%. This reflects a $4 million increase in interest income from our growing notes receivable balance, partially offset by additional costs from our financing incentive programs. Our notes receivable portfolio continues to perform very well. The average FICO score of buyers who financed with us in the quarter was 740 while delinquency rates remained near historic lows and financing propensity remained strong at nearly 62%.

In our rental business, rental revenues increased $7 million or 10% to $74 million. Rental revenues, net of expenses, were $18 million, up $4 million or 31% from the prior year. These results reflect a 3% increase in transient rate and a 2% increase in transient keys rented. Partially offsetting these favorable results was a 10% increase in preview room nights, as we continue to dedicate more rental inventory for tour package arrivals. With our growing tour package pipeline, this activity will continue to grow for the foreseeable future impacting rental margins while driving contract sales growth.

In our resort management and other services business, results improved $2 million or 8% to $32 million in the quarter. These results were driven by higher fees for managing our portfolio resorts as well as higher exchange company activity and ancillary results. G&A costs were up $2 million in the quarter reflecting higher litigation-related expenses and normal inflationary cost increases. Royalty fees were down $1 million from the first quarter of 2018, driven partially by a favorable mix of inventory sold as well as from a reduction in the fixed portion of the royalty fee resulting from the amendments to our license agreement with Marriott International in the first quarter of 2018.

As you may recall, we estimated the impact of the amended agreements with Marriott International to be a benefit of $11 million to $12 million for 2018, coming from lower royalty fees, reduced Marriott Reward (sic) [Rewards] (00:18:39) costs and increased co-marketing funds associated with Marriott International's credit card arrangements. With less than $3 million being recognized in the first quarter, the majority of the benefit will flow through our financial results throughout the remainder of the year.

Moving to our balance sheet, at the end of the quarter, cash and cash equivalents totaled $324 million. We also had approximately $267 million of gross vacation ownership notes receivable eligible for securitization and roughly $244 million in available debt capacity under our $250 million revolving credit facility.

Our total debt outstanding at the end of the quarter was roughly $1 billion consisting of $750 million associated with our non-recourse securitized notes receivable, $194 million associated with our convertible notes and $61 million related to a non-interest-bearing note payable in connection with our inventory acquisition in Waikoloa.

Now turning back to our outlook for 2018, as Steve mentioned, we began the year with continued headwinds from last year's hurricanes. However, our affected sites have reopened and are starting to ramp back up. Our newer sales centers continue to drive sales growth and our Bali Sales Center is opening soon. Taking these items into consideration as well as our rapidly growing tour pipeline, our expanding hotel linkage agreements and an easier year-over-year comparison in the second half of the year, we are reaffirming our full year 2018 guidance for contract sales growth of 7% to 12%.

With respect to adjusted EBITDA based on our full-year contract sales growth projections and the development margin expansion that we are expecting through the year and the realization of the remaining benefits from the amended Marriott agreements gives us confidence that we will generate adjusted EBITDA of between $310 million and $325 million.

Lastly, we expect to deliver $185 million to $215 million of adjusted free cash flow. As we've done in the past, we will continue to identify ways to maximize cash flow generation in 2018 by deferring spending to the extent possible.

We started the year with a solid first quarter. Our new sales centers continue to ramp up nicely. Our marketing programs are generating increased tour flow and our VPG has remained strong even with our continuing focus on growing first-time buyer tours. As a result, we feel confident 2018 will be a great year for us. As always, we appreciate your interest in Marriott Vacations Worldwide.

And with that, we will open up the call for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question is from Brian Dobson with Nomura. Please proceed with your question.

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

Good morning, Brian.

Brian H. Dobson
Analyst, Instinet LLC
Q

Hi. Good Morning.

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

Hey, good Morning.

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

Good morning.

Brian H. Dobson
Analyst, Instinet LLC

Q

So you outlined a few of the opportunities for revenue synergies. As you're thinking about those, which ones do you think you might tackle first offering the biggest opportunity? And what kind of timetable do you expect in terms of reviewing ILG and assessing best practices?

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

A

Thanks very much for the question. First of all, as you might imagine through due diligence, we were able to get through kind of the top level review, and we have some ideas along the way. I'll share some of those with you. As far as specific timing, we're still a little early on in that. But as you might imagine, we'll get to that as quickly as we possibly can post closing.

So here is a couple of obvious things, obviously linkage opportunities, which today we have an exclusivity on in the vacation ownership space. As soon as the businesses are combined, that exclusivity will now include everything under the Vistana Signature Experiences area, which really gives us exclusive marketing rights in the 15 of the Marriott lodging brands. If we think about call transfer, once again where we have an exclusive, we will certainly add the Westin and vacation locations from the VSE portfolio into the call transfer program.

And then the other thing that we're probably as excited, if not more excited, about the – rather than call transfer is the whole digital idea. Keep in mind what that is. This is essentially taking the digital analog to call transfer where people are calling into a reservation center to either make or change a reservation where we eventually see if we can speak with them about scheduling a tour which you now do it in the digital space where as you well know the Marriott website is one of the top 10 retail websites in the world as it exists today before you combine it with the Starwood platform, et cetera.

And so we think as more and more people transact with Marriott in a digital space that we'll get the benefit of that coming to us in terms of the effective – without a different word – the effectiveness of digital call transfer versus physical call transfer. So we see those things. I mean there are some other things that we see kind of right on the top of the line. We think we can actually have some influence to grow financing propensity between the businesses. We've had some great success in our portfolio by virtue of some of the things that we've done later. We think there are some ways in which we can continue to grow revenues that way. Those are just some examples. And obviously, we're going to continue to work hard on trying to quantify as much of this as we can between now and the time of closing which we hope to be at the, call it, end of September. But that's the approach we're going to take.

Brian H. Dobson
Analyst, Instinet LLC

Q

That's great. Thank you very much.

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

A

Thank you.

Operator: Our next question is from Patrick Scholes with SunTrust Robinson Humphrey. Please proceed with your question.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning.

....

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

A

Good morning.

....

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

A

Good morning, Patrick.

....

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

All right. Couple of questions here. I wonder if you can talk a little bit on international demand trends that you've seen of late. Certainly we've been hearing this earnings season from the hotel owners and operators that they're noticing a pickup in inbound international. Are you seeing anything similar?

....

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

A

Nothing that I would point to with any significance. The reality is, in our resort portfolio, we run close to 90% occupancy across the system. If anything, while we're going to see, if there's additional demand there, it gives us a little more pricing power, but I can't call out to you and certainly we can follow up with you further if there's anything that we can see further, but nothing has jumped off the page at us, as being a significant point of difference.

....

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you. Moving on, there's been maybe where a bit of chatter out there about what it makes sense for RCI and then the Interval exchange network to combine and perhaps dating myself here, but I recall quite a few years ago that CUC and Cendant had to spin out to II due to antitrust issues. Do you think antitrust issues would be an issue today given the changes in that part of the industry in the last 15 to 20 years?

....

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

A

I certainly don't have a lot of purview as to what – how the FTC might think about that. Let's just say that at this point in time, we have no plans to spin off the Interval International business or combine it. But I guess all things are possible.

....

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Okay, fair enough. Then lastly, going back to revenue opportunity with the acquisition, one thing I think about is you folks have grown your inventory repurchase program considerably and it's a little bit of unknown what's going on with Interval with them. I'm wondering how your repurchase program compares to Interval's and [indiscernible] (00:27:58)

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

We think ours is...

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

...the opportunities. Okay.

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

Yeah. We think ours is a little more robust than what we see in the ILG space and we think the volumes that we put through our repurchase program is a little higher than what we see in the ILG side. There may be opportunities there and obviously one of the benefits of that is that it allows people that have been very happy owners an exit path that we think is appropriate, plus it allows us to recycle some inventory at a very reasonable inventory cost.

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

Yeah. I mean to be fair, Patrick, we've talked about this before the points product that we have really enables that to be very effective in reselling because we put it into the points product and sell it. And historically, they've sold more of a weeks-based product. They've gone to the points which actually will help facilitate that, but to Steve's point, I'm not sure they've done a lot of that, and as we've talked about because with the weeks base when you repurchase those, you don't have certainty to get that into the system and resell it. So folks that sell weeks-based product have a much harder time efficiently recycling that weeks-based product.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Okay. Thank you. And then, a last question for now. A large part of the Interval's – excuse me, the ILG story was all of the inventory for sale coming up in the next couple of years, certainly they had a massive amount. With this acquisition and that large amount of inventory, does that change how you think about your or the legacy Marriott Vacations spend on inventory the next couple of years?

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

Yeah.

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

One of the nice benefits that we get which is never captured in anybody's EBITDA multiple is ILG has made significant investments in their inventory pipeline and have – I believe it's 700, 800 of completed units, they have obviously down in [indiscernible] (00:30:16) project. So, that's great for us because that's a lot of good inventory. We don't need to go out. I think over time, Patrick, we would look to do a very similar model like we do today, which is we're looking to add new flags, add new sales distributions and time the spending of our inventory to replace what we're selling off the shelf each year. And so, that strategy long term – in the near term, we're going to have the opportunity because of a lot of great locations they've built to look at near-term opportunities on our inventory spend. So obviously, we'll be updating you on that, as our plans get a little bit clearer and we determine what we're doing.

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

A

Hey, Patrick, this is Steve. I want to make sure I didn't give anybody including yourself a wrong impression on Interval International. We have absolutely no plans to sell or spin off that business. I mean to be honest, it took me a little bit of surprise because when mentioned that there was chatter out there about RCI and II coming together, I'll be honest I'd say absolute first time I've ever heard that. So I want to make sure that everybody understands that we put great value on the Interval business and we think it's a very attractive business with great cash flow profile and a relatively low CapEx profile to it. And so we have no intentions to move in that direction.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you, Steve. I think you've made that crystal clear and I appreciate it.

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

A

Thank you, Patrick.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Q

That's all from me. Thank you.

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

A

Thanks, Patrick.

Operator: Our next question is from Edward Engel with Macquarie Group. Please proceed with your question.

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

A

Good morning.

Edward Engel
Analyst, Macquarie Capital (USA), Inc.

Q

Good morning. Thank you for taking my question. On the tour flow side, could you maybe highlight how many basis points of growth the hurricanes in the calendar comparison maybe shaved off?

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

A

Yeah. I think from a – I don't have those specifics. We can clearly get it. When you talk about the hurricane impact in the first quarter from a sales perspective, it's roughly 3 points of our growth. And as we talked about in Steve's comments, we've got the St. Thomas one, albeit a much smaller sales center without the linkage from the hotel that used to be a Marriott next door that's being rebuilt. It's ramping back up, but it's not going to get obviously back to a normalized sales pace this year.

Obviously, we need the hotel and the linkage there, so that will abate obviously as we move through the year. And then, in total, the other piece we talked about was Marco Island. So once again, with all the new units we added down there, which just opened, that obviously drives our in-house tour flow and it will drive tours in Marco, which as we go through the year – year-over-year, we'll get, call it, a point or two of growth there. So I don't have – those are more the sales numbers, not the tours but you can probably back into that with average VPG.

Edward Engel
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And then if I adjust the tour flow growth, that's still kind of below where you've been kind of tracking over the past several quarters. Is there anything to keep in mind that maybe you can limit that or slow that growth?

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

A

No. Once again I think there's some go back to the seasonal stuff from a package tour, as Steve mentioned, we were up but not as much as we're projecting for the balance of the year. In the first quarter, we have much higher owner occupancy at our resorts, so we have less available to house tour packages, so you'll have some seasonality in that. But as we mentioned, we've seen those package tours on the books that have actually gone and booked their reservations and obviously we'll see more of those get booked here over the course of the year kind of in the year for the year bookings. We're already at, call it, 12%-plus and we would expect those to continue to grow, so that tour flow will ramp as you go through the year. So there could always be some little bit of seasonal like on the tour packages that could impact you from quarter to quarter.

Edward Engel
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. That's super helpful. And then if I think about your prior comments about the $100 million to $150 million of incremental contract sales from the [indiscernible] (00:34:44) combination. And then if I actually think about ILG's 2020 plans for [ph] $600 million to $800 million (00:34:52) contract sales, with the combination, is there any opportunity to become the high end of those kind of goals and maybe even exceed them?

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

A

Yeah. I mean obviously that'll be our plan. As Steve mentioned, you've got all the call transfer that we were going to get now. As we talked about on our year-end call, we won't start call transfer into these legacy Starwood reservation centers until after Marriott gets that stuff combined, which we're hoping is kind of early part of next year. So then we'll start generating those tours. Obviously, that will help. But the big upside in terms of the numbers we gave you at year-end, I think, is on the digital side, as Steve talked about. And you look at the marriott.com site, which obviously hasn't been combined with the Starwood Hotels site yet, but on a standalone, that's a top 10 commercial website in terms of bookings, and now you are going to put those two together and our ability to offer packages, et cetera, we really think that longer term, once again that will really help to drive not only our tour flow, but there'll be enough there that we can also use that in the legacy Vistana piece, so.

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

A

Just, just one other reminder, as you start loading – as you start taking advantage of digital of call transfer for lack of a better word or the combination of the call transfer with a combined program, it takes a while once you actually book the package for that package to come through the house. So there'll be a little bit of a lag in there. So from a modeling and expectation standpoint that even though we have high hopes that all of this will be ready to go, call it, in the first quarter of next year, we'll begin to get volume coming through it, but we won't start seeing people come through the house for tours until later in 2019 and into 2020.

Edward Engel
Analyst, Macquarie Capital (USA), Inc.
Q

Okay. That's helpful. And then I guess lastly kind of going back to your inventory spend plans relative to now having ILG in the system, does that offer an opportunity to maybe reduce legacy Marriott Vacations and tour spend for at least the near term?

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

I'm sorry, tour spend?

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

No, inventory spend.

Edward Engel
Analyst, Macquarie Capital (USA), Inc.
Q

Sorry, inventory spend.

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

Just inventory spend. Yeah, like I said, that we're going to be working on that in terms of our longer term integration plans and how we're going to position products which will obviously drive our inventory needs, but what I say on a combined basis, as I mentioned, the ILG and the inventory they've built out, we're in a good spot there and maybe potentially the ability to leverage some of that inventory as we think about our Marriott because we – under our – combined for the Marriott license brands, those are all – that's all on the table, if you will, in terms of how we think about that inventory. So we definitely need to do that work here and obviously we'll be back with more updates as we progress through and talk about all the great opportunities that this combination we think brings for us.

Edward Engel
Analyst, Macquarie Capital (USA), Inc.
Q

Great. That's all I have today and congrats on the quarter.

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

Thank you.

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

Stephen P. Weisz

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

Thank you, Rob. I'm very pleased with our start to 2018 as our new sales centers are performing very well and our businesses are producing great results. With all of this as a backdrop, I'm even more excited about what lies ahead. As we target closing on the acquisition of ILG by the end of September, 2018 should be a transformational year for Marriott Vacations Worldwide and I'm looking forward to what we can achieve. Thank you for your time today and look forward to updating you on our progress on these many fronts in the coming quarter. And finally, to everyone on the call and your families, enjoy your next vacation.

Operator: This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation and your interest in Marriott Vacations Worldwide.