Marriott Vacations Worldwide Corporation
Third Quarter 2022 Earnings Call
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<u>**Presenters**</u>
Steve Weisz, CEO
John Geller, President
Tony Terry, Executive VP & CFO
Neal Goldner, VP, Investor Relations

<u>**Q&A Participants**</u>
Ben Chaiken - Credit Suisse
Patrick Scholes - Truist Securities
David Katz - Jefferies
Brandt Montour - Barclays

Operator
Greetings, and welcome to the Marriott Vacations Worldwide Third Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded.

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

Neal Goldner
Thank you, Melissa, and welcome to the Marriott Vacations Worldwide third quarter 2022 earnings conference call. I am joined today by Steve Weisz, Chief Executive Officer; our President, John Geller; and Tony Terry, our Executive Vice President and Chief Financial Officer.

I 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 last night and the presentation we added to our website this morning, as well as our comments in this call are effective only when made 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 of our website at ir.mvwc.com.

As you saw in our earnings release last night, during the quarter, we aligned the contract terms for our vacation ownership sales across our Marriott, Westin, and Sheraton brands resulting in the acceleration of $46 million of revenue. We also aligned and combined our accounting methodologies for the reserve on vacation ownership notes receivable for these brands resulting in a $19 million decrease in the reserve for the acquired notes offset by an increase in the reserve for our originated notes.

The schedules to our earnings release provide a reconciliation to show what our reported results would have been without these benefits. During our call today, all of our discussion and commentary will refer to our results after adjusting for the alignment including the $44 million benefit to adjusted EBITDA.

With that, it's now my pleasure to turn the call over to our CEO, Steve Weisz.

Steve Weisz
Thanks, Neal. Good morning, everyone, and thank you for joining our third quarter earnings call. Before getting started, it's been a month since Hurricane Ian battered Florida. Many of our associates in the area were impacted by power outages and damage to their homes and personal property. Despite this, they have been working tirelessly to get our affected resorts back open as quickly and as safely as possible. Our thoughts and prayers are with those still suffering in the aftermath of the storm.

It's been a remarkable year for Marriott Vacations as we continue to see high demand for leisure travel. In fact, here are a few examples: air travel over Labor Day weekend exceeded 2019 for the first time since the pandemic began, while Americans are concerned about the economy, many view travel as essential with more than half of all American surveys seeing leisure travel as an important budget priority and roughly 3/4 saying they believe that travel was a worthwhile investment even if the economy were to contract, and in a recent proprietary survey 70% of our owners told us that they are planning a trip in the next three months.

We’re delighted to see people going on vacations, some to visit friends and family they haven't seen in quite a while and some just to make up for lost time. Regardless of the reason, we are honored to be part of that experience for our owners, members, and guests.

In other exciting news, our company has been ranked number four on Newsweek's Top 100 Most Loved Workplaces list and first in the hospitality sector. This coveted award is given to companies where associates are the happiest and most satisfied at work. I'd like to extend my appreciation to all of our associates, without whom none of this would be possible. They are the ones who managed through a very difficult two years during the global pandemic and most recently, the impacts of Hurricane Ian. I've been in the hospitality industry for 50 years and I can attest that our associates are the best in the business.

So moving on to our results. The third quarter once again illustrated the resiliency of our business model. Despite higher inflation, the volatility in the stock markets, and rising interest rates, we generated $483 million in contract sales in the third quarter, up 27% from the prior year with first-time buyers representing a third of our contract sales in the quarter.

Adjusted EBITDA grew by 17% year-over-year driven by strong growth in both of our business segments. We ran approximately 90% occupancy during the third quarter with our beach, mountain, golf, and urban markets in high demand, while Asia Pacific saw continued signs of recovery with occupancies increasing to 62% from 36% a year earlier.

Tours grew 24% on a year-over-year basis and were within 5% of our pre-pandemic tour flow. VPG remained elevated, increasing 1% year-over-year to $4,350, 26% higher than the third quarter of 2019, illustrating the continued demand for leisure travel and the relevancy of our core product offering, especially in today's inflationary environment.

As we announced previously, during the second quarter, we launched Vacation Next, our multiyear journey to leverage our brands and digital strategy to unlock our growth potential. We started by unifying our Marriott-branded vacation ownership products under a new umbrella name, Abound by Marriott Vacations.

Through this exclusive new program, Marriott, Westin, and Sheraton owners will have direct access to a portfolio of more than 90 Marriott-branded resorts and thousands of unique vacation experiences around the world using a common points currency. We launched Abound by Marriott Vacations at the majority of our Marriott, Sheraton, and Westin sales centers during the third quarter and we've seen a meaningful increase in interest by our owners. Looking forward, we will further leverage our investment in technology to continue transforming our marketing, sales, and services for our owners.

We've also been investing in technology to improve the effectiveness of our direct marketing efforts with great success. Today, nearly all direct marketing programs are using our digital booking engine and we've experienced a significant lift in our response rates with the new technology. This has substantially improved our campaigns while reducing our marketing costs. We are expanding the use of this technology to include other online campaigns, which we expect to launch by the end of the year.

In the continued growth of our portfolio, we plan to open our second resort in Bali next week. This 88-unit villa property is co-located with a 5-star Renaissance Bali Nusa Dua Resort and offers our guests shared amenities, including six food and beverage venues and four outdoor swimming pools, delivering on our promise to offer great vacations with authentic cultural experiences.

In our Hyatt Vacation Ownership business, we continue to make great progress integrating the legacy Welk and Hyatt businesses. We've already affiliated the former Welk Resorts with Interval International, moved them on to the hyatt.com platform from a rentals perspective, and rebranded the legacy Welk points program to Hyatt Vacation Club. Looking forward, our integration efforts will include a consistent service culture, on-site and digital experience, plus a harmonized marketing and sales program. We are also working on developing new vacation offerings for our owners, which will provide enhanced value to their existing ownership plus provide incentive for additional purchases.

In our Exchange & Third-Party Management business, membership in Interval International grew 21% year-over-year, primarily driven by the new affiliations we signed last year. Excluding VRI Americas, which we sold in April, adjusted EBITDA increased 18% driven by higher transaction revenue from exchanges and getaways, increased management fees at Aqua-Aston, as well as benefits from our cost-saving initiatives.

In summary, we had a strong third quarter with substantial profit growth and margin expansion and expect to deliver record adjusted EBITDA and adjusted free cash flow this year. We are seeing great interest in the launch of Abound by Marriott Vacations product and we continue to return a substantial amount of free cash flow to shareholders, which Tony will discuss later. Finally, despite the macroeconomic backdrop, I remain very optimistic about the long-term trajectory of our business.

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

John Geller
Thanks, Steve, and good morning, everyone. Today, I am going to review our strong third quarter results. After that, I'll turn the call over to Tony to discuss the strength of our balance sheet and liquidity position, as well as our outlook for the balance of the year.

Starting with our vacation ownership segment, in today's environment, the value proposition of our vacation ownership product has only grown more compelling with lodging average rates well above pre-pandemic levels. We continue to capitalize on strong demand for leisure travel during the third quarter, driving a 27% increase in year-over-year contract sales with tours growing 24% and VPG improving 1%.

We also maintained a robust tour package pipeline, ending the third quarter with nearly 204,000 packages with 36% of those customers having already booked their future vacation. With strong growth in contract sales, adjusted development profit increased to $132 million, a 36% year-over-year improvement.

Adjusted development profit margin was 32% in the quarter, improving nearly 250 basis points compared to the prior year driven by lower inventory costs. Profit in our rental business was $24 million in the third quarter, unchanged compared to the prior year as a 17% increase in revenue per available key was offset by greater owner and preview package occupancy, which reduced transient rooms available to rent.

The stickier parts of our vacation ownership business also performed well in the quarter. Profit from our resort management business was $72 million, an increase of 2% compared to the prior year, while financing profit increased 6% to $50 million. As a result, adjusted EBITDA in our vacation ownership segment increased 19% to $255 million in the third quarter and we delivered adjusted EBITDA margin of approximately 33%.

In our Exchange & Third-Party Management segment, Interval active members increased 21% year-over-year. Excluding VRI Americas, segment revenue increased 11% on a year-over-year basis as the new accounts we onboarded earlier this year continue to ramp up.

In our Aqua-Aston business, occupancy increased compared to last year and RevPAR was up more than 30% driven by the recovery in Hawaii. In total, excluding VRI Americas, adjusted EBITDA in our Exchange & Third-Party Management segment increased 18% compared to the prior year, and adjusted EBITDA margin increased 350 basis points to 58%.

Finally, corporate G&A expense increased $8 million in the third quarter year-over-year primarily as a result of higher compensation and transformational initiative spending, including procurement and artificial intelligence capabilities.

For the quarter, total company adjusted EBITDA increased 17% compared to the prior year to $240 million and was 27% higher compared to the third quarter of 2019. Adjusted EBITDA margin was 28% in the quarter, up 90 basis points compared to 2021, demonstrating the strength of our leisure-focused business model, demand for leisure travel, and the benefits of our transformation initiatives.

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

Tony Terry
Thanks, John. I am also very happy with our strong third quarter results. We ended the quarter with approximately $1 billion in liquidity, including $294 million of cash, $142 million of gross notes receivable eligible for securitization, and $519 million of available capacity under our revolver.

Given the volatility in the corporate debt markets this year, we used our revolver to repay the $230 million of convertible notes that matured in September 2022. We had $2.7 billion of corporate debt outstanding at the end of the quarter with our net debt-to-adjusted EBITDA ratio at 2.8 times, which was within our targeted 2.5 to 3 times leverage range.

In addition, despite the rising interest rate environment, we are well positioned as the rates on roughly 83% of our corporate debt are fixed with an average 3.9% interest rate and we have no corporate debt maturities until 2025. We also had $1.8 billion of non-recourse debt related to our securitized notes receivable and as we previously mentioned, we expect to complete a second securitization this year in the fourth quarter.

Finally, despite the various market headwinds the global economy is experiencing, our notes receivable portfolio continues to perform well with delinquencies and defaults in line with levels experienced in 2019.

We've also returned a significant amount of cash to shareholders through share repurchases and dividends this year. During the third quarter, we repurchased $216 million of common stock at an average price of $129 per share and declared a $0.62 per share dividend, which we paid in October. Year-to-date, through the end of September, we've returned more than $600 million to shareholders including the repurchase of $528 million or 3.9 million shares of our common stock.

As Neal mentioned, in connection with the unification of our Marriott products and the launch of Abound by Marriott Vacations, we aligned the contract terms for the sale of vacation ownership interests across our Marriott brands during the third quarter.

Historically, sales of our Marriott-branded vacation ownership interest were recorded as revenue after closing, which generally takes 30 to 45 days, while revenue for the sales of our Westin and Sheraton brands have historically been recognized after the rescission period ends, which is typically 10 days. Following launch of Abound by Marriott Vacations, contract sales for our Marriott brand are now recorded as revenue following the expiration of rescission, consistent with our Westin and Sheraton brands. This change resulted in the acceleration of $46 million of vacation ownership revenue in the third quarter and a benefit to adjusted EBITDA of $39 million.

In addition, we combined and aligned our reserve methodology on vacation ownership notes receivable for the Marriott, Westin, and Sheraton brands resulting in $19 million of reserve shifting between acquired and originated notes receivable. While this adjustment didn't impact our total reserve levels, it did result in a $19 million increase in financing profit and a $14 million decrease to development profit.

Moving on to our 2022 guidance. As we enter the fourth quarter, we expect to battle the headwinds of the broader macroeconomic environment. Despite this, we continue to expect fourth quarter tours to approach pre-pandemic levels. As we expand our channel mix and add more first-time buyers, I would expect VPGs to normalize, but remain well above 2019 levels.

Our contract sales guidance also reflects a fourth quarter $10 million to $12 million negative impact from Hurricane Ian. As a result, we expect contract sales to grow by roughly 13% at the midpoint of our guidance in the fourth quarter over the same period last year.

In our rental business, we expect average revenue per key to increase slightly in the fourth quarter, but for transient keys rented to be down due to increased owner usage and preview packages. As a result, we expect our fourth quarter rental profit to be between $8 million to $12 million. For the fourth quarter, we also expect adjusted EBITDA to grow roughly 8% at the midpoint, including a $6 million benefit related to the alignment, partially offset by a $5 million decrease due to the impact of Hurricane Ian.

As we have discussed previously, the increased owner usage related to the remaining COVID points that expire at the end of this year will have a pronounced negative impact on rental profit in the fourth quarter. That negative impact reduces our forecasted adjusted EBITDA growth by roughly 10 percentage points in the fourth quarter.

Turning to cash flow, we ended the quarter with $520 million of excess inventory and with the capital-efficient structure for our new Waikiki resort now in place, we currently have no material commitments for new inventory in 2023, though we do plan to continue repurchasing low-cost reacquired inventory.

We expect our adjusted EBITDA to free cash flow conversion rate to be in the 75% to 80% range this year and for our adjusted free cash flow to be between $670 million and $730 million. As always, we will look to use our free cash flow for organic growth or strategic acquisitions. In the absence of compelling acquisitions, our best use of excess free cash flow remains returning it to shareholders.

In summary, we had a strong third quarter driven primarily by our development business. Looking forward, despite the economic backdrop and the volatility in the markets, fourth quarter tours are expected to approach 2019 levels for the first time since the pandemic began, and our 2022 full year adjusted EBITDA is expected to be the highest we've ever achieved. As always, we appreciate your interest in Marriott Vacations Worldwide.

With that, we’ll be happy to answer your questions. Melissa?

Operator

Thank you. If you'd like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Ben Chaiken with Credit Suisse. Please proceed with your question.

Steve Weisz
Good morning, Ben.

Ben Chaiken
Hey, how is it going?

Steve Weisz
Fine. How are you?

Ben Chaiken
I'm doing well. So you mentioned 204,000 packages, I believe, 36% booked. To this point, I think next year, you'll have more capacity for mini vacations and rentals, which is a material positive for tour flow in 2023, if I am not mistaken. I guess on the other side of that, is there any way we should think about an impact to development margins, if any? Just looking for color on kind of both of those. I guess, A, is that a fair thought process in terms of the tailwind on tour flow, and then B, how should we think about development margin in 2023? Thanks.

Steve Weisz
We'll tag team this. As it relates to on the books, currently as we think about -- to address your specific question, 2023, I can give you an example on the first quarter from our owner and our preview package room nights. We have 14% more room nights on the books today than we did at the same point in time in '19 looking forward at '20.

There is still very robust demand from owners, and obviously, the increased use of room nights through tours. We'll wait and see, obviously, as the year continues to play out about how that owner occupancy continues to build. I will tell you that even looking at the fourth quarter of this year, that number is 19% higher than it was, again in 2019 Q4.

At least from an availability standpoint, I wouldn't -- I deduced from of your question you believe we're going to have a lot more capacity for rental, if that's, in fact, my takeaway, maybe I misunderstood that. I'm not sure that that necessarily will manifest itself.

John Geller
Yes. I'll just add a little bit there to what Steve said, just a little bit more on the packages and just tour growth as you think about it going forward, we are going to get a lot of our tour growth continuing just from in-house. You know, we've talked about getting back to pre-COVID penetration rates on the tour flow and we're getting back there, but we see more opportunity going into next year.

And then other in-market, you know, we've talked about how we turned linkage off in a lot of markets during COVID, we're turning that back up. So, the good news is, yeah, overall capacity from the, call it the COVID points expiring here at the end of the year, but owner usage should remain high, and obviously with the launch of Abound that's another reason for owners to come in and want to hear about the new program and take tours.

So, I think the setup is well across the board, both for growing first-time buyers as well as continuing to drive owner tours and other in-house, as well as in-market tours next year. I think from a development margin, because of our repurchases, Ben, we continue to do better on the product cost. And as we've said in the past, we expect those product costs to remain low for the next couple of years. We'll do our best to continue to manage that longer term, but we're in a great spot here right now just given we have no material commitments right now, excess inventory on the books.

The other opportunity, as we've talked about, Steve mentioned it in his script, is technology on the marketing and sales side and driving more efficiency in marketing and sales costs, notwithstanding VPGs potentially normalizing a bit and all that. You know, the name of the game is to get that down to the margin. So we feel good about the development margins where we're at and keeping them well above 2019 here as we go forward.

Ben Chaiken
That's super helpful. Yeah, on the first point, I was just kind of -- what I was suggesting is that those rollover points expire this year. You were kind of talking about that playing a role in the 4Q this year, and thus, that would open up my thought process that would open up some capacity in '23 for either mini-vacs or rentals. But all that color is super helpful. Thank you.

John Geller
Thank you.

Operator
Thank you. Our next question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Steve Weisz
Hi, Patrick.

Patrick Scholes
Good morning, everyone. A couple questions here. T&L's RCI division had called out some EBITDA hit due to the hurricane. Did your [Interval International] division experience anything material from that as well?

Steve Weisz
Not anything material and currently, Interval has 54 resorts in their portfolio that are still closed because of the hurricane. We are not taking any further bulk deposits from those resorts. But, in the total scope of things, it is not all that sizable and something to be terribly concerned about.

Patrick Scholes
Okay. Thank you. And then, a bigger picture question, I want to go back and sort of revisit some of the initial projections that were laid out at the time of the Welk acquisition. It's been, I guess, about over a year now since that. Originally, you had expected to see cost synergies of about $11 million to $13 million, and expect Welk to double its 2019 adjusted EBITDA, which at the time was $29 million, over the next three to four years. How would you say you're tracking towards your original stated projections on the Welk acquisition? Thank you.

Steve Weisz
Yeah, I mean, a general broad brush answer is we are very pleased with how the Welk acquisition has been performing and the progress we are making there. We no longer call it out or track it separately. We've integrated it into the whole Hyatt program from a reportability standpoint. I can say to you that, for instance as you look at the kind of forward-looking 2023 contract sales, we expect to be right on or slightly ahead of what we thought we underwrote the acquisition at. So we're very pleased about where it stands.

I can't speak to your specific, you know, $12 million to $13 million number. I don't have that off the top of my head, or maybe John or Tony do. But we're very pleased with where it's going. And I can tell you I was just at one of the Welk properties last week, in Palm Springs, and not only are the associates excited about the transition, but the owners are as well. So we're very pleased with the progress we're making.

Patrick Scholes
Great. Thank you. And then, lastly, Steve, I know you're retiring at the end of the year. Is this -- will this be your last earnings call with us?

Steve Weisz
It will be. And you've taken a little steam out of my closing remarks, Patrick. Uh --

Patrick Scholes
Yes, well, Steve, thank you for everything you've done. You're absolutely a true legend in this industry, and you'll be missed. And you know, I certainly look forward to your next adventure, so thank you.

Steve Weisz
Thank you, Patrick. I am very excited about where the business stands and the future that's in front of it and I look forward to watching from the sidelines and seeing how it continues to progress. But thank you very much for your comments.

Patrick Scholes
Thank you, Steve.

Operator
Thank you. Our next question comes from the line of David Katz with Jefferies. Please proceed with your question.

Steve Weisz
Good morning, David.

David Katz
Good morning, everyone. And thanks for taking my question. I'd like to go back to just one of the comments that you made about greater efficiencies from technology and marketing and sales. And it's a topic we discussed years ago around, sort of digital forwarding and digital engagement through Marriott Bonvoy. Is that part of what you're referencing there or are those independent initiatives that you've driven, you know, separate and apart?

Steve Weisz
Clearly, it's emblematic of what we've done in Marriott Bonvoy. Currently, 90% of the activity, the packages that we book through Marriott Bonvoy are booked using our new technologies and the advantage comes from that. You may remember how it used to work. We used to get a lead, people would then have contact with us, you know, through a contact center or a call center. We book a package, and then eventually, that package had an 18-month duration. And then we'd call, and we'd activate the package and go forward. Now, with this digital approach, customers themselves can go online. They can book the package. They can identify where they want to go without any human hand-off so to speak.

We are very excited, and it's increased our penetration rates, and obviously lowered our cost. So that's an example. We continue to look for other channels to be able to activate that. And, we're also doing some retargeting, remarketing, that we were not as good at before, which also means that people that have been to our site, and been looking around, we have the ability to reach out to them.

All of those things are very positive. You know, as you might imagine, David, in the digital world, you know, things continue to progress at a very rapid pace and we've done our best to try to catch up. But then the challenge will obviously be to continue to try to be forward-thinking about how we want to move forward.

David Katz
Understood. And if I can ask a, you know, I'll call it a harder question and it's going to sound like a negative one. But I've been asked it a number of times lately. As, you know, we look at the top-line drivers of tour flow and VPG, and with tour flow approaching 2019 levels and VPG still well elevated, how could you help us think about VPG? Should we get into, you know, a moderate demand recession in the back half of next year? Is there any way you can help us kind of measure that and think about that?

Steve Weisz
At a macro level it's difficult to draw any direct correlations between VPG and what happens from the economic backdrop around it, with this exception. Clearly, as people - you know, timeshare is a not insignificant discretionary purchase. To what degree people are approaching a conversation with us in terms of possibly acquiring an interest in a timeshare program, if they have a more negative perception that can impact closing rates. Closing rates in and of itself is obviously a component of what contributes to VPG.

But what you heard in our remarks and what you should take away from this is while clearly some of the, I would call it, outsized growth that we've seen in VPG over the last several years isn't going to continue to repeat that percentage growth, we are very optimistic about maintaining VPG levels well above what they were pre-pandemic largely because of what we've done in some of the channels, what we're doing on the whole digital front. And we are very bullish on that. I am not trying to, in any way, suggest that we aren't concerned about the economic backdrop. Clearly, that's in our thinking. But we feel pretty confident about holding onto the VPG that we've seen.

Tony Terry
And I think one thing to add to what Steve said, it's not even just the economic backdrop. I think the world has changed and the way people vacation now has changed. And I think even some of the airlines have talked about it that every weekend could be a long weekend for somebody because you can pick up and travel and work from anywhere now. So, you know, some of those macroeconomic backdrop instances right now are a little bit concerning, but then the way people are traveling for leisure is encouraging. And as long as our product is a good value proposition, then we think that will help us going forward, as well.

John Geller
And I think one other thing just to add on that, remember, differentiates us a little bit is our target customer, right? We are the only timeshare company focused on the upper upscale luxury side, the price points relative to average household income, our owners have a self-reported net worth of $1.5 million which is a very strong and resilient consumer. Not saying that in a deeper recession, that you wouldn't see some impact to Steve's point on closing efficiency. But we do have a very strong customer demographic that we target and so we feel good about that, too.

David Katz
Understood. And Steve, I would not take it personally that the stock is going to go up on the day of your last earnings call. I would really look at the stock chart post-spin in the time you've been there, and I think you should feel pretty good about that. Thanks for everything.

Steve Weisz
Thank you, David. I appreciate it very much.

Operator
Thank you. Ladies and gentlemen, as a reminder, if you'd like to join the question queue, please press star one on your telephone keypad.

Our next question comes from the line of Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Hey, good morning, everybody, and I also want to add my congratulations to Steve here.

My first question is just sticking with the VPG topic. I wanted to maybe get some extra thoughts on how we should think about, you know, the sequential moves here. If you look at VPG and tour growth or tours in the 3Q versus the first half, you know, tours obviously stepped up meaningfully and VPG stepped down a little bit from the 2Q and so you can look at that and say, okay, well clearly, there's been a big step function change of tour growth that might have been lower-yielding tours and then there is obviously a new owner effort there that would also be VPG dilutive. So I guess, you know, the question is, when we think about first half into the 3Q that VPG stepped in, how much of that mix shift is related to tours? And how much of that was, you know, maybe a slight softening in propensity to purchase or close rates?

Steve Weisz
I'll give you numbers about the quarter if I could. So first-time buyer tours were up 3 percentage points over what they were in Q3 of 2021. So literally, 50% of our tours were to first-time buyers and 50% of our tours were to our owners. So, owner percent tours went down by 3%, first-time buyers went up. Arithmetically, as a result of that because first-time buyers carry a lower VPG

than owners do, that's where you get a little bit of depression in what happens to VPG growth. I can also tell you that contract sales as a percent of total were exactly the same as they were in 2021 Q3. So, I think it's largely arithmetic to be honest with you.

And, let's step back and think about why first-time buyers are important. It continues to refresh the system. We've looked at it from every which way you can and we think that if we can get to a 40% range of first-time buyers versus owners that that's very healthy for the system because you get a new set of owners, and by the way, those new set of owners not only have a higher propensity to finance, they also have the ability to reload additional monies after they've been in their first five years of ownership as an example. And, you also get a new source of referrals out of first-time buyers that you don't necessarily get after you've had a relationship with an owner for a period of time. So we think that move is very deliberate and we're very excited about it. Arithmetically, yes, more first-time buyers will have a depressing effect on what the overall VPG is, but we think, overall, it's in the best interest of the business.

John Geller
Just a little bit of history here, right? Going into COVID, we turned off all those lower-yielding Vistana changes or channels, I should say. So, those aren't coming back. We've been able to grow our tour flow back, Brandt, as you talked about, to kind of pre-pandemic levels. And if you're a glass half-full guy, we're still 26% above 2019 VPGs. And to your point, I think you said it, but if you think about it, you're opening up more tour channels. Yeah, you'd love to get all your tours from the highest-yielding channels, but to drive your tour flow back, right, you start opening up some of the lower-yielding channels, and with that, that's going to impact your VPGs sequentially.

But still, as we talked about way above 2019, to Steve's point, we got to focus on first-time buyers. So, all else being equal, that will have some impact as you go forward. But remember, the bottom line is development profit. We've been able to keep that very strong, above 30% and that is a combination of the product costs, but also at the end of the day, we're going to continue notwithstanding even if VPGs moderate a bit, continue to look to drive marketing and sales efficiency. And as we've always talked about, you've got about half your marketing and sales costs that are more fixed in nature. So, you can grow that top-line, you can get some offsetting benefits there in that margin. So, that's what we're aiming to do.

Brandt Montour
Great answers. Thanks for that. I do strive to be a glass half-full guy. And so, my second question is just on the delinquency. Well, delinquencies and the loan loss provision. On our math, loan loss provision ticked up slightly from 3Q to fourth quarter. You know, elsewhere as well as in the timeshare industry, we've seen, delinquencies sort of normalizing negatively, but not necessarily worse than ‘19, but toward ‘19 and I think you guys might have cited something similar.

So I guess the question is the third quarter that we saw in terms of the loan loss provision, is that, you know, the rate we should be thinking about? And how do you guys feel in terms of, the movement in delinquencies? Is it sustainable? Does it feel sustainable? Or is it going to kind of keep moving in the wrong direction?

Tony Terry
Well, hopefully, more sustainable. There is a little bit of noise, of course in the third quarter because of the changes that we made to the reserve methodology. So, looking at that, it's probably not overly indicative of what we want to see going forward. On the year-to-date basis, our reserve is probably a little closer to what we saw last year. But when we look at the trends of what we're seeing for defaults and delinquencies, they are tracking in line with what we saw back in 2019. So besides some of the accounting changes that we've made in the reserve, we're really not seeing a whole bunch of negativity in that right now. Now the defaults and delinquencies do tick up in Q4 naturally year-over-year. So we'll be watching that closely in the fourth quarter. But, the rates that we are seeing right now, I wouldn't expect them to get a whole bunch worse based on the trends that we were seeing through the end of Q3.

Brandt Montour
Excellent. Thanks for all the thoughts.

Steve Weisz
Thank you.

Operator
Thank you. Our next question is a follow-up from the line of Ben Chaiken with Credit Suisse. Please proceed with your question.

Steve Weisz
Welcome back.

Ben Chaiken
Thank you. I appreciate it. Thanks for taking my follow-up. So, hopefully, this is not a silly question. But I think you said 50% of your sales were to first-time buyers and 50% were to existing owners this quarter and your goal is to be at 40% first time?

Steve Weisz
Well, no. No. 50% of our tours were to first-time buyers and 50% to our owners. On a sales basis, it was 33% first-time buyers and 67% owners. So, contrast the 33% to the 40% is kind of our goal. We're still working our way forward. Keep in mind that from where we were last year for instance, I think this is materially getting better each time on a year-to-date basis as we go ahead. But we've got more work to do.

Ben Chaiken
Thank you for the clarification. Appreciate it.

Steve Weisz
Sure.

Operator
Thank you. Our next question is a follow-up from the line of Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
We just can't let you go, Steve. You know, I mean we don't want it to end. We don't want this era to end. No, I just -- we didn't talk about FX. Was there a currency headwind either in Australia or for the yen into Hawaii or anything else in the system in the 3Q, 4Q?

Tony Terry
Yeah, the only place we saw some decent headwinds from currency was really in Japan. Over in our Asia Pacific, the yen isn't doing that well. Right now, the travel to Hawaii hasn't really returned that significantly. So it's not really impacting our MVC domestic sales. But within Asia, we are seeing a little bit of headwind of that, and we are looking at potentially pricing in Japanese yen to start seeing if we can get ahead of it a little bit.

Brandt Montour
That's helpful. Thanks again, guys.

Steve Weisz
Thank you.

Operator
Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Weisz for final comments.

Steve Weisz
Thank you, Melissa, and thank you, everyone for joining our call today. I've always said that people want to go on vacation no matter what the environment, and this quarter proved to be no different. In our Vacation Ownership segment, occupancy was approximately 90% in the third quarter. Contract sales grew by 27%, compared to the prior year. VPG remained well above 2019 levels. One-third of our sales were to first-time buyers, which is good for the long-term health of the system. And we've seen a lot of interest in Abound by Marriott Vacations.

In our Exchange & Third-Party Management business, Interval revenue increased compared to the prior year driven by a 20 point percent increase in active members and margins improved by 500 basis points, compared to last year. We've returned more than $600 million to shareholders through the end of September through a combination of share repurchases and dividends. And I feel very good about the long-term trajectory of the business. Not to be repetitive, but before the end of the call after more than 50 years with Marriott, including 26 years leading this company, I will be retiring at the end of the year. This is my last earnings call.

John Geller will become our next President and CEO effective January 1st. Given John's almost 15 years of leadership experience with Marriott Vacations as President and formerly CFO, and with the seasoned leadership team supporting him, I know our investors, associates, and customers will be in great hands and I look forward to watching the business grow.

I would like to express my sincere thanks and appreciation for the support and confidence our investors have shown in MVW. And as always, thank you for your interest in our company. And finally, to everyone on the call and your families, stay safe, and enjoy all of your future vacations. Thank you.

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