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Marriott Vacations Worldwide Corp. (VAC)

Q2 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Marriott Vacations Worldwide Second Quarter 2013 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. [Operator Instructions] This conference is being recorded today, July 18, 2013.

I would now like to turn the conference over to our host, Mr. Jeffrey Hansen, Vice President, Investor Relations. Please go ahead, sir.

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

Thank you, Liz, and welcome to the Marriott Vacations Worldwide second quarter 2013 earnings conference call. I'm joined today by Steve Weisz, President and CEO, and John Geller, Executive Vice President and CFO.

I do need to remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under Federal Securities Laws. These statements are subject to numerous risks and uncertainties as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release that we issued this morning, along with our comments on this call, are effective only today, July 18, 2013, and will not be updated as actual events unfold.

Throughout the call, we will make references to non-GAAP financial information. You can find a reconciliation of non-GAAP financial measures referred to in our remarks in the schedules attached to our press release, as well as the Investor Relations page on our website at ir.mvwc.com.

I will now turn it 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 second quarter earnings call. This morning, I'll discuss our results for the second quarter of 2013, which represent yet another quarter of strong growth in our adjusted development margin and adjusted EBITDA. I'll also provide updates on our business strategies and outlook for the second half of the year. I will then turn the call over to John, who will provide additional detail on our financial results, and we'll then open the call for your questions.

The second quarter continued our trend of solid financial results. Adjusted EBITDA increased $20 million to $48 million, reflecting across-the-board improvements. Our total contract – the total company contract sales were down 7% year-over-year, which was not completely unexpected as it is – it's driven mainly by the closure of our underperforming off-site sales distributions in our Asia Pacific segment late last year.

North America contract sales were essentially flat quarter-over-quarter due to fewer sales tours as our owners' usage behavior continues to evolve. As our enrolled week-based owners' utilization of the points product has increased, owners are taking advantage of the flexibility of the points program to book shorter lengths of stay or elect alternative usage options like our Explorer program.

These changes in owner usage patterns have created some short-term challenges in generating owner tours. We continue to adjust our tour sourcing methodologies and incentives and are confident this near-term reduction in tours will be mitigated over time. To that end, we are maintaining our guidance that North America contract sales will be up 5% to 10% for the full year. Longer term, we remain focused on balancing our sales growth between existing owners and new buyers as we continue to drive development margin improvement.

Offsetting the slight decline in tours was 8% growth year-over-year in North American volume per guest or VPG, reaching $3,211 in the second quarter. This was driven mainly by a 1 percentage point improvement in closing efficiency over last year, combined with increased pricing.

We were also very pleased with our adjusted development margin performance that grew over 4 percentage points to 17.1% in the second quarter. Continued improvements in marketing and sales spending drove nearly 3 percentage points of the increase, primarily from the shutdown of less efficient off-site sales distribution in our Asia Pacific segment and improvements in Europe. Product costs accounted for the remaining improvement, mainly driven by the ongoing success of our inventory repurchase program.

Looking at our North America segment, our adjusted development margin improved nearly 3 percentage points to 19.5% in the second quarter, with roughly 2 percentage points being driven by lower product cost rates and 1 percentage point from marketing and sales. As you can see, we are making great strides towards our longer-term goal of 20% or better for development margin.

As we mentioned in the last quarter, we expect our rental business to have a solid year and the second quarter was right in line with our expectations, again, driven by North America. As we continue to improve our understanding of our owners' usage patterns, we are able to make more inventory available for rent, which resulted in capturing additional transient rental revenues. We saw this benefit in the second quarter with a 9% increase in available keys and an 11% increase in our transient keys rented versus the second quarter of last year. For the quarter, total company rental revenues net of expenses were $9 million, up $7 million from the prior year.

Our resort management and other services business showed steady improvement, up $3 million over the second quarter of 2012 to $16 million. This improvement was driven by increases in club dues and management fees, as well as improvements in our ancillary operations.

In our Asia Pacific segment, we once again are seeing the benefit from the closing of underperforming sales distributions last year with development margin growing by $1 million. Our Asia Pacific strategy remains unchanged: continue to drive development margin improvement, while seeking new destinations that will provide strong on-site sales distribution.

In our Europe segment, adjusted segment results saw a $4 million improvement in the quarter, resulting from a $3 million increase in adjusted development margin, driven by lower sales and marketing costs. We remain on strategy to sell out of this region and continue to operate and manage our portfolio of European resorts.

Shifting to G&A, costs increased $2 million over the second quarter of 2012. Our second quarter results benefited from $1 million of incremental savings related to our organizational and separation related efforts, as well as $1 million from lower depreciation expense. However, our G&A costs also reflected normal inflationary growth, higher legal costs, and incremental standalone public company costs.

For the full year of 2013, we anticipate our G&A costs will increase year over year, driven mainly by inflation, the impact of a 53rd week of costs due to our fiscal reporting calendar, and higher legal and public company costs. However, we expect these increased costs to be partially offset by roughly $5 million of savings related to our organizational and separation related efforts which we expect to realize throughout the full year.

Given the strong first half and our outlook for the remainder of the year, we feel comfortable that we will finish the year at the higher end of our adjusted EBITDA and adjusted development margin guidance. We are also increasing our cash flow guidance, which John will speak to in a moment. Our strategies have not changed. We remain focused on top line and adjusted EBITDA growth, as well as continued development margin improvement.

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

John E. Geller

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

Thank you, Steve, and good morning, everyone. The second quarter continued the trends of improved development margin and increased adjusted EBITDA we saw in the first quarter. Our largest segment, North America, saw a $13 million improvement in the sale of vacation ownership products or what we call development revenue. This improvement was driven by $11 million of favorable revenue reportability and $3 million of lower sales reserve as the performance of our notes receivable portfolio has improved over last year. Contract sales in the quarter were flat due to lower tour flow, as Steve mentioned.

The favorable revenue reportability had a $3 million positive effect on reported development margin, increasing the margin by 130 basis points to 20.8%. Conversely, in the second quarter of 2012, due to promotional activity, reported development margin was impacted unfavorably by $3 million, reducing development margin by nearly 200 basis points.

Adjusting for the impact of reportability in both years, development margin increased 2.7 percentage points to 19.5% in the second quarter from 16.8% last year. We have said before that reportability can affect our results on a quarter-over-quarter basis. However, we do not expect revenue reportability on an annual basis to have a material impact on our North America margins.

Staying in North America, marketing and sales costs were responsible for nearly 1 percentage point of development margin improvement over the second quarter of 2012. This resulted from a 1 percentage point improvement in closing efficiency, as well as higher pricing, driving an 8% growth in VPG. Marketing and sales spend was effectively flat quarter over quarter on increased development revenue.

Product cost in this segment improved nearly 2 percentage points, even though the second quarter of last year benefited from a positive product cost true-up of $3 million. Our 2013 product cost improvements reflect the success of our inventory repurchase program. We continue to believe product costs will remain at approximately 33% for 2013.

In our rental business, our second quarter results improved in North America by $7 million. As we continue to better understand owner behavior, including their tendencies to bank their points, we were able to open transient rental availability sooner in the year, allowing us to drive higher revenues.

Shifting to our rental outlook for the year, Marriott Rewards pre-spin liability costs, which negatively impacted 2012 full year results, have moderated but remain a potential headwind in the second half of the year. Also, realize that the first half of the year is typically stronger for our rental business than the second half due to seasonality. However, we do expect the second half 2013 to be better than last year and we still expect year-over-year results to be materially better for the full year versus 2012.

Shifting to our resort management and other services business, revenue net of expenses improved $3 million to $16 million in the quarter. Most of the improvement in the quarter came from our internal exchange company, which produced an additional $2 million of improved results year over year, as well as improved ancillary operations.

In our Asia Pacific segment, our development margin continued to improve, increasing by $1 million to $2 million on significantly lower sales volume due to the shutdown of less effective off-site sales galleries in the region.

Turning to our Europe segment, I want to take a moment to talk about an issue that we identified in the second quarter. During an internal review, we discovered that certain sales documentation that we had provided to some of our buyers did not meet the technical format required under applicable European regulations. The result of this was that the period of time that the purchasers had to rescind their contracts was extended beyond the normal rescission period. Remember, under GAAP, revenue cannot be recognized until the rescission period has ended.

Originally, we recorded revenues from these sales based on the rescission periods in effect assuming compliant documentation had been provided to the purchasers. As a result, we recognized revenue in incorrect periods between 2010 and 2013. During the second quarter, we took corrective measures, including providing proper documentation for purchasers who were still in an extended rescission period. As a result, approximately $9 million of pre-tax income was recognized in the second quarter of 2013 related to these sales.

Putting aside the timing of the revenue recognition, the bottom line impact to the company was that approximately $2 million of sales ultimately rescinded, which equates to approximately $1 million of pre-tax income.

It is important to note that this issue was isolated to our Europe segment and there was virtually no other impact to the company's financials. However, since this income was previously reported in prior-year results for comparability, we have excluded the income from our adjusted results in the second quarter and made corresponding adjustments to the prior periods.

Turning to our financing business, revenue net of expenses were down $4 million in the quarter, as reduced expenses from lower foreclosure activity roughly offset lower interest income year over year. However, after subtracting interest expense from our securitized debt, our financing profit was up $1 million over the second quarter of 2012. For the full year, we expect financing revenue net of expenses and securitized interest expense should be flat to 2012.

In terms of the securitization market, while we have seen some increase in interest rates, rates remain extremely low compared to historical levels. We expect to complete a securitization later in the third quarter on terms more favorable than the securitization we completed last year.

Turning to our balance sheet and liquidity position, since the end of 2012, real estate inventory balances have declined $19 million to $862 million and total debt outstanding decreased $31 million to $687 million, including $643 million in non-recourse debt associated with securitizations and $40 million of mandatorily redeemable preferred stock of a subsidiary.

At the end of the second quarter, cash and cash equivalents totaled $104 million and we had $124 million of vacation ownership notes receivable available for securitization. We also had $160 million in available capacity under our revolving credit facility at the end of the quarter.

With respect to our free cash flow, we have had positive movement in several areas that have favorably affected our 2013 free cash flow outlook. First, you may recall that we previously projected our cash taxes would exceed our tax provision by approximately $5 million. Now, with some successful tax planning, particularly around our election to use the installment method as it relates to our finance contract sales, we are now expecting our cash tax position to turn around significantly, providing a cash flow benefit of over $40 million, as compared to our previous estimates.

Recall, prior to the spin-off, Marriott International handled these tax efforts. As part of standing up our new tax process in conjunction with the spin-off, we are focused on opportunities to improve cash taxes, as well as reduce our overall effective tax rate. While the $40 million include certain one-time benefits, we do expect future cash flow improvements from these tax planning efforts.

Second, in consumer financing, we have seen slightly higher cash sales, as well as higher notes receivable collections than we had previously forecasted. These changes are improving our projected cash flow position by roughly $20 million.

These changes have enabled us to raise our outlook for adjusted free cash flow for the year, excluding the impact of organization and separation related charges and litigation settlements, by $65 million to $120 million to $135 million. Remember, the $120 million to $135 million guidance includes near-term puts and takes which are still affecting our free cash flow in 2013, including the Marriott Rewards pre-spin liability paydown, lower cash taxes and lower inventory spend.

Our 2003 free cash flow normalized for these items would be between $115 million and $120 million, which is approximately $5 million to $10 million higher than last quarter, reflecting the improvement from lower cash taxes.

In addition to our adjusted free cash flow guidance, as a result of a lower projected effective tax rate for 2013, we are also raising our adjusted net income guidance to $72 million to $78 million and adjusted fully diluted earnings per share guidance to $1.94 to $2.10 for the full year.

Lastly, as Steve discussed, we believe the full-year adjusted EBITDA and adjusted development margin should be at the higher end of our issued guidance range for 2013. Our second quarter was a solid continuation of the year and is providing great momentum to the second half.

In closing, we continue to meet and exceed our established targets and are very pleased with the progress to date. And while we do not know what the future holds, we are cautiously optimistic that the macroeconomic conditions will continue to improve through the remainder of 2013. As always, we appreciate your interest in Marriott Vacations Worldwide.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Robert Higginbotham with SunTrust. Please go ahead.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Good morning, guys. Thanks for the questions. To start with, and just to make sure I understand your comments around the tour flow issues during the quarter, is it that typically or your historically your tours would be a full week long, but then the availability of those units is now a little bit more volatile? Is that what is happening?

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

A

You're partially on track. Under the old weeks-based sales program where people were in residence for seven days consecutively, they typically would not have a problem taking a couple hours out of a day to go take a tour. Now, under the points-based program which, as you know, many of our weeks-based owners have converted to, they are generally have – are – they're for shorter lengths of stay, call it four or five days, and they are also using their points to do other things, like take cruises, go on safaris and all the other stuff. So we have less of an opportunity to encourage our owners to take tours. That's point number one.

Point number two. As you know, we converted to the points-based program in summer of 2010. We have been talking to our owners since then about the advantages of joining the points-based program. And as you might imagine, we've now been through the bulk of those owners in terms of talking to them. So as we pivot to more first-time buyers, we are getting fewer owner tours going to first-time buyers, as we have made that transition, it takes a while to generate first-time buyer tours than it does owner tours. As I said, this is a very short-term issue for us, and we believe that we're well positioned to be able to respond to it.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Well, I guess that's kind of the heart of my question, to make sure I understand it. I don't – I'm not sure I understand, what is short-term about that? I mean, that seems it's structural.

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

A

When you say you think it's structural, I've – we've always said that we wanted to move from 60% owners to – and 40% first-time buyers to more of a traditional 50/50 split. We are moving in that direction and I don't see that to be a structural problem at all.

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

A

Robert, I – well, I think what he's saying is the shorter stays and some of the alternative usage, time will tell. That usage could go back to longer, Robert, we'll see, but yes, we don't know. What Steve is saying, obviously, is we'll react to those changes and go after more new term buyers, which is our strategy anyway, to replace those tours.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Okay. So it's more of a transition from that 60/40 mix to the 50/50; and once you get there, it's a little more stable?

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

A

That's correct.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Okay. So moving on to rental, to make sure, again, I understand those comments, it sounds like you were able to make more inventory available earlier in the year versus last year, and so you saw a huge improvement in rental revenues for the second quarter. My question is, to the extent that that was a dynamic where – well, is that a dynamic that's related specifically to the second quarter to the extent that you're releasing inventory or making it available earlier in the year such that we shouldn't expect to see that same level of strength in the back half of this year?

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

A

Yeah, I'll give you an initial comment and let John chime in as well. As we have moved into points, we obviously had – while we have modeled certain availability of rental inventory based on people going outside the system for cruises, et cetera, we had no assurances though that our estimates were going to be accurate. What we found last year was that there was a higher take-up rate. I think we've talked about this in some of the investor meetings that we've had that the number of people using our Explorer program exceeded our expectations by a considerable margin.

So I would say that last year, we were more conservative about making that rental inventory available for sale earlier. This year, we switched based on that – the knowledge we were able to gain last year. We had better forecasting in place to be able to make our decisions about when to release that inventory for rental. And now we're seeing the benefit of being able to do so and monetize that – what otherwise would be vacant inventory.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey

Q

Okay. So that sounds like an improvement in your management of that, that you should see – through the rest of the year, there's...

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

Yeah. Well, there's one real caution here and one of the reasons why we went to some pains to kind of call this out. Keep in mind, for the first half of the year in our business, rental revenues, because of ADRs and everything else, are traditionally higher than the second half. So while it may be tempting to kind of annualize through Q2 and say, well, okay, rental revenues net of expenses are going to be X, I would encourage you not to think of it that way.

I'll give you one other kind of factoid, which we hope will not repeat itself this year. Through the second quarter of last year, we had about $10 million of rental revenues net of expenses on the books. At the end of the year, we finished at essentially flat at a net zero. That was because our Marriott Rewards cost, which are really not within our control for those points that were issued pre-spin, came back at a higher rate than what we had anticipated.

We believe that, A, our top line revenues in the second quarter will be better than they were last year for the things we talked about earlier. And we are quite hopeful that the Marriott Rewards cost will not increase as they did last year. But I just want to caution you that in terms of your model and et cetera, you might not want to kind of straight-line the second quarter results.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey
Q

Got it. That's helpful. And this might be, splitting hairs a little bit, but when you look at your adjusted COGS, it was – cost of sales of vacation ownership, it was about 33.3%. Granted that's about 33%, which you've talked to more recently, but you've kind of – for a couple of quarters, that is, you've kind of suggested more recently that it would be below that number, and I'm just wondering if there's anything that did not come through as expected.

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

Well, I recall very specifically saying that we think our product cost is going to run 33% for the year. If you want to quibble over three-tenths of a point, I guess, we can certainly do that. I'm not suggesting that your calculation is incorrect, but we still believe that it's going to be 33% for the year.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey
Q

Okay. And in more recent times you kind of suggested that it would be close to 33% but below 33% was my point. Last and I'll let someone else on. On the securitization front, I'm kind of surprised that your comments around being about to – to make a deal that's more favorable than the last year, given the increase in rates. I guess my question is how is that possible, number one; and then I guess, even more importantly, how should we think about funding costs and spreads next year and beyond?

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

Well, I think it's possible because we did our deal around this time last year. If you look, interest rates and spreads continue to get better in the securitization market over the fourth quarter and really even through the first part of this year. You've seen an inflection point of those interest rates back up, but they haven't gone up as high as they went down from last year. So my comment being, from a historical – and last year, if you remember, we did an it all in – our cost of funds was about 2.6%, which for us was a all-time low, and just given where levels are at, we still expect to do something inside of that, hopefully this third quarter. So obviously, a little bit more volatility, but the market, the rates still remain at historic lows.

On a go-forward basis, obviously, I can't predict what interest rates are going to do, but remember, we price off kind of the three-year LIBOR swap rate because that's the weighted average length of these securitizations. So I think you've seen more volatility towards the 10-year and the longer-term rate than you see towards the shorter term.

So as those rates potentially move up, that would -obviously, from what we might do this year, you might get lower spreads. But remember, on a more normalized basis, our overall interest rate has typically been more in the 4% to 5%. So we are still burning off securitization deals at that higher interest rate. So even if you were doing new deals at 3%, 3.5%, you're still improving the overall portfolio spread, because you're still below kind of your weighted average rate on your books.

Robert Higginbotham
Analyst, SunTrust Robinson Humphrey
Q

Okay, great. Very helpful. Thank you.

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

Yep.

Operator: Thank you. And our next question comes from the line of Bob LaFleur with Cantor Fitzgerald. Please go ahead.

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

Hey, Bob.

Robert A. LaFleur
Analyst, Cantor Fitzgerald Securities
Q

Hi. Hey, good morning.

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

Good morning.

Robert A. LaFleur
Analyst, Cantor Fitzgerald Securities
Q

I wanted to get a little more in depth about the whole shift of sales from an over-reliance on existing owners to more front-line sales. How much of that is proactive, as in you guys saying, okay, it's time to make the move from 60 to 50, and how much of it is reactive and just seeing that the programs you were using to get more out of existing owners just aren't as effective as they were a year or so ago?

And talk about the various levers that you have, because obviously, there's margin differentials between the two baskets, there's close rate differentials. And I guess, kind of in the context of that conversation, what exactly are you managing that business for? The guys who are running that business, are they managing for specific metrics like tour volume or VPG; is it a revenue number, because there are so many different ways that you can make that up. If you could just kind of talk about that and help us better understand how that business is being managed day to day?

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

A

[audio gap] (30:26 to 30:39)

Robert A. LaFleur
Analyst, Cantor Fitzgerald Securities

Q

Hello?

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

A

... everybody in the space started getting out of their [indiscernible] (30:45) channels, which were largely focused on first-time buyers and they resorted to trying to [indiscernible] (30:50) A, these are people that were familiar with the product or like the product, and B, they carried a lower cost.

Now, as the economic environment has changed, not dramatically, but it's been incrementally getting better, you – we all knew that at some point in time it was going to be time to go back to [indiscernible] (31:18). A couple of different reasons for that. Obviously, getting more first-time buyers. Every time they get a new first-time buyer, they not only come with sales, they also come with a basket of referrals that we would not have [indiscernible] (31:33).

At the same time, with us, our first-time buyer average contract price is higher than our average contract price with our existing owners, because our existing owners are essentially topping off their tank by buying additional points to add to what they already have. So we had already – we had always anticipated [indiscernible] (31:59) road show that we did a year and a half ago, we said that we aspired to get back to more of that 50/50 mix. So we have been working [indiscernible] (32:12).

We've made a commitment to the investment community that we want to improve our development margin. So we didn't want to [indiscernible] (32:21) opening up a lot of first-time buyer channels that were not cost-efficient. And at the same time, we wanted to try to get more first-time buyers. The way the sales organization is managing [indiscernible] (32:35) is a combination of revenue growth and cost control. They are virtually equally weighted in terms of how their compensation programs work.

So if you think that through, we want more sales on the top line but we also want to do them at the appropriate sales and marketing costs, which is given certain targets that we've established for them.

So while it might be tempting for a sales person to go out and simply get kind of that high cost, high volume sale, it – they get pulled back because they say "Well, wait a minute. That's going to – I'm going to get messed up in terms of my compensation because my sales and marketing costs are not going to work right." So we've had those metrics in place for a long time. We believe that it's the right way to do it. We continue to kind of tweak those on a year-over-year basis based on specific things we want to try to accomplish, but that's essentially the approach we've used. Did I touch your questions? Bob? Hello?

Robert A. LaFleur
Analyst, Cantor Fitzgerald Securities

Q

Yes. Sorry about that, guys. You had a bit of a phone issue there, so you faded in and out a little bit, but I think I got most of it. And I have one more question, which is much simpler and much shorter, and that's if you could give us an update on the land sale program, expected timing, and proceeds, how you're thinking about that now versus when you were looking at it [indiscernible] (33:59)?

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

A

Yes. Our view has not changed materially. We still think that it's between $150 million and $200 million over the next several years. We continue to get a fair amount of interest on many of our parcels. One of the things that we have said, and just so that everybody knows, we will announce a land sale when it closes, not when we have either a letter of interest or a letter of intent or a contract. We'll announce it when we close, because as you know, these things can go bump in the night at the last moment. But I'm happy to report that there – the level of interest has not only remained the same, it's actually gotten a little stronger and we still feel very confident about those numbers.

Robert A. LaFleur
Analyst, Cantor Fitzgerald Securities

Q

Thank you.

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

A

Thank you.

Operator: Thank you. [Operator Instructions] And our next question comes from the line of Chris Agnew with MKM Partners. Please go ahead.

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

A

Hi, Chris.

Chris Agnew
Analyst, MKM Partners LLC

Q

Hi. Good morning. Can I follow up on the tax benefit this year and just – is that one-time in – a permanent one-time benefit this year or is that reversing anytime soon, and what are the implications from the tax planning that you're putting in place for 2014? Thanks.

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

A

Yes, Chris, it is – it's actually, there is going to be future benefit out of it. There is some higher one-time benefit this year due to – the regs changed a little bit in 2012, which allows us to recapture what we did in 2012, as well as obviously get the benefit here in 2013. But the way to think about it in terms of reversing, as long as we're in the financing business, right, you're going to be originating new notes, and all this is effectively doing is putting you on a cash basis for tax so that on sales that we finance we take the note, while we'll now pay the taxes when we receive the principal collections or collect that sales price, if you will, on those notes.

So it should, over time; it'll continue to build, and that's why on a more normalized basis, I think last time we had said expect our cash taxes in our provision are – basically to be the same on a more normalized basis. And then we've adjusted it now so that there's about $10 million or so of – on a more normalized basis of positive cash flow, because we think we'll continue to get that over the foreseeable future.

Chris Agnew
Analyst, MKM Partners LLC

Q

Got you. And just to clarify, what should we be thinking about in terms of the provision in – just for the income statement?

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

A

For this year?

Chris Agnew
Analyst, MKM Partners LLC

Q

For the full year.

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

A

Yeah, for the full year, we're probably a little bit over 40%, give or take, call it 40.5%. And most of the improvement there from what we've been seeing is in the international area, which has hurt us in the past, if you remember, in terms of a higher effective rate due to some of the changes we've made in Europe and Asia. And now we'll have more tax, more income internationally, as well as we did get some favorable lower tax rates in one foreign jurisdiction that's going to bring down that effective rate here this year.

Chris Agnew
Analyst, MKM Partners LLC

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Okay. Got it. Thanks. And then, can I – sort of a minor point, but can you talk about the extended rescission in Europe? Was there a change there or what was the change year-over-year in your reported results? And then also, what are the implications for the third quarter stroke, maybe the second half of the year, if any?

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

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Yeah. There shouldn't be any implications related to the reportability issue going forward just because we put the right documentation in place. So I wouldn't expect from a reportability to see anything going forward. The – there were changes that occurred in the regulations over in Europe. And so, part of what caused this extended rescission period was the fact that some of the documentation was incomplete that we had provided. We did an internal review, and upon finding the issues, we corrected that here in the second quarter.

From a GAAP perspective, it just becomes a timing issue, because as I mentioned, the overall contract sale volume that rescinded because of this period that was extended was a $2 million in contract sales or about $1 million or so of profit. So obviously, we have that inventory to resell, but all we've done is – for this year and then the prior year numbers will be adjusted as we go forward for comparability purposes, is recast that revenue recognition based on those extended rescission periods. Because obviously, we didn't know there was an issue when we recorded that revenue originally so we used the normal rescission period. But GAAP now, since we found out afterwards, caused us to go back and kind of recast it.

So it makes, for reported GAAP purposes, it very lumpy, and that's why we've kind of adjusted it back to really what went on from a pure economic perspective in terms of when the contracts were signed, when we closed on them, and how that revenue originally flowed through the P&L.

Chris Agnew
Analyst, MKM Partners LLC

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Okay. Got it. Thank you.

Operator: Thank you. [Operator Instructions] And I am showing no further questions. Please continue.

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

Okay. This is Steve. And so as you've heard, we are very pleased with our first half of 2013 and we look forward to reporting our progress in the second half of the year. And thank you again for your participation on our call today and your continued interest in Marriott Vacations Worldwide. And finally, to everyone on the call and your families, enjoy your next vacation. Thanks.