Marriott Vacations Worldwide

Third Quarter 2020 Earnings Call

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Jared Shojaian, *Wolfe Research*

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PRESENTATION

Operator

Greetings. Welcome to Marriott Vacations Worldwide Third Quarter 2020 Earnings Call.

At this time, all participants are in 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. Please note, this conference is being recorded.

I will now turn the conference over to Neal Goldner, Vice President of Investor Relations. Thank you, you may begin.

Neal Goldner

Thank you, Sherry, and welcome to the Marriott Vacations Worldwide Third Quarter 2020 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 last night along with our comments on this call are effective only at the time issued 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 and the schedules attached to our press release, as well as the Investor Relations page and the financial information page on our website.

It's now my pleasure to turn the call over to Steve Weisz, President and CEO of Marriott Vacations Worldwide.

Stephen Weisz

Thanks, Neal, and good morning, everyone.

For some time now we've been telling investors that we have a resilient business model. Looking at the performance of our stickier resort management, financing and exchange membership revenues this quarter, coupled with the recovery in contract sales, rentals and exchange transactions, I believe we took a significant step forward in proving our point.

Following the challenging second quarter when COVID was still new to many of us, our third quarter saw significant improvements in both our vacation ownership and exchange businesses, with revenues and margins delivering meaningful improvements compared to the second quarter. While we still have a long way to go before we fully recover, the third quarter was a major next step in that journey.

Let me start with our vacation ownership business.

Ever since the start of the pandemic, we have believed a typical timeshare unit with much larger square footage than the average hotel room and more amenities such as full kitchens and laundry facilities, coupled with the prepaid nature of our offering, positioned us to lead the recovery in the lodging sector. I think our third quarter resort occupancies are proof of that. In fact, not only did we see strong occupancies across many of our drive-to resorts, we also saw occupancies at a number of short haul fly-to locations as well.

To give you a few examples.

Occupancy at our Florida beach resorts averaged in the mid 60% range in July and improved to around 70% for September. Our South Carolina resorts ran around 70% occupancy for July and increased to roughly 75% in September. Occupancy at our mountain resorts began the current quarter strong at nearly 75% and improved to around 80% in September, and our Newport coast resort in Southern California had strong occupancy throughout, averaging 80% for the quarter.

But the recovery in the quarter wasn't confined to just the continental United States. For example, our Western Los Cabos resort ran nearly 50% occupancy in September, and our U.S. Virgin Island resorts were running roughly 70% occupancy in July and August until the local government shut the island down for visitors for 30 days. Once the closures were lifted, occupancies quickly moved back into the 70% range, illustrating our owners' willingness to fly to their vacations.

But two of our larger markets, Hawaii and Orlando, continued to be challenged during the third quarter. Orlando, which is one of our larger markets, averaged around 25% occupancy in the third quarter.

September did recover to around 30% during the month, and that improvement has continued into the fourth quarter with October occupancies running in the 40% range. In Hawaii, occupancies were in the single digits during the third quarter as non-resident visitors were required to self-quarantine for 14 days upon arrival. Hawaii did reopen its doors to visitors on October 15, and we've seen a gradual build since then, with occupancies averaging in the high 30% range over the last couple of days of the month, with our resort on Oahu already exceeding 65% occupancy this past weekend.

With occupancies beginning to improve in June and continuing across the third quarter, we reopened 36 sales centers in July, adding another four between August and September, followed by the reopening of seven Hawaii sales centers in mid-October. This leaves only a handful of our smaller and some urban sales centers yet to reopen.

VPGs were again very strong during the quarter, increasing 13% year-over-year, and North America VPG was up nearly 30% excluding Hawaii, benefiting from the higher mix of existing owners, higher promotions, and our decision to bring back our highest-performing sales associates first.

Tours improved substantially from the second quarter, and we had nine sales centers generate at least 75% of their prior year sales this quarter, including two that actually exceeded last year sales, driven by strong occupancies at those resorts. As a result, contract sales were $140 million in the quarter, representing a meaningful recovery from the second quarter.

Within the other parts of our vacation ownership business, our stickier management fees delivered 4% revenue growth in the quarter. Our financing revenue declined 9% in the quarter, a sharp contrast to the decline in contract sales, reflecting the recurring nature of this high-margin revenue stream.

Our Interval International business also experienced a notable recovery during the third quarter. Interval exchange transactions were up 1% on a year-over-year basis, including a 20% improvement during the month of September. This reflected members' desire to travel, as well as some pent-up demand now that more than 90% of Interval's affiliated resorts have reopened.

Active members were down 2% from the June quarter, while member retention improved compared to the prior year. Normal attrition was not offset by new members coming from the developer sales channel due to resort closures or their decision to close sales during the pandemic.

Average revenue per member increased 22% sequentially from the second quarter, reflecting the recovery in member transactions and getaway rentals. But even more encouraging is the fact that Adjusted EBITDA margin for this segment improved 180 basis points year-over-year this quarter. I view that as an impressive accomplishment in the midst of a global pandemic.

Before turning the call over to John, I want to talk about our synergies and our incremental cost savings opportunities which we announced yesterday. The pandemic has caused us to operate very differently and has caused us to think about what doing business in a post-COVID world might look like. We also sharpened our pencils during this time and uncovered additional synergy and cost saving opportunities. As a result, we increased our synergy and cost savings target to at least $200 million, $75 million above our previous goal. We expect these to be permanent cost savings that will not return with volume and will help us drive substantial margin improvement going forward. I'll let John discuss this in more detail in a moment.

Now that we've reopened most of our sales centers, let's talk about where we go from here. We still have a few sales centers that haven't reopened, and I suspect some of those won't reopen until next year. But with most of our major locations up and running, I expect us to continue to grow contract sales going forward. We expect tours to increase substantially compared to the third quarter, driven by a combination of higher package tours and increased occupancies. Interval exchange transactions were up double digits for the months of September and October, which is encouraging. Owner and exchanger reservations for

the fourth quarter are roughly 93% of those on the books at the same time last year. Hawaii, which represented more than 20% of last year's contract sales, reopened on October 15, with encouraging occupancy trends thus far, while Orlando continues to improve. We continue to see increased bookings for the upcoming holiday weeks, with a number of destinations already at capacity for Christmas and New Years, and Hawaii and Orlando are looking to be above 80% occupancy with two months still to go.

Finally, our owner confidence and future travel survey recently reached its highest level. This survey has been proven to be a strong leading indicator of near-term resort occupancies since it launched in March. In a separate survey, 73% of timeshare owners said they plan on traveling in the next 12 months, with nearly one-third having already booked vacations within the next three months. All this gives me added confidence in the continued recovery of our business.

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

John Geller

Thanks, Steve, and good morning, everyone.

Today I'm going to review our third quarter results, the recovery we've continued to see across our business, our expanded cost savings initiatives, and the overall strength of our balance sheet and our liquidity position.

Our third quarter results reflect a strong sequential improvement from the second quarter, illustrating the resiliency of our business, with resort occupancies, contract sales, and exchange revenue all improving from the second quarter. As a result, we reported $35 million of Adjusted EBITDA for the third quarter, once again demonstrating the strength of our leisure-focused business model.

Looking first at our vacation ownership business, our stickier resort management and financing businesses once again provided a strong contribution to our results this quarter, enabling our vacation ownership segment to deliver $28 million of Adjusted EBITDA. As we mentioned on our last call, we reopened eight sales centers in June followed by an additional 40 sales centers over the course of the third quarter. As Steve discussed, occupancies were strong in many of our drive-to and fly-to resorts during the quarter. But with Hawaii practically closed to non-resident visitors throughout the quarter, and occupancy at Orlando being much lower than normal, tours declined nearly 70%. With owners representing 75% of the total tours this quarter compared to just under 50% at the same time last year, VPG was up 13% despite a tougher comp because of the Hawaii closures.

Excluding Hawaii, North America VPG was up nearly 30% year-over-year. We delivered total contract sales of $140 million, down 64% year-over-year, but up substantially from the second quarter. And even with the lower contract sales, we were still able to deliver a 5% adjusted development margin through our aggressive cost management efforts.

Our resort management business generated $55 million of profit in the quarter, 12% lower than the prior year as the 4% increase in our stickier high-margin management fee revenues was offset by a decline in ancillary profit as a result of lower occupancies and limited operations at many outlets. However, even with these limited operations, we generated $1 million of ancillary profit in the quarter, $7 million higher than the second quarter. Revenue at our high-margin financing business declined 9% in the quarter, significantly better than the decline in contract sales due to the stickier nature of these revenue streams, and financing profit was $40 million.

As I've mentioned in the past, the majority of the financing revenue we generate in any given year comes from prior year note originations. Even with a 64% contract sales decline this quarter, our financing business held up well. Meanwhile, we continue to work closely with owners who have temporarily lost their income due to the virus, deferring loan payments where we can. By the end of the quarter, roughly

1.4% of our borrowers had taken advantage of this program, speaking to the creditworthiness of our owners. In addition, nearly 40% of these borrowers who had a payment due by the end of the quarter had made it, which is also a good sign.

Finally, in our rental business, transient keys rented were down 61% during the quarter due to the pandemic, but were up substantially on a sequential basis, reflecting the recovery we're seeing in our rental business. Transient rate was down 10% year-over-year, but here, too, we saw an improvement from the second quarter. For the third quarter, our rental business generated a $40 million loss, a $35 million improvement from the second quarter, and I expect the loss to narrow further in the fourth quarter.

Turning to the exchange and third-party management segment, exchange transactions at our Interval business were up 1% in the third quarter, average revenue per member was down 10% primarily due to the redemption of COVID replacement certificates that didn't require customers to pay an additional transaction fee, as well as the decline in getaway rentals. Exchange transactions increased roughly 20% in the month of September over last year, and average revenue per member increased 3%. As a result, Adjusted EBITDA was $31 million in the third quarter, with margins improving 180 basis points year-over-year on lower revenues, reflecting the recovery in this business and our cost savings initiatives.

G&A declined 42% from the prior quarter. We achieve this primarily through a combination of synergy savings, lower costs associated with furlough and reduce workweek programs, a $5 million tax credit under the CARES act and lower spending across the business.

Moving to our balance sheet, we ended the quarter with over $1.3 billion in total liquidity. This includes $660 million of unrestricted cash and $62 million of gross notes receivable that were eligible for securitization, which when combined increased our liquidity by $109 million in the quarter. We had $4.4 billion in debt outstanding at the end of the third quarter, including $2.7 billion of corporate debt, and $1.8 billion of non-recourse debt related to our securitized notes receivable. We had no corporate debt maturities until September 2022, which is our convertible notes and that's only $230 million dollars. From a leverage perspective, our secured debt to Adjusted EBITDA was 2.4 times, which is below our 3 times covenant requirement. As a reminder, we also amended our credit agreement in May to suspend our first lien covenant through the first quarter of next year.

As we've discussed in the past, the acquisition of ILG resulted in our combined vacation ownership business having $160 million to $220 million of excess assets. By the end of last year, we had already generated more than $60 million of disposal proceeds and we made further progress during the quarter, disposing of several parcels of land for $15 million of proceeds at values that were in line with our pre-COVID expectations. We expect the disposal of the remaining assets to generate around $90 million to $140 million over the next couple of years.

When the pandemic hit, we were well on our way to delivering over $125 million of run rate synergy savings by the end of 2021. But the pandemic caused us to temporarily stop some of the work on these initiatives, providing us an opportunity to further challenge how work could get done more efficiently. We've been extremely focused on these efforts and have identified ways to drive more synergies and other cost savings. As a result, we've increased our synergy and cost savings target by $75 million to $200 million, with the additional $75 million continuing to only include hard cost savings that we expect to be permanent in nature.

We've already started working on a number of ideas that will take us from our current run rate savings of $80 million dollars at the end of the third quarter to around $100 million dollars by the end of this year and we're still targeting to have all these cost savings in place by the end of 2021. While the list of projects is numerous, many of them share a common theme: strategically increasing our use of technology across our Company to do things more efficiently to improve our margins going forward.

Now before we move to Q&A, I'd like to talk about our expectations for the fourth quarter. Because of the uncertainty caused by the pandemic, we still have limited visibility on the trajectory of the recovery. Also, with so many people working from home and remote schooling for many children, it's possible the traditional fourth quarter seasonality of the business could be different this year. While most of our sales centers have reopened, Hawaii is just beginning to ramp up and while Orlando occupancies improved to roughly 40% in October, it remains well below last year. These two markets represented roughly 40% of last year's fourth quarter contract sales. Given this, contract sales could increase sequentially by roughly 15% to 30% in the fourth quarter, to be between $160 million and $185 million.

In our resort management business, we expect higher margin management fees to increase in the fourth quarter on a year-over-year basis, while ancillary revenue should improve around 20% from the third quarter. As a result, we expect our VO management and exchange profit to improve slightly from the third quarter. With transient rentals continuing to recover, we expect rental profit could improve $10 million to $20 million over the third quarter, in part by the reopening of Hawaii. Profit in our finance business is expected to be between $35 million and $38 million in the fourth quarter, reflecting the relative stability in our finance profits.

Turning to our exchange and third-party management business, transactions at our Interval business were up roughly 20% on a year-over-year basis for the month of September, and were up 10% in October. However, depending on seasonality and the revenue drag from COVID replacement certificates that I mentioned earlier, EBITDA could be down slightly on a sequential basis in the fourth quarter.

Finally, with all the cost reductions we've implemented, G&A could be down in the 50% range in the fourth quarter compared to last year.

Turning to our cash flow outlook, with most of our sales centers now opened, we now expect to generate at least $130 million of total cash flow for the second half of the year.

With that, Steve and I will be happy to answer your questions. Sherry?

Operator

Thank you. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the queue. You may press star, two if you would like to remove your line 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 is from Ben Chaiken with Credit Suisse. Please proceed.

Stephen Weisz

Morning, Ben.

Ben Chaiken

Hey, how's it going? Thanks for taking my question.

I guess the cost savings side of things. You mentioned these costs will not come back with volume. I think, just to confirm, does that imply that you don't need 2019 levels of demand either to get these? Then just number two on timing, I think you were saying completion by the end of '21. Were you saying all-in or run rate by the end of '21? Thanks.

John Geller

Sure. Yes, you're right, we're looking at it- if you go back to 2019 volumes, they would be on those cost reductions. So permanent in nature. We can get back to the volumes that we had in 2019 with permanent cost savings, leveraging technology, doing things more efficiently. There's a lot of initiatives in there.

In terms of the timing, we obviously took a pause here on a lot of these initiatives to preserve cash flow. With people being out on furlough and reduce work weeks, we're starting to ramp those up. We see a path forward. Our goal is still to try and get, as a run rate, the full $200 million or more run rate by the end of next year. But we'll continue to update you. The good news is we see a path forward to $200+ million, and we're still trying to get there by next year. But obviously there's a lot of work that we need to get done.

Ben Chaiken

Gotcha. I appreciate it. Then I guess in the slide deck, you mentioned three buckets, I think marketing, technology, and IT infrastructure. Is there any more color on any of those buckets that you're able to provide at this point?

John Geller

No, I mean, you look at it high level, we were back at the beginning of the year with the $125 million or more. Obviously, the “or more” we were working on a lot of things internally, and we saw a path forward even back then for probably another $25 million to $30 million of synergies around some of the same things that were in the $125 million, right. The common theme is, where can you leverage technology and drive more efficiencies? That's really across the board, whether it's on the back of the house, some of the F&A stuff, clearly in our in our IT area, and how we how we support the business going forward. But even on the operations side, within marketing and sales and really challenging not only our marketing approach and how we can leverage technology to be more efficient, but also org design and things like that. It's probably a list of 40-plus projects, a lot of them in the couple-million dollar range here and there, but they're, like I said, there's a way to get there, and we're going to move as quickly as we can.

Ben Chaiken

Got it. I appreciate it. Thanks a lot.

John Geller

Thank you.

Operator

Our next question is from Jared Shojaian with Wolfe Research. Please proceed.

Stephen Weisz

Hi, Jared.

Jared Shojaian

Morning, everyone. Good morning.

John Geller

Hi.

Jared Shojaian

Can you give us the contract sales change by month in the quarter and for October? Is it your expectation based on what you're seeing, what's on the books, that November and December will look better than October? And I realize there's some seasonality there so I'm referring more to the year-over-year change.

Stephen Weisz

Yes, I don't I don't have a …

John Geller

Yes.

Stephen Weisz

Month-to-month sequencing here in front of us, Jared, we can certainly get that to you. I'll have Neal follow up with you on that. I think the essence of your question is what causes the $140 million we ran in Q3 to become between $160 million and $185 million in Q4, right?

Jared Shojaian

That's fair. Yes, I think the genesis of the question was that, and as well as just trying to understand with rising COVID cases here too, if you've seen that sequential improvement continue throughout October into November and December as well, just based on what you're seeing on the books?

Stephen Weisz

October exceeded our internal forecast by a not insignificant amount, which gives us some level of confidence. I mean, obviously, the one thing that none of us has any visibility into is, if there is a huge spike in cases, if there's a meaningful cutback in travel or local government regulations, etc., I think all bets are off and I would say that for not only our business, but lots of businesses.

But what we've done is we've taken the October results, we have then looked at future bookings in terms of not only occupancies but also tour arrivals for November and December, and we have tried to factor in what we think a penetration rate would be on occupancy for in house tours, as well as those package tours. We've applied a VPG number to them and we've come up with what we believe is not an insignificant 15% to almost 30% improvement in contract sales in the fourth quarter.

Keep in mind, in October, we only had two weeks of Hawaii being open. Even that, it took them a while to get ramped up. I would think there is some strength in Hawaii that we should see come through to help that number. In addition, as I reported, as we look at the back end of the year here in Orlando, we see some numbers improving here as well. You put all those things together, throw them in the sausage grinder and that's what comes out of the other end in terms of our forecast.

John Geller

Yes, and just on the seasonality, typically in the fourth quarter we would have a little bit of seasonality. Typically, November's a little bit softer and obviously you have the holidays around Thanksgiving and year-end. But it's not a normal fourth quarter, right, we're in a recovery period. To Steve's point, we're looking at occupancies, which generally in some resorts could be increasing sequentially, specifically as we talked about Hawaii and Orlando versus a normal fourth quarter and the other phenomenon, and it's more anecdotal, but I've heard of people that up in the northeast, their kids are doing school remotely, they're working remotely. People are coming down to Orlando, doing things remotely, and then going to the parks and taking advantage of that. So it isn't a normal quarter, which also makes it very hard. Steve

walked you through how we pulled it together. But it's going to obviously depend on people continuing to travel and go on vacation.

Jared Shojaian

Great, thank you for that. Then I want to ask a question just on Hawaii. I appreciate all the helpful commentary and stats that you've provided, and it does seem like Hawaii is slowly starting to improve nicely here sequentially. Is it your expectation that maybe by the first quarter Hawaii looks a lot more like some of your other beachfront/mountain resorts where you're a lot closer to prior peak volume levels on occupancy? Then, I guess also on Hawaii and the rental segment in particular, rentals were a pretty good story here in the quarter sequentially. Does Hawaii have an outsized impact on rentals? Or should I assume that the contract sales mix for Hawaii is pretty similar on the rental side?

Stephen Weisz

Yes, the broad answer to your question is we sure hope so. Keep in mind, even when Hawaii re-opened their doors on October 15, you had to have a negative COVID test within three days prior to arrival. That does put some dampening effect on people even going there as we speak. We hope that that restriction will be further relaxed. I mean, Hawaii has always been a very, very popular vacation destination amongst our older group as well as exchangers. It runs a very high annual occupancy. I mean, the good news about Hawaii is there's very little seasonality impact. I have every reason to expect that as soon as people get comfortable getting on an airplane, and as I reported in my remarks, I mean, we've already seen some of that, particularly in kind of the short haul stuff, that Hawaii will come back in full force. That should benefit not only contract sales, obviously all of our ancillary businesses at the resorts, and clearly on the rental business, although as owners occupy more inventory in Hawaii, the amount of rental inventory that we have available is somewhat limited. When we do have it, it comes at a very nice average daily rate.

Jared Shojaian

Okay, thank you very much.

Stephen Weisz

Thanks, Jared.

Operator

Our next question is from Brian Dobson with Jeffries. Please proceed.

Brian Dobson

Hi, good morning.

Stephen Weisz

Hi, Brian.

John Geller

Hi, Brian.

Brian Dobson

Hey. I think the industry has learned a lot from this downturn and as you're looking out over the next few years, how do you see the business evolving and changing? Do you think there's room for a shorter duration product? What kind of role can digital marketing play? How will that expand over the next couple of years when you're thinking about it?

Stephen Weisz

Yes, I've always been of a belief and I've been on record with this at conferences, that a shorter term product is something that is in the future on a more prevalent basis across the business. Keep in mind, with us, because we have a points-based product, if somebody wants to go spend one night at one of our resorts, they can do that. And you don't have to buy a full one-week equivalent of points to become a member with us. So in a sense, we have a short-term product availability. We don't market it quite that way, but we clearly think that there is something.

And when you say shorter term, I think the other thing is we sell a lifetime product, and I think what you're referring to is somebody says, "Well, I only want to buy it for five years, or seven years, or 10 years." There are certain accounting rule things that have to get over the hurdle on all that. But I do believe eventually that that's in the future for the industry. The industry continues to evolve, just as it did from when it used to sell fixed week, fixed unit kind of stuff, to where we find ourselves today. I think the industry will continue to move in a direction where there will be— think of it this way; a short term product could be an entry point for people and then once people get to like it, which our evidence has shown once people buy it they like it a lot, then they would eventually transition into more of a lifetime product.

I'm sorry, your second half of your question was what?

Brian Dobson

Just on digital marketing.

Stephen Weisz

Oh, yes, on digital, yes. I think one of the advantages, in a perverse way that we saw with being able to better utilize some of our digital tools was in things, something as simple as having real time notification aspects for our owners about changes in local municipality rules and regulations about what people had to do when they came to one of our resorts, etc. I mean, if you had to rely on the more traditional approaches that the industry has used, and whether it's been in telephone calls, or printed materials, etc., it would have taken forever and a day to get to our ownership group with these changes. In here, you're able to do it rather instantaneously and very broadly in a very inexpensive way.

One of the things we saw, I think you may recall, we said on our second quarter call that we had, in an interim period when our resort sales centers were closed, we had dialed up an - excuse the expression, that’s a pun - we had dialed up an enhanced phone outreach program to owners that proved to be relatively successful for us. I think that's another meaningful tool in our tool belt to be able to use going forward. And I think when you're looking at, as you are well aware, marketing costs in this business are not insignificant. I think as we can continue to go down the path of generating interest in tour flow through digital channels, it'll be much more cost effective than some of the traditional ways we have approached it. I'm very encouraged by what I see there. While the pandemic may have caused us to get some stuff earlier than we had anticipated, I think that's, in the end, a good step forward.

Brian Dobson

Great. Thanks very much.

Stephen Weisz

Thank you.

Operator

Our next question is from Brandt Montour with JP Morgan. Please proceed.

Stephen Weisz

Good morning, Brandt.

Brandt Montour

Good morning, everyone. Hey, good morning. Thanks for taking my questions. Just going back to one of Jared's questions, and maybe asking another way, what is imbedded in the $160 million to $185 million for Hawaii, at least qualitatively?

Stephen Weisz

While I appreciate your question and why you're asking it, we don't disclose market-by-market forward-thinking sales forecast, except to say the following: we believe that Hawaii will meaningfully outperform Q3. I think that goes without saying, given the fact that there was virtually no volume in Q3 out of Hawaii. But I'm not going to give you a specific number.

Brandt Montour

Yes, that's why I said it could be a qualitative answer. I mean, I think some of your peers have said that contribution from Hawaii would be low even though it's open, just because of how slow the ramp would be. I was curious as if you guys were penciling in a fair amount of ramp in there. But that's a fine answer.

Stephen Weisz

Let me just add. I think if you look at our representation of our product, and what it means to us in terms of sales, I think we probably have a, with the exception of maybe Hilton Grand Vacations, we probably have a higher concentration of product and sales volume out of Hawaii than some of the others do. So I think it will be meaningful. Will it be equivalent to what we traditionally run in Hawaii in the fourth quarter? Absolutely not, for all the reasons we talked about before, but I think, I mean, we're hoping, and you saw that the range is $160 million to $185 million. That's a little larger range than we would typically put out there and some of it's because of the unknown factor of just how quickly some of this stuff will come back up. But we think it's going to be material and helpful.

Brandt Montour

Got it. Thank you. That's helpful. I appreciate that. Then second question would be on just a clarification, and a follow up. The bookings, I think you gave a booking stat at 92% of usual business would be on— is on the books, or was that— I guess the real question I have is, for the next three quarters, how much for the whole system, how much bookings you have on the books versus a year ago?

Then the second part of that question is, and I think I know the answer, but just can you touch on cancellations very, very near term, if you're seeing anything that may be related to virus prevalence? Others have said they haven't seen the same uptick in cancellations similar to early summer, but I just want to make sure.

Stephen Weisz

Yes, I'll answer the second part of your question first. We're not seeing any material impact from short term cancellations because of the virus. I won't say there aren't any, but they are not significant in nature. The number I gave you, the 93% number was looking at the fourth quarter number for owners and exchangers versus where we found ourselves at the same time last year looking at the same two categories. We have not disclosed what we think the first half of the year is going to look like and I think as we get closer to the end of the year, we'll have better visibility in that. I will tell you just anecdotally that obviously bookings are up. But I'm not going to give you a specific number.

Brandt Montour

Thanks very much, guys. Good luck. I appreciate it.

Stephen Weisz

Thank you.

Operator

Our next question is from Chris Woronka with Deutsche Bank. Please proceed.

Stephen Weisz

Hey, Chris.

Chris Woronka

Hey, hey, good morning, guys. I don't know how much color you can or want to give us on this, but as we think about going forward on sales center efficiency and productivity, is there any way to gauge— do you think you're going to have fewer salespeople per sales center? Is there any way to gauge volume per salesperson? Or any other metric?

Stephen Weisz

Yes, the way in which we staff our sales centers is based on what we project to be our tour volume on any day, week or month. What you hope for is that you can continue to improve your closing efficiency, which makes you obviously, you get better efficiency out of your total tour volume that comes to you, which would equate to maybe a fewer number of salespeople. But I think you may recall that we talked about some of the efforts we were putting forward in the Vistana business to try to improve our operations there. We were clearly making very good progress in that before the pandemic hit. Obviously when we shut everything down at the end of April, and then started to dial back up this summer, we didn't have the full benefit of being able to do the rest of that, but that work continues on.

Unless we can get to a point where - and this is all hung up on state licensing regulations and everything else - unless you get to a point where existing buyers can conveniently buy product digitally without having to talk to a salesperson, and there's broker laws and all that, that really get in the way of all this, I don't see that there's going to be any meaningful impact on the number of salespeople. We continue on our quest to try to get more first-time buyers. First-time buyers, by definition, want to come see the resort, experience it, kick the tires and so you need people there to be able to have that dialogue as well.

I mean, I'll just give you a statistic for what it's worth. Even in October when the bulk of the occupancy that we've had has been to our existing owners, even October, first-time buyers were almost 28% of our

tours and about 21% of our volume. I hope I'm answering your question, but I don't see a sea change there about sales executives and the need for them in our sales centers.

Chris Woronka

Okay, yes, no, appreciate all that detail. Then, follow up is, have you seen any big changes in terms of what people are looking to buy when they come? Are they looking to buy enough points for a larger unit or a different location, closer to home, further away from home? Is it too early to tell if there's any big seismic shifts on buyer behavior?

Stephen Weisz

No, we haven't seen anything in terms of a major shift in buyer behavior. Keep in mind that, particularly over the summer, the bulk of the people we've been talking to are, as I said, our existing owners that are back at our resorts. They typically have a lower purchase annual for the contract because they're simply adding points to a portfolio. But for the first-time buyers, the numbers are not materially different in any way, shape, or form from what we've seen prior to the virus. Typically, I think you know this, but over a period of the first five years, the average sale going in is about $30,000. Over the next five years, typically somebody will generally buy another $20,000 worth of the product. We haven't seen any change in that, probably too soon to see anything of a significant nature, but we wouldn't anticipate it.

Chris Woronka

Okay, very helpful. Thanks, guys.

Stephen Weisz

Thank you.

Operator

Our next question is from Patrick Scholes with SunTrust. Please proceed.

Stephen Weisz

Hi, Patrick.

John Geller

Good morning, everyone.

Patrick Scholes

Looks like you're generating some significant or not insignificant cash flow in the back half of the year here. How are you thinking about allocation of that cash flow going forward? Thank you.

John Geller

Hey, Patrick. Yes, I mean, nothing's changed in our thinking. I think, if anything, just the recovery, the resiliency, we still feel good about our long-term leverage targets and all that. Obviously we have a restriction on returning capital here while the covenant relief we have on our revolver is in place, which we can opt out early depending on the recovery, but that's at least through the first quarter. But I think as cash flow continues to come back, we obviously have excess liquidity now. We expect, assuming there isn't another shut down here, that we will generate cash flow going forward here, just even at these levels.

We're in a great spot. When the time's right, we'll always continue to look to reinvest money to grow the business. And if there's acquisition opportunities, things like that, that have the right returns and the right strategic fit, that's something we're going to look at, and then short of that I would expect we'll get back to the dividend and buying back shares.

Patrick Scholes

Okay, thank you.

Operator

Our next question is from David Katz with Jefferies. Please proceed.

Stephen Weisz

Hey, David.

David Katz

Hi, good morning, everyone. I think our questions have been asked and answered, particularly the prior one about capital allocation. So I'll give someone else a chance. Thanks very much.

Stephen Weisz

Okay, thank you, have a good one.

Operator

That is all the questions we do have for today. I would like to turn the conference back over to Management for closing remarks.

Stephen Weisz

Thank you very much, Sherry. Thank you to everyone for joining today's call. As I've said in the past, people like to vacation, especially timeshare owners, and that's what our business is all about. I think the recovery we delivered this quarter is evidence of that. In the midst of a global pandemic, our vacation ownership business delivered sequentially higher occupancies, increased revenues, and $140 million of contract sales this quarter, while our Interval International exchange business improved its EBITDA margin by 180 basis points on a year-over-year basis. And maybe the best example is our expectation to deliver at least $130 million of cash flow in the second half of this year. We've also increased our synergy and cost savings goal to $200 million, a $75 million increase from our previous goal.

Looking towards the fourth quarter, Orlando continues to gradually improve, Hawaii has reopened its doors to travelers, and we expect systemwide occupancies to continue to improve. As a result, we expect contract sales to grow by roughly 15% to 30% in the fourth quarter compared to the third.

As always, thank you for your interest in Marriott Vacations Worldwide. Take care of yourselves, and finally, to everyone on the call and your families, stay safe and enjoy your next vacation.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time and thank you for your participation.