

Marriott Vacations Worldwide
First Quarter 2022 Earnings Conference Call
Friday, May 6, 2022
8:30 a.m.

Presenters

Steve Weisz, Chief Executive Officer

John Geller, President

Tony Terry, Executive Vice President, and Chief Financial Officer

Q&A Participants

Patrick Scholes - Truist Securities

Benjamin Chaiken - Credit Suisse

Chris Woronka - Deutsche Bank

Operator

Greetings and welcome to the Marriott Vacations Worldwide first 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 *0 on your telephone keypad. As a reminder this conference is being recorded. I would now like to turn the conference to your host, Tony Terry, Executive Vice President and Chief Financial Officer for Marriott Vacations Worldwide. Thank you. You may begin.

Tony Terry

Thank you and welcome to the Marriott Vacations Worldwide first quarter 2022 earnings conference call. I am joined today by Steve Weisz, Chief Executive Officer and our President, John Geller. I need to reminder 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 on 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 the 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. It's now my pleasure to turn the call over to our CEO, Steve Weisz.

Steve Weisz

Thanks, Tony. Good morning everyone and thank you for joining our first quarter earnings call. Before we share our financial results, I want to recognize the continued uncertainty in the world

today. From significant geopolitical issues, supply chain disruptions and inflationary pressures impacting our day-to-day lives to adjusting to a new normal as the pandemic wanes, the world definitely continues to be a complex place.

However, despite these uncertainties, I couldn't be more proud of our associates and their continued dedication to our owners, members, guests, and each other. I want to take a moment to acknowledge every one of them at our destinations across the world, our corporate and regional offices, and our sales centers. Their continued dedication is the driving force behind our success. While we are operating in a challenging landscape, there is something that remains true. People want to spend time and create memories together and one of the best ways to do this is through a vacation and we are perfectly positioned to make that happen.

As I look at some of the compelling statistics about the state of leisure travel right now, I see that despite some of the inflationary headwinds, Americans continue to spend on travel. In fact, in one survey, 61% of Americans said that travel will be a high budget priority over the next three months, reflecting strong, leisure demand. As specific to our owners, over 108,000 destination searches were completed on our owner website in March, a 20% increase versus March of last year.

So that tells me that demand for leisure travel continues to be robust. Consumer sentiment around international travel is also showing some green shoots and for us that means international travelers are starting to come back to key domestic markets like Florida and Hawaii. In fact, though not returning to pre-pandemic levels yet, according to the U.S. Travel Association, international travel to the U.S. is forecasted to be significantly higher in 2022 than it was in 2021.

So, let's transition to our results for the quarter. Adjusted EBITDA for the quarter totaled \$188 million and contract sales totaled \$394 million, both representing significant improvements over the prior year and exceeding pre-pandemic levels. In fact, even excluding Welk, and despite some headwinds from the omicron variant in January, this was the highest first quarter contract sales result we've had as a public company, showing the strength in our business. We continued to see strong occupancies in the first quarter in our vacation ownership business, even as inflation persisted, and gas prices rose toward the end of the quarter.

Our total occupancy levels were 88%, in line with pre-COVID-19 results, despite a lag in the recovery in certain urban and international markets. VPGs once again, far outpaced our expectations, reaching over \$4,700 in the quarter, showing the continued demand for leisure travel experiences and the relevancy of our product offering. At the end of March, we began pre-marketing our new combined product offering at our Marriott, Westin and Sheraton sales centers, and we expect to complete the development of the related technology and officially launch the product later this summer.

The combined product offering will bring our Marriott, Westin, and Sheraton branded vacation ownership products together, allowing owners of each product more flexibility across our InComm Conferencing

Marriott branded portfolio. Early feedback from owners has been quite positive to the offer of more destinations and flexible usage options. Before we move on to the Exchange in Third-party Management, I want to touch on the integration of the Welk and Hyatt vacation ownership businesses.

You may recall that we completed the acquisition of Welk Resorts just over a year ago and I am pleased with the significant progress we continue to make integrating the businesses under the Hyatt Vacation Ownership umbrella. This past April, we introduced Hyatt Vacation Club and rebranded Welk's vacation ownership program as the Hyatt Vacation Club Platinum Program, converting former Welk sales centers to now sell a Hyatt-branded vacation ownership product.

The Platinum Program includes expanded vacation benefits and access to a collection of upscale resorts in highly desirable vacation destinations. Most of these former Welk resorts are now available for rentals stays on [hyatt.com](https://www.hyatt.com) and beginning later this year, owners will be able to exchange their annual usage for World of Hyatt Loyalty Club points. We look forward to sharing a more in-depth overview of our new Marriott combined product offering as well as the Hyatt Vacation Ownership initiatives with you at our investor day on Thursday, June 16th at the New York Stock Exchange.

Moving on to Exchange and Third-party management, and specifically to Interval International, we experienced 9% year-over-year member growth as a result of the new agreements and affiliations that I discussed last quarter. In addition to these new affiliations, we just renewed our agreement with Westgate Resorts, one of the largest, privately- branded timeshare companies, thereby extend one of our most tenured affiliations for another five years. From an exchange perspective, inventory availability at Interval International continues to be challenging, primarily due to lower member direct deposits.

As you might imagine, lower owner travel during the pandemic has led to a higher than historical owner usage, as travel restrictions eased. That higher owner usage directly impacts member inventory deposits into Interval. However, despite the lower deposits, Interval has done a fantastic job managing the inventory they do have, with an inventory utilization of above pre-pandemic levels.

On the Third-party management front, I am pleased to announce that we closed on the sale of our VRI Americas business last week for approximately \$60 million of net proceeds, or 15 times 2022, full year adjusted EBITDA. As a reminder, VRI Americas is an independent manager of unbranded vacation ownership resorts which we acquired as part of the ILG acquisition in 2018. In 2021, after evaluating the growth prospects of VRI, relative to our other businesses, we entered into the process to find VRI a home with an operator that could better unlock its growth potential and provide enhanced value to its managed homeowner boards and associations.

Given VRI's limited contribution of the company's overall adjusted EBITDA, the sale does not impact our guidance for the year. I'd like to thank the VRI associates for their dedication to MVW InComm Conferencing

and their customers. Overall, I am very pleased with the strong start we've had to 2022, am excited about the innovations we have planned for the months and years ahead. And with that, I'll turn the call over to John to provide deeper overview of our first quarter performance.

John Geller

Thanks, Steve and good morning everyone. Today, I'm going to review our first quarter results and discuss the continued strong recovery we've seen across our businesses. After that, I'll turn the call over to Tony to discuss the strength of our balance sheet and liquidity position as well as provide color around our 2022 expectations. Starting with our vacation ownership business, while we did see some impact from the omicron variant in the early part of the first quarter, we still saw significant year-over-year improvement in all parts of the business, as our operations continued to recover and ramp back up to and, in most areas, exceed pre-pandemic levels.

Our product continues to resonate very well with customers and our tour channel optimization work, once again, has generated strong results. Tours were up 71% from the prior year, contract sales in the quarter grew 75%, to \$394 million, and contract sales for all of North America, even after excluding Welk, were over 7% higher than Q1 2019. Our VPGs remain strong, reaching \$4,706, up 9% sequentially. First-time buyers represented 29% of contract sales, a 300-basis point improvement from last year's first quarter and in line with the fourth quarter of 2021.

As I've mentioned in the past, growing first-time buyers is a key part of our overall strategy as they historically double their revenue contribution within the first five years of ownership. As we progress throughout 2022, we expect continued recovery of first-time buyer tours to pre-pandemic levels and higher demand from direct marketing offers has also produced strong package growth. As of the end of the first quarter, our package pipeline remains strong, at nearly 200,000 tours, with 40% of those packages already activated for future arrivals.

We saw a significant, year-over-year improvement in development profit, which increased to \$68 million in the quarter. Adjusting for the impact of approximately \$24 million of negative reportability, our adjusted development profit margin expanded by 780 basis points over the first quarter of 2021, to 28.3%, highlighting the benefits of more efficient marketing and sales spend, lower inventory costs, and our business transformation savings. As a reminder, since reportability is just a timing issue, the revenue and profit from these sales will be reflected in our second quarter earnings.

Turning to our vacation ownership rental business, total rental profit remained in line with the fourth quarter of 2021 and continues to recover. However, while domestic occupancies have average 90% for the quarter, given reduced rental inventory availability, due to higher owner usage, this part of our business still has room to improve to return to pre-pandemic profit levels. The stickier revenue portions of our vacation ownership business also performed well in the quarter.

Resort management revenue increased 34% year-over-year and profit increased 22%, to \$72 million, driven primarily by continued recovery in our ancillary businesses. Financing profit increased 31% in total from prior year, given the acquisition of Welk as well as our strong sales volumes. Excluding Welk, financing profit grew 7% organically. I'm also pleased to say that our portfolio continues to perform very well, with delinquency and default levels at or even below levels experienced in 2019.

Bringing it all together for the vacation ownership segment, adjusted EBITDA delivered \$199 million in the first quarter. With strong contribution from all parts of the business, we were able to deliver adjusted EBITDA margin of approximately 32%, nearly 360 basis points higher than Q1 2019. The quarter also benefited from the addition of Welk, which contributed \$24 million of contract sales and \$13 million of segment-adjusted EBITDA.

Turning to the Exchange in Third-party Management segment, active members at Interval increased 9% year-over-year as a result of the new affiliations we highlighted last quarter, while average revenue per member declined 6%. As Steve mentioned, not unlike what we are seeing in vacation ownership, increased owner usage is putting pressure on the volume of member deposits as people have increased vacation activity, post-pandemic. In addition, while our member base has grown from the new affiliations, it will take time to ramp revenues from those members, as many have already booked near-term travel plans.

Our Aqua-Aston business showed year-over-year improvement as well, as Hawaii continues to recover from the pandemic. As a result, segment-adjusted EBITDA at our Exchange and Third-party Management segment increased roughly \$2 million, or 4%, to \$43 million from the prior year quarter, with adjusted EBITDA margin remaining strong, at 57%.

Finally, similar to what we saw towards the end of 2021, our corporate G&A expense increased \$15 million in the first quarter, year-over-year, as a result of higher salary costs due to reduced work-week programs in the prior year, higher bonus expense, and a decrease in credits related to incentives under the CARES Act.

However, given our synergy efforts, corporate G&A remains well below pre-pandemic levels. For the total company, our adjusted EBITDA was \$188 million, 13% higher than Q1 2019, and margin improved over 300 basis points, to nearly 25%, demonstrating the ongoing strength of our leisure-focused business model, continued recovery in the business, and benefits of our transformation initiatives. With that, I'll turn the call over to Tony to discuss our balance sheet, cash flow, and 2022 guidance. Tony?

Tony Terry

Thanks, John. I, too, am very happy with our strong results this quarter. Starting with our balance sheet and liquidity position, you may have seen that we amended our revolving credit facility at the end of the first quarter, increasing the capacity by \$150 million to \$750 million, and extending the term to March 31, 2027. With that increased capacity, we ended the quarter with \$1.2 billion

in liquidity, including \$354 million of cash, \$120 million of gross notes receivable eligible for securitization, and \$748 million of available capacity under our revolver.

At the end of the first quarter of 2022, we also had \$2.7 billion of net corporate debt outstanding and \$1.8 billion of non-recourse debt related to our securitized notes receivable. In our financing business, with our notes balance currently approaching the average balance for 2019, a full year of Welk results included, and contract sales expected to grow double-digits this year, we expect financing profit to also increase double digits compared to last year. We also expect to complete a securitization in the second quarter.

But, with rising interest rates, we anticipate a higher cost of funds for this transaction than what we've seen in recent years, but still comparatively low, on a historical basis. We had already factored these increases into our guidance for the year. As it relates to our net corporate debt, we believe we are well positioned, with only \$230 million of near-term debt maturities and 90% of our net corporate debt effectively fixed. Given our continued strong performance in the first quarter, we returned approximately \$168 million of cash to shareholders, including repurchasing \$119 million of our common stock at an average price per share of \$156.50 and paying two quarterly dividends totaling \$49 million.

As of March 31, 2022, we have approximately \$350 million of remaining capacity under our share repurchase authorization. Now let's turn to our 2022 guidance. We had a solid performance in Q1, and we are optimistic about the remainder of the year. In fact, based on where we are today, if trends continue, we expect to be closer to the upper end of our ranges for contract sales in adjusted EBITDA. However, given some of the uncertainties Steve mentioned earlier, we are maintaining our previously stated, full-year guidance at this time.

We continue to carry excess inventory on our balance sheet, ending the quarter with nearly \$630 million of excess inventory. Given our recent purchase of 88 units in Bali, Indonesia, we have no further new inventory commitments besides the normal purchase of low-cost, reacquired inventory. With adjusted EBITDA continuing to meet our expectations, we should generate substantial free cash flow. As a result, we reaffirm our previous guidance of between \$560 and \$640 million of free cash flow, resulting in a 65% to 70% adjusted EBITDA to free cash flow conversion ratio.

We still have roughly between \$95 and \$120 million of potential cash proceeds from non-strategic real estate assets that we are working to dispose of over the next couple of years. This range excludes the net proceeds from the sale of VRI Americas. Consistent with our past approach, we will seek to use free cash flow to invest in growing the business organically, or through strategic acquisitions.

In the absence of compelling acquisitions, our best use of excess free cash flow remains returning capital to shareholders through dividends and share repurchases.

In summary, we started the year off strong, and we expect that performance to continue through the remainder of 2022. As always, we appreciate your interest in Marriott Vacations Worldwide. With that, we will be happy to answer your questions. Melissa?

Operator

Thank you. If you'd like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 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 * keys. In the interest of time, we ask that you each keep to one question and one follow-up.

Our first question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes

Hi, Tony. Good morning everyone.

John Geller

Good morning.

Patrick Scholes

A couple questions here, and I apologize if you did say this in the prepared remarks, do you have any statistics on how your prepaid packages are tracking for the rest of the year versus, say 2019? And then, any initial indications on that versus 2023? How are packages tracking? Thank you.

Steve Weisz

I can give you some numbers and it's a combination of owner and preview package bookings, Patrick.

Patrick Scholes

Okay.

Steve Weisz

Compared to '19. So, for the first half of the year, it's 9% over 2019. For the second half of the year, it's 14% over 2019. So, you put the two together, arithmetically, it's 11%. I don't have in front of me the 2023 numbers. However, I would surmise, that it continues to be strong. Obviously you get to the point, from a comparison standpoint, that obviously, working off of a base, the percentage numbers maybe a little bit smaller, but I still it's very positive.

John Geller

Yeah, The only other color I would add is just on the package offerings. We are seeing, a substantially higher uptake on those offerings versus 2019, to the point where, in some cases, we've actually pushed the price of the vacation package in certain areas, as we've talked about,

we've had very high owner occupancy, which will continue here as we move through this year. It'll start to abate, I think, as we go into next year. But that, you know, once again, the same thing on the rentals with same things on the packages. It does limit some of the, availability, but the overall demand for the packages is, you know, the best I've ever seen it.

Patrick Scholes

Okay. Very good. You know, it sounds, or my follow-up question is, on the unchanged EBITDA guidance for the rest of the year. From the tone of the call, it certainly sounded like 1Q was above your expectations. It was above street expectations. You know, I understand and I appreciate conservatism. Certainly, in this world, but, you know, is it fair to think that, without barring any black swan events that rest of the year in the implied guidance is conservative, unless, again, something we can't forecast happens.

Steve Weisz

No, I think it's a fair question and I think you heard Tony said clearly our dialogue is about guiding towards the higher end of our guidance. As you will recall, in about a month, we've got an investor day. And I would expect us to be more declarative about where we think things are going to go. I mean, hey, depending on the news of the day. In the macro environment, we have a tendency, to always to not only meet but exceed the expectations of our investors in the street. You could get out a little further over your skis and suddenly having something go run a mock in the economy, which would cause that to be, probably too aggressive. So, that's the reason why we typically have been a little more conservative. But, we'll have a lot more to share in a little over a month.

Patrick Scholes

All right. Great. I appreciate that. I'm looking forward to the investor day. Thank you.

Steve Weisz

Thank you.

John Geller

Thanks, Patrick.

Operator

Thank you. Our next question comes from the line of Ben Chaiken with Credit Suisse. Please Proceed with your question.

Ben Chaiken

Hi, everybody. How's it going? Hey, how's it going?

Ben Chaiken

You know, there's be a nice, mix-shift down in your cost of the product on VUI side. I guess, your inventory cost, rather It's, you know, presumably, as you collected inventory the last two years,

through defaults and repurchases, etc., of low-cost channels, which is visible today in the quarter. If you look at your balance sheet today, you have several years of unsold inventory, does the benefit that we're currently seeing apply to the rest of that inventory or is this just, kind of, like a one- or two-quarter tailwind? How do you think about it?

Tony Terry

Yeah, I can tell you that, you know, we expect these inventory product cost levels to continue for the next few years. We are continuing repurchase activity right now. We do get low-cost inventory back from our owners, routinely, and we have agreements with our associations to take their inventory back. So, that's ongoing, you know, year-over-year. We do have some new developer inventory we've gotten from asset-like transaction or self-developed inventory, on the balance sheet that could be a little bit higher product cost, but you have that lower inventory, the lower product cost inventory coming in for our normal repurchase activity. So, when you blend those two together, we believe that going forward, we can maintain those lower inventory product cost levels for a while.

Ben Chaiken

That's really helpful. Thank you And then I think, you know, you mentioned on the call, reportability, I believe, was a touch higher than we were expecting. Can you just remind us, and I know that's just like a timing issue. It will come back later. But can you remind us, how that occurred? Is that a function of sales accelerating towards the end of the quarter, thus creating a timing issue when there's like a recession period , thanks.

John Geller

Yeah, you're exactly right, Ben. And, if you go back, even to Q1 of 2021, it had a similar, notwithstanding lower contract sales, but it had a similar deferred revenue impact, if you will. So, what's basically happening is, because of how we recognize for GAAP revenue, those contract sales based on closing, it just means that your contract sales accelerated at the end of the first quarter much higher than what you finished the year at.

So, just, the natural result is that that revenue's coming and the associated EBITDA that I mentioned, the \$24 million, and that'll happen in the second quarter. I mean, the cadence through the year, generally, is, you have your biggest, higher deferred impact for the first quarter. You have some in the second quarter because you usually end the second quarter stronger. in June, and then you end the first quarter. And then, as you start to move through the third and, well, most of that ultimately comes back in the fourth quarter. So, that's kind of been the cadence. So, it wasn't necessarily that much higher than we were expecting. It was somewhat in line and not really unusual from a historical perspective.

Ben Chaiken

Thank you very much.

John Geller

Thank you.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you'd like to join the question queue, please press *1 on your telephone keypad. Our next question comes from the line of Chris Woronka with Deutsche Bank. Please proceed with your question.

Chris Woronka

Hey, good morning guys.

Steve Weisz

Good morning. Hi.

Chris Woronka Morning so, I think you mentioned the mix of first-time buyers was 29% and that was up 300 basis points, year-over-year. I know, longer-term, you guys want to -- want to get it as high as possible. What do you think it takes to kind of get there? And is there anything, you know, how much more can you kind of do - to juice things to get it there? Or, how much of it has to kind of happen naturally?

Steve Weisz

Yeah, I think, historically, kind of pre-spin off. We were, like a 50/50 mix. Keep in mind, we had a much lower base at the time. So, again, you apply the arithmetic and that gets in the way a little bit. I think if you think about, kind of 40 to 45% first-time buyers is kind of the optimal point that you're trying to get to. You're trying to bring more people into the system, for a variety of reasons.

Number one, obviously, you expand your ability to sell more financing to these folks, your upgrade program after, the typical results are in the first five years after their purchase, they have a tendency to buy as much as they did the first time out. You get more maintenance fees, more club fees, etc. Plus, you get, referrals from those owners that you had not been able to, enjoy otherwise. So, typically how that will happen is, as you open up new source channels to bring people in, then you'll start to see increased, first-time buyers.

The one thing that, there have been some things that we've stepped away from. I think you've heard us talk about the OPC channel, which, while can be a source of first-time buyers, it's a relatively inefficient, allocation of your cost to do so. In other words, it's a high-cost, low-yield channel. So, aside from Hawaii, where we still maintain, some OPC locations, and in the Welk business right now, they've done reasonably well with OPC, and that will change, over time, as we switch to more Hyatt-sourced channels, you'll see some of that.

The other place that you typically get, first-time buyers is through linkage locations. And, as you might imagine, over the last couple of years, we've stepped away from a lot of those linkage

locations, because the hotels were empty. We are now starting to turn those back on, selectively, and you'll see that start to come. So, we'll see that number continue to rise. I'm not the least bit embarrassed to tell you that our owners want to buy more of our product. We're happy to have that, so we can walk and chew gum at the same time, but if we can get up that 40 - 45% range, I think that would be pretty optimal for us.

Chris Woronka

Okay. Thanks, Steve. And then, follow-up question was on, labor, but more in the sense of the sales centers. I'm thinking in your top producers -- right? -- they do pretty well, they're on commission. But are there any issue attracting, you know, younger folks, or beginning, entry-level salespeople? Because maybe they can get a much higher wage at a retail operation of some kind versus, you know, taking a chance on a commission. Are you seeing any challenges there?

Steve Weisz

Well, let me break it down into the two component parts, which is what marketing side and the sales side. On the sales side, yeah, and I think we've made great progress on the sales side. We're, pretty well staffed on the sales front -- not to say that we won't add more salespeople between now and the end of the year, but we've had to do that with some sign-on incentives, etc. But, you know, that's all manageable. Because as you mentioned, it is largely a commission-based sales force.

On the marketing side, we've had more of a challenge. Again, marketing folks do make a commission, although it's a different scale, etc. And, we've had some difficulties getting marketing people. Again, that's starting to improve, but I would not want to mislead you by saying, we've solved the Gordian Knot here. We haven't. You've seen the statistics about the number of people that continue to leave the hospitality industry etc., and we will continue to be very vigilant about how we go out and try to recruit and find talent and add them to the organization.

The good news is, once people joint us, as you have mentioned, it -- you can make a pretty good living by being part of this organization, and they're generally pretty satisfied. But, because of the pandemic, obviously, we had to scale back and, when we did so, we shed some jobs, which we have been in process of trying to recoup and add back to the system.

Chris Woronka

Okay, very helpful. Thanks, Steve.

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 any final comments.

Steven Weisz

Thanks, Melissa. As we close today's call, I want to touch on the idea that vacations today are infinitely more meaningful than they were over ten years ago, when we first became a publicly traded company. And over that same time frame, the pace of life has significantly accelerated and life, overall, has become more complex, particularly during the past two years. While digital innovations have helped many stay more connected, the pressure of doing so has taken away from something special that we at Marriott Vacations Worldwide can provide. Togetherness.

Vacations let you disconnect and reignite the relationships and interactions that do not always occur during the normal pace of life today and definitely not through a video call or FaceTime. As a business, we are 100% focused on leisure activities and providing the power of vacations. Our business is vibrant, resilient, and well positioned, not only today, but for the future. I'll be excited to see many of you next month at our investor day in New York City. And as always, thank you for your interest. We wish you continued health and treasured time with your family and friends. And finally, to everyone on the call and your families, stay safe and enjoy your next vacation.

Operator

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