Marriott Vacations Worldwide
Fourth Quarter and Full Year End Conference Call
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Presenters
Neal Goldner, Vice President-Investor Relations
Steve Weisz, President and Chief Executive Officer
John Geller, Executive Vice President and Chief Financial & Administrative Officer

Q&A Participants
Jared Shojaian - Wolfe Research
Brian Dobson - Nomura Instinet
David Katz - Jefferies
Patrick Scholes - SunTrust Robinson Humphrey
Brandt Montour - JP Morgan

Operator
Greetings and welcome to the Marriott Vacations Worldwide Fourth Quarter and Full-Year End Conference Call. At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Neal Goldner, Vice President, Investor Relations. Please go ahead, sir.

Neal Goldner
Thank you, Hector, and welcome to the Marriott Vacations Worldwide Fourth Quarter 2019 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 they are made and will not be updated as actual events unfold. Throughout the call, we will make references to non-GAAP financial information. You can find a reconciliation of non-GAAP financial measures referred to in our remarks in the schedules attached to our press release, as well as the Investor Relations page and the Financial Information page on our website at ir.mvwc.com. It is now my pleasure to turn the call over to Steve Weisz, President and Chief Executive Officer of Marriott Vacations Worldwide.

Steve Weisz

Thanks, Neal. Good morning, everyone, and thank you for joining our fourth quarter earnings call. 2019 was certainly a year of change for our organization. From harmonizing sales practices across the business to implementing new human resource and accounting and financial systems, we accomplished a lot. It certainly wasn't easy, and, as you might expect, when integrating two companies of similar sizes, everything didn't go exactly as planned. But looking at our full year results, with contract sales increasing roughly 6.5% to $1.5 billion, total company VPG expanding by 3% and adjusted EBITDA growing 14%, I couldn't be more satisfied with how the year came together. We ended the year on a high note as well, growing contract sales by 10% in the fourth quarter, driven by a 9% improvement in VPG and delivering 15% adjusted EBITDA growth, once again illustrating the strength of our business model.

So, let's discuss how we achieved these results and our plans going forward, starting with our vacation ownership business. As we've discussed with you in the past, we spent a large portion of 2019 making changes in our sales and marketing programs and operations to capitalize on the long-term opportunities we envisioned when we acquired ILG, and I believe we started to hit our stride. As I mentioned, we've delivered 10% contract sales growth in the fourth quarter, which is right in line with what we said we would do back in November. Looking at the components of that growth, we drove a 7% increase in sales at Legacy-MVW, with North America VPG improving to $3,727, with first time buyers representing a larger mix of our tours and nearly a third of our sales. And sales growth at Legacy-ILG accelerated again, growing 16% in the quarter, with VPG improving double digits as we made further progress narrowing the gap with Legacy-MVW.

Our tour package pipeline was also very strong in the fourth quarter, growing 13% year-over-year, giving us a good start for 2020. While we made good progress in capturing some of our revenue synergies from the acquisition, I believe we still have opportunities ahead of us. For example, while VPG at Legacy-LG expanded in the low double digits in the second half of 2019, it was still more than 15% lower than the Legacy-MVW North America for the full year. I believe we have further opportunity to close the gap, and we'll continue leveraging best practices across all of our brands to drive sales.

We made good progress driving encore trial packages at Legacy-ILG in 2019, one of our higher VPG channels, increasing package sales there by more than 30% last year. Yet, with encore penetration still below that of Legacy-MVW, we continue to have opportunity to drive more profitable tours through this channel. While we've made good progress improving the tour quality at Legacy-ILG, we can still further optimize our channel mix, as well as continue to increase the income qualifications of those we tour. And we also kicked off some exciting new sales and marketing initiatives toward the end of last year geared towards improving first time buyer VPGs, and the results have been very encouraging. We look forward to continuing those efforts for all of 2020.

We're also working hard to develop new resorts for our owners to enjoy while adding new flags on the map to grow sales. Following our announcement late last year of our intention to open a

Marriott Vacation Club property in Costa Rica, just last week we announced our plans to develop a Marriott-branded resort in Waikiki. Waikiki hosts almost 6 million visitors annually and is a highly sought-after destination by our owners. Once constructed, the new 110 unit resort will include a mix of studio and one bedroom units and offer rooftop amenities such as a pool, bar, and fitness center and is a short walk to the beach. The resort will also include a 10,000 square foot sales center, which we expect to open in mid-2022. Consistent with our strategy, we anticipate developing the property in a capital-efficient manner with a phase takedown over time after the resort opens, allowing us to begin sales before acquiring the inventory.

I'm also excited to announce that we've recently finalized a long-term license agreement with Hyatt. Hyatt is a great brand with 22 million members and its World of Hyatt Loyalty program that we think offers tremendous growth opportunities for the Hyatt Residence Club. We've already identified a number of key locations that we think make sense to add a new Hyatt vacation ownership resort, and I look forward to sharing more with you in the future as our plans come together.

Moving to our Exchange and Third-Party Management segment, Interval International membership declined 2% sequentially from the third quarter, while average revenue per member increased 3% year-over-year. Interval recently joined our vacation ownership brands in offering an online booking platform powered by PlacePass. This new feature offers over 250,000 activities and experiences in more than 800 destinations around the world that can be booked digitally at the lowest price offered online. This will provide Interval members additional value for their membership fees.

Looking ahead, I continue to be excited about the opportunity to transform all of our businesses utilizing new digital tools to deliver an even more connected guest experience. 2019 was an important year for our company as we made progress developing and delivering digital offerings. We showed early success in our vacation ownership business, growing online points transactions by 23% last year, enabling our owners to transact with us more easily when and where they wanted while reducing our operating costs along the way.

We also expanded our agreement with Salesforce late last year and are currently implementing new digital tools, which will allow us to better automate our digital marketing campaigns. In addition, we also expanded our WiFi digital on-site program to more resorts last year, ending the year with this program at 35 locations. Since this program launched early last year, we have been able to deliver thousands of tours at a lower cost than some of our more traditional channels.

This year, we plan to deliver additional value-added features in areas of owner self-servicing and on-boarding, as well as on-property experience and education. These will include improved online points reservation capabilities and greater digital offerings for our on-site activities management, and our Interval International business also continued to build upon its digital-and mobile-first strategies last year, as well. In 2019, more than 50% of all Interval confirmations were booked online, downloads of Interval's app increased over 175%, and transactional revenue on the app more than doubled. This year, we'll see the introduction of more consumer-facing digital tools and capabilities across all of our businesses, including a new Marriott Vacation club mobile app providing benefits throughout the customer journey. I'm looking forward to sharing our successes with you as the year progresses.

Moving to synergies, we made excellent progress last year, enabling us to increase our synergy production compared to our estimate at the beginning of the year. We achieved roughly $65 million of run rate savings by the end of 2019, and we expect to achieve at least $95 million by the end of 2020. This puts us well on our way towards achieving at least $125 million in run rate savings by the end of 2021. While these operating efficiencies are very important, we continue to view the transaction as a way to fundamentally transform how we do business, from repositioning our product offerings to modernizing systems to employing new technologies in exciting ways. For example, we've already started employing intelligent automation to handle some of our more manual and repetitive tasks, and we're utilizing advanced analytics to drive higher-yielding tours. I believe we have numerous opportunities to use technology to lower costs and drive efficiencies in our business, and I look forward to discussing many of these with you on future calls.

Before moving to guidance, I wanted to address the coronavirus. The safety of our owners, visitors, and associates is always paramount, and we have initiated precautionary measures to address this risk. To put things in perspective, Asia-Pacific is a relatively small region for us, and Chinese residents represented only about 1% of our global contract sales last year. In Asia-Pacific, we have seen as small percentage of our owners rescheduling their trips this year, and we've had a relatively small number of preview package customers cancel their upcoming arrival, with 97% of those customers indicating that they are only postponing their visits. In addition, cancellations from upcoming rental guests have been minimal thus far. Given our limited exposure to the region, the overall numbers at this point aren't material to our results.

Now, let's turn to our full year outlook. As you saw on our press release that we issued yesterday, we expect to grow contract sales by 7% to 11% this year. Full-year adjusted EBITDA is anticipated to grow between 8% and 13% and adjusted earnings per share growing 15% to 24%. Adjusted free cash flow is expected to be between $425 million to $500 million this year, bringing our two-year full-year free cash flow generation to more than $900 million at the midpoint of the range.

Our uses of free cash flow remain the same. First, we will focus on organic growth in our existing businesses. Second, we will look for strategic acquisitions and investments that can accelerate our growth and provide an attractive return. After that, we anticipate any remaining free cash flow will be returned to shareholders in the form of dividends and share repurchases. In summary, we ended the year on a very positive note and look to build on that momentum in 2020. And, with that, let me hand the call over to John.

John Geller
Thank you, Steve, and good morning, everyone. I, too, am very pleased with how 2019 ended, as well as the progress we've continued to make on the integration and transformation of the two businesses. Adjusted EBITDA increased 15% in the fourth quarter, driven by strong growth in our vacation ownership segment, as well as benefits from our synergy efforts.

Looking first at our Vacation Ownership segment, adjusted EBITDA increased 15% to $226 million, and margin expanded by 150 basis points. Consolidated contract sales increased over 10%, our best sales growth quarter of the year, and adjusted development margin, which adjusts for revenue reportability and other charges, increased 18%.

Our adjusted development margin percentage increased 220 basis points to 25.6%, driven by a higher percentage of lower-cost inventory being sold and more efficient marketing of sales spend. In our financing business, after excluding the impact of purchase accounting adjustments, revenues increased 13% to $72 million, and financing revenue, net of expenses, and consumer financing interest expense increased 18%. This growth primarily reflects the higher contract sales, as well as strong financing propensity. Consumer financing interest expense increased due to a higher outstanding debt balance, partially offset by lower interest rates on our securitizations. The average FICO score of buyers who financed with us in the quarter remained strong at 737.

We have seen slightly higher defaults in our portfolio, mostly attributable to loans that were originated under sales and underwriting standards used by ILG. As we have discussed previously, in order to drive sales prior to our acquisition, ILG reduced down payment requirements for buyers with sub-600 FICO scores and ramped up less efficient off-premise or OPC marketing channels, with little or no income qualifications for potential buyers. We have eliminated or substantially improved these practices to better align with those of legacy-MVW, and, as a result, we expect defaults to improve over time with these changes. In our rental business, revenues increased 19% to $139 million, and rental revenues net of expenses decreased $2 million. This was driven by higher plus point revenues and increases in transient keys rented, offset by higher inventory costs at Vistana. In our resort management and other services business, revenues increased 5%, while revenues net of expenses increased 14%. This growth reflects higher ancillary and exchange company activity, as well as higher fees for managing our portfolio of resorts.

Turning to the Exchange and Third-Party Management segment, adjusted EBITDA was down $5 million year-over-year after adjusting the prior year to exclude the sale of VRI Europe. As we've discussed previously, the majority of the year-over-year decline was primarily due to the non-renewal of certain corporate contracts last year. Our exchange business added new affiliations across the exchange network during the quarter. We also continue to add clients outside the timeshare industry to use our products as we work to identify incremental revenue streams for this segment. As Steve mentioned, the integration of ILG continues to go well, and we realized

$49 million in synergies in 2019, including $16 million of additional synergies in the fourth quarter. We expect to deliver an additional $25 million to $30 million of in-the-year savings in 2020 and remain on track to achieve at least $125 million of run rate synergies by the end of 2021.

Moving to the balance sheet, we ended the year with cash and cash equivalents of $287 million and had roughly $567 million in available capacity under our $600 million revolving credit facility. Our total corporate debt outstanding at the end of the quarter was $2.2 billion. This excludes $1.9 billion associated with our non-recourse securitized notes receivable. From a leverage perspective and including $125 million of total synergy savings, our debt to adjusted EBITDA ratio at the end of the quarter was 2.4x, in line with our longer term target of 2.0x to 2.5x.

We replaced our warehouse facility during the quarter, increasing its capacity to $350 million. In addition to the higher capacity, the new facility also enables us to monetize our Sheraton, Westin, and Hyatt branded loans, which was precluded under the old facility. We also amended our existing term loan credit agreement, reducing the interest rate by 50 basis points, saving us more than $4 million annually. This brings our weighted average cost of our corporate debt to approximately 4.7% at the end of 2019. Regarding our return of capital in the fourth quarter, we repurchased 1.1 million shares for $123 million at an average price of $115.48 per share, bringing our total capital returns for 2019, including dividends, to $546 million.

We generated adjusted free cash flow of $464 million in 2019 as we continued to optimize development spending and manage our investments, which we estimate benefited free cash flow by roughly $40 million to $50 million in total last year. This excludes the majority of proceeds we generated from the securitization of notes from our Asia-Pacific region, as well as more than $60 million we generated from the sale of excess parcels and Cancun in Colorado, both of which closed in the fourth quarter. In summary, our fourth quarter results were strong, with contract sales growing 10% while also continuing to integrate and transform our business. We are excited about the changes we have already implemented and the results we are beginning to generate, particularly around technology and improved processes.

Now, let's turn to our 2020 guidance. As Steve mentioned, we are targeting contract sales growth of 7% to 11%, with growth coming from a combination of higher tours and continued improvement in VPG. While these higher volumes, continued low product cost, and our ability to leverage fixed marketing and sales costs, we expect our adjusted development margin to remain strong in 2020. And while contract sales would be the primary driver of growth in the vacation ownership segment, we expect to benefit from improvements in all parts of our vacation ownership business. For the exchange and third party management segment, active members are projected to remain relatively stable, average revenue per member is projected to increase at slightly higher than inflationary levels, and we have opportunities to further transform these businesses.

Longer term, our strategy for these businesses continues to include diversifying beyond the traditional exchange business, increasing average revenue per member, identifying and expanding benefits to exchange members, and, of course, focusing on adding new resorts and properties to the network. For adjusted EBITDA, we are projecting $820 million to $860 million in 2020, or 11% growth at the midpoint of our guidance. We estimate that nearly two thirds of the growth will come from our core businesses, with the remainder coming from incremental synergy savings. We are targeting run rate synergy savings to approach $95 million by the end of 2020 as we progress towards our goal of at least $125 million of run rate synergy savings by the end of 2021.

While we do not provide quarterly guidance, it's important to remember that our first and second quarters are typically negatively impacted by unfavorable revenue reportability, given the normal growth in sales. As a reminder, our first quarter results in 2019 were unfavorably impacted by $21 million, and I would expect a similar amount this year. Again, this is only timing as the revenue will get reported as we go through the year, with most of the deferral being recovered in the fourth quarter. However, it does affect the cadence of our adjusted EBITDA growth resulting in ramping up as we progress throughout the year. We expect our adjusted fully diluted earnings per share to increase nearly 20% at the midpoint of the range, before factoring in any effect of this year's share repurchase activity.

Lastly, with these projected financial results, we are targeting adjusted free cash flow of between $425 million and $500 million for 2020, highlighting the continued benefits of our capital-efficient development model coupled with the attractive cash flow profile of our Exchange and Third-Party Management business. This projection does assume more normalized levels of development and other capital spending as we look to achieve our 7% to 11% long-term sales growth targets we highlighted during our Investor Day. I should also note that this free cash flow guidance does not include proceeds we may generate from the non-strategic asset dispositions we first talked about during our Investor Day. It also does not include the roughly $60 million to $80 million of cash we expect to invest this year to achieve further synergies from the ILG acquisition. As we've done in the past, we will continue to identify ways to enhance cash flow generation while also ensuring our spending supports future sales growth.

With our pro forma leverage now in line with our longer-term target rate of 2x to 2.5x debt to adjusted EBITDA, our capital allocation strategy remains the same. We will look to use free cash flow to invest in growing the business both 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 finished the year strong, and we expect 2020 to be another strong year of growth for the company. As always, we appreciate your interest in Marriott Vacations Worldwide. And, with that, we will open the call up for Q&A. Hector?

Operator

Thank you. At this time, we will be conducting a question-and-answer session. 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 question queue. You may press star two if you would like to remove your question from the queue. In the interest of time, please limit to one question and one follow-up question. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions. Your first question comes from line of Jared Shojaian with Wolfe Research. Please proceed with your question.

Steve Weisz
Hi, Jared.

John Geller
Good morning.

Jared Shojaian
Good morning. John, maybe just going back to the comments on the free cash flow that you just gave us, I'm hoping you can walk us through the potential capital return build for 2020. I guess, if we start with your adjusted free cash flow guide of $425 to $500 million and work down, making all the adjustments on the one timers, any new debt you may take on, excess cash from I guess the land sales that you just did, how are you thinking about how much, I guess, discretionary capital is going to be available for buybacks, dividends, or any other outside activity? Thank you.

John Geller
Sure, Jared. So, yah, if you start with the $425 to $500 million, as you highlighted, given some of the sales we did late last year, as well as the Asian notes securitization, which generated about $65 million of cash, we start the year, actually, with call it roughly an additional $100 million+ of cash that just given the timing of those. So, you can add that, if you will, to the $425 to $500 million. The other thing we have is, we probably had another call at $80 million of notes that are available for securitization within our trust--or excuse me, our warehouse line at the beginning of the year. And then, the opportunities are really around asset dispositions, additional ones this year, as well as an offset for the additional spending that we have on the integration and transformation costs, which, on an after-tax basis, that's probably roughly $50 to $60 million.

So, when you kind of put it all together, you're talking roughly $500 to close to $700 million of cash before dividends, given our current dividend pays of, call it, roughly $90 million. You're in a similar scenario today where we bought back shares north of $470 million. At a minimum, we should have somewhere in that vicinity, and then there's potential for some upside depending on the timing of some of the asset dispositions.

Jared Shojaian

Alright. That's very helpful. Thank you. And then—so, I guess on coronavirus, can you help us understand what percentage of your costs are fixed costs that are not tied to tour volumes, and how that might help you if coronavirus were to spiral out of control in the U.S.? And then if you could also give us the percentages of your EBITDA outside the U.S. — I think you said Asia-Pacific was immaterial impact, but I guess what percentage of your EBITDA is outside of U.S.? And maybe if you could break it up by geography, that would be helpful. Thank you.

John Geller
Sure. I'll take a stab at it. I'll probably do a better job of answering the second question than the first part of it. The—just to give you a specific, Asia-Pacific in 2019 was 2.6% of our adjusted EBITDA. So, again, not all that material—and, of course, Asia-Pacific is represented by not only sales to Chinese residents, but also some predominance of our sales are related to ex-pats that are based elsewhere in that part of the world.

In terms of—I can give you a sales volume. I haven't broken down the actual EBITDA number yet, because in anticipation of your question—I can tell you total North American sales volume from international customers was about 10.7%. Let me break that down for you. About $50 million of that was eastbound from Japan to Hawaii, $30 million was Latin America, and another $18 million was specific to resorts in Florida from both Latin America and from Europe. So, if you apply the, call it, $150 million of sales in North America from international customers, you take our development margin against that at 20%+, that's, call it, $30 million of EBITDA if it all went away, which certainly we wouldn't anticipate. As far as the fixed cost versus the variable, I guess we could try to swag it. 30% of it is fixed and 70% variable, roughly. So, we'd be happy to come back to you with some more specifics if you'd like, but that kind of gives you at least a high level view on it.

John Geller
And just from an adjusted EBITDA overall, if you look at our Europe and Asia operations, it's less than 5% of our—and probably a little bit more than half of that 5% is Europe, and a little bit less in the 5% is coming from Asia. And that's both our vacation ownership, as well as our exchange EBITDA.

Jared Shojaian
Okay. Thank you very much.

Steve Weisz
Thank you.

Operator
Your next question comes from line of Brian Dobson with Nomura Instinet. Please proceed with your question.

Brian Dobson

Hey. Good morning. So, you had mentioned intelligent automation and also advanced analytics. Do you think that you could give us a little bit more color on how you're using that to drive tour flow and perhaps give us an update on your online marketing efforts?

Steve Weisz
Sure. So, in terms of automation, sometimes called RPA, Robotic Process Automation, much of that is back of the house stuff where we're using it to kind of leverage some of our cost structure. As you might imagine, there's anything from balance sheet validation up through mechanical entries, that today—or before today, people were actually having to do it, and you'd do have some variability in terms of how much the cost was, as well as the accuracy. With RPA, we have been able to do a number of things where we've taken some of those previously manual functions and automated them, and, as you might imagine, they're much more precise in terms of how they get executed, and they're also very helpful in reducing costs.

In terms of artificial intelligence or automation on the tour side—so we've done some testing and the results have been very encouraging thus far. To look at tour flow and try to profile which tours are the most inclined to make a purchase versus those that are not, we're now being able to apply some of that same logic stream to looking at how we source tours out of channels, figuring out that there are certain channels in which we have a deeper vein of those folks that are more inclined to purchase versus those that are not, and we are adjusting our channels accordingly. It's early on, Brian. I don't want to declare victory yet except to say that what we have seen thus far has been very, very encouraging for us.

Brian Dobson
That's great. And then, do you think you could also expand upon the new partnership agreements that you would attune the rental business as far as getting new users to test your product?

Steve Weisz
I don't recall us talking about that specifically. In the exchange business you mean?

Brian Dobson
Yes, that's right, in exchange business.

Steve Weisz
Okay. Well, this is simply a matter of the way you think about the exchange business, it kind of goes in a couple of different ways. Number one, trying to sign up new corporate affiliations. When I say corporate, that's—the broader definition, not the specific Delaware Corporation things, where we sign up a new developer to be affiliated with interval international. And they, in turn, pay a corporate membership fee to avail their owners, new members with the benefits of being affiliated through the exchange company.

In turn, once a member decides they want to make an exchange, there is an exchange fee that comes along with that. So, there's that part of it on the traditional kind of exchange stuff. We've talked before about the Planet Fitness affiliation where we realized that the growth of new timeshare developers and the affiliations has certainly not been at a pace that it has been historically. So, now we're looking to go outside of the traditional timeshare channel and make benefits available of the services that Interval provides in terms of travel — whether it be cruises, hotels, air, et cetera, as well as, obviously, their ability to use their inventory that they have available to them — to those members.

So, as an example, Planet Fitness. Planet Fitness pays us a modest affiliation fee, and then we earn commissions for booking cruises or air or hotels. We also sell them their getaway packages. And that is a benefit that they pass on, obviously, to their members. And, in return, Interval members also get a bit of a benefit in terms of their membership in Planet Fitness. That's but one example, and we continue to have dialogue with a number of different organizations about trying to expand on those kinds of relationships as a way of broadening Interval's footprint in the marketplace.

Brian Dobson
Great. Thank you very much.

Steve Weisz
Thank you.

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

David Katz
Hi. Good morning, everyone. And thanks for taking my question. I appreciate it. With respect to the synergies, I just want to make sure that I'm mapping and hearing correctly. We're at $95 run rate for the end of the year, another $25 to $30. Was that something to come online this year? And—or is that something—because the stated goal is really, by the end of '21, to get to around $125. Is there—am I thinking about that wrong? Is there a deceleration there, or are you, quite frankly, John, are you sandbagging us here?

John Geller
Let's go through the numbers. I don't think we're sandbagging you. But, at the end of '19, we exited the year with $90--excuse me, $65 million, so $65 million of run rate synergies in place. So, said another way, if we put nothing else in place during—at 2020, we would end the year with $65 million of synergy savings, if you will, in 2020. What we said was, we expect to exit the year at a minimum of $95 million of run rate synergies at the end of 2020. And, given the timing of when those will come into place, we expect to get $25 to $30 million of incremental, in the year savings. Okay? And then, by the end of 2021, once again, that's the minimum of $125 of

run rate savings. As we've always said, we continue to look harder. We see additional opportunities, and we're working through all that. But, we're going to do everything we can to get more synergy savings than what we've talked about.

David Katz
Perfect. And my follow-up is—apologies for dealing in some hypothetical statistics that we don't normally deal with, but do you happen to know what percentage of your owners or visitors are drivers rather than flyers?

Steve Weisz
Well, I'm going to give you a cute answer, and then I'm going to try to get better. I believe everybody drives. Even if one flies to the airport and rents a car, they have to get to the resort in some way, shape, or form. We don't have any resorts that are in airports.

David Katz
Noted.

Steve Weisz
With that said, obviously, Hawaii is 100% fly. There are, as you get to some of the—some resorts on Hilton Head. I'm going to give you a swag. That's all I can give you, because we don't bother to ask people how they got there. I would say, a greater preponderance of people drive to Hilton Head versus fly to Hilton Head, because, quite frankly, the orientation of the ownership is basically East of the Mississippi, and most of those folks will simply drive to get there. As you go across the waterfront—if you go to Palm Desert, Palm Desert is almost a 100% drive market. Those are mostly people coming out of Southern California. Again, I'm giving you some gross estimates, so that gives the idea.

David Katz
Yeah.

Steve Weisz
So, depending on the location, that's driven. I mean, we do not have a lot of resorts, save some of our Pulse properties, that are in major metropolitan areas, which would lend themselves to be more of a fly market than a drive market. But, again, we've never attempted to try to poll people to say, “how did you get here?”, because, quite frankly, we're not sure exactly what we’d do with it even when we got the information. But that should give you some sense of things.

David Katz
So, unofficially, quantitatively—qualitatively rather, it does sound as though a majority, it's fair to classify it, are drivers.

Steve Weisz

Yeah, I think that's probably right.

David Katz
Okay.

Steve Weisz
And I think I know where you're going with this. So, let me try to get there. If you think about—because of COVID-19 and all of that, to what degree people would be less inclined to take trips outside of North America, so to speak, I think we are well-positioned, given the distribution of our products, about where we have property, et cetera. So, I think we're all hopeful that this won't be—rise to the occasion that some people are imagining it to. But I look back on the SARS stuff of 2003, and, to be honest with you, in SARS, our sales grew in the same year that SARS came out. We checked with the ARDA numbers, and we saw that they saw increased sales in timeshare in the United States in 2003 of 8%, 9% in 2004. So, I think, again, we're doing everything that we know how to do to make sure to take precautions, not only for our guests, but also our associates. And we're well-prepared if we need to continue to escalate what we do on properties, et cetera. But I think we're dealing with it as best as we can.

David Katz
Perfect. Thank you very much.

Steve Weisz
Thank you.

Operator
Your next question comes from line of Patrick Scholes with SunTrust Robinson Humphrey. Please proceed with your question.

Patrick Scholes
Hi. Good morning, Steve and John. Just one question here. I'm wondering if you can call out any particular properties or projects that are driving that acceleration in sales growth this year? Thank you. I'm sorry. Disproportionately are driving that 7% to 11% growth.

Steve Weisz
Yes, I think—let me—without giving you this specific properties, let me say that I think we'll get an outsized proportion of that growth from the former Vistana properties, just based on the kind of sequential growth that we've been able to see in terms of VPG growth, et cetera.

I mean, just to give you kind of a sense of how all that worked. We've got—you may recall that, in the first quarter, Vistana was actually down, call it, 5%, almost 6%. Q2 was up 4%. Q3 was up 9%. Q4 was up 12%. And we believe—and what we've seen thus far this year—that we'll continue on that kind of cadence and growth.

So—and then, I think we'll still see mid-to-high single digit growth in the MVC business. But if I had to break it between the two, I would say it'd be a higher percentage of growth on the form of Vistana properties and everything else. Just looking at our results so far this year, it's—that growth is pretty well distributed throughout the system. We're not seeing any particular property or resort. Just keep in mind, we're not selling individual property resorts. We're selling the portfolio. And so, you look at the sales distributions of that portfolio product, but that's breaking down basically as I described.

Patrick Scholes
Okay. Thank you.

John Geller
Thank you.

Operator
As a reminder, if you would like to ask a question, please press star one on your telephone keypad. As a reminder, if you would like to ask a question, please press star one on your telephone keypad. One moment, please, while we pull for more questions. Your next question comes from the line of Brandt Montour with JP Morgan. Please proceed with your question.

Brandt Montour
Hey. Good morning, everyone. Thanks for taking my questions. So, I was just wondering if you could maybe talk a little bit about close rates for new owners, sort of how that's tracked over the past few quarters? And then specifically with regards to ILG, maybe remind us of the major deficiencies that you've fixed, but then how many are left to go? So, what inning are we in that specific segment? Thank you.

Steve Weisz
Yeah. So, let me back up a little bit. As you probably are well aware, closing rates of existing owners are higher than closing rates on first time buyers. Stands to reason that the owner who will buy more of the product, they have a higher propensity to close on the contract than a first-time buyer. Where we have seen some very encouraging results, as I referenced in my remarks, is in first time buyer VPGs, and that's been driven by the close rate improvement. And now that's—again, we started it late third quarter into the fourth quarter. We've seen close rates, quite frankly, go up a point to a point and a half, which is very material when you get to the VPG calculation and the flow through rate on the sales and marketing costs. Vistana has a higher percentage of first time buyers than existing owners, although it's not overly dramatic, but it is something that, you need to understand.

And so, I gave a statistic in my remarks that about a third of our sales came from first time buyers for the full year. And, if you break it down, the tour volume—about half of our tours came from first time buyers. So, as we make continued improvement in first time buyer closing, you might imagine that, unless we have a dramatic change in the shift of first time buyers versus existing owner tours, that you'll start to see the percentage of sales from first time buyers go up somewhat materially. Does that help? I mean, we don't disclose closing rates, as I think you're well aware. But that should give you somewhat of at least atmospheric backdrop to do what you need to do with it.

Brandt Montour
That was really good color. Thank you. And then, just maybe you could expand on your sort of thoughts on M&A in the landscape and the industry as a whole. I guess, how could—how can Marriott Vacations benefit from your position, and what would be considered an ideal sort of ultimate outcome of the ongoing M&A?

Steve Weisz
Well, as you might imagine, we don't really discuss a lot about M&A, because, obviously, a lot of speculative and everything else. Let me just say this, as we have said all along, that there is a number of different things we look at in terms of any kind of acquisition candidate we might be reviewing. One of which is, is it a good strategic fit? Would it give us a broader footprint in the marketplace that we don't enjoy today, or we can't get there if you go through normal organic growth? Two, would there be a good cultural fit, which means—and one of the things I can report on the ILG acquisition is that's been the—while we thought it was going to be a good cultural fit, I'm happy to report it's been a great cultural fit. We had a long-term relationship with the exchange company of Interval, and we knew that that was a good fit. But it really has worked very, very well, and so we're very pleased with that.

And then, of course, the third most important thing is, is it accretive, given our various uses of cash, as we've talked about, and organic growth of the business. If there is an M&A candidate out there that makes the screen and goes through those kind of three tests that we apply to them, then we certainly are interested. But I got to tell you, I think we've got a very nice stable of brands, particularly in the vacation ownership business. That is hard to find a comparison elsewhere in the landscape. But we'll always be on the lookout, and if we see something that makes sense for our shareholders, we’ll certainly pursue it.

Brandt Montour
Great. Thanks a lot, guys.

Steve Weisz
Thank you.

Operator
Ladies and gentlemen, we have reached the end of the question-and-answer session, and I would like to turn the call back to Mr. Steve Weisz for closing remarks.

Steve Weisz

Thanks, Hector. Thank you for your time today. I hope today's call gives you the same sense of optimism that we have for our company. We are a leading player in a growing industry, and I believe our competitive position is second to none with the best collection of brands in the business. We grew contract sales by 10% in the fourth quarter, and this year has started out strong. The integration of ILG is going well, and we see numerous growth opportunities ahead of us. And we expect to deliver another $25 million to $30 million of in-the-year synergy savings this year, putting us well on our way towards achieving a minimum of $125 million of run rate savings by the end of next year. With that, I want to thank you for your interest in Marriott Vacations Worldwide, and finally to everyone on the call and your families, enjoy your next vacation.

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