# Marriott Vacations Worldwide Corporation

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**Brandt Montour:** Welcome, everyone. This is Brandt Montour from J.P. Morgan. We are excited to have with us here the team from Marriott Vacations Worldwide, CEO Steve Weisz, CFO John Geller, as well as Neal Goldner, head of investor relations.

Steve is going to kick this discussion off with some general comments as well as the 8-K that they released yesterday.

Steve, go ahead. Then we'll dive right in.

**Steve Weisz:** Thanks, Brandt. Appreciate it. Thank you, everyone, for being with us this morning. I'd like to spend a few minutes giving you some highlights about where we stand in relation to the resilience of our business model.

Let me start on the vacation ownership business side. Occupancies have remained relatively strong, relative to certainly what it was in the second quarter, across our mainland drive-to resorts throughout the summer and over Labor Day. Let me give a couple of examples.

Colorado Mountains, we ran through July and August -- these are all July and August numbers -- around 80 percent occupancy, Marco Island in Florida 80 percent. Palm Beach with Singer Island for us is 65 percent, South Carolina 70 percent, Southern California 65 percent.

With that said, there continues to be softness in Orlando, which running around the 40 percent level. In Hawaii, New York, and San Francisco, due to the travel restrictions and mandated closures, things are very soft. Hawaii, for example, is about seven percent occupancy. New York and San Francisco remain closed.

Historically, I would remind you that both Hawaii and Orlando, our sale centers there deliver about 40 percent of our annual contract sales. We do need these markets to recover to help drive overall sales, but we're somewhat encouraged by what we've seen in our other drive markets.

Once people are willing to and able to fly to places like Hawaii, once the government withdraws the 14-day mandatory quarantine rule, we believe that we'll start to see some pickup. I'll give you a couple of examples.

In Aruba, again a fly market, we ran about 50 percent occupancy for the month of August. In St. John and St. Thomas, we were running over 70 percent occupancy until the government mandated a 30-day shutdown of all accommodations on the island.

As far as metrics are concerned, VPGs have remained very strong this summer. As a reminder for those that haven't been following closely, we did institute some sales incentives to help drive some of that volume. Tours were being somewhat muted based on lower occupancies at our resorts.

We would expect that our vacation ownership contract sales in the third quarter to be in the range of 130 to 140 million dollars. On the more resilient management and financing business side of things, we continue to perform very well.

On the exchange and third party management business side of the results, only about 140 of the Interval International resorts are expected to remain closed at the end of September. We would expect that transaction volumes in the third quarter to be about 90 percent of what they were at the same time last year.

This goes a long way to illustrate that timeshare owners do desire to travel. With that said, exchange revenues will be down a little more than 30 percent due to the fact that we issued a number of COVID certificates that when they are redeemed they carry no revenue with them.

That's just from a modeling standpoint. You might want to keep that in mind.

Of course, we expect the very resilient exchange membership revenues to continue to be strong down about 10 percent from last year's third quarter or 90 percent of what we ran in the third quarter last year.

We currently have more than two-and-a-half million owner and exchange your nights booked for the second half of the year. Excluding Hawaii, obviously because they've been closed, we're only down about 11 percent compared to this time last year. We do expect business to gradually improve as we moved into the fourth quarter, especially if Hawaii reopens.

However, the pace of improvement certainly depends on our recovery of occupancies at our resorts. We do expect it will probably take a vaccine to get us back to more historical occupancy levels over the near to midterm.

As a result of all this, we did issue an 8-K yesterday, that announced that, in an effort to reduce our cost structure, we were laying off 3,300 of our associates. That's about 16 percent of our workforce, I would tell you, the preponderance of which are resort operations people, which as you might imagine, is a function of occupancy levels, etc.

I would also say to you, it's one of the toughest decisions we've ever had to make as a company, but we believe that it is important from a long term perspective for the health of the business.

With that, Brandt, I won't take too much more of your time. I thought I'd give that at least some headlines.

**Brandt:** No. That was actually all of my questions. We're going to wrap up here. Thanks, guys.

[laughter]

**Brandt:** Look, that was a really great rundown and a lot of helpful details. We're going to dig into some of that, hopefully. Just on booking space...and I think you gave a number in terms of total bookings for the back half of the year for exchange and owner bookings.

Can you help us draw a line between that and maybe arrivals? Back in the summer, we saw other people...I don't think you guys saw it as badly, but we did see an uptick in cancellations. What have you seen in terms of cancellations trending, and how has that linked to infection rates by market?

**Steve:** Let me talk a little more in generalities, but I think I'll get to where you're trying to go to. You may recall that as we were in the second quarter, the vast majority of our resorts were open.

Although because of governmental restrictions about things that people could do while they were there, etc., we communicated to all of our owners and exchangers that were coming to our resorts, this is the kind of experience that they would look forward to having. As a result, many people decided, "Hey, this doesn't sound like much of a vacation to me, so I'm just going to stay home."

There were numerous cancellations in the second quarter. When we started to reopen things, as things started to look better in June, we had a lot of pickup, particularly on the owner exchanger side. We had closed down transient reservations. The end of March, we stopped taking them. We didn't start taking them again until the middle of June.

Things were looking pretty positive in July. You may recall that in certain pockets such as Florida, where the incidence of the virus started to spike a little bit, there was some fall off in that. We are starting to see that go the other direction again, where people are starting to get more inclined to book going forward.

By the way, obviously, with Hawaii, Hawaii has been very herky-jerky in terms of what they said they were going to do. At one point in time, they said that they were going to open August 1st, and then they said they were going to open September 1st, and now they said, "Well, we think October 1st, but it could be later."

As you might imagine, we've got to call it 20 percent of our inventory is in Hawaii. As you might imagine, it's a very popular destination. Every time the government delays another month, there's another slug of our owners that can't go there. Obviously, they have to reschedule their vacations, etc.

Again, I think what we see and what you see in terms of some of the incidence of the virus and everything else, Florida seems to be turning back the other direction again, which is fortunate. Same thing in California. We believe that all things considered, the fourth quarter will be certainly stronger than the third quarter in terms of occupancies.

With that, we would hope that, because we generate a fair amount of sales from people that are staying in our resorts, we'll see some additional recovery in the fourth quarter. With that said, I have to put the caveat on it. We're only as strong as tomorrow's news.

You saw what happened yesterday with the announcement about there could be a vaccine as early as the end of October, and everybody was euphoric. You also saw what happened last week when it was Astra Zeneca that said that, oh well, we had one bad reaction. Therefore, the market went the other direction.

I put all that in the context of we are cautiously optimistic, but we certainly don't have the kind of visibility that we would traditionally have looking forward.

**Brandt:** You mentioned the fourth quarter, and I know it's a cautiously optimistic type of thing, but historically there's been some seasonality, in the sales of VOI. How has that changed in the current environment?

**Steve:** That's another great question. In a normal year, I'll just look at the month of September, the normal year, the first two weeks in September are stronger than the last two weeks of September. It all stands to reason. Kids go back to school. People are coming off of the vacation cycle and everything else.

We've seen anecdotally, and so I can't say it's a trend here, we've seen in some locations where occupancies in a place like Hilton Head, for example, occupancy in the second half of September looks to be as good or maybe even a little bit better than we would typically expect to see.

Some of that we believe is because people are telling us, hey, listen, my kids are attending school virtually. I'm not in my office, so I can go to a place like Hilton Head. I can work from my unit. My kid can go to school from my unit, and the rest of the time, we can go out and be on the beach.

Again, I can't say that that is emphatically what's happening everywhere, but I'm hopeful that that could be indicative of some maybe implied additional strength into the beginning of the fourth quarter.

As you said, obviously the first half of the year in the timeshare business in general, certainly we're no exception to that, is always stronger than the second half. That's just a function of where these resorts are located in vacation destinations which are highly desired and everything, whether they be beach, whether they be ski, you name it.

As you get into the fourth quarter, things modulate a little bit. Again, we're measuring year-over-year, quarter-over-quarter. I would expect four to be better than three, both of which will be below what we experienced last year.

**Brandt:** Maybe you could give us a sense of what you're seeing in terms of consumer behavior. How does it feel in terms of their confidence, their propensity to purchase if they are taking a tour, if they are traveling.

**Steve:** Implied in what I said earlier and certainly we've obviously pivoted to focus more on our

existing owners who are vacationing and using their vacation experience that they've already bought and paid for in terms of talking to them about adding additional points to their portfolio.

Here's the really good news. 95 percent of our owners that are staying in our resorts, we give them the option, they can either come talk to one of our sales executives in one of our sales centers with obviously the appropriate personal protective equipment, and Plexiglas, and everything else, or we can do it virtually.

They can be in their villa. We can talk to them electronically much as we're doing here. 95 percent of our folks want to do it in person, which says something about their level of confidence.

We also survey our owners before they arrive and ask about what their level of confidence about our ability to maintain cleanliness standards, sanitation, and all the other stuff, and then we survey them after they've departed.

To date of those surveys, we obviously average very high on the front end going in, and we're about 10 points higher on the way out. That tells us that they believe that they're getting a good experience.

I had an opportunity to take my family to Hilton Head in August, and I can tell you the resorts, and I went around all of our properties there, the resorts are doing everything they can in order to not only have a sanitation level that is visible but also making sure that we're helping our owners if they happen to slip and don't have their mask on or something that we remind them that they need to.

With that said, because we've gone to owners, typically speaking you have a higher VPG with owners, which are essentially adding more inventory to what they already own. We've got less first-time buyers because our occupancies are lower. Obviously, you source a lot of first-time buyers out of people that are either renting at your location or they're on package sales.

Our VPGs are higher. The other good news is because of the profile of our existing ownership base, which has an average age of 60 and an average household income of north of $130,000, net worth of greater than a million and a half. That's all self-reported, but we believe it to be fairly true. I'm not so sure they've been as impacted as some others have had because of the pandemic.

We feel as though the strength of our ownership group is good. As we will continue to try to dial

up occupancies and get back into more first-time buyers, I would expect the VPG number to come down. That's just arithmetic because the VPG of a first-time buyer is lower than existing owners.

We are very encouraged by the performance of what we've seen thus far. We just wish we had more occupancy [inaudible] talk to.

**Brandt:** Are you seeing any shift in demographics? You noted the average age. Is there any sort of shifts going on under the surface in terms of your owner base or who's more likely to buy?

**Steve:** Because of what I just mentioned, since we're talking to more owners than first-time buyers, the average age skews the buyer. First-time buyer average age is low fifties. By definition that means that we're talking to a slightly older group.

We don't have any visibility into advanced bookings other than we know what owners are booking. We know what exchangers are booking. Because we turned off transient arrivals for a number of months. They have been slow to come back, although somewhat better.

In terms of -- I got a number here, let's see -- transient reservations increased 21 percent during the month of August, which is good. That's a bit of a [inaudible] numbers because it's off a relatively low base, but it does say there's some acceleration there.

If you said, "Give me the demo of your current on-the-books pipeline," it would skew a little older because it's more owners and exchangers and less first-time buyers.

**Brandt:** That 21 percent transient reservation lift, is that for all future periods or was that just for the month of August? Is that a year-over-year number? How should I look at that?

**Steve:** That's just for the second half of 2020.

It was what we had in the books at the end of July versus what we had in the books at the end of August, so just an indication that there were more transient book reservations on the books at the end of August than we had in July.

**Brandt:** It's off a low base, but that's probably a higher number than you had June, going into July.

**Steve:** That's absolutely correct.

**Brandt:** Then, the points-based sales model, which obviously is highly efficient for you guys, I want to ask about how that's played out in the pandemic because everyone wants to go to the same places, either beach communities or mount communities. How has that system performed in terms of customer satisfaction, in terms of availability? Any comments there?

**Steve:** As I mentioned in the second quarter, there was a of people that wanted to go someplace.

Because of the local restrictions, we wanted to be very forthcoming with those owners and say, "Hey, I know you want to go to Palm Desert in April, but Riverside County in Palm Desert says that all pools must be closed." "If you've got to go to Palm Desert, if you don't want to be at the pool, you'd probably want to be playing golf. That would be the only other thing you would do."

There was some people that said, "No, I'd rather take my points and use them at another time." We worked with them to do that or to give them the interval on our national certificates so that they could use it at a later date.

I will tell you that there's a general misconception about timeshare inventory. Whether you're talking about points, whether you're talking about weeks, there is a finite supply in any given resort.

The example I often use is if you and 50 of your closest friends went to buy a second home at the beach. Because of a hurricane or whatever it is, you couldn't use your week. You might say, "Well, OK. Give me two weeks next year." The problem is to come up with that second week next year, one of your coinvestors would have to say, "I'm not going to use my week."

My point is that whether it would be us or whether it would be others in the space, there will be an inflection point where not everybody can be at the same place at the same time they want to be. This is a difficult concept for people to grasp, but we'll do our very best.

What we have done, we've deliberately said for next year that some of the traditional inventory that we would make available on a rental basis, we're not going to make available, so we have more inventory available to our existing...

This would be inventory that we will either own, developer inventory that has been sold, or

inventory that would be given to us because somebody wants to make another kind of vacation. They want to go on a cruise, they want to do whatever, in which case we get the inventory back, and we pay for that experience in other places. Then we'll nick on our rental revenues for next year.

We think it's the right thing because, at the end of the day, having satisfied owners, which represented 60 percent of our sales last year, buy more of our product is clearly in our best interests and the best interests of the company and our shareholders.

I'm not sure I answered your question.

**Brandt:** No, but you make a good point. Even if you were selling a fixed deed at a fixed resort for a fixed week, like back in the day, and it was in Hawaii in the summer of 2020, they're not getting that week back, right? That's gone.

**Steve:** No. Exactly.

**Brandt:** Great. Then I want to talk about Vistana a little bit. So far in this recession, which parts of that portfolio has outperformed/underperformed, to get a sense of the difference in the footprints? Talk a little bit about how their consumer loan portfolio has performed here.

**Steve:** I'll let John talk about the consumer loan thing in a second. The Vistana, as you may recall, was the Westin and Sheraton brands. Two very significant resorts in the Sheraton brand are here in Orlando. By definition, they have been impacted in the same way that the Marriott-branded timeshare resorts in Orlando have been impacted. Go figure.

The parks reopened middle of July -- actually, Universal beat Disney to the punch by a couple of weeks -- but with limited occupancy, with mass restrictions and everything else. It certainly has not stimulated travel to the Orlando market like it would. We have two resorts there.

In the Sheraton brand, we have a resort in Kauai. By definition, that resort is running zero occupancy. The same thing on the Westin side. A disproportionate amount of that inventory is based in Hawaii.

In both of those cases, they have underperformed relatively speaking to the Marriott inventory across the brand, but I would tell you the same market stuff, they look virtually the same in terms of what's happening in terms of the sales shortfall, etc.

You also recall that we were in the midst of putting some additional improvements in our sales techniques, the kind of promotional grids that we put in place to incent purchases and the like.

That work has continued on, although when we closed all of our sales centers on March 23rd, and we didn't start reopening -- the first eight that we opened were in June -- you might imagine we lost some traction in terms of getting additional things put in place. We're picking back up on that moving ahead.

I think it's a short-term blip. Long term, I believe we'll still get the same benefit from all that. With that, I'll let John talk about the loan portfolio on the stand.

**John Geller:** We're still very encouraged about the performance of the loan portfolio. A couple of data points. We saw delinquencies move up in April, May, and into June and then start to trend back down through July and August. We're not down to pre-COVID delinquency levels, but running about a point or so higher here at the end of August. The trends have generally been good.

The other thing we've talked about is the deferred payment program we offer to our borrowers. We obviously saw it, similar to the delinquencies, pick up early, but still roughly about 1.3 percent of our borrowers are in that program. If you remember, it was a 90-day deferral. Then you had to start making payments plus part of your deferred payment over a period of time.

At this point, about 85 percent of the folks that were in that deferral program have had their first payment due. We're seeing about 35 percent actually making their payments. That's a good sign. We're going to continue to work with the other borrowers to hopefully figure out a way to work with them over a longer period of time, but very manageable.

If you remember, we took an additional reserve back in the first quarter. It was roughly two percent of our loan book at the time, above and beyond our normal reserves. Given those, if you triangulate the different numbers there, we still feel very good about that two percent.

I can tell you too that in terms of people going into the deferred payment program, that's really down to, I'd say, a trickle. It's a handful of people a week at this point, so once again optimistic that, hopefully, the worst is behind us. The loans can continue to perform, if you think about the overall COVID backdrop, pretty phenomenally, in my mind.

**Brandt:** Great. Those stats, that was really helpful, John. Thank you. Those stats were for the consumer book overall, right? You weren't talking about Vistana specifically...

**John:** Correct.

**Brandt:** which we know Vistana was underperforming. Is that a meaningful needle mover or a routing error for the overall picture?

**John:** That is similar. They went off in terms of delinquencies, people in the program that they've come back down. They're still underperforming mainly in the Sheraton portfolio. These are pre-COVID things, even preacquisition loans.

At the time, if you recall, Vistana was trying to grow its top line, prior to our acquisition. They didn't have access to the branded Marriott channels and, therefore, were focused on off-premise channels. They dropped income requirements in terms of tours, etc. We also talked about it at the time. They dropped down payment requirements on below 600.

Because of some of those decisions, we've seen some higher defaults. Hopefully, since we've now gotten rid of most of those things or fixed them almost immediately -- we're still rationalizing some of the off-premise marketing channels -- over time, we would expect that their performance should be similar to what we see on the broader Marriott portfolio.

**Brandt:** Thank you for that. Shifting gears to talk about expense structure -- and, Steve, you gave us the update about the unfortunate layoffs from yesterday -- maybe put that into a broader context of everything you've done so far and talk about how the expense structure has permanently changed to date.

**John:** A little bit of background. Coming into the pre-COVID or the COVID world, I should say, we were on our three-year journey on the integration/transformation with the integration of ILG. We had focused on EBITDA savings of $125 million a year, if you will. The focus was to get there by the end of 2021.

When COVID hit, we had the processes and things in place, and we've continued to focus in on that cost structure. Obviously, the announcement we made yesterday will go towards some additional savings, but more importantly, we continue to focus on what the post-COVID world looks like, our integration/transformation processes.

We do see a meaningful upside to the 125 in terms of our permanent cost structure, if you will. We're working through that. Obviously, we'll be in a position, as we move through the third quarter here, to come back and update everybody on where we see the opportunities there. Like I said, we do see meaningfully higher opportunities than the 125. We are working through a lot of that internally.

**Brandt:** Then basically broader cost savings. When we look through the lens of the integration, there's a lot of upside. It maybe has accelerated that process because of everything being shut down.

**John:** Sure. You got to remember, to Steve's point, a lot of the cuts are related to lower occupancy, also lower sales. Some of these jobs are production jobs, on the marketing and sales side. Notwithstanding, you're getting rid of some of the costs, the revenues are going to be slightly lower for a period of time too.

We've looked at what the recovery would look like here. The good news is we see a way back to obviously pre-COVID levels, but we do think the recovery, given where we're at on a vaccine, and as we look at next year, is going to be a little bit slower here. We've had people on furlough, now coming up on six months in the middle of October. Hard decisions.

We had to make some decisions based on the best view we had, and how long things could recover over the next three to six months. We do see with occupancies recovering probably when Hawaii opens when people want to come back to Orlando in greater strength and numbers. The model is proving itself now in terms of its resiliency and for it to come back fairly quickly.

**Brandt:** Great, thank you. Just rounding out costs, and this might be a rounding error. Any extra costs from cleaning supplies, cleaning protocols, and things of that nature, or is that going to be covered by the HOA mostly?

**John:** Correct. They're not meaningful. Obviously, we've put a lot of protocols in place. Relative to a COA budget and all the costs, it's not overly meaningful.

**Steve:** The offset, obviously, at least in 2020, there have been certain costs that haven't been incurred at the property level. The offset, as you said, is a rounding error.

**Brandt:** Great. Thanks for that. Thinking about cutbacks, and inventory planning, and just the broader real estate market, and maybe opportunities there, maybe you could tell us how you think

you might approach the prospect of distressed real estate against your largely capital efficient model as we get into next year and things normalize, and cash starts coming back in the door.

**Steve:** Probably not surprising, given the fact that our inventory process was building into what we thought was going to be a very strong 2020. We have some excess inventory, and we're going to have to work through that.

With all that said, if there is a great distressed asset in a market that we believe would be additive to the portfolio, and most importantly, give us another sales distribution opportunity, we would certainly consider that. We've had great success over the past several years of working with third-party investors so that we're not put on an all balance sheet.

If you had an absolutely drop-dead opportunity, we wouldn't preclude the opportunity to put on our balance sheet. It would have to be something that would be very attractive and a great location, like I said, with another sales distribution opportunity.

**Brandt:** Great. In terms of free cash flow or cash flow, your last update, I think you were looking for the second half of this year, something in the net positive area. Just qualitatively, what assumptions were baked into that in terms of infection rate or the recovery of occupancies?

**John:** High level had assumed a gradual recovery of our existing sales centers occupancy, not a big uptick here in the fourth quarter. It did assume that Hawaii restriction, Steve mentioned earlier lapsed, if you will, and people could return to Hawaii beginning of October 1. What I can say is we've done more work.

Even if that gets extended through the end of the year, hopefully, it doesn't, I do see a way where we'd still be cash flow positive in terms of even pulling those assumptions for Hawaii out. The business continues to perform very well for the first couple of months here, and we're looking for ways to generate cash, obviously, a lot of the cost savings measures, things like that.

We clearly didn't assume anything shutting back down, any markets. I think that there's always that risk. As Steve mentioned, we saw that in a smaller scale in the US Virgin Islands, where they shut down from mid-August. Now, the good news is they've issued the reopening order here in a couple of days, so that will open back up.

If you recall, our US Virgin Islands resorts in St. John and St. Thomas, they got up to 75, 80 percent occupancies, and were generating sales. We didn't try and bake any of those

assumptions in, but we also didn't assume that occupancies improved significantly off of what we're seeing here. Hopefully, there's some upside there, as we move through the year.

**Brandt:** Great. Thanks for that. Some competitive thoughts on your other large exchange peer, coming out with something that looks like it's aiming to become a more growthy or growth style business. What are your thoughts on that, your ultimate goals for that business? How does it contrast with that?

**Steve:** When we saw obviously their release and their conversations through their transcript about it, I'll be honest with you, I'm not so sure I saw anything that was particularly earth-shattering.

Those of you that were a party of our investor day last fall, which seems like a long time ago now, you'll recall that we said the things we were going to do was we were going to try to broaden our footprint in the exchange business, and not just focus on timeshare owners, but also provide travel experiences and things like that to a broader community of folks.

We talked about some early successes that we had with some outside companies bringing in their workforce and their membership groups into that space.

We've always said we want a greater share of our members' wallet. I think those are similar things to what you saw in Wyndham's announcement or RCI's announcement, I guess, I should say.

With that said, if you think about it more broadly, timeshare exchange companies have been a relatively slow growth component of these companies. That's because companies like ours, we put an internal exchange component into our vacation club, which meant that people didn't have to go to an exchange company.

The vast majority of our folks that are honest with us want to stay in one of our resorts, not somewhere else. Now, there are places where we don't have inventory. That's one of the places where the exchange companies did do a great job of providing inventory, where the existing captive systems can.

I think it's only logical that in an effort to try and promote growth with an exchange business, you try to say, what other growth vehicles are there available to us? This is expanding your footprint, outreach to non-timeshare owners, providing travel experiences, etc, I think it's very logical. I

think it's very consistent with what we've said is our path as well.

**Brandt:** We're about at time. There are no questions in the virtual audience queue. With that, we'll wrap things up.

Gentlemen, thank you very much. Steve, John, we really appreciate having you here. Good luck with everything going forward.

**Steve:** Thanks, Brandt. We appreciate it.

**John:** Thank you.

**Steve:** Thanks, Brandt.

**Brandt:** Take care.

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