Marriott Vacations Worldwide
Fourth Quarter 2022 Earnings Call
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Presenters
Neal Goldner, VP, IR
John Geller, President, CEO
Tony Terry, EVP & CFO

Q&A Participants
Brandt Montour – Barclays Bank
Benjamin Chaiken – Credit Suisse
Chris Woronka – Deutsche Bank
Patrick Scholes – Truist Securities
Shaun Kelley – Bank of America Merrill Lynch

Operator
Greetings, and welcome to the Marriott Vacations Worldwide fourth 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 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 for Marriott Vacations Worldwide. Thank you. You may begin.

Neal Goldner
Thank you, Melissa. And welcome to the Marriott Vacations Worldwide fourth quarter 2022 earnings call. I am joined today by John Geller, President and Chief Executive officer and Tony Terry, our Executive Vice President and Chief Financial Officer.

I 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 and the presentation that 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 a reconciliation of non-GAAP financial measures referred to in our remarks and the schedules attached to our press release as well as the investor relations page of our website at ir.mvwc.com.

As you saw in our earnings release last night, as a result of aligning the contract terms for our vacation ownership sales across Marriott, Westin, and Sheraton brands last year, we recorded an additional $12 million of revenue in the fourth quarter. The schedules to our earnings release provide a reconciliation to show what our reported results would have been without this benefit. Our discussion and commentary today will refer to our results after adjusting for the alignment, including the $7 million benefit to adjusted EBITDA.

With that, it's now my pleasure to turn the call over to CEO, John Geller.

John Geller
Thanks, Neal. Good morning. And thank you for joining our fourth quarter earnings call. I'm happy to welcome you for the first time as CEO. The past two months have felt a lot like when I joined the company just over 13 years ago, full of potential and possibility. I've stepped into this role with a strong leadership team around me and a vision of growth ahead for us.

If you've been following the travel industry, you know there is an optimistic view on leisure travel this year. In a recent survey, 77 percent of respondents said they are excited to travel this year, while nearly 50 percent of them have already begun researching trips. That said, leisure travel looks different than it did pre-pandemic. Recent research we conducted revealed that 80 percent of people surveyed would consider working remotely from a vacation destination as a way to extend the length of their trip, and this trend is expected to continue.

So, what does that mean for us? It means that more travelers than ever can visit our top destinations, stay in our spacious villas, and experience the unparalleled service that our on-site resort teams deliver. With the strength we've seen in leisure travel, we've averaged nearly 90 percent occupancy for the year, illustrating the continued high demand for leisure accommodations.

We also generated over $1.8 billion of contract sales and delivered $744 million of adjusted free cash flow in 2022. And we added over 20,000 new owners to our vacation ownership business, while growing active interval members by 21 percent.

This year, we expect to continue that momentum. We will build on our strategic investments in products, technology, people, and customer experiences that propel our business forward. We have dedicated and passionate teams around the world delivering unparalleled vacation experiences every day to our owners, guests, and members, and we continue to positively impact the communities in which we live and work.

I'm also proud to say that we recently published our new ESG report and are formalizing a strategy to ensure we're being good stewards to the environment in which we operate and the communities we serve.

One such example is the establishment of the Stephen Weisz Endowment, providing scholarships to students at the Rosen College of Hospitality Management at the University of Central Florida. Since 2020, we have hired more than 175 UCF graduates, and I'm very proud that our company was able to make this investment to support the development of future hospitality leaders, while honoring the legacy of our former CEO.

Now moving to our results. 2022 was a great year for Marriott Vacations, and we ended the year on a very strong note. Occupancy was 90 percent for the fourth quarter, with Hawaii running over 95 percent, while Asia Pacific occupancies doubled compared to the prior year. With the strong occupancy, we grew tours by 18 percent on a year-over-year basis, with fourth quarter tours just below our pre-pandemic levels.

As expected, VPG declined year-over-year, but remained 17 percent higher than 2019. As a result, we grew contract sales by 12 percent in the fourth quarter compared to the prior year and expanded our adjusted EBITDA margin, illustrating the resiliency of our business model and the desirability of our product offerings.

Last year, we successfully implemented our online booking engine for previews and continue to improve predictive modeling for our marketing campaigns. These initiatives resulted in significantly higher consumer response rates, and we ended the year with more than 200,000 preview packages in our pipeline, with roughly one-third of those customers having already booked their vacations for 2023.

Taking a step back. When we first acquired ILG in 2018, the goal was to allow owners the ability to enjoy expanded vacation opportunities and provide direct access across our Marriott, Sheraton, and Westin Vacation Club brands. Since then, we've been working to set up the systems and technology to expand our offerings and fulfill this promise, which we achieved last year with the launch of Abound by Marriott Vacations.

Looking forward through our multiyear Vacation Next program, we expect to leverage our brands and digital strategy to help unlock our growth potential. We expect this will allow us to create efficiencies in how we market, sell, and service our products, resulting in top line growth, lower customer acquisition costs, and increased owner satisfaction as we make more service options available online.

In our Hyatt Vacation Ownership business, we continue to make great progress integrating Legacy Welk. In January, we announced that beginning this summer, all of our Hyatt and Legacy Welk resorts and sales galleries will be rebranded Hyatt Vacation Club. Later this year, we plan to expand the vacation experiences available to Hyatt owners with a new exchange option called Beyond, allowing them to use their ownership for cruises, tours, and hotel stays.

I'm also excited to announce that earlier this month, we acquired a fully entitled parcel of land in Charleston, South Carolina. Overlooking the heart of the city, we intend to develop a new Marriott branded resort by early 2025, including a new on-site sales gallery. The city of Charleston continuously ranks as one of the top owner destinations for its thriving culinary scene, easy walkability, and southern charm. Located steps from the historic Charleston City Market, this new 50-unit resort will make a great destination for our owners.

In our exchange and third-party management business, interval ended the year with nearly 1.6 million members, a 21 percent year-over-year improvement driven by the new affiliations we signed in late 2021. Excluding the results of VRI Americas, which was sold last April, adjusted EBITDA in our exchange and third-party management business increased 11 percent in the quarter, driven by higher average exchange fees and increased get aways as well as increased management fees at Aqua-Aston.

Before turning the call over to Tony to discuss our fourth quarter results and 2023 guidance, a number of investors have asked me what they should expect as I step into the CEO role. As you know, I've been in a senior leadership position for over a dozen years and had a significant amount of input into our objectives and strategies along the way. So, in short, I remain committed to delivering the level of operational excellence that our customers expect from us. I also expect to deliver against the goals we laid out at our last investor day.

Long term, I expect our timeshare and our exchange business to remain the core of our business model, while we look to add to our growth by diversifying into adjacent leisure-focused businesses where we can leverage our core capabilities. And finally, I want us to find new ways to unlock the power of data through advanced analytics to improve efficiency and drive top line growth. The opportunities that lie ahead for us are exciting and my optimism about the long-term future has never been greater.

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

Tony Terry
Thanks, John. And good morning, everyone. Today, I'm going to review our fourth quarter results, the strength of our balance sheet, and liquidity position, as well as our 2023 outlook.

As I mentioned last quarter, earlier in the year in connection with the unification of our Marriott products and the launch of Abound by Marriott Vacations, we aligned the contract terms for the sale of vacation ownership interest across our Marriott brands. As a result, contract sales for our Marriott branded products are now being recognized as revenue following the expiration of the recession period, consistent with our Westin and Sheraton brands. This change resulted in the acceleration of an additional $12 million of vacation ownership revenue in the fourth quarter and a $7 million benefit to adjusted EBITDA. With the alignment completed, we do not expect any material impact from this going forward.

Moving to our vacation ownership segment. Leisure travel demand remained strong in the fourth quarter and the value proposition of our vacation ownership product remains compelling. We capitalized on these trends in the fourth quarter, driving a 12 percent increase in year-over-year contract sales with tours ending just shy of pre-pandemic levels. And excluding the $13 million impact from the hurricanes, contract sales would have grown 15 percent, illustrating the continued demand for our core product.

With the growth in contract sales, adjusted development profit grew 13 percent to $126 million and margin was, again, over 31 percent, 500 basis points higher than 2019. In our rental business, as we expected, owner occupancy increased in the quarter compared to the prior year and explorer costs rose as owners continue to use their remaining COVID points before they expired at the end of last year.

In addition, preview packages were up substantially, which helped fuel contract sales, but negatively impacted availability for renters. As a result, transient keys rented declined 10 percent in the fourth quarter, partially offset by a 3 percent increase in revenue per available key and rental profit in our vacation ownership segment declined year-over-year to $15 million.

The stickier parts of our vacation ownership business, again, performed well. Profit from our resort management business increased 10 percent year-over-year to $70 million, while financing profit increased 5 percent to $50 million.

Our notes receivable portfolio also continued to perform well in the quarter, with delinquencies and defaults largely in line with levels experienced in 2019. For the fourth quarter, adjusted EBITDA in our vacation ownership segment grew 12 percent, excluding the $7 million impact from the hurricanes with margin improving 110 basis points to nearly 35 percent.

In our exchange and third-party management segment, active interval members increased 21 percent compared to the prior year, driven by the new affiliations we signed in late 2021, while, as expected, average revenue per member decreased as transactions from the new accounts continued to ramp up.

In our Aqua Aston business, RevPAR increased 40 percent, driven by improvement in Hawaii. Excluding the results of VRI Americas, adjusted EBITDA at our exchange and third-party management segment increased 11 percent compared to the prior year and margin increased 300 basis points to 55 percent.

Finally, corporate G&A was largely unchanged compared to the prior year. As a result, adjusted EBITDA increased 9 percent year-over-year, excluding the impact of the hurricanes and margin improved by 120 basis points, demonstrating the continued demand for leisure travel and the strength of our leisure-focused business model.

Moving to our balance sheet. In December, we issued $575 million of 3.25 percent convertible notes due 2027. The offering was significantly oversubscribed, reflecting strong demand from investors. We used the proceeds to pay down a portion of our revolver, repurchased $55 million of common stock, and in January, redeemed our 6.125 percent senior secured notes due 2025.

As part of this issuance, we entered into a call spread transaction increasing the effective economic conversion price of the notes to over $286 per share, double where our stock was trading on the day we launched the offering.

Pro forma for the note redemption, we ended the fourth quarter with $1.1 billion in liquidity, including $266 million of cash, $72 million of gross notes receivable eligible for securitization, and $749 million of available capacity under our revolver. We also had $2.8 billion of corporate debt with 92 percent of it fixed at an average interest rate of 3.4 percent. Our net debt to adjusted EBITDA ratio was 2.9 times at the end of the quarter within our targeted 2.5 to 3.0times leverage range, and we have no corporate debt maturities until 2025.

We also completed our second timeshare receivable securitization of 2022 in the fourth quarter, issuing $280 million of notes at an overall weighted average interest rate of just under 6.6 percent. And the 98 percent advance rate illustrates the market's continued belief in the strength of our owners.

We also continue to return a substantial amount of cash to shareholders. In the fourth quarter, we repurchased $173 million of common stock at an average price of just under $140 per share, and our board of directors authorized a 16 percent increase in our quarterly dividend. For the year, we returned more than $800 million to shareholders, including the repurchase of more than $700 million of our common stock.

Moving on to our 2023 guidance. 2022 was a very strong growth year for our company as concerns surrounding the COVID-19 pandemic began to wane and people got back on vacation. As we enter 2023, despite concerns about a potential recession, to date, we've not seen any weakness in demand in our forward bookings and are targeting 5 to 9 percent contract sales growth this year with VPGs continuing to normalize and tour growth largely coming from in-house and preview packages.

With these higher volumes, continued low product costs, the benefit of our digital transformation efforts, and our ability to leverage fixed marketing and sales costs, we expect development margin to remain above 30 percent for this year. While contract sales are expected to be the primary driver of growth in the vacation ownership segment, rental profit is expected to increase more than 10 percent this year, though we do expect it to be lower in Q1 compared to the prior year due to higher owner and preview utilization.

Financing profit is expected to be largely unchanged for the year, excluding the alignment benefit we recorded in 2022 as higher contract sales and increased financing propensity are expected to be offset by a higher cost of funds.

For the exchange and third-party management segment, interval members are projected to remain relatively stable, and adjusted EBITDA is expected to grow 4 to 6 percent this year.

Longer term, our strategy continues to include driving higher revenue per member, adding new affiliations and properties to the network, and expanding our platform and benefits to appeal to a broader target market. We expect to wrap up our ILG integration work this year, which will enable us to allocate more resources to focus on our Hyatt business as well as our initiatives to leverage data and advanced analytics and improve our customer self-service capabilities.

These initiatives, combined with higher labor costs, could result in a 10 to 15 percent year-over-year increase in corporate G&A costs. As a result, we expect to generate $950 million to $1 billion in adjusted EBITDA this year, implying 6.5 percent year-over-year growth at the midpoint of our guidance, excluding the $51 million alignment benefit we recorded in 2022.

Moving to cash flow. We generated $744 million of adjusted free cash flow in 2022 and ended the year with $500 million of excess inventory. We currently have no material new inventory commitments for 2023, though we do plan to continue repurchasing low-cost reacquired inventory as it benefits the system and lowers our product costs. We will also continue to look for opportunities to add resorts preferably where we can leverage a new sales center, and we'll continue to do this in a capital efficient manner where possible.

We expect our adjusted free cash flow to be between $600 and $670 million this year and for our adjusted EBITDA to free cash flow conversion ratio to be approximately 65 percent. We will continue to use our free cash flow for organic growth or for strategic acquisitions. In the absence of compelling acquisitions, our best use of excess free cash flow remains returning it to shareholders.

In summary, the fourth quarter was a strong close to the year. As we look forward, despite the uncertain economic outlook, I believe we're in a great position to continue to benefit from the growth in leisure travel in 2023 with our products and high demand and our investments in brands and digital initiatives supporting that growth. As always, we appreciate your interest in Marriott Vacations Worldwide.

And with that, we'll be happy to answer your questions. Melissa?

Operator

Thank you. If you'd 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'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 star keys.

Our first question comes from the line of Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Hey, everybody. Good morning. Thanks for taking my question.

So, just first on your contract sales guidance and the growth implied in contract sales. Just was hoping that you could break that down a little bit between tours and VPG. And what I'm getting at is the fourth quarter VPG was, like you said, 17 percent above '19. And I just want you to answer the question in relation to that number.

Should we consider that VPG can lift up a little bit from that level? Or is that maybe the new normal because that's going to, obviously, have implications on the tour growth that you need to hit that overall contract sales growth number? If that all makes sense.

John Geller
Yeah. Hey, Brandt., Thanks for the question. I'll give you a couple of data points here. You talked about fourth quarter VPG. We did see VPG kind of stabilized in the fourth quarter from some of the declines we had seen a little bit earlier. We would expect that VPG for the first quarter to start trending back up slightly, and then as you go through the year we do expect not necessarily a straight line, but we'll continue to have better VPG.

Now with that all said, because the first half of last year was so strong with VPGs and the pent-up demand, on a year-over-year basis, I think we're probably going to be slightly lower on VPG, meaning your tour growth is really what's going to drive your contract sales year-over-year with slightly lower VPG is how we're thinking about it right now.

But obviously, a tough comp when you look at the first half of last year for the full year. But, yes, we do expect it to trend up from what we saw in the fourth quarter.

Brandt Montour
Okay. Great. Thanks.

And John or Tony, you know, we look at this really strong free cash flow that you're generating, and we look at your leverage, which, sort of, continues to go down year-over-year and looks like it's going to go down even further, depending on the share buyback cadence.

Maybe, if you could just touch on that M&A point a little bit deeper. Is there, opportunity out there? Are you sitting here looking into next year thinking, you're a little bit more warmer on the idea of going out and maybe, using that cash for M&A versus how you felt about the market 12 months ago? Any, more color on that, John, would be great.

John Geller
Yeah, our views haven't changed. We're going to continue to look at opportunities that once again go back to, is it the right strategic fit, right? And if it's on the vacation ownership side, is it unbranded, something where we can leverage our upper upscale brands. And as we've talked about, those opportunities from an acquisition perspective are not big in size and not big in the number of those.

So, we'll continue to look at that opportunity. I think we've learned a lot, first, with the ILG and now as we work through Welk that you can really create value by bringing in the owners and adding flags to the map and driving efficiencies and creating more opportunities for your owners to go on vacation. So, we're going to continue to look at that.

And then, even on the exchange side of the business, we're going to look at opportunities there to expand our travel platform. We've talked about adjacent, travel type businesses. And we're going to continue to see if there's something there. We're not--you know, we're not going to do something that's a “me too” offering.

We're going to look for stuff that really either we can run and grow and build into scale, leveraging our core capabilities, or potentially enhance the offerings we're making today, whether that's on the exchange side of the business or the VO side of the business.

So, we'll be opportunistic there if we see the right things. But, short of that, you know, like we've said, we'll return excess capital back to shareholders.

Brandt Montour
Excellent. Thanks so much.

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

Benjamin Chaiken
Hey. Good morning.

John Geller
Hey, Ben.

Tony Terry

Hi, Ben.

Benjamin Chaiken
--Hey. One just quick near-term and one longer term. So, I think if I heard you correctly, I think you mentioned in the prepared remarks a 1Q rentals headwind from higher owner occupancy. My understanding was that was not an issue, but that was a dynamic in FY '22 as well, but those rollover points would expire in January.

So, can we open that up slightly? Like, why is that headwind persisting into 1Q '23? And then did you quantify that at all? Sorry. Thanks.

John Geller
Yeah. So, if you go back--it's really more of a Q1 '21, right? So, you had omicron and coming--you know, in the recovery, you had less owner occupancy in general in the first quarter of '21. And with that, less owner occupancy allowed us to drive better rentals, right?

And now you're back to more normalized owner occupancy, and it has nothing to do with the point expiration. It was just really the opportunity, from omicron last first quarter. But also just at the time, owner occupancies in general haven't gotten back to a normalized first quarter level.

So, first quarter last year, you know, gave you a little bit better outcome there. First quarter this year, you're just back to more normalized owner occupancy, and, yeah, we talked about our package pipeline. We've got much higher packages. We're using our rental inventory in the first quarter to drive packages and contract sales. So, that will normalize, right?

We have an easier comp for rentals in the second half of the year as--last year, as we talked about, we did have all of those COVID points, and we were arguably making inventory we could otherwise rent available for owners because that was related to prior year usage with the COVID points.

So, or second half of the year, much easier comp, and that's where I think, you know--no, we're not going to guide quarter-to-quarter. For the full year, Tony talked about rental profits being--

Tony Terry
--About 10 percent--

John Geller
--About 10 percent.

Tony Terry
And on that, you know, I'd just add that, we do confirm that those COVID points did expire at the end of last year, as John mentioned. And the other dynamic you have happening in the

second half of the year is that people used those COVID points also to use our Explorer Collection.

And, now as we get into this year, the owners last year were using those points towards the second half of the year a little more. So, we had a little more rental availability in the first half, like John mentioned, but that means that if they were using the Explorer--or I'm sorry, the, COVID points in the second half of the year a little bit more, it was a little bit higher cost on the Explorer cost as well because not only did they occupy, but they also traded for Explorer as well.

Benjamin Chaiken
I got it. That makes a lot of sense. Thanks for all the color.

And I guess if we just step back a little bit, how do you guys feel, about your 2025 investor day goals on either EBITDA or contract sales? Do you feel like you get the stretch? Or is it right on target? And I ask that in the context of contract sales, for example.

So, if you use the midpoint of the '23 guide, as you mentioned, that 7 percent contract sales. And I think that would suggest a little bit of an acceleration in '24 and '25 to reach the midpoint of those investor day goals. So I'm just kind of curious about how you guys are thinking about the cadence over the next couple of years from here. Thanks.

John Geller
Yeah. We feel great about the goals we laid out. Nothing's changed. Obviously, when you lay out any plan and you're given kind of three years, it's never necessarily a straight line, right? Your growth each year, some years might be a little bit less, for example, this year, because we didn't necessarily have interest rates on the financing side last June going is high, right? So not as much growth--or really no growth when you look at our financing business this year. But we expect that'll turn around over the time, and we'll get substantial growth as we go through there. So that's an example.

But on the contract sales side, same thing. We continue, and Tony talked about our G&A being a little bit higher. We're continuing to invest, right, in technologies that are going to help us drive contract sales growth, higher VPGs, efficiencies, marketing.

And, as we've talked about in the past, we partnered with Salesforce. And so, the difference being a little bit because I know people ask about the higher G&A costs., The difference being is historically on the IT side, we were more of a build shop, meaning we built the IT, right? And, therefore, under GAAP, you capitalized it and depreciated it, right? So, that came out of your free cash flow in CapEx, if you will.

As we've transformed the business over the last couple of years and you think about where we want to go, we want to partner and use more software as a service, like Salesforce. The difference from an accounting perspective is, less of those costs from an IT perspective don't qualify for capitalization, under GAAP.

So, because of that you have slightly higher expense. But even if you go back to the investor day, what I'd point out is if you look at our CapEx spend, it's $90 to $110 million a year over the four-year period. And this year, right, and it's going to be lower. I mean, we're guiding $80 to $90, right?

So it's really a right-hand, left-hand type thing in terms of it doesn't impact your cash flow, per se, but the nuances of where it might run through are a little bit different. But with that, and leveraging that type of technology, that's going to unlock the growth and create more opportunities going forward to get more efficient on the marketing and sales side and better target customers, and drive those contract sales.

So, we're excited to move forward here. And I guess go back just to answer the first part of your question, yes, we feel very good about the investor day numbers that we laid out back in June.

Tony Terry
And Ben, one thing I'd tack on to what John said is that we did mention that we expect VPGs to normalize a little bit in 2023. But that doesn't mean for the whole period through 2025 that we do that. So, we do expect VPG to start growing again after the current year. So, that's something that we'd look at as well driving development margin.

Benjamin Chaiken
That's very helpful. Thank you.

Operator
Thank you. Ladies and gentlemen, just as a reminder, we'd like to ask you to keep to one question and one follow-up so that we allow for as many questions as possible.

Our next question comes from the line of Chris Woronka with Deutsche Bank. Please proceed with your question.

Chris Woronka
Hey. good morning, guys.

John Geller
Good morning, Chris.

Chris Woronka
So, good morning. First question, John, you mentioned in the prepared comments a land parcel in Charleston for development. I know it's a small thing and obviously, a great market. Should we read anything into that in terms of you're more willing or wanting to do a little bit more

development going forward? Or do you think you need inventory? Or, is there anything we should extrapolate from that?

John Geller
No. Just that we're looking out over the future with contract sales growth. And as Tony hit on, we do have excess inventory still. That's down to about 500 million of book value. So, you know, development takes time, right?

So, as we talked about, that's in 2025. We probably would have loved to do a bigger, Charleston development, but there's local limitations in terms of how big and kind of that 50-unit cap there. So, it's going to be a great property. I would expect you're going to hear more opportunities and things as we go forward this year.

Now, like I said, some of that stuff, if it's ground-up development, it's going to take a few years to get to. And I would expect if they're bigger projects, you know, Charleston at 50 units isn't going to be that much CapEx here over the next couple of years in terms of inventory CapEx. But, we'll look to do what we've done historically is do some capital-efficient deals, work with partners on development.

So, we've got a good pipeline of things we're looking at and new destinations that'll bring those new sales centers. But we have to be thinking about delivering inventory as we get out in '25, '26, '27 because that 500 million, while it sounds like a lot, when you're burning $300, $400 million off your balance sheet each year, you'll burn through that pretty quick.

Tony Terry
And for the 50 units, that's a month and a half of sales, if that. So, that's a smaller project. It will come with a little bit of distribution, which we like. We do some business in that market already, mainly through events, but we do look to add more distributions along with newer projects, which will help us on our contract sales growth going forward as well.

Chris Woronka
Great. Thanks. And then just as a follow-up, Tony, I think you mentioned, flat finance profits year-over-year is the, expectation. Have you seen any change in people putting more or less down as a down payment to try to offset higher rates and kind of keep the payment the same? Or is there anything you guys are doing to encourage that to make sure that the financing propensity stays level?

Tony Terry
Yeah. I haven't seen anything different with the down payment out there, And we do have a program in place to encourage people to finance with us, and to keep the financing with us for 18 months. That program has been in place. But as you're well aware, pre-COVID, we were at closer to the low 60s as a percent of financing. And through last year, we were probably in the 53, 54 percent range.

So, we haven't gotten quite back to where we want to be. We want to be in that, low 60s again, because it's a profitable endeavor for us. So we want to make sure we keep that going forward.

But as of right now, we are doing everything we can through sales training and also through the financing propensity program, to get people to sign up for our paper.

Chris Woronka
Okay. Great. Thanks, guys.

Tony Terry
We have been keeping our interest rates pretty steady. We've upped them a little bit, last year, but they don't go point-for-point increased with what you're seeing in the market in general, and that helps to encourage people to take our financing as well.

Chris Woronka
Great. Thanks, guys.

John Geller
All right. Thanks, Chris.

Tony Terry
Thank you.

Operator
Thank you. Our next question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Hi. Good morning, everyone.

John Geller
Hey, Patrick.

Patrick Scholes
Good morning, John or Tony, I wonder if you could give a little more granularity about the growth rates in the tour packages for this year? How much are you up year-over-year? It sounds like you are, percentage-wise by, you know, whatever period that you can share.

John Geller
You're talking about the tour package pipeline?

Patrick Scholes

Yeah. I mean, in the past, you've given, you know, statistics on how much that is up, you know, versus the comparable period. I'm wondering if you can share anything, similar.

Tony Terry
Yeah. I can tell you--this is Tony. I can tell you that, our tour package pipeline, we ended the year, maybe 15 percent or so higher than we did the previous year for package pipeline. We're in a place, if you look at it, it's always a balance between inventory, and the first thing we want to do is make sure that our owners get on vacation, then you want to put packages into the inventory that we do get through our different options that the owners can do, including Bonvoy Trade Explorer and/or developer-owned inventory.

So, we want to make sure that we put that inventory aside for preview packages and then rent the excess, right? And that's what we always do with our inventory. So, it starts to become this balancing game. And ultimately, we believe we could sell more packages if we had more inventory to put those packages in.

So, we've actually started optimizing our package pipeline and really stratifying the customers that we're marketing to and going after the most profitable customers. And it's really helped us in our marketing cost within that package pipeline production cost.

Patrick Scholes
Okay. And then a little bit, follow-up on that. Let's say, as of December 31st, you're up, you know, in your tour package pipeline. What would the typical lead or booking time be for somebody, you know, in the package pipeline? I'm trying to sort of think about Visibility.

John Geller
Historically--and I mean that more pre-COVID, it was probably more nine, 12 months, maybe even a little bit longer for some. I don't have current stats, but I would expect because of some of the pent-up demand and people, remember, what we used to talk about on that, Patrick, right, is we'd sell somebody a package. Well, a lot of these people buying packages, they have their next vacation or maybe their next two vacations on the books, right? So they're looking out a little bit farther.

I think, you know, what's probably happened during COVID is people didn't have multiple vacations, right, plan coming out, and they're buying these packages. And they're probably activating them and getting on vacation a little bit sooner. But I would expect on a more normalized basis, that kind of 9 to 12 months, maybe a little bit longer, maybe a little bit less, but that's probably how to think about that activation and getting people on vacation.

Tony Terry
And I think the packages we sell are generally in the 18-month, range. So, people do have time to activate those if they want to. And we're trying to make that more automated going forward.

Patrick Scholes
Okay. I appreciate the color. Thank you.

John Geller
Thanks, Patrick.

Tony Terry
Thank you.

Operator
Thank you. Ladies and gentlemen, as a reminder, if you'd like to join the question queue, please press star one on your telephone keypad.

Our next question comes from the line of Shaun Kelley with Bank of America. Please proceed with your question.

Shaun Kelley
Hi. Good morning, everyone. Thank you for taking my question.

Just wanted to ask as we kind of drill in on the VOI sales. What's your sort of expectation or assumption behind, existing members versus new member mix? And kind of what's the broader impact of that, you know, this year, maybe the next few years, as it relates to kind of VPG versus tour flow? Thanks.

John Geller
Yeah. Great question, Shaun. So, last year, for the full year, we were about 70 percent owners and 30 percent first-time buyers. Strategically, as we've always talked about, you know, when we do these packages and all those stores are ramping up, they typically are more first-time buyers, which is going to help.

What I'd say for '23 is with the launch of the Abound program and more, on the Hyatt side later this year with some of the changes we're making there, the consequences of that are owners want to come in and talk about the new products, understand what is this Abound? What does it mean for my ownership when they're on vacation?

So, I would expect our tour growth or what we like to call, too, our capture rate of owners that are staying to be higher than it was last year and drive more tours that way. And typically, when owners tour, they have a much higher VPG. And so, that's going to help us here.

And, as we talked about on the package side, we're selling the packages. We're going to continue to drive first-time buyer, but I'm not sure that 70/30 is going to move much as we think about 2023. But over the next couple of years, the goal is going to continue to be to kind of push that more, to the mid- to high-30s, but it's going to take some time.

Shaun Kelley
Very clear. Thanks. And then just, as my follow-up and sort of clarification was, I believe you said in the prepared remarks, it might have been in Tony's section that, VOI margins or the development margins would be, would be up year-on-year. Did I catch that correctly? And is that also, you know, reflective or impacted by this mix remaining stable?

Tony Terry
No. I think we said that it would be above 30 percent on the development margin side, which is a pretty strong development margin. We've been running, I think, closer to about 31 percent this year. So, in general, we said above 30 percent. That means our marketing and sales calls are going to be staying in line for the most part.

We'll look to leverage our fixed costs on the higher contract sales that we guided. And then our product cost, as a percentage will remain in pretty good shape when we look year-over-year. So, we do have a lot of that low-cost reacquired inventory coming through, and we don't see that stopping for the short term.

John Geller
Yeah. I think, Shaun, when you think about it, if you go back pre-COVID, you know, we were running 23ish percent development margins. So, the key here is that at 30 percent or above, we're, notwithstanding as I mentioned earlier, given the tough comp on VPGs, they'll most likely be a little softer year-over-year and we're driving the growth through tour flow.

So, remember, too, as we add tours, and our tour growth last year was up 30 percent, yes. VPG for the full year versus '21 was fairly flat, right? So, when you think about that when you're adding the tours, you're adding tours as you grow those more likely in less efficient VPG channels, right?

So, that's the balance that we've been able to drive tour flow, and we expect to drive it again this year, but minimize the impact on VPGs by getting and continuing to get smarter on our marketing and the packages and the things that we're offering so that you get some offset there. And if we're able to do all that, more efficiencies on the marketing and sales side, leveraging some of our fixed costs on marketing and sales with the growth and then maintaining our product cost, we feel good about keeping that development margin up there for the foreseeable future.

Shaun Kelley
Great. Thank you very much.

John Geller
Thank you.

Operator
Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Geller for any final comments.

John Geller
Thank you, Melissa. And thank you, everyone, for joining our call today. 2022 was a great year for our company. We generated more than $1.8 billion in contract sales, added more than 20,000 new owners in our vacation ownership business, grew interval membership by 21 percent, expanded margins across the board, and returned more than $800 million to shareholders.

We also launched the Abound by Marriott Vacations and recently announced that beginning this summer, all of our Hyatt and Legacy Welk Resorts will align under the Hyatt Vacation Club brand.

As we enter the new year, the outlook for our company has never been brighter. Demand for leisure travel remains robust. Occupancies are strong. VPG remains well above pre-pandemic levels, and we expect to grow contract sales by 7 percent this year at the midpoint of the range.

We also expect to generate between $600 and $670 million of adjusted free cash flow, which we will use to reinvest in our business or return to shareholders.

To close, on behalf of all of our associates, owners, exchange and third-Party members, I want to thank you for your interest in our company. We hope to see you on vacation soon. Thank you.

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