

Marriott Vacations Worldwide
Fourth Quarter 2024 Earnings
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Presenters

Neal Goldner, VP, Investor Relations
John Geller, President and CEO
Jason Marino, Executive VP and CFO

Q&A Participants

Chris Woronka - Deutsche Bank
Ben Chaiken - Mizuho
David Katz - Jefferies
Patrick Scholes - Truist Securities

Operator

Greetings. Welcome to Marriott Vacations Worldwide fourth quarter 2024 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, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce Neal Goldner, Vice President Investor Relations. Neal, you may begin.

Neal Goldner

Thank you and welcome to the Marriott Vacations Worldwides fourth quarter earnings call conference call. I am joined today by John Geller, our President and Chief Executive Officer, and Jason Marino, 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 the federal securities laws. These statements are subject to numerous risks and uncertainties, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release as well as 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 in the schedules attached to our press release and on our website. With that, it's now my pleasure to turn the call over to John Geller.

John Geller

Thanks, Neal. Good morning, everyone, and thank you for joining our fourth quarter earnings call. We had a solid fourth quarter reflecting our teams' hard work and the resilience of our leisure focused business model, demonstrating that our proactive steps to strengthen performance are working. One notable area of strength in the economy continues to be leisure travel, and the steps we've taken to expand our sales reach and adjust our promotions are enabling us to capitalize on this. I've always believed that people prioritize their vacations, and,

following the pandemic, this has been even more pronounced. This trend continued in the most recent quarter where we ran system-wide resort occupancy of 90%, including 95% occupancy in Hawaii, and we remained committed to meeting the needs of our customers as they prioritize spending on vacation to enjoy time with their families and friends. We believe our resorts, with our extensive amenities and spacious accommodations, are the best place to do it, and our customers agree with us.

Before we get too deep into the fourth quarter results, I'd like to reflect on what we accomplished last year as well as give you my view for 2025. Our owners and our other customers continue to put a high value on our brands and the experiences we offer. But they also are facing economic pressures, so last year, we launched a number of initiatives focused on driving revenue, expanding our sales reach, and adjusting our promotional strategy. We also expanded our use of virtual tours and non-traditional sales channels like roadshows and owner cruises. The result was a 7% increase in contract sales in the fourth quarter, with first-time buyer sales growing even faster. It was also great to see Hawaii sales grow double-digits year-over-year in the quarter.

On the development side, during 2024, we opened our new Waikiki resort and announced plans to build a new Marriott Vacation Club in Thailand, additional units in Bali, and the first Hyatt Vacation Club in Orlando. We also reopened the second Bali sales center in June, which will help us drive outsized tour growth in Asia Pacific in the first half of this year. We rebranded our Pulse locations as our City Collection last year to design for those who want to use their ownership to explore urban locations. This collection includes our resorts in places like New York, Boston, San Diego, Bangkok, and now Waikiki.

And I'm excited to announce that we plan to develop a new 168-unit Marriott Vacation Club in downtown Nashville, including a new onsite sales center. Known as "Music City", Nashville will make a great addition to our City Collection for owners looking to enrich their vacation experiences. We plan to acquire this new purpose built project from a developer when it opens in late 2027.

In our Exchange and Third-Party Management business, Interval welcomed 12 new all-inclusive resorts to our global exchange network last year, bringing our total all-inclusive network to over 150 resorts, offering more ways for members to enjoy their membership. Across the business, we're making great strides in harnessing the power of data and analytics to boost efficiency and growth. We continue to digitize consumer capabilities, allowing owners to transact as they prefer, and we see further opportunities to enhance customer interactions and drive efficiencies through technology.

Looking forward, research shows Americans still have a strong desire to travel, with 80% of adults planning to take a vacation this year, while international travelers to the US are expected to increase this year, and travelers from Asia Pacific are leading the way when it comes to international travel. We believe we are in a great position to capitalize on these growth trends. As we discussed last quarter, we believe we have substantial opportunities to boost our growth

and enhance operational efficiencies through our business modernization work. As you know, we've made a number of strategic acquisitions over the years to bolster our market position while disposing of a number of smaller non-core businesses to focus on key growth areas. Our primary motivation for pursuing this initiative now is to speed decision making across the organization, ensure we have the right cost structure for the future, and optimize our IT platforms while providing funds to invest in high potential leisure focus businesses to accelerate revenue growth. This initiative encompasses all areas of our organization, and we expect some of the largest buckets of savings will come from increased automation, inventory optimization, procurement, and corporate overhead.

This initiative also includes substantial opportunities to accelerate revenue growth. For example, in our Vacation Ownership business, by continuing to refine our tour mix and upgrading our sales center technology, we believe we can drive improvements in VPG. And by leveraging a new state-of-the-art revenue and inventory management platform, we expect to be able to drive increased occupancy and higher ADR.

All in, we expect this initiative to generate an additional \$150 to \$200 million in annualized adjusted EBITDA by the end of 2026, with half coming from cost savings and efficiencies and the other half from accelerating revenue growth. Jason will provide more details on the timing of the savings and the investments needed to achieve them in a minute.

We realize the past 18 months haven't been easy, but through it all, we've never stopped obsessing about delivering the experience our owners and others expect of us, which is why our guest satisfaction scores are higher today than they were last year and in 2022. Our overall strategy remains the same, though our tactics certainly have evolved over time. We will continue to deliver operational excellence and meet and exceed our customers' expectations. This is the most important thing we can do as an organization. Our core offerings will continue to evolve and expand through the development of new properties and travel experiences. We will further harness the power of advanced data and analytics to improve efficiency, enhance the customer experience, and increase profitability. And we will look for additional ways to drive growth through the launch of our new leisure focused businesses. We are planning on hosting an Investor Day in New York later this year, and I hope to see many of you there. With that, I'll turn it over to Jason to discuss our results in more detail.

Jason Marino

Thanks, John. Today I'm going to review our fourth quarter results, our balance sheet and liquidity position, our cost savings and efficiencies initiative, and our outlook for the year. Starting with our Vacation Ownership segment. We ended the year on a very strong note, growing contract sales by 7% year-over-year and outperforming our expectations on adjusted EBITDA. First-time buyer contract sales increased 9% year-over-year, our best performance in nearly two years, and owner sales increased 6%. Defaults and delinquencies were largely unchanged on a year-over-year basis in the fourth quarter, and our sales reserve was nearly 12%, in line with our expectations. As we have talked about in the past, we have always had high underwriting

standards, even through the pandemic we've not lowered them. We have also taken steps to improve the underwriting standards of our acquired brands. This commitment is reflected in the rising average FICO scores of our originated notes, which have increased each year since 2020.

In addition to keeping maintenance fee increases for our points-based products to low single digits this year, we've also implemented enhanced collection processes and increased staffing to address our default and delinquency issues, which we believe are having a positive impact. As a result, our delinquencies have stabilized over the past few quarters. Continuing down the P&L, product cost was relatively flat year-over-year on a percentage basis, while marketing and sales cost increased. As a result, development margin was a strong 26%.

Moving to the rest of our VO business, rental occupancy increased 300 basis points, and profit increased 20% compared to last year, driven by additional costs allocated to marketing and sales expense to drive tours. Resort management profit increased 6%, and financing profit was 6% lower due to higher borrowing costs. As a result, adjusted EBITDA on our Vacation Ownership segment was \$221 million, and margin was 27%.

Moving to our Exchange and Third-Party Management segment, adjusted EBITDA declined \$9 million year-over-year, with roughly half of the decline related to lower profit at Aqua-Aston and the balance due to lower transactions at Interval.

Finally, corporate G&A expense declined 23% year-over-year, driven largely by lower project spending as we turned our focus to our modernization efforts. As a result, total company adjusted EBITDA decreased 1% to \$185 million.

We ended the year with leverage of roughly 4x, which is higher than our long-term goal of 3x, but more than manageable. We also had more than \$900 million in liquidity and no corporate debt maturities until early 2026. And with the majority of our interest expense fixed, our interest rate exposure for the current year is limited. We also returned \$163 million to shareholders in the form of dividends and share repurchases last year. We have more than three years of inventory on the balance sheet based on our 2025 contract sales guidance, and we continue to look to optimize our inventory spending. We also plan to spend \$90 to \$95 million on reacquired inventory this year, which is at well below replacement cost and keeps our overall product cost down.

Looking forward, we expect contract sales to grow in the 2 to 6% range this year, with tours and VPG each growing in the low single digits. And we expect to deliver \$750 to \$780 million of adjusted EBITDA, including \$15 million to \$25 million from our modernization initiatives. We added more than 20,000 new first-time buyers last year and have added nearly 90,000 since 2020. Based on history, over 40% of these new buyers will purchase additional points within ten years, providing us with substantial built-in future sales. We also ended the year with a pipeline of roughly 260,000 packages, with more packages already activated for travel this year compared to the same time last year, providing a good start toward achieving this year's contract sales

goal. After a good January, we saw some softness at the beginning of February, which has since stabilized. Because of that, contract sales in Q1 could be flattish depending how the rest of the quarter progresses.

Moving to the rest of our VO segment, we expect development profit to increase year-over-year and for financing profit to be largely unchanged. In our VO rental business, we expect profit to decline around \$15 million due to a higher mix of keys and lower ADR markets, higher inventory balances, and the expiration of COVID related programs that drove rental revenue in 2024. As a result, we expect adjusted EBITDA in our VO segment to increase around 5%.

In our Exchange and Third-Party Management segment, revenue at Interval is expected to be relatively flat, while Aqua-Aston is expected to improve due to increased visitation to Maui in the second half of the year. As a result, we expect adjusted EBITDA to be relatively flat for the year.

Finally, G&A is expected to increase year-over-year driven by higher incentive compensation and increased technology spending. G&A is also expected to benefit this year from our modernization work.

Moving to our Strategic Business Modernization Initiative. As John mentioned, we believe we have substantial opportunities to boost our growth and enhance operational efficiencies through our business modernization work. We expect to drive \$75 to \$100 million of annual run rate cost savings and efficiencies over the next two years from this initiative as well as an additional \$75 to \$100 million of adjusted EBITDA from accelerating growth opportunities. The savings will primarily result from modernizing our processes and systems, optimizing procurement, and reducing overhead cost, while the revenue benefits are expected to come from a number of areas, including higher VPGs, increased tours, improved occupancy, and ADRs.

For modeling purposes, this year's adjusted EBITDA guidance includes \$15 to \$25 million in benefits, with the majority coming in the second half of the year. We expect next year's incremental benefit to be an additional \$70 to \$80 million, with the full P&L benefit achieved in 2027. We do anticipate incurring one-time costs related to this initiative, which be excluded for adjusted EBITDA purposes.

Moving to cash flow. We expect our adjusted free cash flow will be \$290 to \$350 million this year. This excludes around \$100 million of one-time cash cost this year related to our modernization initiatives and an incremental \$100 million next year. Our conversion rate this year will be lower than our past experience and future expectations due to our inventory purchases and shifting of tax payments from 2024 to the current year. Our long-term plan is to continue to return cash to shareholders while also focusing on reducing leverage back to three times. We also have a few non-core assets that we expect to dispose of over the next couple of years that we think could be worth \$150 to \$200 million, which will largely offset the cost of the modernization effort. Proceeds from the sale of these non-core assets are not reflected in our adjusted free cash flow guidance.

So, to summarize, we had a solid fourth quarter growing contract sales 7% and reducing overhead costs. Looking forward, our business is in great shape. Consumers continue to allocate more of their dollars to experiences, including travel, and are telling us they love our spacious villas. We've added nearly 90,000 new owners over the past five years and entered this year with 260,000 packages in our pipeline, providing us with a long runway to grow tours. We're investing in the business to drive revenue and efficiencies across the business and expect to generate \$150 to \$200 million over the next two years on a run rate basis. We have happy owners who continue to buy more points each year, and we are humbled that they choose to share their memories with us year-in and year-out. Finally, we'll be hosting an Investor Day later this year and hope to see many of you there. With that, we'll be happy to answer your questions. Operator?

Operator

Thank you. We'll now be conducting a question-and-answer session. If you'd like to ask a question, please press star one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star two to remove yourself from the queue. For participants that are using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. We ask that you please limit yourself to one question and one follow up. You may requeue for any additional questions. One moment, please, for the first question. The first question today is from the line of Chris Woronka with Deutsche Bank. Please proceed with your questions.

Chris Woronka

Hey. Good morning, guys. Thanks for taking the question.

John Geller

Good morning, Chris.

Chris Woronka

Good morning. So, you mentioned in the prepared comments the new owner mix, it was up nicely in '24. Is that a trend you expect to continue in '25? And then along with that, are you seeing any changes in propensity to finance among your first-time buyers? Thanks.

John Geller

Yeah. Thanks, Chris. As we've talked about with all the package tours and driving first-time buyer growth, the goal is to continue to get outsized performance and more first-time buyers. That's what you saw the benefit in terms of some of the contract sales growth in the fourth quarter. The offset is, as we've always talked about, is the acquisition costs, the marketing and sales costs related to those first-time buyers is higher than it is for existing owners. For the long-term health, as we've always talked about, we want to continue to grow first-time buyers. We're investing in those tours and excited to see some of that change in mix in the fourth quarter and expect some more of that here as we go into next year. In terms of financing propensity for first-time buyers, we haven't really seen a big change in propensity.

Chris Woronka

Okay. Thanks, John. So, the follow-up would be, you mentioned I think \$90 to \$95 million of inventory repurchase this year. Does that correlate with the kind of that increased reserve you took last year? In other words, are those units kind of being realized into, I guess, repurchase, if that makes sense?

John Geller

Yeah. I mean, when you think about what we're talking about there, it is more owners that have owned a long time that aren't using their -- getting on vacation as much, and we're taking stuff back. There's maintenance fee defaults, smaller piece that we take -- get back from the homeowners' association and all that. So, that's fairly stabilized as we look at it, just kind of churn, if you will, in the existing owner base.

Chris Woronka

Okay. Got you. Fair enough. Thanks, John.

Operator

Our next questions are from the line of Ben Chaiken with Mizuho. Please proceed with your questions.

Ben Chaiken

Hey. How's it going? Thanks for taking my questions.

John Geller

Hey, Ben.

Ben Chaiken

Hey. How's it going? I'd love to just maybe think about the bridge from '24 EBITDA to the '25 guide maybe at the midpoint without getting too in the weeds. I know you mentioned there was some pressure on rentals, I believe, if I picked that up, of around \$15 million. I guess maybe just like clarifying that headwind. And then also on top of that, was there a compensation headwind in '25 versus '24 from a management compensation perspective? If so, I don't know if I caught that headwind in the prepared remarks. And then could you also help us -- presumably, there was a 1Q year-over-year provision headwind just because things ramped in kind of 2Q, 3Q of last year. So, I'd imagine that created a tough comp but just maybe providing a little more context to those numbers. Thanks.

John Geller

Sure. And I'll start here. Jason can talk a little bit about the provision stuff. Yeah, on the rental side, look, '24 was a great rental year for us. We had a couple of things going on that benefited '24 versus where we started the year. We knew we had plus points which are -- we had given out

higher plus points to incent people to buy coming out of COVID, so think '21, '22 timeframe. And because of COVID, we gave people longer time to use those two, three years. So, there was a kind of a convergence of expirations, if you will, of some of those COVID points, which we would normally -- those plus points would be our inventory we could otherwise rent, right? But there was slightly higher expiration, and we picked that up. And then we were also able to drive, as we talked about, higher occupancies and rent those. So, we got call it about a \$10 million benefit give or take as the year wrapped up in rentals that really benefited '24. We just don't have that in '25.

I think as you look at '25, a little bit as we've always talked about on the rental side, different than a hotel company, right? The mix of inventory that we were going to have to rent depends on how people exchange and owner usage and where they're staying. And we do expect it to skew towards some lower ADR markets. I think the desert and Orlando this year, which is a bit of a headwind. That said, with all the modernization work and things we're focused on, we're hoping to do a lot better again in rentals like we did last year. So, the team's focused on it. But just as we sit here today as rentals kind of sets up, that's kind of the year-over-year. And on the G&A side you had two things benefiting us last year. We did have lower bonus payouts, and so at the midpoint of the guidance, there's probably roughly \$15 million to \$20 million of higher variable compensation call it bonus expense year-over-year.

And then the other thing in the quarter is -- Jason mentioned this in his remarks. We're really focused on the business modernization, the sequencing, all the work that was in flight and we wanted to get going. And as a result, from a project spend perspective, we slowed some stuff down till we get the plan finalized and get things kicked off here as we were coming into this year. And so, that probably benefited us, call it roughly \$8 to \$10 million last year. Helped with a little bit of the outperformance. But we've got a lot of work to do, right? It was a bit of a timing thing. So, those are I think year-over-year the two biggest, I'll call them headwinds just because they're going to be higher costs, less rentals, if you will. And then I think your other question was just more on the loan loss.

Jason Marino

Yeah, Ben. On the loan loss, I guess the way I think about it is, as we go through the year, it will be a slight headwind year-over-year in Q1, assuming we're kind of at that 12% number for Q1. And then we'll obviously have the tailwind as we pass Q2 with the sales reserve increase last year, and then the second half of the year should be relatively flat year-over-year. So, that's the way I think about it. And then on a net-net it will be a tailwind for 2025, but it will be a slight headwind here in Q1 as we lap Q1.

Ben Chaiken

Okay. Got it. That's very helpful. Maybe just a quick clarification. So, on the rental side, just maybe like maybe distill it down or simplify it. 10 million hard comp from benefit in '24 and then the way your customers are choosing to travel in 2025 skews to lower ADR rentals being available.

John Geller

Correct.

Ben Chaiken

And then it sounds like -- so you've got \$15 to \$20 million higher variable comp, which makes sense. And then I guess you were saying you slowed some project investments in '24 and, then those are picking back up in 2025. So, that creates another 8 million just to maybe just distill everything?

John Geller

Yeah, I think I said \$8 to \$10, in that range. That's right.

Ben Chaiken

Yeah. Thank you. Appreciate it.

Operator

Our next questions are from the line of David Katz with Jefferies. Please proceed with your questions.

David Katz

Hi. Good morning. Thanks for taking my question. I'd like just a little more background or context around the sort of cost and revenue initiatives and sort of how they -- I guess how they came about, right? I imagine there's some ramp post-COVID where we're just trying to get the business running again and maybe now taking attendance on some things that you may not need. How did all this sort of start, come about? And that would be helpful.

John Geller

Sure. Yeah. I mean, as you're aware, we've obviously done a few acquisitions here. And so, a lot of these initiatives were already identified things we were working on. The real -- as we took a step back, the real driver was what's holding us back on some of our growth initiatives, and what do we need to do to accelerate those. So, these were all things -- not all things, because we also engage the organization more broadly on other ideas and things that we could really do to either drive efficiencies or drive growth and really put a program around that. That's what we call our modernization effort. And then it was really about sequencing. But the costs we're talking about is really just an acceleration of a lot of things we wanted to do, especially on the technology side. Jason talked about some of the one-time investments.

These were expected to happen over time, but we weren't getting the growth opportunities by waiting. And so, as we took a hard look at it, we said how do we accelerate all this, which will both take costs out because you'll get off of duplicate applications, consolidate, but also use applications that will help drive better marketing and sales efficiencies, right? Better technology for digitizing how our consumers interact with us. Technology that we've rolled out in the call center on virtual voice to service our customers and enabling more things in that area. So, it was

really putting a hard focus. And what I'm excited about is just all the energy it's created with our leaders that have been involved in this and the opportunities to really accelerate growth and having a clear plan as to how we're going to move forward.

David Katz

Understood. Thanks very much.

Operator

Thank you. As a reminder, if you'd like to ask a question today, you may press star one from your telephone keypad. Our next questions are from the line of Patrick Scholes with Truist Securities. Please proceed with your questions.

Patrick Scholes

Hi. Good morning, everyone. Looking forward to the Investor Day in the fall. A granular question, specifically on the G&A. We've got a couple pushes and pulls here and perhaps for modeling purposes. We're starting with a, I guess, a GAAP figure for the full year 2024, \$243 million. Specifically on a growth rate or perhaps slight decline off of the \$243, how should we think about that sort of percentage wise? Thank you.

Jason Marino

Yeah. So, I think as we've talked about, I mean, we're going to have a return, as John already mentioned, of call it \$15 to \$20 million of incentive comp and then some of that higher IT project spending. So, I think you just take those two and figure out the growth rate there.

John Geller

Are we missing -- maybe we're not understanding your question, Patrick.

Patrick Scholes

Well, you have some cost savings, but then you have the higher IT, the higher incentive comp. I'm just trying to see like what's the net of the pushes and pulls in there just so we can model.

John Geller

Well, and remember, cost savings and things that we're pursuing, those aren't all in G&A, right? Those get spread through some of the different business lines. Now, there's a piece in G&A. I don't know -- I'm looking at Jason. I don't know how much we kind of spread into the G&A for cost savings from the SBO.

Jason Marino

Yeah, it's about \$10 million right now.

Patrick Scholes

Thank you.

Operator

Thank you. At this time, I would like to hand the floor back to Mr. Geller for closing remarks.

John Geller

Great. Thank you, everyone, for joining our call today. We had another solid quarter growing contract sales 7% year-over-year, with first-time buyer sales growing 9%. We also ended the quarter with 260,000 preview packages, which puts us in a good spot as we enter the year. Consumers around the world are choosing to spend their discretionary dollars on travel, and we have strategies in place to capitalize on that, including adding new resorts in the US and in Asia Pacific, along with new sales centers. We also expect to generate \$150 to \$200 million in run rate adjusted EBITDA benefits by the end of 2026 through our business modernization initiatives. I believe our company is positioned well, and the excitement from our modernization initiative to accelerate growth has energized our organization. I hope many of you come to our Investor Day later this year to hear about how we plan to grow in the future as well as speak with our senior leaders. Finally, on behalf of our associates, our owners, members, and customers around the world, I want to thank you for your continued interest in our company and hope to see you on vacation soon. Thank you.

Operator

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