Marriott Vacations Worldwide
First Quarter 2023 Earnings Call
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<u>Presenters</u>
Neal Goldner, Vice President-Investor Relations
John Geller, President & Chief Executive Officer
Tony Terry, Executive Vice President & Chief Financial Officer

<u>Q&A Participants</u>
Patrick Scholes - Truist Securities
Chris Woronka - Deutsche Bank
Brandt Montour - Barclays
Shaun Kelley - Bank of America
David Katz - Jefferies
Ben Chaiken - Credit Suisse

Operator
Greetings and welcome to the Marriott Vacations Worldwide First Quarter 2023 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

I would now like to turn the conference 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 first quarter 2023 earnings conference 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, 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 in the schedules attached to our press release, as well as the Investor Relations page of our website at ir.mvwc.com.

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

John Geller
Thanks, Neal, and good morning everyone, and thank you for joining our first quarter earnings call.

Looking at our year-to-date results, it's clear that consumers are prioritizing travel, which we saw in our occupancy rates and contract sales growth during the first quarter.

Spring Break travel made headlines this year with record-breaking numbers in March, with beach vacations topping the list of preferred destinations.

In addition, over 45% of Americans, earning over $100,000 a year recently surveyed, believe now is a good time to spend on leisure travel, and intentions to book leisure travel have been on a clear uptrend.

Since becoming CEO earlier this year, I've been on the road visiting a number of our resorts and have had the chance to meet with many of our associates who are responsible for delivering unforgettable vacation experiences for our owners, members and guests.

Our unique destinations, trusted brands, excellent service and caring culture are just a few of the reasons we see vacationers coming back to visit us, time and time again.

Looking forward, despite the uncertainty of the overall economic environment, we expect strong occupancies from our owners, members and guests to continue this year.

Consumers want to vacation and they want to deal with brands they trust in spacious upscale accommodations in highly sought-after markets, and we have some of the best brands in the most desirable locations in the industry.

Now, moving on to our results. 2022 was a great year for Marriott Vacations and we kept the momentum going as we entered 2023.

Occupancy was nearly 90% in the first quarter, with our ski, beach, and golf markets all in high demand, while Asia Pacific continued its recovery with resort occupancy more than 30 points higher than last year’s first quarter.

With these strong occupancies, a robust tour package pipeline, and the work of our marketing teams, we grew tours by 18% on a year-over-year basis. As expected, VPG declined year-over-

year due to the strength of last year's first quarter, but it increased 7%, sequentially, and remains 30% above pre-pandemic levels.

We grew contract sales by 10% in the first quarter compared to the prior year, illustrating the strong demand for our vacation ownership products. And first-time buyers represented more than 30% of our contract sales this quarter, up roughly 200 basis points from the prior year.

Abound by Marriott Vacations, which we launched last year, continues to resonate with owners and first-time buyers. As a reminder, the Abound program allows the owners of our Marriott, Westin and Sheraton Vacation Club products to have seamless access across these three branded resort systems and is helping us drive tour flow.

In our Hyatt Vacation Ownership business, we continue to make great progress integrating the legacy Welk Resorts. In March, we launched a new owner benefit that provides discounted stays for those able to take advantage of near-term resort availability.

Later this year, we will rebrand all of the legacy Welk Resorts as Hyatt Vacation Club. We will also add more vacation options as we launch the Beyond program, allowing owners to exchange for cruises, tours and hotel stays.

Moving to our Exchange & Third-Party Management segment, inventory utilization remained very strong, and we are starting to see higher transaction activity from the accounts we added last year. However, with inventory deposits lagging last year, revenue was down, year-over-year, and profit excluding VRI Americas, which we sold last April, declined $4 million. Finally, while lower inventory availability negatively impacted our first quarter results, we did see inventory improve as the quarter progressed.

In summary, despite concerns about inflation and the broader economy, consumers continue to prioritize vacations, enabling us to grow adjusted EBITDA by 8% on a year-over-year basis and return $134 million to shareholders through a combination of share repurchases and dividends.

Looking forward, I remain excited about the trajectory of our business and the opportunities that lie ahead for us.

With that, I'll turn it over to Tony.

Tony Terry

Thanks, John. I'm also happy with the way we started the year. Today, I'm going to review our first quarter results, the strength of our balance sheet and liquidity, and our 2023 outlook, starting with our Vacation Ownership segment.

As John mentioned, with consumer demand for leisure travel remaining strong and global resort occupancies running nearly 90%, we grew tours by 18% in the first quarter on a year-

over-year basis. Consistent with our previous guidance, VPG declined compared to last year due to a difficult comp but improved sequentially. The overall result was a 10% increase in year-over-year contract sales, a strong start for the year.

We also grew our tour package pipeline, ending the first quarter with over 230,000 packages, including a growing pipeline for Hyatt Vacation Ownership, and in total, more than 35% of these customers have already booked their vacation for the current year.

Adjusted development profit increased 14% year-over-year, to $109 million. Adjusted development profit margin increased 90 basis points compared to the prior year, to 29%. This was driven by the growth in contract sales and favorable inventory costs.

As expected, excluding the Western Puerto Vallarta hotel that was sold last June, profit in our rental business declined $4 million to $25 million compared to the prior year. Revenue per available key increased 9% but was more than offset by higher unsold inventory and cleaning costs, as well as increased Explorer usage.

In the stickier parts of our Vacation Ownership business, financing profit increased $2 million, as increases in contract sales and financing propensity were partially offset by higher borrowing rates on our newer securitizations. Profit from our resort management business declined $1 million as higher management fees were offset by the timing of club dues revenue.

As a result, adjusted EBITDA in our Vacation Ownership segment increased 15% in the first quarter to $229 million and margin remained very strong at more than 31%.

Moving to our Exchange and Third-Party Management business, revenue declined 2%, excluding VRI Americas, primarily as a result of lower Getaway revenue related to reduced inventory deposits. Adjusted EBITDA was $37 million, a decrease of $4 million from the prior year due to the lower revenue, as well as higher wage and benefit costs, and operating margin remained strong at 56% for the quarter.

Finally, as expected, corporate G&A expense increased $7 million, year-over-year, as costs related to implementing our Vacation Next program and new product development initiatives were partially offset by lower bonus expense.

As a result, total Company adjusted EBITDA increased to $203 million, 8% higher than last year's first quarter, and adjusted EBITDA margin was 25%, in line with last year, demonstrating the strength of our leisure-focused business model.

Moving to the balance sheet. We ended the quarter with approximately $1 billion in liquidity, including $306 million of cash, $120 million of gross notes receivable eligible for securitization, and $549 million of available capacity under our revolver.

With $3.1 billion of corporate debt outstanding at the end of the quarter, our net debt to adjusted EBITDA ratio stood at 3.1 times, roughly in line with our targeted 2.5 to 3.0 times leverage range, with expectations to be within our targeted range by year-end. And we remain well positioned in today's elevated interest rate environment, with 85% of our corporate debt effectively fixed at an average interest rate of 3.2% and no corporate debt maturities until 2025.

We also ended the quarter with $1.9 billion of non-recourse debt related to our securitized note receivables.

In April, we completed our first timeshare receivable securitization of the year, issuing $380 million of notes at an overall weighted average interest rate of 5.5%, including the $11 million of Class D notes we retained. The transaction was structured with a 98% gross advance rate and the blended interest rate was more than 100 basis points lower than our last securitization.

Finally, sales reserve as a percent of contract sales increased year-over-year, largely due to revenue reportability and higher financing propensity. However, despite concerns about the broader economic environment, our notes receivable portfolio continues to perform well, with delinquencies and defaults up only 20 basis points compared to pre-pandemic levels excluding legacy Welk, reflecting the strength of our borrowers.

We also returned $134 million to shareholders in the first quarter, repurchasing $80 million of common stock and paying $54 million in dividends.

Moving on to our 2023 guidance. As you saw in last night's earnings release, we affirmed our $950 million to $1 billion adjusted EBITDA guidance for 2023 and continue to target 5% to 9% contract sales growth this year.

Despite having another difficult year-over-year VPG comparison in the second quarter, we still expect full year VPG to only decline a few points compared to last year and for tour growth to remain robust, though not as strong as the 18% growth we saw in the first quarter.

We continue to optimize our digital technology to drive lower marketing cost per tour, and we expect product costs to remain relatively low this year compared to historical levels. As a result, we expect development margin to be around 31%, this year.

Rental profit in our Vacation Ownership segment is expected to decline year-over-year in the second quarter due to higher preview key usage and increased maintenance fees on our unsold inventory.However, it is still expected to increase more than 10% for the full year due to the timing of Explorer costs and an easier second half comparison.

We expect financing profit to be up slightly for the year, excluding last year's $19 million Alignment benefit, as increased contract sales and higher financing propensity are expected to more than offset higher borrowing costs.

We also expect profit from our Vacation Ownership resort management business to be up roughly 5% for the year.

In our Exchange and Third-Party Management segment, while inventory deposits at Interval have begun to improve, we're still below the levels we were at this time last year. Though we continue to experience high utilization of the inventory we receive, with less inventory deposited for members to exchange into, we expect lower Exchange and Getaway transactions this year. As a result, we now expect adjusted EBITDA in our Exchange and Third-Party Management segment to be flat to down slightly this year.

Moving to cash flow. We ended the quarter with roughly $465 million of excess inventory, which we expect to sell in the coming years. We will also look for opportunities to add new resorts where we can establish a new sales center, and we'll look to do this in a capital-efficient manner.

Our adjusted free cash flow guidance remains unchanged for the year, expecting to generate between $600 million and $670 million. We continue to look to use our free cash flow for organic growth or strategic acquisitions. In the absence of compelling acquisitions, our best use of excess free cash flow remains returning it to shareholders.

In summary, we started the year on a strong note, growing contract sales by 10% in the first quarter and returning $134 million to shareholders. Occupancies were nearly 90% and we expect them to remain strong throughout the year.

Finally, Abound by Marriott Vacations continues to resonate with customers and the integration of the legacy Welk business into Hyatt is progressing, well. As always, we appreciate your interest in Marriott Vacations Worldwide.

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

Operator
Thank you. If you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2”, if you would 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.

In the interest of time, we ask that you each keep to one question and one follow-up. Thank you.

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

Patrick Scholes
Great. Good morning, everyone. Thank you.

John Geller
Good morning.

Tony Terry
Good morning.

Patrick Scholes
Tony, just a question for you, first off on the quarter here, one thing that I think surprised us all: Year-over-year, despite your sales and vacation ownership products [being] up quite significantly, actually your cost of vacation ownership products went down. Can you give us some color on that? Thank you. And then I'll have another question.

Tony Terry
Sure. Yeah, the cost of vacation ownership products is going to be driven by the inventory that we load into the trust each year. Right now, especially coming off of COVID, we weren't adding a whole bunch of new inventory to that mix. We did complete the existing obligations that we had, and those are sitting on our balance sheet and that's part of that $465 million worth of excess inventory that we talked about.

But we did have a pretty significant amount of repurchased inventory and that comes in at, let's call it below market cost - below replacement cost, actually. So, with a lot of that inventory in some of the previous loads, it really drives the cost of vacation ownership products down a lot. And so we expect that to stay fairly low over the next couple of years as we get through all the reacquired inventory that we've been taking.

Patrick Scholes
Okay. Thank you. And then I had another question for you, Tony. And then just one final one after that on just sort of a high-level trends question. The volume of share repurchases was down, quarter-over-quarter. Anything to read into that and thoughts on that, going forward?

And then lastly, if you folks would be so kind to just sort of touch on expectations for summer usual travel versus last summer. Just in general, how you think that's shaping up how that's trending. And then I'm all set. Thank you.

Tony Terry
Alright, thanks. Yeah, I wouldn't read a lot into the volume of share repurchases. Again, we're sticking to our capital allocation strategy that you've heard a million times, by now. And

anything that we get that's past what we're going to use internally and past any strategic acquisitions we do plan to return to shareholders.

Last year, we had the benefit of not a lot of cash outflow for inventory or other uses, and we actually generated a decent amount of cash and had some dispositions that threw some cash at us. So we actually had a pretty robust adjusted EBITDA to adjusted free cash flow conversion last year that was above 80%.

This year, it's going back to, I think, in the mid-60s. So then we said that would normalize back down to the mid-50s in the next few years as those obligations come back up. So really, we're just following our capital allocation strategy, returning as much as we can to shareholders in light of those other capital allocation strategies that we look at. So, nothing really to read into there. And then you wanted to understand what we're seeing in summer?

Patrick Scholes
Yeah, just sort of give us some high-level thoughts about summer. Certainly, as we look sort of at different vacation types of products, it really--it looks like to be a mixed bag. If we look at sort of traditional domestic resort hotel occupancy, for the summer how it's tracking is kind of soft, whereas we look at other types of vacations, notably take cruise lines: Royal Caribbean reported this morning, extremely strong results and looking good for the rest of the year. How do you see vacation ownership demand for the summer sort of fitting into that—the travel plans? Thank you.

John Geller
Yeah Patrick. All our forward bookings are as strong as they've ever been from a historical basis as we look into the summer. I think where you're seeing some uptick too, for us, is internationally on Asia Pacific, as we talked about. It's a fairly low number last year in the first quarter in terms of occupancy at our Asia Pacific resorts, but we're up about 30 points in occupancy in the first quarter and I expect those trends to continue.

And I think coming into the US you've got more international travel. Hawaii is recovering a little bit with some of the Eastbound, but still has a ways to go to get back to those levels. So, we feel good about the summer. I think all the forward-looking channels look very strong for us.

Patrick Scholes
Okay. Thank you. Good to hear. I'm all set.

John Geller
Yep.

Operator
Thank you. 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 Woronka
Morning. So I guess the first question would be, have you seen any--if you drill down into kind of your customer base--and whether we're talking tours or maybe contract sales, whatever the right metric is--any delineation in trends or performance kind of West Coast versus East Coast of the US?

And not just specifically asking about the Silicon Valley Bank stuff. But in general, with some of the tech pressure out there, is there anything you can point at all that you see in the data that would indicate a difference in geography?

John Geller
Yeah, hey, Chris. For the first quarter, not really very strong. Some of the things, notwithstanding our growth in contract sales for us, where we've underperformed in the first quarter on the sales side is really the transitions we've been making, whether it's the Marriott Abound program and starting, and we've talked about this in the past, we start to transition to sell the new product from, say the old Westin or Sheraton Flex product. And that transition can be bumpy at times. So we see it more in that.

Same thing on the Hyatt and Welk side because you're aligning business models, compensation, leadership. You have to educate the existing owners who are your big buyers on the new product, get them comfortable and all that.

So, if we've seen any softness, and like I said, with contract sales were up 10%, it's actually around some of those, call them self-inflicted transitions. That's opportunity, right?

Going forward, we're going to get those back to where they need to be. But as you go through it, as we've always said, you get a little bit of bumpiness. I'd say as we got into April, to your question, not that we can put our finger exactly on it, we did see some softness if you look in the desert out in California.

So you talk West, but it wasn't across all our West. So there were pockets there: a little bit in Hawaii just in terms of the performance. But nothing pervasive across in the East. On a relative basis, yeah, continued to perform very well, as well as Florida, Caribbean, etc.

So, nothing concerning. But like I said, our bigger things we're working through are things that are within our control, not macroeconomic.

Chris Woronka
Yeah. Yeah. Understood. Thanks for the detail, John. And then as a follow-up, you guys talked about higher propensity to finance. And I know that some of that is because, I guess prices are higher and you're also getting a higher mix of first-time buyers.

But is there anything further to kind of explain it? And maybe the better question would be, if we look at first-time buyers today versus say 2019, are those first-time buyers-- more of them opting to finance or finance at higher levels? Just trying to get a little color on what's driving that, given that rates are up and it's a little bit more expensive to finance?

John Geller
Yeah, well, if you think about it Chris, the way we offer our financing, while our average lending rate--I think if you look at the securitization we just did versus the one we did last year was 30, 40 basis points higher. As we've talked about, the financing we provide is really just to help in terms of ease for the consumer that's buying.

So we haven't moved our rates on a relative basis the same as what you've seen in the broader interest rate market, if you will. But you're right, you're seeing slightly higher propensity, and some of that's mix; as we talked about, we did have more first-time buyers. Historically, first-time buyers, because they buy a little bit more than owners that are buying more.

And there's obviously, coming out of COVID a lot of excess cash out there. Maybe some of the buyers don't have as much excess cash [anymore]. So, they're opting for the convenience of the financing. But we haven't seen any--I don't know if Tony has anything to add--but I'm not aware of any different trends. We clearly haven't changed our underwriting standards or done anything that is different in the first quarter than we were doing last year.

Tony Terry
Yeah, you're absolutely right, John. And Chris, John hit it on the mark when he talked about the cost of our financing, it's not that much more right now. We've probably raised rates maybe 25 basis points. We don't go in lockstep with the broader economic environment.

We didn't take rates down point-for-point when interest rates were dropping; we're not taking them up point for point while they're going up. And we did see higher financing propensity in Q1 than the previous year. We're probably at 54% Q1 this year versus 50%, last year.

However, we're not back to where we were back in 2019. And if you look pre-COVID, we're in that lower 60s. So we hope to be trending back towards that level.

Chris Woronka
Okay. Very helpful. Thanks guys.

John Geller
Thanks, Chris.

Operator
Thank you. Our next question comes from the line of Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Thanks. Thanks, everybody. I appreciate all the color. So John, I was hoping maybe you could give us a little bit more color on the cadence of tours this year. Just through the lens of repeat owner tours or a little bit more shorter lead time, and you guys have to plan for new owners well in advance and build that pipeline up. So, I think you guys have pretty good visibility on how you think new owners are going to layer in throughout the year.

And just sort of talk about that setup in relation to how you guys manage for optimal VPGs and optimal margins?

John Geller
Yeah. Yeah, hey, Brandt. Yeah, I think you hit the key components: one, our package pipeline, which we talked about, is at all-time highs. So we've got a strong package--people that are prepaid for their vacation that are going to come and take a tour. And as you look out for the balance of the year, we expect those packages to be higher than last year. So that's going to continue to drive tours through the balance of the year.

A lot of it is in terms of getting those packages to where they want to go, that's where there can be some lead time because our occupancies are so high. So we continue to try and get and build the package pipeline at the same time, but we continue to try and get those customers on vacation and on a tour to drive the sales flow.

And then on the owner side, same thing. To your point, we don't have as much visibility but we've got a lot of history. And as we talked about earlier, with the Abound program and more so with some of the Hyatt stuff that we're going to be launching later this year, you can usually drive what we call our owner tour penetration much higher. And that's what we saw in the first quarter versus last year because owners want to come in and they want to talk about the new program, understand new vacation options and things that come either with Abound, or later this year, with the Hyatt Beyond program.

So we're always trying to maximize tour flow. You saw a great tour flow growth in the first quarter. And the balance on all that, this is where we continue to drive some of our digital marketing and getting our marketing costs down per tour because as you drive those tours, you are sometimes opening up some of your higher cost channels.

So, the balance is to continue to drive your VPG, [and] at the same time manage your marketing and sales costs.

And as Tony talked about, the third component is our product costs, which we continue to expect to be very low going forward. But that is going to get us that 30%, 31% development margin, similar to what we got last year, if you will, on VPGs that haven't grown that much but on significant higher costs in total around tours. So, the more we can drive revenues and leverage some of our fixed marketing and sales costs and get our variable costs down, that's the goal.

Brandt Montour
Thanks so much.

Operator
Thank you. 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.

John Geller
Hi, Shaun.

Shaun Kelley
Specifically, I wanted to ask about the Exchange and Third-Party Management business. You made a comment in the prepared remarks about seeing inventory improve as the quarter progressed, and I was wondering if you could just elaborate on that a little bit. What maybe drove that? And do you expect that to continue, either through next quarter or throughout the year?

John Geller
Sure, yeah. A couple of things. There's things we can do in terms of making offers to the Interval members for, say, cruise exchanges or things to do with their inventory that would, hopefully--people want to go on a cruise. I think Patrick talked earlier about the demand for cruises. So they can exchange their week for a cruise; that gives us inventory.

So, we run different, call them promotions, to the members and we've been doing more of that to drive some of it. It's also talking with our developers that put in bulk deposits.

Coming out of COVID, some of the historical trends of timing and owner usage--like we've seen, we've seen higher owner usage. When you have higher owner usage, you don't get as many deposits on the exchange side. So, we do think that's going to help, going forward.

There'll be some normalization. People will get back to more exchanges, doing other things. So, it's really a combination of the two: some of the member activity, but also trying to promote some of this exchange activity. And obviously, if we can do that, that provides more inventory, which then provides more exchange or transaction opportunity for us.

Shaun Kelley
Excellent. Thanks for that, John. And then the second follow-up to that would be just, are you seeing--you kind of alluded to this--are you seeing any normalization in that owner utilization piece of the business? So, are things reverting back to normal from a behavioral perspective at all, or still things just really humming in terms of usage rates just given, I guess, alternative pricing costs out there?

John Geller
The owner usage still is probably a little bit higher than it was, pre-COVID. But it's probably come down a little bit, I would say, from what we saw coming right out of COVID, with owners getting back going to our resorts.

So, time will tell. My sense would be that it will continue to normalize back and people maybe, after going to their home resort for the past year or two, once again try and get out in exchange.

I mean, we see it on our vacation ownership business. Typically about 25% plus or minus exchange into, on the Marriott side, our Explorer program. And so, that means they're taking a vacation outside the system of the vacation ownership resorts. So I think we'll get back to some of that normalization here, as we go forward.

Shaun Kelley
Thank you very much.

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

David Katz
Hi. Good morning, everyone.

Tony Terry
Hey, Dave.

David Katz
Thanks for taking my question. How are you?

Tony Terry
Good.

David Katz
Look, a little more of the amount of question, having sat through a good portion of earnings season where we've seen mostly very good numbers and pretty good guidance, also.

But at the same time, still this looming slowdown or recession, or however we'd like to characterize it, that has yet to define itself. I'm just curious, how have you thought about that looming whatever-it-is and what you've talked about and given us today? Or are you just staying focused on calling it like you see it, so far?

John Geller
Yeah. Hey, David. Yeah, I mean, this looming recession has kind of been looming, it feels like for 18 months now, right? Years. It keeps getting pushed out. Where is it going to go? How deep is it going to be? Is it going to be a hard landing, soft landing, all that.

So, we always look out. We're looking at trends. We're looking at, "do we need to make adjustments?" Not knowing what exactly it's going to be, that is going to be what drives our management decision.

So, I think you've heard me say before, I think in a normal kind of garden variety, not-long, not-too-deep of a recession, I think we grow our business. We're probably not going to grow it as fast as we've guided here, but if you look at the different parts of the business, like we've talked about the exchange side, you go back to the financial crisis even: people own their timeshare, they're going on vacation. Resort occupancies on the VO side will continue to remain very high. We're in 90% coming out of the financial crisis. So, people own, they want to use.

And then I think on the sales side, as you think about contract sales on the VO, as we talked about, we have levers: promotions, we can adjust up the offer, we do different things. We've done this in the past, we do it month-to-month at times, depending on kind of what we're seeing to drive sales, etc.

So, I think, like I said, if it's not some type of deep or long recession, I think we'll maneuver through it, with probably a little bit of softness, but not what it feels like the market is expecting. But we've been talking about this next garden-variety recession for, I don't know, 13 years now, and we haven't really had it, yet. Really don't want a recession, but I feel like we'll be fine working our way through it.

Tony Terry
And I would add a little to that. Forward bookings are actually looking good. And when you look at our customer, we still have low unemployment. Home prices are still decent.

And [if] you look at where our company stands, and how well prepared we are, we have decent liquidity, we don't have a lot of cash commitments for inventory purchases right now, we don't have a lot of cash going out the door for debt repayments until 2025.

So, beyond the levers that John may have mentioned, I think we're pretty decent positioned going forward if some sort of mild recession does happen.

David Katz
Understood. And if I can follow that up, how long would you say the tail is on that booking window, Tony, that you referenced?

Tony Terry
Probably like the six months, we take a look up to 12 months. Twelve months [is] probably a little bit on the outside of it. But when you start looking at within the next six months and through the end of the year, we take a look at where we are right now versus where we were a year ago or even before that, and say, "how many bookings do we have on the books?" And we do it by previews, we do it by owner occupancy, renters, and all those metrics look pretty decent right now.

We've been running great occupancy at our resorts. And as you know, when our resorts are full, we get 85% of our sales from on-site, whether it's previews that we're putting into the inventory or whether we have owners staying or renters staying. We get great penetration rates into owners, so having them occupy is not a bad thing for our sales. So, we're looking pretty good on all those forward-looking metrics.

David Katz
Appreciate it all. Thanks very much.

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

Ben Chaiken
Hey, good morning. Thanks for taking my questions. Just a quick one or two for me. First one, on rentals. 1Q, I think the full year guide is to be up 10%, if I'm not mistaken. On rentals 1Q, was down I believe, year-over-year, 2Q, I think Tony mentioned, is going to be down which creates a pretty strong 2H recovery.

I guess my question is, is this more of a comp--not issue, but a comp dynamic, or is this in-the-year, for-the-year moving parts? And I'm asking this question in the context of, swinging out to '24, should things be kind of smooth from here, or how do we think about it?

John Geller
Yeah. No, it is exactly a comp dynamic. So just last year, in the second half of the year, that's when our owners had their COVID points that had been extended longer. And those were driving higher owner usage in the second half of the year, driving higher exchange. And so with all that, yeah, it gives us an easier comp here without all that owner COVID point overhang, if you will, from an occupancy perspective to drive rents.

And so, yes, thinking about 2024, to your question. Yeah, it should be a little bit smoother on a '24 basis, but it is really driven by what happened last year with the COVID points, overall.

Ben Chaiken
Understood. That's helpful. And then, just--I'm sorry if I missed this. In the VO business, John, you were expecting, I think last call, that VPG would sequentially increase. Is that still your thought process even after the 1Q number, which was pretty strong?

John Geller
Well, for the first quarter, we saw this sequential. For the second, I think it will be more flattish to the first quarter. We're obviously going to be down again in the second quarter versus last year, given the tough comp.

But then, as we get easier comps through the second half of the year and overall for the full year, we still feel good we'll be maybe down a couple of points for overall VPG, year-over-year. So the full year outlook hasn't changed.

Tony Terry
Yeah, you saw a very strong Q1 and Q2 at 4,700 and 4,600 rounded, last year. This year, I think, it's going to stay in a lot tighter range versus what we saw. And then, last year, of course, it went downward, I think closer to 4,400 and 4,100 in Q3 and Q4.

But this year, we came in pretty strong in Q1, sequentially up. And we would expect a little bit of seasonality in there to make it go a little bit up and down, quarter-to-quarter, but not huge moves.

Ben Chaiken
Got you. And then, one last quick one and this may be tough, but going into, I guess--did 1Q mix surprise in any way? And I'm asking that in the combination of VPG and tours. I know it can be a little bit tough sometimes because they're both just different levers, but VPG was pretty smooth. Meaning, did tour volume and VPG levels come in about where you were thinking, or was one a little stronger or a little weaker than expected?

Tony Terry
No. I think they came in pretty close to our expectations. I think coming into the year, we guided that we expected VPG to be down a little bit. That means in order to get the 5% to 9%

growth in contract sales, you're going to have to drive it through tours a little more, and that's exactly what happened.

Now, Q1, quarter-over-quarter, year-over-year, was an easier comp from that perspective, from a tour perspective. That's why we mentioned in the comments that, hey, that 18% increase in tours may not happen every quarter, going forward. But that was pretty much in line with what we had expected.

Ben Chaiken
Got you. Thanks.

John Geller
Thank you.

Operator
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
Thanks, Melissa, and thank you, everyone, for joining our call today. As we've always said, people want to go on vacation regardless of the environment, and the first quarter was no exception.

In our Vacation Ownership segment we ran nearly 90% occupancy for the quarter, grew contract sales by 10% and held VPG 30% above pre-pandemic levels. First-time buyers represented more than 30% of our contract sales this quarter, up roughly 200 basis points from the prior year, and we grew our tour package pipeline to support future sales.

In our Exchange and Third-Party Management segment, despite lower inventory deposits, Interval's utilization and margins remained strong. And we grew adjusted EBITDA by 8% on a year-over-year basis in the quarter, compared to the prior year, while returning $134 million to our shareholders.

Looking ahead, consumers are prioritizing spending on travel over other categories and booking intentions for both domestic and international travel have remained strong. That's obviously good for our business.

On behalf of all of our associates, 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 concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.