

**Marriott Vacations Worldwide  
Second Quarter 2024 Earnings Call  
August 1, 2024**

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**Presenters**

**Neal Goldner, Vice President, Investor Relations**  
**John Geller, President and Chief Executive Officer**  
**Jason Marino, Executive Vice President and Chief Financial Officer**

**Q&A Participants**

**Ben Chaiken - Mizuho**  
**David Katz - Jefferies**  
**Patrick Scholes - Truist Securities**  
**Brandt Montour - Barclays**  
**Chris Woronka - Deutsche Bank**  
**Shaun Kelley - Bank of America**

**Operator**

Greetings, and welcome to the Marriott Vacations Worldwide Second Quarter 2024 Earnings Call.

At this time, all participants are in a listen-only mode. A brief 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.

It is now my pleasure to introduce your host, Neal Goldner, Vice President, Investor Relations. Thank you, Neal. You may begin.

**Neal Goldner**

Thank you, Paul, and welcome to the Marriott Vacations Worldwide Second Quarter Earnings 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 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 and 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 second quarter earnings call.

We had a mixed second quarter with rentals exceeding our expectations and lower VPGs negatively impacting our contract sales. In addition, we have not seen the necessary improvement in our loan delinquencies, so we increased our sales reserve to reflect higher expected defaults, which Jason will provide more color on, later in the call.

So, let's start with contract sales. As we look back at the cadence of the quarter, April VPG was soft, but May was in line with the prior year, which gave us confidence for the rest of the quarter. However, June VPG declined on a year-over-year basis and contract sales declined 1% for the quarter, as we were successful growing tours, offset by a decline in VPG.

VPGs for owners were flat in the second quarter compared to last year, reflecting the value owners put on their vacations. We were able to grow first-time buyer tours by 9%, reflecting our strategy to grow new owners, but did see a 12% decline in first-time buyer VPGs.

We were able to grow contract sales 3% in the quarter, excluding Maui. This illustrates the quality and location of our upper upscale vacation ownership product, the high premium people put on their vacations, our tour growth and the fact that our owners continue to see long-term value of investing in their future vacations.

Given the higher cost environment consumers have been dealing with over the last few years, and the uncertain broader macro picture, we have adjusted certain sales promotions recently to combat the softening in VPGs.

Meanwhile, our resort occupancies in the quarter were up more than a point, year-over-year, driven by a 4-point improvement in rental occupancies, as consumers continue to prioritize spending on experiences. Our rental results also had a very strong quarter, driving higher revenue from more keys rented and lower costs, primarily from higher preview packages to drive contract sales.

As a result, rental profit in our VO segment increased more than 60%, compared to last year, with margin improving to more than 20%.

In our Exchange and Third-Party Management business, Interval International ended the quarter with more than 1.5 million active members, while inventory utilization was in the low 90% range, consistent with last year.

As we look forward, we adjusted full year contract sales guidance to reflect our expectations for lower VPGs for the second half of the year. While July VPGs improved from the softness we saw in June, the midpoint of our guidance for the second half of the year reflects VPGs to be down around 7%, compared to down 6% in the first half and tours to grow around 12% as we lap Maui, implying a 5% contract sales growth in the second half.

Maui continues to recover, though we now expect contract sales to be down roughly \$10 million for the full year, as the recovery is turning out to be slower than our original expectations. This should still provide us a 2-point tailwind in contract sales growth in the second half of the year, as our sales centers were closed from mid-August until the end of September, last year. We also expect to generate higher first-time buyer tours, which carry a lower VPG.

We ended the quarter with nearly 270,000 packages, with roughly 30% of those customers having already confirmed to take their vacation in the second half of the year. While we're disappointed with the additional sales reserve we took, we continue to manage the business, through the broader macro uncertainty.

On one side, consumers appear cautious after two years of inflation, while on the other side, they are still spending on travel and experiences. We're seeing that play out in our resorts, where we ran over 90% occupancy in the second quarter. If we exclude the impacts of the additional sales reserve, the improvement in our rental performance and our other cost management initiatives would have offset most of the impact from the lower contract sales guidance compared to our original full year adjusted EBITDA guidance.

We have also been working through our 2025 maintenance fee budgets and expect the average maintenance fee will increase less than 5% for our Points products, after two years of significantly higher increases. We believe this will help restore confidence from both--for both recent first-time buyers, as well as long-term owners.

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 second quarter results, our balance sheet and liquidity position and our outlook for the rest of the year.

Starting with our Vacation Ownership segment, contract sales declined 1% in the quarter on a year-over-year basis with a 5% increase in tourist being offset by lower VPG and sales grew 3% year-over-year, excluding Maui. As I mentioned during our last call, we needed the improvements in delinquencies that we saw in March and April to continue, which did not happen.

While delinquencies were flat to the first quarter, they were 120 basis points above 2023 levels, driving the need to increase the reserve on the balance sheet by \$70 million. Under timeshare accounting rules, we booked a \$13 million offset in cost of vacation ownership products, so the net impact to adjusted EBITDA was \$57 million. We also expect our sales reserve to be 11% to 12% of contract sales for the balance of the year, several hundred basis points above our historical norms, where I expect we will remain until we see loan performance improve.

As John mentioned, we believe lower inflation and a more normalized maintenance fee increase for 2025 will improve our portfolio performance in the future.

Development margin declined year-over-year, excluding the increased reserve, due primarily to lower VPGs and higher marketing and sales costs, partially offset by lower product cost. Excluding the increase in our sales reserve, our development margin would have been 27% in the quarter.

Rental profit in our Vacation Ownership segment increased \$11 million, year-over-year, driven by higher rental revenue and \$8 million of incremental costs allocated to marketing and sales expense.

Finally, as expected, financing profit declined 10%, year-over-year, driven by higher interest expense, partially offset by increased financing revenue, while resort management profit increased 9%. As a result, adjusted EBITDA in our Vacation Ownership segment declined 26%, year-over-year.

Moving to our Exchange and Third-Party Management segment, adjusted EBITDA declined \$7 million compared to the prior year, driven by lower exchanges in Getaways at Interval and decreased profit at Aqua Aston due to softness in Maui.

As a result, total company adjusted EBITDA declined 29%, year-over-year, and would have been roughly in line with our expectations and consensus EBITDA for the quarter, excluding the increase in our sales reserve.

Moving to the balance sheet, we ended the quarter with net debt to adjusted EBITDA of 4.4x and \$820 million in liquidity. We also have nearly \$1 billion of inventory on our balance sheet, including inventory reported in property and equipment, enough to support more than two years of future sales.

Moving to guidance. With the first half behind us, we are lowering our full year adjusted EBITDA guidance range to between \$685 million and \$715 million. We now expect contract sales to grow 1% to 3% for the year, reflecting second quarter results and our updated second half forecast of 3% to 7% growth. We expect second half tours to grow 12% year-over-year at the midpoint, with VPG declining 7%.

Three points of the tour growth is expected to come from lapping Maui, this month. Asia Pacific, which will benefit from the reopening of our second Bali sales center, is expected to drive another four points of the growth. Our packaged pipeline is expected to drive another two to three points of tour growth the second half of the year, while the opening of Waikiki will drive another point.

Excluding Maui, we expect year-over-year contract sales growth in the second half of the year to be approximately 3% at the midpoint of our revised guidance range, consistent with our first half performance.

We now expect development margin to be around 22% for the year, including a 3-point impact from the additional reserve. Our VO rental business had a very strong first half and transient keys on the books for the second half are up 4%, compared to last year. As a result, we now think rental profit could increase by more than \$30 million for the year.

We also think resort management profit growth in the second half of the year will be consistent with the first half.

In our Exchange and Third-Party Management business, we expect Interval members to be down a few points for the year and average revenue per member to be largely unchanged. As a result, we expect adjusted EBITDA to decline in the \$11 million to \$13 million range in the second half of the year, with roughly half of that coming from Aqua Aston, due to Maui.

Finally, G&A is expected to be down \$8 million to \$10 million year-over-year in the second half driven by our cost savings initiatives.

Moving to cash flow. We now estimate that our adjusted free cash flow will be in the \$300 million to \$340 million range this year, reflecting our updated adjusted EBITDA guidance. Included in this guidance is \$10 million of lower inventory spending. Our plan is to deploy our free cash to repay some of our corporate debt, as well as return cash to shareholders through dividends and buybacks while our goal remains to get our leverage back to 3x, by the end of 2025.

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

### **Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, 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. One moment please while we poll for questions.

Our first question is from Ben Chaiken with Mizuho. Please proceed with your question.

### **John Geller**

Good morning, Ben.

**Ben Chaiken**

Good morning. Thanks for taking my question. You gave us a lot of information on the call, which is super helpful but stepping back and just simplifying. When you updated the guide in June, it implied plus 7% growth, ex Maui, in 2Q and then, ex Maui, accelerate to plus 10% in the back half of the year. I think from the guide today, based on our math, and I think you confirmed it, Jason, it implies in the back half plus 3%, ex Maui. So, can we just like simply just walk through a few of the buckets? What are the biggest factors that help you bridge from the plus 10 that was previously implied in the back half, again, ex Maui, to the plus 3, which I think is correct? Thanks.

**John Geller**

Yeah, Ben. Most of it is just going to be our assumptions around VPG. We--as we talked about on the call, we did see some softening in VPG on first-time buyers. As I mentioned, we are adjusting promotions and both for owners, but also more importantly, for some of the first-time buyers to try and drive that VPG up in the second half of the year. But until we see the improvement, we guided a little bit more conservatively, I'd say, on what we think VPGs are going to do versus our original expectations. So, a lot of work getting done; the team is focused on it.

But no different than a lot of consumer businesses that you're hearing. There's some cautious folks out there on the spend side. The good news for us is people are prioritizing getting on vacation. We're seeing that in our resort occupancies at 90-plus percent. People are renting. We're seeing that in our rental business and getting on vacation. So, that bodes well to maybe offset some of that uncertainty, but we need to get our VPGs going back the right way.

**Ben Chaiken**

Got you. And I guess that inflection you saw was just in the last couple of weeks of June and then has--I guess, has it gotten continue to get worse?

**John Geller**

We had a great May. VPGs were in line with last year on a total basis. And as we talked about, VPG for owners were flat, year-over-year, which was great. Owners love the product, prioritize that spend in terms of getting on vacation, where we saw the softness from May to June was more in that first-time buyer. And at the same time, our strategy is we talked about, is to grow first-time buyers, right?

So, tours were up 9% to first-time buyers, but you saw that softening in VPG which, once again, given the broader macro, I'm not sure is a big surprise. The good news, right, we just obviously closed July yesterday. We don't have all the detail but at a high level, we saw those VPGs improve, sequentially, still down a bit year-over-year, but not what we saw in June.

So, we already made a few adjustments in the middle of July and some of our owner programs and upgrades, sales and things like that. So that helped in July. And as I mentioned, we're rolling

out other promotions here more broadly for both owners and first-time buyers. So, we expect to get some traction with that here going forward, as well.

**Ben Chaiken**

Got it. I appreciate it. That's all for me. Thank you.

**John Geller**

Alright, thanks, Ben.

**Operator**

Thank you. Our next question is from David Katz with Jefferies. Please proceed with your question.

**David Katz**

Hi, good morning, everyone. Thanks for all the information. If we could maybe go one more layer, it is--if we broke down the inbound new buyer target customers, is there any segmenting we could do where we could point to specific categories or groups or geographies or any further insight on sort of where there's more weakness rather than less?

**John Geller**

Sure. Yeah, I mean, I think at a high level, David, to your question, locations like Orlando, Myrtle Beach, where probably a little different customer than today is going to Hawaii, for example, or some of our California locations. You're probably seeing a disproportionate impact on first-time buyers coming from consumers at that location more broadly from last year. But yeah, it is a little bit the consumer, the mix of the consumer who's showing up.

We talked about Maui being softer and recovering slower. You are seeing that in terms of the visitors. Occupancies for us are back, still softer than where they were, pre-wildfires. But the visitors, because of the discounting, and it's a little bit different. And that's a little different customer in terms of buying vacation ownership. So, we've seen that a little bit in terms of that recovery there in Maui. But yeah, I think a little bit is just the location at times and the consumers that are going to those locations.

**David Katz**

Perfect. Very helpful. And if I could just follow up and ask about sort of the trajectory through the quarter. And whether--and you may have touched on this, but whether June was worse than May and May was worse than April, etc., whether there's some acceleration or not?

**John Geller**

Yeah, April started off a little bit softer than our expectations. And then we saw May doing very well, kind of flat VPGs as we talked about, and we drove owner and first-time buyer tours. And so, when we put that outlook for the second quarter in the beginning of June, the trajectory

looked good. And then all of a sudden, we saw some of that softness more on the first-time buyer side, but a little bit even on the owner side in June with VPGs being down a little bit.

Like I said, now moving into July, we've seen those VPGs recover, right, from where we were in June, still down year-over-year. So, we've got some opportunity there. But that's what we're building into the forecast that they are going to be a little bit softer than the first half. But as I mentioned, we're rolling out some programs and things to really try and drive that VPG higher here, as we go through the second half of the year.

**David Katz**

And so, July is slightly better, right?

**John Geller**

Yeah, July was on an absolute basis. VPGs In July, where kind of what we saw overall for the second quarter, maybe a little bit better. Now there's always some seasonality in things. So, you would expect a little bit of an increase. But directionally, it was, overall, good to see some of the programs that we did roll out in mid-July. But like I said, some of these programs were just getting rolled out here now. So not necessarily reflected in what we're seeing in July.

**David Katz**

Okay, sorry for the third question. Appreciate it, thank you.

**John Geller**

Thanks, David.

**Operator**

Thank you. Our next question is from Patrick Scholes with Truist Securities. Please proceed with your question.

**Patrick Scholes**

Good morning, everyone. I really want to talk about the charge that you took. Really getting to the bottom line here is how can your financial control process rationalize to huge loan loss reserve charges in really just a few short months here? And really in relation to the COVID, it was only a \$42 million charge, but much higher now. How do you rationalize that? Thank you.

**John Geller**

Yeah, when we took the charge last year, as we talked about, we were seeing higher delinquencies which, obviously, leads to higher defaults. But we didn't have as much visibility, so we had to make assumptions. And some of the thought around it was those higher delinquencies were coming from sales to people in '22 and even '23 that bought when costs were lower for their own pocketbook, right, in terms of higher inflation. You did see over those couple of years, interest rates going up, if you had credit card debt, things like that.



So that stress on the consumer. And the expectation was that, given historically how our notes perform, that those delinquencies would trend down. And we did start to see that, like we saw in the first quarter, those delinquencies came down--were trending down in April.

But as Jason mentioned in his comments, then they kind of flattened out. We are--there's delinquencies from April and May and June. They didn't go up, but as we talked about on the call, we needed to continue to see that improvement. So based on the higher delinquencies and not seeing the improvement that we expected when we took the original charge, we re-looked at it.

And so going forward, we've kind of taken out the--a little bit of the risk of those delinquencies happen to continue to come down, significantly. We do expect that, hopefully, they will get a little bit better here. Part of that is now inflation stabilized on a higher level. We'll see with interest rate cuts and how that impacts consumer debt when those start.

But also more importantly, as I mentioned, our maintenance fees at this point, will only go up more in historical amounts, lower inflationary less than 5% of our product, which also helps for owners and the cost of their vacations going forward.

So, that gives us some confidence here that this is enough to really cover what we're seeing. And we're going to continue to work like we have been on getting those delinquencies down and collections and, hopefully, do better than we're expecting.

**Patrick Scholes**

Okay. Can you give more color on what aspects of the loan loss is really driving the charge, specifically, what vintage and even more so, whose vintages are we talking about, Vistana, is it Welk, is it legacy Marriott Vacations? Thank you.

**Jason Marino**

Yeah, Patrick, this is Jason. So, as we've talked about over the last couple of quarters, it's really a little bit across the board in terms of brands, as well as FICO. So, it does depend, the materiality and the amount does depend on which brand, to your point, as well as the different FICO bands. So, our above 700s are continuing to perform the best, but they have a little degradation. And then as you go down the FICO bands, you definitely see more stress in the below 700s and even a little bit in the below 600, you're starting to see even more stress.

So, as you think about how that looks, that's what we're focused on. And that's really kind of how it segregates. I don't think what you're seeing in our portfolio is, frankly, different than what you're seeing in the broader finance sector. The lower the FICO scores, the worse they perform, and that's why you are--a lot of commentary revolves around whether it's the lower end consumers or not. So, I think our performance is relatively consistent on a relative basis with what you're seeing more broadly out in the economy.

**Patrick Scholes**

Okay, thank you, all. I'll hop back in the queue.

**John Geller**

Thanks.

**Operator**

Thank you. Our next question is from Brandt Montour with Barclays. Please proceed with your question.

**Brandt Montour**

Good morning, everybody. Thanks for taking my question. So, a question on--first on the demand side. I'm just trying to square the comments, John, of demand for travel being strong, but VPGs for new buyers and close rates being soft. I mean, the obvious reason, I guess, which I guess we haven't said it, but it's just sort of the rejection or shifting away from large ticket purchases on the consumer.

Can you just maybe--let's level set a little bit and trying to--I just want to figure out if this is more cyclical or post-COVID normalization. Where are new buyer close rates--I know you can't tell me the exact number, but new buyer close rates now versus where the average is throughout the cycle versus where it is generally when it troughs in the cycle. That would probably be helpful just roughly, directionally.

**John Geller**

Yeah, I'm not sure I have the kind of historical close rates to kind of walk you through; we can clearly pull some of that analysis. But they're clearly lower than what we saw coming out of COVID, obviously, in '22. High level, I'd expect that they're probably more in line with what we've seen, historically, on close rates.

It could be a little bit lower. But yeah, what you're seeing is a little bit of the softness with the first-time buyer is that broader macro. People are traveling, but timeshare is a bigger commitment, if you're going to buy into it. And they haven't had the benefit of owning the product. That's where--the good news is you are seeing, notwithstanding the pressure on the consumer owners continuing to buy in those closing rates are while lower than 22%, as we've seen some of that normalization, have been pretty steady here.

So, we'll continue to work through it. That's where some of the incentives and trying to help with that first-time buyer close and things like that from a value proposition. Those through all the things that we continue to work on.

**Brandt Montour**

Okay, okay. Thanks for that. And then on the consumer loan piece, I guess we're a little bit confused because of second charge in three quarters. And one of your--we see one of your peers who's thought to have a slightly worse consumer hasn't had any charges yet. And I know that

they reserve a lot higher than you guys do on a run rate basis. But I guess yours is getting sequentially worse, relative to them.

And so, I want to make sure that I understand. Has there been a shift in your lending strategy that has changed the quality of your consumer over time versus your prior sort of run rate? And then a specific stat if we could just, Jason, give us the percentage of the book that's below 700.

**John Geller**

Sure. Now in terms of targeting our consumer, our FICO scores, how we target, nothing has changed. I mean, if you look at it more historically, obviously, with the acquisitions that we did, first with ILG and Vistana with the Sheraton customer, probably on average lower quality from a credit than we have seen, historically, on the legacy Marriott side.

And then the same thing with the Welk acquisition, the legacy Welk customer below in terms of the credit quality of that. So that mix has changed with some of the acquisitions.

But as you talk about the last couple of years and specifically how we target, how we underwrite really no shift in anything there. It is more--like I said, some of the macro, I think, on the consumer, as Jason mentioned, whether it's credit card delinquencies, I think are the highest they've been in 12, 13 years, I think I saw in something. So, depending on the consumer, I think there's more stress on some consumers versus others.

**Jason Marino**

Yeah, and I think it's also important to remember, this is relative to our expectations. So, to your point, our reserves have historically been lower and still remain among the lowest in the industry. And then to your last question, 28% of our loan book is below 700 right now, and that's been pretty consistent over the last couple of years. So, no real changes in that stratification.

**Brandt Montour**

Okay, thanks, everyone.

**Operator**

Thank you. Our next question is from Chris Woronka with Deutsche Bank. Please proceed with your question.

**Chris Woronka**

Hey, good morning, guys.

**John Geller**

Hey, Chris.

**Chris Woronka**

Thanks for taking the question. Hey, John. So, I did have one follow-up question on the loan loss, but we can take a break on that for a minute. And the first question, if we look at Maui, and you guys are not alone in citing that as being slow to recover. I think some of your peers in the hospitality industry have kind of suggested that the marketing efforts by the government maybe could use a little bit of a boost. Is that a fair assessment? Are you guys working with them to try to--it's not a position they've historically had to be, and I get it. But is there anything that would encourage you that they're getting more ramping up their efforts to get folks back?

**John Geller**

Yeah. No, that, I would say, is kind of a true observation. We continue to work with the local governments, we'd love to see that. But it's a bit of a balance, right, with the Maui residents and people returning to the island. So, we're going to continue to work that. We're going to be there a long time. We know that's going to be a great destination like it was, over time. So, we'll continue to work with the local island governments and do--and work with them in the right way.

**Chris Woronka**

Okay. Fair enough. Thanks, John. And then the follow-up on the--back to the loan losses, just how much--I guess how much--what are you--how much data are you collecting from folks? I know you got FICO, and you get all the things on the application, but are you getting any feedback from folks about why they're walking away? Is it purely financial? Is it maintenance fees? Is it something else? And is there anything that makes you want to change the application process a little bit to collect a little more information on these folks? And maybe also, are these folks just walking away? Are they totally defaulting or are they going through a third party, or any color on that would be great.

**Jason Marino**

Yeah, so first, we have not seen really any evidence that that any of the defaults are being caused by the third party. We haven't had that really in our entire history, and we don't have it, today. So, I think that's on the positive side that that activity hasn't picked up for us like it has maybe for some others.

In terms of why folks default, most people don't really tell you, at the end of the day. We do ask, we do solicit feedback. We capture that feedback. But generally, the number one answer is, it's expensive. And with given inflation and everything else, this is my words, not necessarily a customer's words, it makes sense. The overall cost of living out there has increased pretty significantly over the last two years, not just the cost of the timeshare product, but also just everyone's daily living cost. And that seems to be putting more pressure, but most don't really give you a reason and then that would be the #1 reason that people do give you, if they do give you a reason at all.

**Chris Woronka**

Okay, fair enough. Thanks, guys, and best of luck in the second half.

**John Geller**

Thanks, Chris.

**Operator**

Thank you. Our next question is from Shaun Kelley with Bank of America. Please proceed with your question.

**Shaun Kelley**

Good morning, everyone. Thanks for taking my question. Just wanted to hit on the subject of margins a little bit. I think we rewind--I heard a bit about mix shift as it relates to a bigger focus on first time in new owners. Obviously, that's what's partially dragging down the VPGs. And then secondarily, John, I think a number of times you mentioned incentives as sort of a way to, I guess, drive tour flow and probably push the contract sales piece of it. So, I'm wondering what the implications of that a little bit as it relates to margins.

Could you just walk us through sort of impact of that mix and how you factor that in, be it to your outlook for development margin or your outlook for just broader VOI margin? And am I right in thinking that those should have some negative impact there? Thanks.

**John Geller**

You're absolutely right on the first-time buyer mix, as we talked about in the second quarter. Our strategy to grow first-time buyers, package tours, which are focused primarily on first-time buyers. So, as that mix or mix of tours goes up, the math would be you get slower--or lower VPGs on an overall basis. And yes, we factored that into how we thought about our guidance for the second half of the year. So, that's in there.

And then the other piece, if the incentives work, there could be a little bit more cost, related to that, that would negatively impact. But the VPG is up to get the flow through, you can offset that or maybe do a little bit better depending on how the VPGs improve. So that's where--and we've talked about this. We're always making tweaks to the promotions and things, based on what we're seeing.

So, sometimes it's based on particular things that we see and what's going on, like we're seeing now with first-time buyers. So, we'll adjust those, accordingly. And if we can execute on the VPG side, that hopefully offsets the margin impact of the cost of those higher incentives.

**Shaun Kelley**

And did I hear you correctly that you said 26% development in the quarter, if you adjusted for the sales reserve? Was that the right number? And if that, are we looking at a similar magnitude for the back half, just sort of putting in--putting all the x's and o's together? Is it better than that or worse than that? Just kind of trying to understand the underlying assumption in the guidance. Thanks.

**Jason Marino**

Yeah, it was 27% for the second in quarter, if you add back that charge, we did in our prepared remarks say 22% for the year, including 3 points from the charge. So that would be, call it, 25 for the kind of the full year.

**Shaun Kelley**

Okay, 25 for the full year. And just last one for me would be, Jason, can you compare that to where we were--

**Jason Marino**

--(Inaudible) percent on that as a percentage of contract sales going forward, which is a little bit higher. And then we should see some benefit in product cost. Our product cost is coming in lower this year than we had originally expected. So, we do have a pickup on that side in the guidance, as well.

**Shaun Kelley**

Thank you very much.

**John Geller**

Thanks.

**Operator**

Thank you. Our next question is from Patrick Scholes with Truist Securities. Please proceed with your question.

**Patrick Scholes**

Great, thank you. I have a number of follow-up questions here. Have you changed anything in your--in the last couple of years as far as your new sales writing, new sales underwriting criteria? And if so, what specifically did you change? And related to that, how is your sales underwriting criteria in your legacy Marriott Vacations product different from that of Welk? And I'm trying to really--you'll see in my further questions trying to sort of drill down more on Welk here. Thank you.

**John Geller**

Just so I'm clear, when you say sales, are you talking credit underwriting, Patrick?

**Patrick Scholes**

Yeah, yeah, credit underwriting for the sales.

**John Geller**

Yeah, nothing significant in terms of holistic changes. We're always looking at down payment requirements and things like that. We could have had some tweaks to bring those up in certain locations, but nothing, holistically. I don't want to say nothing has changed, but I wouldn't say

there were any pervasive changes in terms of how we look at our underwriting and the requirements to get the financing.

**Patrick Scholes**

Okay. Let's talk a little bit about Welk. How is that deal performing versus your expectations at the time of acquisition? And what trends are you seeing within, specifically, the Welk customers as far as default rates versus your legacy customers. Thank you.

**John Geller**

Yeah, I mean the--from a default rate, we knew this coming in, Welk customers had a higher default, right? So that's kind of in our mix, if you will, of the overall higher defaults on the portfolio. I'd say from an overall transaction, we still see the long-term value. I think some of the transition, it's probably taken a little bit longer. We're seeing a lot of good traction this year on our sales performance there, but still a lot of opportunity. We're not where we want to be yet in terms of overall VPGs and things that we're seeing at our Hyatt portfolio products.

So, a lot of good work there by the team and a lot of good improvement, and we're on a good trajectory there. But like I said, we're--overall, we're probably not where we wanted to be when we first underwrite it--underwrote it, but that means there's also good opportunity, going forward.

**Operator**

Thank you. There are no further questions at this time. I'd like to hand the floor back over to management for any closing comments.

**John Geller**

Great. Thank you, everyone, for joining our call, today. As you heard on our call, second quarter results were mixed with double-digit rental profit growth being offset by lower contract sales.

In addition, while Maui is recovering, it's not recovering at the pace we expected. Our new Waikiki resort is slated to open in early October. This will be our first new U.S. resort opening since the pandemic, adding more exciting vacation destinations for our owners and other guests.

We also have a number of new resorts planned to open over the next few years, including our new Westin Resorts in Savannah and Charleston, as well as a new Marriott Resort in Thailand and additional units in Bali.

And while we're not satisfied with our results, we have a fundamentally strong business that generates free cash flow, a high percentage of owner sales, which reflect the quality of our product offering and a team of dedicated associates who go to work, every day, to provide memorable experiences for our owners and guests. 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 I hope to see you on vacation, soon.

**Operator**

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