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Marriott Vacations Worldwide Corp. (VAC)

Q3 2014 Earnings Call

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Vice President-Investor Relations

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Stephen P. Weisz
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Christopher James Wallace Agnew
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Marriott Vacations Worldwide Third Quarter 2014 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host today, Mr. Jeff Hansen, VP, Investor Relations. Thank you, Mr. Hansen. You may begin.

Jeff Hansen
Vice President-Investor Relations

Thank you, and welcome to the Marriott Vacations Worldwide third quarter 2014 earnings conference call. I am joined today by Steve Weisz, President and CEO; and John Geller, Executive Vice President and CFO.

I do 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 this morning, along with our comments on this call, are effective only today, October 16, 2014, 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 on our website at ir.mvwc.com.

I will now turn the call over to Steve Weisz, President and CEO of Marriott Vacations Worldwide.

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Stephen P. Weisz

President, Chief Executive Officer & Director

Thanks, Jeff. Good morning, everyone, and thank you for joining our third quarter earnings call. This morning, I am pleased to discuss our performance in the third quarter as well as the continuing implementation of our strategy to return capital to our shareholders. I'll then turn the call over to John to provide more detail on our segment results and an outlook for the remainder of the year. We'll then open the call for your questions.

Results for the third quarter reflected a continuation of the trends we have seen over the past several quarters. Adjusted EBITDA improved 8% to $54 million, driven primarily by improvements in our rental and resort management businesses. Total company contract sales, excluding residential, increased $6 million, or 3%, to $167 million in the third quarter.

VPG improved 6.9% over the third quarter of last year, marking the 12th consecutive quarter of VPG improvement since we became a public company in November 2011. Since then, VPG has increased by 40%, a truly remarkable improvement underscoring the success of our sales and marketing initiatives.

The third quarter VPG improvement of 6.9% to $3,477 was due primarily to an increase in the average number of points purchased per contract, as well as higher pricing and a slight improvement in closing efficiency. These gains were partially offset by reduced tour flow which was below the prior-year period by roughly 4%, primarily due to fewer owner tours as our owners are choosing shorter stays at our resort and utilizing our Explorer program to try new vacation experiences.

While we continue to develop programs to drive owner tours, we also remain focused on new programs to help increase first-time buyer tours and, in turn, fuel overall tour growth. Due to the extended ramp up period for these marketing programs, we expect the fourth quarter tour flow this year to be roughly flat compared to the fourth quarter of 2013, excluding the impact of the extra week last year. In addition, in the first quarter of next year, we will further expand several of our marketing programs intended to generate first-time buyer tours that will lead to future tour growth.

While we have experienced some near-term volatility in our tour flow, incremental tour generation is only one of the tools that we use to generate longer-term contract sales growth. Another is VPG growth, which we have consistently demonstrated and which has also helped drive our improvement in development margin.

New resort destinations with on-site sales distributions can also generate growth by driving first-time buyers, as well as adding excitement to our existing owner base. It is important to point out that our focus in all three of these areas gives us confidence we will drive our tour top line growth in future years.

Shifting to our resort management and other services businesses, results improved $3 million or 15% over the third quarter of last year to $23 million, continuing the trend we have seen throughout the year. Results in the quarter reflected higher fees earned from our exchange company and from managing our portfolio of resorts.

In our rental business, results improved $3 million to a total of $11 million in the quarter. While revenues were flat, results reflected lower costs associated with the inventory for rent.

In our Asia Pacific segment, as we've said before, growth depends on new destinations with strong on-site sales potential. In support of our targeted growth in this area, we have created a new Managing Director position based in the region to lead this segment. With strong development and global operations experience working previously for both our company and Marriott International, I am confident our new Managing Director will be a catalyst for the strong future growth we expect from our Asia Pacific segment.

As it relates to our inventory in this segment, due primarily to operational and regulatory constraints that affect our ability to sell our 18 units in Macau through our Asia points program, we have decided to sell the units as unbranded, whole ownership residential units instead. We expect to generate gross sale proceeds of approximately $30 million from the sale of the Macau units, which we intend to reinvest in new timeshare destinations in the region with strong on-site sales distributions.

As it relates to our excess land and inventory, we are pleased with our progress on disposing of a significant portion of these assets. Subsequent to the end of the third quarter, we completed the sale of a parcel of land located adjacent to our Disneyland Paris property for approximately $3 million.

As we mentioned previously, we also signed an agreement to sell our property at Kauai Lagoons and we continue to work through the due diligence process. Additionally, we have signed a purchase and sale agreement to sell excess land and inventory, as well as a golf course, at our property in Abaco. While the due diligence process continues on both of these efforts, I must continue to emphasize that until these sales are closed, there is a risk that we will not complete these transactions.

Turning to our capital allocation strategy, we remain focused on generating strong cash flow and optimizing our balance sheet. As we have shared in the past, our strategy for the deployment of that cash is unchanged. First, we look for opportunities to reinvest in our business in ways that meet our strategic needs and requirements. And second, we seek to return excess capital to shareholders.

We implemented our share repurchase program just one year ago. And since then, we have repurchased nearly 3.4 million shares of the 3.5 million shares originally authorized at an average price of $55.23 per share. This represents almost 10% of our shares outstanding at that time.

With the board's initial authorization effectively exhausted, and given our strong cash position and cash flow outlook, I am pleased to announce that our board of directors has authorized us to repurchase an additional 3.4 million shares, representing approximately 10% of our shares currently outstanding.

Our share repurchase program has been just the first step in the implementation of our capital allocation strategy. To that end, I am also pleased to announce that our board of directors declared our first quarterly dividend of $0.25 per share payable on November 12 to holders of shares as of October 28. Going forward, we will consider increasing our dividend based on the company's earnings and performance while taking into account our future free cash flow generation and investment needs.

With that, I'll turn the call over to John to provide a more detailed look at our third quarter results and outlook for the remainder of the year. John?

John E. Geller

Chief Financial Officer & Executive Vice President

Thank you, Steve, and good morning, everyone. We experienced another quarter of solid performance as adjusted EBITDA was up $4 million to $54 million over the third quarter of last year. This was primarily driven by continued improvement in our resort management and other services business as well as improved results in our rental business.

While we do not adjust EBITDA for the impact of revenue reportability like we do for development margin, I want to point out that reportability did negatively impact performance in the quarter by $2 million. Contract sales in North America, excluding residential, improved 2%, driven by improved VPG, which was up 6.9%. While the VPG improvement was partially due to increased pricing and closing efficiency, we also saw more than a 3% improvement in average points purchased per contract.

In North America, adjusted segment results improved $2 million over the third quarter of 2013 to $89 million, and adjusted development margin was $35 million, a $3 million increase over last year. Adjusted development margin improved by 3.3 percentage points, driven by over 4 percentage points of improvement in product cost offset by a 1 percentage point increase in marketing and sales costs.

The improvement in product cost was primarily driven by the mix of inventories sold, which resulted partially from the success of our inventory repurchase program. Our marketing and sales costs were up slightly in the quarter and part from an increase in costs associated with programs intended to generate future new buyer tours. We had been investing in these programs for almost a year with their costs partially offsetting the efficiencies gained in development margin from higher VPG.

As Steve mentioned earlier, we are ramping up several of our marketing programs going forward. But even with this additional investment, we expect our full year marketing and sales costs to be in line with last year. With continued improvement in product cost, we expect full-year North America development margin to be at the higher end of our guidance range of 23% to 24%, an improvement of roughly 200 basis points over last year.

Shifting to our rental business, results in our North America segment improved $1 million over last year to $8 million. This was primarily driven by a 3% increase in keys rented and lower cost of inventory available for rent. Based on these current trends and our expectations for the fourth quarter, we expect our total company rental results for the full year to be roughly $23 million to $25 million, exceeding our 2013 results by approximately $13 million to $15 million.

Turning to our resort management and other services business, results improved $4 million to $22 million in our North America segment. This was primarily driven by $2 million of improved exchange company fees and an additional $1 million of management fees.

In our Asia Pacific segment, results were $1 million, an improvement from flat results in the third quarter of last year. With new leadership located in the region, and the cash we expect to generate from the sale of the Macau units, we are excited about our future opportunities for growth.

In our Europe segment, adjusted results were flat compared to the third quarter of last year as we remain on strategy, which is to sell out of our developer inventory and continue to operate our world-class resorts in this region.

In our financing business, revenue, net of related expenses was $19 million, down $1 million from the third quarter of last year. While the trend has been that our notes receivable balance continues to decline faster than we are originating new notes, we expect this trend to stabilize in 2015 as our top-line sales volume continues to grow. Staying on this topic, subsequent to the end of the third quarter, we completed a $250 million note securitization with a 96% advance rate that resulted in $240 million of gross proceeds to the company.

Let me take a moment to discuss the impact of a rising interest rate environment on this securitization, a topic which generates many questions. Since last year's securitization, we have seen the underlying benchmark interest rate increase by roughly 60 basis points. However, there has been an offsetting tightening in the credit spreads of approximately 50 basis points. So, the overall borrowing rate has only increased slightly from 2.21% last year to 2.29% this year. Additionally, we have made some changes to our lending programs, which have resulted in a higher weighted average coupon on our notes. All of these factors combined to generate an excess spread of 1,046 basis points, 11 basis points stronger than we achieved last year.

Turning to our balance sheet and liquidity position, since the beginning of the year, real estate inventory balances declined another $70 million to $794 million. This includes $446 million of finished inventory, representing just over two years of contract sales at our current pace.

The company's total debt outstanding decreased $140 million from the end of 2013 to $538 million, including $534 million in non-recourse debt associated with our securitized notes. In addition, $40 million of mandatorily redeemable preferred stock remains outstanding. At the end of the third quarter, cash and cash equivalents totaled $146 million. We also had $197 million in available capacity under our revolving credit facility. As a reminder, these balances do not include the impact of our recent securitization, which occurred subsequent to the end of the third quarter.

Taking into account the execution of our securitization, which was stronger than anticipated earlier in the year, and other improvements in our operational activities, we are increasing our 2014 adjusted free cash flow guidance by $40 million, resulting in a new range of $230 million to $245 million.

As a reminder, our guidance assumes we will spend $30 million to $40 million for the acquisition of inventory at new destinations before the end of this year. However, to the extent this spending is deferred into next year, it could have an impact on free cash flow in 2015.

I am pleased with our success in the third quarter. VPG continues to improve. We are booking new buyer tours ahead of schedule, and free cash flow continues to grow. To that end, we expect to return even more capital to our shareholders due to recently declared dividend and the approved increase in our share repurchase authorization.

Our dispositions remain on track to produce even more cash flow, and we expect adjusted EBITDA to be at the higher end of our $190 million to $200 million range. We have performed well through three quarters this year, and I look forward to providing an update on the full year and our thoughts on 2015 on our next call. As always, we appreciate your interest in Marriott Vacations Worldwide.

And with that, we will now open the call up for Q&A. Latonya?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct a question-and-answer session. [Operator Instructions] One moment while we poll for our first question. Our first question comes from Steven Kent with Goldman Sachs. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director
A

Good morning, Steve.

Steven E. Kent
Goldman Sachs & Co.
Q

Hi. Good morning; just a couple of questions. First, I don't know if you've mentioned, what percentage of sales are from new versus existing and what's the trend? And maybe you could also comment – I think, Steve, you made some comments early on about owner tours and I don't know if they were slowing or – there was some comment there to which I didn't completely understand?

Stephen P. Weisz
President, Chief Executive Officer & Director
A

Sure. Let me see if I can clarify. Last year, we had roughly 60% of our sales came from existing owners buying additional interests in our product. That number is down slightly, like 1 point, 1.5 point. So, and ergo, the remaining portion of that is for first-time buyers. So, think of it now as 58.5% of owner tours versus 41.5% of first-time buyers. We have said for some time now that our goal is to try to get back to a more historical view of a roughly 50-50 mix of existing owners versus first-time buyers, but I've also said it'll take us some time to get there.

Regarding your question about clarification on owner tours, this has been a trend for the year so far. What we're finding is that our owners, while they still visit our resorts, they oftentimes visit for shorter length of stay. You may recall with the institution of our points program back in 2010, people that elected points as an additional use option for their ownership now have the ability to stay for less than seven days at a time. They want to stay three or four days one place and go for three days someplace else; they can certainly do that. Because they are on-site for a shorter period of time, sometimes owners are reluctant to sign up to take a timeshare tour which does take a portion of their vacation experience.

So we see that happening. The other thing that's happening, of course, is because of the popularity of our Explorer options, which allow people to take vacations that are not directly affiliated with our resorts, things like cruises or tours or the like, we also see that take-up rate to be rather substantial, which is great news from our owners' perspective because they appreciate the added variety of our product. But as a result, it makes generating owner tours a little bit more difficult.

We pivoted early on to try to generate more first-time buyers. Our tour generation for first-time buyers has been quite good. What the reality is, however, is that it takes anywhere from 9 to 12 months from the time you book a tour for that tour to actually be on-site and to actually take the tour and hopefully become an owner with us. I don't know if that's helpful or not.

Steven E. Kent
Goldman Sachs & Co.

Q

No, that was helpful, Stephen. Just acquisitions, you've talked on and off about that in the past, especially about getting maybe into some of the mid-level price points. Can you give us an update there and whether that's something that is on the front burner?

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Yeah. Well, clearly, acquisitions is clearly on the front burner for us. We've been spending quite a bit of time in a number of the markets that we've identified as wanting to have additions to the portfolio, places like New York and San Diego, Miami; Big Island, Hawaii; Mexico, obviously Asia Pacific. And so we have been spending a lot of time there trying to find the right opportunity. At the same time, we've been having discussions with numerous parties about being potential asset light partners and we feel relatively confident about our ability to do an asset light transaction in virtually any of those markets that we talked about. But we just don't have a deal to announce as of this point in time.

Relative to the moderate tier we have looked, there have been a few candidates out there that we've looked at and even after spending some time on some of these opportunities we've concluded, at this point in time, we haven't seen anything yet. However, we continue to look and be interested in this space. And if we see the right thing come along that meets our – the strategic objectives as well as obviously our investment metrics we believe we'd certainly be prepared to pull the trigger.

Steven E. Kent
Goldman Sachs & Co.

Q

Okay. Thank you.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Thank you.

John E. Geller
Chief Financial Officer & Executive Vice President

A

Thanks, Steve.

Operator: Our next question comes from Chris Agnew with MKM Partners. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Hi, Chris.

Christopher James Wallace Agnew
MKM Partners LLC

Q

Thanks very much. Good morning.

Stephen P. Weisz
President, Chief Executive Officer & Director
A

Good morning.

John E. Geller
Chief Financial Officer & Executive Vice President
A

Good morning.

Christopher James Wallace Agnew
MKM Partners LLC
Q

I wanted to come back to owner tours. I think you had been expecting a little bit of sequential improvement in tour flow, not a sequential decline. Had some of the initiatives that you started earlier in the year, understanding and given that we understand that it takes 6 to 12 months to impact, were some of those initiatives less than successful? So, can you give us a little more color on the sequential plan?

Stephen P. Weisz
President, Chief Executive Officer & Director
A

Yeah, happily. Actually, just the opposite. They've been – not only met our expectations, they've actually exceeded it except for one thing. We thought it was going to be more 6 to 12, it now looks like it's more like 9 to 12 months before people actually take their vacation.

And when you stop to think about it, it actually makes some sense. People, oftentimes, when you are able to generate a first-time buyer booking, they may be in the process of enjoying an existing vacation elsewhere, which means they're not going to queue up to take another vacation in six months.

We had hoped that that would be – come a little sooner but it's just taking longer. But actually we have been very pleased with what's been happening in terms of tour generation. It's just the timing of when that tour comes through the house that has missed our expectations a bit.

Christopher James Wallace Agnew
MKM Partners LLC
Q

Got you. So, that said, should we expect sequential improvement going forward as we head through 2015?

Stephen P. Weisz
President, Chief Executive Officer & Director
A

Absolutely. Absolutely.

Christopher James Wallace Agnew
MKM Partners LLC
Q

Got you. On cash flow, free cash flow, I know you outlined that you've raised your guidance, and you outlined that inventory spend could move that even higher if you don't spend the cash. But thinking about your normalized free cash flow which you outlined of kind of a $150 million, is there some pull forward in this year that will cause normalized free cash flow to be lower next year? And what are the different moving pieces there? Thanks.

John E. Geller
Chief Financial Officer & Executive Vice President
A

Yeah. Yeah, I mean, we obviously have not put anything out for 2015. I think what we've talked about at least for 2014 and 2015 historically has been the fact that you saw some moving parts with the inventory burning down and giving us some benefit. On the flip side, you have the paydown of the pre-Spin Marriot Rewards liability and that those should kind of offset. Obviously for 2014 we've executed better than that and we've been able to, to your point, defer some of that inventory spend. So, we'll get back to you in the next quarter in terms of the outlook for next year. But we're still thinking that overall free cash flow should approximate what our normalized free cash flow should be for next year. But we're still working through the bits and pieces of that.

Christopher James Wallace Agnew
MKM Partners LLC

Q

Got you. And the Marriott Rewards liability that's going to be settled up and finalized in 2016, can you just remind us on how it's going to play out?

John E. Geller
Chief Financial Officer & Executive Vice President

A

Yes. So we'll – yeah, yeah. We'll continue through the end of 2015 pay off the redemptions as they come in. So, remember, we pay based on kind of actual redemption cost for that pre-Spin liability. So, we'll pay down through actual and then whatever is left over, we have a contractual agreement with Marriott to calculate that liability and that will get cleaned up in the first quarter of 2016.

Christopher James Wallace Agnew
MKM Partners LLC

Q

Excellent. Thank you.

Operator: Our next question comes from Bradford Dalinka with SunTrust. Please proceed with your question.

Brad G. Dalinka
SunTrust Robinson Humphrey

Q

Hi. It's Brad Dalinka on with Patrick Scholes.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Good morning.

Brad G. Dalinka
SunTrust Robinson Humphrey

Q

Good morning. Wanted to ask you guys on the inventory side. Obviously, there's – the last time you talked about a possible asset light deal that could offset, is that something that could still be done in the needed timeframe? And then my second question is just on the balance sheet. I know there's been some talk about you've got corporate level debt. Has there been any more talk about that?

Stephen P. Weisz
President, Chief Executive Officer & Director

A

I'll take the asset light question. As I think I referenced previously, we are hard at work on trying to identify some new project opportunities. And I would expect that in the very near future, we'll be able to announce something, not only in terms of the new development opportunity but also in terms of doing with an asset light partner. And having said that, we don't have – I mean, I certainly wish I could have announced something today, but I expect in the very near future you're going to hear about that.

John E. Geller
Chief Financial Officer & Executive Vice President

A

And on the corporate debt piece, I think, as I've talked about in the past, given our performance and how the rating agencies look at us, we potentially have some excess debt capacity. We'll continue to look to optimize the balance sheet, just like we've done on the asset side to-date in terms of burning down inventory and returning cash to shareholders on that front. But longer term, we're going to do everything we can to make sure we've got the right balance sheet that also gives us flexibility to be opportunistic on deals at the same time, too.

Brad G. Dalinka
SunTrust Robinson Humphrey

Q

Thank you.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Thank you.

Operator: Our next question comes from Steve Altebrando with Sidoti & Company. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Hi, Steve.

Steve T. Altebrando
Sidoti & Co. LLC

Q

Hi. Good morning. Thank you. Just wanted to get your latest high-level thoughts on development margin. Do you feel like – you've come a long way, obviously. Do you feel like you're bumping against a ceiling going forward, or are you kind of rethinking the ceiling based on the recycling program?

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Yeah. I don't know that there is a ceiling on development margin. I think there's some practicalities here. I mean, we've obviously made a lot of progress in product cost. We've made a lot of progress in sales and marketing cost. And the question is, how high is high? And we don't really know that to be true – or what the answer of that is. But I would expect that on the product cost arena we're, call it, 30%, in that range. I suspect we're probably at or near optimization in product cost. It could move a little bit, but I don't think there's going to be a substantial movement there. Sales and marketing cost, I think clearly as you add more top-line sales, you get good leverage and good gearing effect on your fixed sales and marketing cost. The variable costs, obviously, move with the volume; and, they can come down.

Now, having said all that, the one thing you have to be mindful of is as we move to first-time buyers, VPGs from first-time buyers have a tendency to be slightly lower than our existing owner VPGs. That's largely because of the closing efficiency percentage that you're going with first-time buyers. So you sometimes run a slightly higher sales and marketing cost.

So, I mean, our goal is going to be to continue to try to drive that development margin as high as it can be. I think I've said on a couple of different calls so far this year that I would caution that don't put a straight line on the improvement that we've made over the last couple of years in development margin, because I think it's impractical to think it's going to move quite at that pace; but, we're going to keep working hard at it.

Steve T. Altebrando
Sidoti & Co. LLC Q

Okay, that's helpful. And then, is there material operating losses being run through the P&L from the two properties under contract? What is it, Hawaii and Abaco?

John E. Geller
Chief Financial Officer & Executive Vice President A

Yeah, for both of those – they both have golf courses associated with them, so there are operating losses associated with the golf courses. And then, obviously, there's carrying costs. These are large parcels of land, real estate taxes, things like that. So you probably have, call it, $8 million or so, give or take, of losses that would essentially go away.

Steve T. Altebrando
Sidoti & Co. LLC Q

Okay. And then, how about Ritz-Carlton inventory in terms of operating losses currently?

John E. Geller
Chief Financial Officer & Executive Vice President A

Yeah, we still have, call it, about $10 million of unsold maintenance fees related to Ritz-Carlton. We're working through selling that inventory off. But I think as you're aware, there unfortunately isn't a lot of rental offset we get on those carrying costs...

Steve T. Altebrando
Sidoti & Co. LLC Q

Right.

John E. Geller
Chief Financial Officer & Executive Vice President A

[indiscernible] (30:49) on the Marriott. And so, it's still going to be another, call it, a couple of years till we finally move those unsold maintenance fees and get those out of the P&L.

Steve T. Altebrando
Sidoti & Co. LLC Q

Okay. Thanks very much.

Stephen P. Weisz
President, Chief Executive Officer & Director A

Thank you.

Operator: Our last question comes from Bob LaFleur with JMP Securities. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director A

Hi, Bob.

Robert A. LaFleur
JMP Securities LLC Q

Hey. How are you?

Stephen P. Weisz
President, Chief Executive Officer & Director A

Well, fine. How are you?

Robert A. LaFleur
JMP Securities LLC Q

Oh, I'm outstanding and improving, as they say.

Stephen P. Weisz
President, Chief Executive Officer & Director A

Good.

Robert A. LaFleur
JMP Securities LLC Q

Anyhow, my question is, can you give us a little more background on the Macau situation, the expectation for those proceeds and how you see them being deployed? Are there other opportunities in Macau or is that just a bad market for timeshare? And then a second unrelated question, could you just review sort of the fixed and variable component of sales and marketing so we can get a sense of order of magnitude?

Stephen P. Weisz
President, Chief Executive Officer & Director A

Yeah. So, let's go to Macau first. Macau is – we bought 18 units in a condominium building in Macau several years ago. And in the interim, since we purchased Macau, there were some changes to the local laws that made it problematic for us to be able to sell these units through our Asia points trust. Now, what was happening was, we were still allowing our owners to visit there and stay there, but we couldn't put them into the points trust because of the change in the law.

As you might imagine, Macau is a little different than trying to do business in North America because the influence of the government and how business works there. And so, as a result, what we found was that the best answer was, rather than try to fight City Hall, so to speak, and try to get a variance to their ruling, we decided the better thing to do was to simply take those units because they were not in the Asia points trust and dispose of them on a whole ownership basis. The market for whole-ownership condominiums in Macau is still quite vibrant. And so, we don't think we're going to have a difficult time moving that.

The proceeds from that will be about $30 million. As we have said all along, our goal is to grow additional presence in Asia Pacific through new resorts. We'll use that $30 million to help fuel that growth. So that's how we're going to use that cash.

As it relates to sales and marketing costs, think of it, roughly half and half: half variable, half fixed. So, on a mid-40% sales and marketing cost from a reportability standpoint, think of it 22%, 22% kind of thing.

Robert A. LaFleur
JMP Securities LLC
Q

Okay. And then deploying those $30 million of proceeds, is that related to that project you seem really excited to announce but just can't do it yet? Or is that something totally separate and further off in the future?

Stephen P. Weisz
President, Chief Executive Officer & Director
A

I think there is a very, very likely candidate in the Asia Pacific region. But I'd also say I think there's a very likely candidate or two in North America. Now the question one, which one gets to the finish line first.

Robert A. LaFleur
JMP Securities LLC
Q

All right. Thanks, guys.

Stephen P. Weisz
President, Chief Executive Officer & Director
A

Thank you.

John E. Geller
Chief Financial Officer & Executive Vice President
A

Thank you.

Operator: At this time, I would like to turn the call back over to management for closing comments.

Stephen P. Weisz
President, Chief Executive Officer & Director

Okay. Well, with most of 2014 behind us, I'm very pleased with what we have accomplished at this point in the year. We are achieving our strategies of driving performance across our businesses and returning capital to the shareholders, and I look forward to reporting on our results in the future.

As always, I thank you for your participation on our call today and your continued interest in Marriott Vacations Worldwide. And finally, to everyone on the call and your families, enjoy your next vacation. Thank you very much.

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