

**Marriott Vacations Worldwide
Third Quarter 2019 Earnings Call
November 5, 2019**

Presenters

Neal Goldner – Vice President-Investor Relations

Steve Weisz – President and Chief Executive Officer

John Geller – Executive Vice President and Chief Financial & Administrative Officer

Q&A Participants

David Katz – Jefferies

Jared Shojaian – Wolfe Research

Brandt Montour – JPMorgan

Tyler Batory – Janney Capital Markets

Brian Dobson – Nomura

Chris Woronka – Deutsche Bank

Operator

Greetings. Welcome to Marriott Vacations Worldwide Third Quarter 2019 Earnings Call. At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. Should anyone require operator assistance during the conference, please press star zero on your telephone keypad. Please note, this conference is being recorded. I will now turn the conference over to your host, Neal Goldner, Vice President, Investor Relations. Please go ahead.

Neal Goldner

Thank you, Sachi, and welcome to the Marriott Vacations Worldwide Third Quarter 2019 Earnings Conference Call. I am joined today by Steve Weisz, President and Chief Executive Officer, and John Geller, Executive Vice President and Chief Financial and Administrative Officer.

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 last night, along with our comments on this call, are effective only today, November 5, 2019, and will not be updated as actual events unfold. Throughout the call, we will make reference 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 and the Financial Information page on our website at ir.mvwc.com. It's now my pleasure to turn the call over to Steve Weisz, President and CEO of Marriott Vacations Worldwide.

Steve Weisz

Thanks, Neal. Good morning, everyone, and thank you for joining our third quarter earnings call. Coming on the heels of our first Investor Day since the ILG acquisition, I'm very pleased with our third quarter performance, highlighted by double-digit sales growth at the acquired vacation ownership business and further synergy attainment, both helping to drive an 18% increase in adjusted EBITDA and illustrating the resilience of our business model.

Starting with our Vacation Ownership business, I'm very happy with the results of our VO segment this quarter, growing sales 6.5% on a combined basis, excluding the hurricane effect, the highest growth among all publicly traded timeshare companies, and we achieved this despite having a difficult comparison from last year when sales grew 18% and while being in the midst of a major integration.

Looking at the components of growth, Legacy-MVW contract sales increased 1% in the quarter, despite the difficult comparison, or 3% after adjusting for the hurricane. Even with the hurricane, North American tours were largely unchanged, with first-time buyers representing 45% of total tours and VPG increasing slightly to \$3,789. Sales at our Legacy-ILG brands accelerated again from earlier in the year, growing more than 11% in the quarter, driven by 9% VPG growth as the hard work to leverage best practices across the acquired business and shift to more efficient marketing channels has begun to bear fruit. Our tour package pipeline remains very strong, growing 11% in the quarter. Activated tours, with the scheduled arrival date during 2020, increased 19% compared to the same time last year and are up nearly 50% for our Vistana brands, reflecting momentum we're building for next year.

As we discussed last quarter, since the beginning of the year, we have made substantial organizational and programmatic changes in our marketing and sales operations as we integrate the Vacation Ownership businesses. Our teams work together to incorporate proven best practices from MVW-Legacy properties into the Legacy-ILG business, accelerating sales at those brands though temporarily affecting the sales growth at our Legacy-MVW business. We absolutely believe that this is the correct approach for the combined business longer term as illustrated by the combined contract sales growth we achieved this quarter.

So, while we're particularly pleased with a double-digit contract sales improvement at Legacy-ILG this quarter, we still see substantial top line synergy opportunities over the next few years. Allow me to cite two examples. There was a substantial gap between the first-time buyer VPG at Legacy-MVW and that of the acquired brands that we believe can be narrowed over time. In addition, the rollout of call transfer to the acquired brands remains a substantial opportunity. These are but two of the reasons why I feel so confident about the long-term growth prospects for our Vacations Ownership business.

But what I continue to be most excited about is our opportunity to transform our business by utilizing cutting edge digital tools. By using our customer centric and data-driven approach, we

are enhancing our self-service platforms to provide a more seamless customer experience while simultaneously increasing operational efficiencies. For example, in the third quarter, total online points transactions for our Legacy Marriott points product increased by an impressive 22%. Going forward, we will continue to drive digital growth by strengthening our infrastructure, growing online package sales, utilizing self-service booking tools and real-time offerings, and enhancing the overall customer experience. I continue to believe that Digital holds the key to transforming our business, and I look forward to sharing our progress with you in the future.

Moving to our Exchange & Third-Party Management segment, Interval International added new properties in North America, Europe and Asia to its global exchange network during the quarter. As a result, membership increased 1% from the second quarter of this year, while average revenue per member increased 2% year-over-year.

Moving to synergies, the integration of ILG is progressing well. We are making excellent progress towards lowering cost and eliminating redundancies. We continue to expect run rate savings to be around \$60 million by year-end, with \$45 million to \$50 million of this benefiting our 2019 results. As we announced during our Investor Day, we now expect to deliver annual run rate savings in excess of \$125 million by the end of 2021 and continue to work hard to find additional opportunities.

We also view this transaction as providing a once-in-a-lifetime opportunity to fundamentally transform how we do business across the total company, from repositioning our product offering to modernizing systems to employing new technologies in exciting ways. Our entire team is working hard to bring these efforts to fruition.

As earlier in the year, we implemented a strategic review of our Vacation Ownership assets with the goal of disposing excess supply in certain locations. With the review now substantially complete, we expect the disposition of these assets to generate cash proceeds between \$160 million and \$220 million over the next few years. We will begin with those assets that will have the highest yield and have already begun the disposition process. We will keep you apprised of our progress. And as a reminder, any cash we receive will be in addition to our adjusted EBITDA and free cash flow guidance.

Before turning the call over to John, let me touch upon our full year outlook. We updated our full year contract sales guidance in last night's release to reflect the previously communicated impact of Hurricane Dorian. This new guidance implies 10% growth at the midpoint for the quarter. While achieving this certainly won't be easy, it's important to remember that our new location in San Francisco only launched sales towards the end of the second quarter of this year and is ramping up.

In addition, we reopened the Westin St. John sales center earlier this year after being closed for all of 2018, so it's not in the prior year comparison either. Further, the fourth quarter last year

was hampered by hurricane activity, as well as recession fears following Thanksgiving. So, while 10% growth in the fourth quarter may be somewhat aggressive, barring any unforeseen external events, we do feel that this is attainable. We also updated our full year adjusted EBITDA guidance to \$745 million to \$775 million to reflect the previously announced hurricane impact. In terms of capital allocation, we were very active, repurchasing shares during the quarter, buying back more than 1.3 million of our own shares at a cost of \$127 million. That, plus the shares we brought in October, brings our year-to-date repurchase activity to 4.1 million shares, or 9% of our shares outstanding, at a cost of \$388 million.

Looking forward, I feel great about our business and our positioning. With more than a year behind us since the acquisition, our teams are melding nicely, and we have what I believe to be the best collection of brands in the Vacation Ownership business. We've uncovered more cost synergies than we originally anticipated. Sales at the acquired Vacation Ownership business have begun to hit their stride, and we have a long-term opportunity to fundamentally change how we do business. With that, let me hand the call over to John.

John Geller

Thank you, Steve, and good morning, everyone. I, too, am very pleased with our third quarter results and how we are progressing this year. As we've done in previous quarters, we have included 2018 financial information that combines Legacy-ILG's results prior to the acquisition with Legacy-MVW's reported results to be comparable to our current year presentation. My comments today about growth and year-over-year changes refer to our combined results.

Before I get into our results, I wanted to touch upon Hurricane Dorian in terms of its impact to the third quarter, as well as for the full year. As you saw in our earnings release, we estimate the impact on contract sales to be \$7 million, and the impact on adjusted EBITDA to be \$4 million for the full year. While all of the contract sales impact was Q3, the impact to adjusted EBITDA was only \$1 million in the third quarter due to the timing of revenue recognition. The remaining \$3 million impact comes in the fourth quarter when those contracts sales would have been recognized as revenue.

For the third quarter, total company adjusted EBITDA increased 18% and grew 21%, excluding the impact of the VRI Europe. This performance was driven primarily from strong growth in our Vacation Ownership segment, as well as the flow-through of synergies. As a reminder, we do not adjust our results for the impact of revenue recognition, which had a \$2 million negative impact on our results this quarter.

Looking first on our Vacation Ownership segment, adjusted EBITDA increased 11% year-over-year to \$195 million in the third quarter, with growth coming from all lines of business. In our development business, consolidated contract sales increased nearly 5% to \$390 million in the third quarter, and, excluding the impact of Hurricane Dorian, contract sales would have grown 6.5% year-over-year. Adjusted development margin, which adjusts for revenue reportability and other charges, increased over 8% to \$88 million, and adjusted development margin

percentage was strong at 24.8%, nearly one point higher than the prior year quarter as a result of more efficient marketing and sales spend.

In our financing business, revenues increased 14% to \$71 million, and financing revenue, net of expenses and consumer financing interest expense, increased \$10 million or 27%. This growth reflects increased revenue primarily from higher contract sales and strong financing propensity, partially offset by slightly higher operating cost. Consumer financing interest expense remained relatively flat year-over-year as a higher outstanding debt balance was offset by lower interest rates. Our notes receivable portfolio continues to perform very well. The average FICO score of buyers who financed with us in the quarter was 730.

In our rental business, revenues increased 3% to \$135 million, and rental revenues, net of expenses, increased 12% to \$28 million. These results were driven by higher plus point revenues and increases in transient rate and keys rented, partially offset by higher inventory costs. In our resort management and other services business, revenues increased 1%, while revenues, net of expenses, increased 6% to \$59 million. This growth reflects higher fees for managing our portfolio of resorts, as well as higher ancillary and exchange company activity, partially offset by a prior year benefit related to the timing of the conversion of the asset light arrangements in San Francisco and Marco Island.

Turning to the Exchange and Third-Party Management segment, adjusted EBITDA was down \$5 million year-over-year after adjusting the prior year to exclude the sale of VRI Europe. The year-over-year decline was primarily due to the nonrenewal of certain contracts last year, which we've discussed previously. As Steve mentioned, total exchange members increased 1% sequentially from the second quarter, and average revenue per member was up 2% year-over-year. Our exchange business added new affiliations across the exchange network during the quarter, as well as additional nonmember product offerings as we continue to work to identify new incremental revenue streams for the segment.

From a contribution to adjusted EBITDA perspective, G&A costs declined \$19 million year-over-year, driven primarily by synergy savings and lower compensation-related expenses, partially offset by normal inflationary cost increases. We generated \$13 million of synergies in the third quarter, bringing our year-to-date savings to roughly \$33 million. With savings achieved to date, as well as what we have projected for the remainder of the year, we are maintaining our target of in-the-year savings for 2019 at \$45 million to \$50 million.

Moving to the balance sheet, at the end of the quarter, cash and cash equivalents totaled \$183 million, and we had roughly \$372 million in available capacity under our \$600 million revolving credit facility. Our total corporate debt outstanding at the end of the quarter totaled \$2.3 billion. This excludes 1.7 billion associated with our non-recourse securitized notes receivable. From a leverage perspective, and including \$125 million of total synergy savings, our combined debt-to-adjusted EBITDA ratio at the end of the quarter was 2.6 times, slightly higher than our long-term target of 2 to 2.5 times. Regarding our corporate debt, subsequent to the end of the

third quarter, we issued \$350 million of senior notes due in 2028 at 4.75% and redeemed our 5.625% senior notes due in 2023 and repaid a portion of our outstanding borrowings under our corporate revolver.

Also subsequent to the end of the third quarter, we successfully completed a \$315 million note securitization at a blended interest rate of 2.29%, with a 98% advance rate. We are very pleased, not only with the high demand for our paper, but also with the terms of this transaction, which were even more favorable than the securitization we completed just a few months ago. As I mentioned during our Investor Day, we are also working on securitizing assets that do not fit well into our existing securitization program, primarily certain notes from our Asia-Pacific region. We hope to complete a transaction later this year and estimate that it could generate approximately \$70 million of additional cash proceeds. As a reminder, proceeds from this securitization would be in addition to our free cash flow guidance for the year.

Regarding our return of capital in the third quarter, we repurchased 1.3 million shares for \$127 million at an average price of \$97.06 per share. Subsequent to the end of the quarter, we repurchased an additional 431,000 shares for \$46 million, bringing our total capital returns year-to-date to \$468 million. As it relates to our outstanding business interruption insurance claims, we received another \$38 million subsequent to the end of the third quarter. These proceeds related to our Westin St. John property and represent the largest claim previously outstanding. We continue to work with our insurance providers on a few remaining claims and expect to resolve those claims over the next few months for less than \$5 million. As we mentioned previously, our guidance for adjusted EBITDA and adjusted free cash flow does not reflect the receipt of any insurance proceeds for our business interruption losses.

Now let's turn to our outlook for the year. We have updated our consolidated contract sales guidance to 5% to 8%, primarily to reflect the impact of Hurricane Dorian, implying approximately 10% growth in the fourth quarter at the midpoint. Embedded in this is our expectation for the Legacy-MVW brands to end the year strong as we lap last year's difficult December, the Vistana brands to continue their strong growth, and for our new sales center in San Francisco and our reopened sales center at Westin St. John to continue to ramp up.

We now expect our full year development margin to be roughly 22%, reflecting the benefit of lower product cost. We expect reportability to be a substantial positive in the fourth quarter, similar to prior years, and we expect to recoup most of the \$28 million of negative reportability we've experienced year-to-date. We've also updated our full year adjusted EBITDA guidance to \$745 million to \$775 million to reflect the impact of the hurricane. This implies 14% full year growth at the midpoint of the range. Lastly, we are targeting adjusted free cash flow between \$440 million and \$490 million for 2019 and continue to look for opportunities to enhance our free cash flow while making sure we spend appropriately to grow the business. After that, we expect to continue to return excess cash to shareholders.

In summary, our third quarter results were strong, with contract sales growth of 6.5%, excluding Hurricane Dorian. We have increased sales growth sequentially for the third straight quarter while integrating and transforming our business and delivering significant synergy savings. We are excited about the changes we have already been implemented and the results they are beginning to generate, particularly around technology and processes. I look forward to updating you on our progress going forward. And, as always, I appreciate your interest in Marriott Vacations Worldwide. And with that, we'll open up the call for Q&A. Sachi?

Operator

Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star one your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For those using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we pull for questions. The first question is from David Katz of Jefferies. Please go ahead.

Steve Weisz

Hi, David.

David Katz

Hi. Good morning, everyone.

Steve Weisz

Good morning.

David Katz

Steve, I wanted to go back to your initial commentary in reference to digital. I did hear you when you said, "We look forward to talking more about that when we're ready", but that just provokes the question anyway. How could we, in some qualitative way, get a sense for just how big an opportunity that is? Obviously, it's a— it seems to us to be a revenue opportunity, presumably at high margin. But how else could you characterize that-scale of one to five, how excited are you about it? And timing wise, when could we know more?

Steve Weisz

Okay. On the 1 to 5, I'd say I'm at a 4, maybe 4.5. We think it's a meaningful opportunity for the company. And I think you've characterized it correctly. There are certainly revenue implications to that, as well as cost implications. The cost implications on the ability to source sales leads, packages, tours at a lower cost than what we currently incur today under the non-digital environment.

Where we are on it, just so that I can make sure that everybody has some clarity on that, is, we've begun, earlier— actually, late last year and early this year, we began some social media tests. One area that I could point as an example, we did some Facebook tests to get out there

with what you would classically call Facebook Advertising to see if we could generate interest in going to just a couple of our resorts that we put in a test mode to see if people wanted to take a mini VAC vacations to these locations, which in– then in turn, have them taking a timeshare tour and potentially creating sales.

I can tell you one of the most exciting parts about that was we were able to get literally hundreds of different executions of what the advertising looked like, what the offer was to the audience and everything else, and we were able to do that in real time. We put an ad up, we'd look at it for a day or two, and, depending upon the response rate, we either keep it up or we would pull it down and modify it and put something else up. It is that kind of thing that you can do in the digital world that you can't do in the analog world.

And so at the end of the day, when you get a lead from something like Facebook, the cost per tour is very low relative to what you get otherwise. So the we started a test with Marriott in the end of the second quarter, and what our plan there is to just use it on the MVC side, and again, we've only done it with a couple of resorts in an effort to try to see what works, what doesn't work, fine tune it. Once we get it, to a point where we think it will produce the result we're looking for, then we will roll it into the MVC business first. Then, subsequent to that, we will then roll it out more broadly across the Westin and Sheraton businesses.

So, I'm very enthusiastic about it. I don't think it's lost on anybody that the world is clearly moving in a digital fashion. We think, between that and some of the self-service options that we've been working on. We've had Deloitte working with us for the better part of a year to try to help us understand, how we can position many of our self-service offerings to be more consumer-centric. And we think we're making great progress there, as well. So, put me in the camp of being a big believer. With that said, we have more work to do, and, as we have more results, we're anxious to share them with you.

David Katz

All right. Thank you for that. And if we were to think about in the– this in the context of, impact to earnings, which is where the rubber meets the road, is this something that we can be talking about as 2020, numbers start to come across? Or is it longer term than that?

Steve Weisz

I think what you'll– what you should expect to hear us talk about is, we'll start to see package production increase as we move into 2020. As I think packages sometimes take anywhere from 12 to 18 months to actually materialize into a tour ergo sales. So I think the leading indicator will be increasing package production out of the digital channels. The trailing will be obviously-- and I would expect most of the economic impact in terms of revenues would probably fall end of '20 into '21.

David Katz

Thank you very much.

Steve Weisz

Thank you.

Operator

The next question is from Jared Shojaian with Wolfe Research. Please go ahead,

Jared Shojaian

Hi. Good morning, everyone.

Steve Weisz

Good morning.

Jared Shojaian

Good morning. Thanks for taking my question. So, can you just talk a little bit about some of the trends you're seeing right now from the consumer? Maybe how those trends have evolved as the year has progressed? And some of the broad macro data has been a little bit softer. And then, related to that, I maybe splitting hairs here, but the contract sales reduction was about 50 basis points more than the implied hurricane impact. So can you talk about that? Is that rounding? Is that more of, 3Q maybe not, as strong as you were hoping? Or-- I know the fourth quarter number is a big number. Was that maybe expectations there? Maybe you can help me just understand that a little better.

Steve Weisz

Yeah, I'll take the first part, and I'll let John talk about the, the 50-basis points thing. If you think about it--on a hurricane adjusted basis, if you think the hurricane it's--on an adjusted basis is 6.5%, our sales have actually grown sequentially over the quarters. We were up 5% in the first quarter, 6% in the second quarter, 6.5% in the third quarter. So, I cannot point to anything in particular that would cause us to say that we are seeing any particular softness in the-- from the consumer point of view. I did, as I did mention in my remarks, obviously we have probably spent a disproportionate amount of our time in the sales and marketing area focusing on trying to get our VSE house in order, which has taken our eye a little bit off the ball on the Marriott Vacation Club product.

I think, again, that's the right decision long term. Would I have liked the fact that we could have done both simultaneously? Sure. But, there's-- the reality is that we have a finite number of resources and experts, and we chose to deploy them in that fashion. So, I can't point to anything that, today, says that there's any particular softness in the consumer. John, you want to talk about the change in the guidance?

John Geller

Yeah, just in terms of the guidance-- yeah, just as we looked at the fourth quarter and how things were setting up as we talked about, to get to the midpoint, we need roughly 10% growth

given our trajectory this year. We kind of felt like that was the right level of guidance. It's probably at some level rounding, to your point, it's small numbers in the relative scheme of things, but that's just how we saw the fourth quarter setting up here.

Jared Shojaian

Okay. Thank you. And then, if I heard you correctly in the prepared remarks, I think you said the activated tours with scheduled arrivals in 2020 are up 19%. Is that the best leading indicator for future tour growth that you've observed kind of historically? And can you help us just understand how much of your tours you have on the books, I guess, going into a year? How much of that do you already have in your sight lines?

Steve Weisz

Yeah, so clearly, package tours are a— somewhat of a leading indicator. Obviously, if that number was going south, not north, that would be a concern to us. However, keep in mind that there are other sources of tours that we generate during the course of the year, in-house tours being one, linkage tours being another. To be honest, we don't have a lot of visibility into either linkage tours or in-house tours, because they occur while people are generally in market. So, for us, we look at package tours as probably one of the most visible elements that we can point to, to say how is the future looking.

Then, once you have total tour growth, then how much are activated in the year and how much are not, or for future years. And so, those are the two indicators for us, and we feel, again, pretty confident about that. I'm particularly pleased with the growth of tours for 2020 arrival dates in the— I n our VSE business, which are up substantially. Now, some of them are small numbers, but at the same token, being up 50%, that's pretty sporty, we think.

Jared Shojaian

Great. Thank you very much.

Steve Weisz

Thank you.

Operator

The next question is from Brandt Montour of JPMorgan. Please go ahead.

Brandt Montour

Great. Thanks

Steve Weisz

Hey, Brandt.

Brandt Montour

Hey, how are you guys? So, quick- actually a longer-term question just starting off, and you were talking about, sort of a tour channels in the package pipeline. I guess the question is, I think you guys talked about call transfer, potentially, eventually, I think, Steve, you think this is going to be something that shrinks, and part of the reason why you guys are going so aggressively into digital is to kind of fill that void over time as people don't use their phones anymore for actual voice calls. I guess the question is, should we be concerned that, that channel is shrinking faster than maybe you guys can get digital up and running?

Steve Weisz

No. Let me give you a little background here. It's important just to put it in context. we started down the call transfer path in,– with Marriott in 2017, and it was a very vibrant channel. I think as I may have mentioned during our Investor Day, we had kind of the perfect storm. Marriott, in 2018 merged the two reservation platforms, the Starwood reservation platform and the Marriott reservation platform into one, and it put new technology in place. And, to be honest, that disruption muted the amount of, volume we were getting out of call transfer. that has started to come back very nicely. With that said, I think you're, correctly looking at how things will probably play out over time.

I think you could expect that voice call transfer, will, in fact, over time diminish, but we believe digital will easily replace, if not surpass, what we get on voice call transfer. And what's the inflection point where the two lines across, I can't exactly estimate. But, I think if we all think about our own individual behaviors, I do a lot more on my computer than I do on my phone, and I suspect most everybody else does, as well. So, we want to be very well-positioned as--to take advantage of that.

Brandt Montour

Got it. That's really helpful. Thank you. And in the third quarter in your results, obviously had a lot of momentum on the ILG site. it looks like you guys even closed the gap between the ILG VPG and MVW VPG by, a quarter of the way. So, I guess the question is, is that more a function of the fact that you guys have tough comps in MVW, and, you said above a little bit to focus on that the ILG side, but is that sort of a new line? Should we think about that as where these two should be, or is the starting point going forward and where these two should be sort of tracking or is there some sort of, more transient things going on that maybe it doesn't—maybe you give a little bit back so we keep moving forward?

Steve Weisz

Sure, well you might think about 2019 on the VSE side as, not to diminish the work involved, but somewhat lower-hanging fruit. I mean, we've gotten out of, a number of the OPC channels, which were very high cost, very low yield kind of channels. We've started to dial up some of the package growth. That package growth that we have in the VSE business, it hasn't really manifested itself in a large number of tours in 2019 but certainly sets the stage for 2020 going forward.

But I think I wanted to spell the notion if someone believes that, , the VPG and the VSE business and the VPG in the Marriott Vacation Club business will at one point in time be the same, I don't think that's going to be the case, and here's the reason why. , I think on the Westin side, you probably could see that to be as good or even better than the MVC side, just based on, the portfolio of products in the Westin business. And I think on the Sheraton side, I think you will see it to be lower than the MVC business, again, based on the customer segmentation, where the properties are located and the kind of customer that we talk to.

But again, the goal over time is to try to bring these two things together. I'll give you a little factoid, which you may or may not know. the owner VPG in VSE is actually a little bit higher than it is in the MVC business. That's largely because of the disproportionate amount of owners in Hawaii in Westin and Sheraton. but, where the real gap is in first-time buyers. I mean, the gap in first-time buyers is still, a little bit shy of 30%, and that's where we think the real opportunity is.

Brandt Montour

Great. That's great. Thanks guys,

Steve Weisz

Thank you.

Operator

The next question is from Tyler Batory of Janney Capital Markets. Please go ahead.

Steve Weisz

Hi, Tyler.

Tyler Batory

Hi, good morning, so just want to follow up, on the previous question a little bit more. And, when we look at the Legacy-MVW business and the contract sales there, you kind of mentioned several times, taking your eye off the ball there. Can you just provide a little bit more color, more granularity about what you mean and what exactly is going in that side of the business?

Steve Weisz

Well, sure., on a day-to-day basis, there are adjustments made in our sales centers to sales approaches, first-day benefit offerings, training in terms of proper closing techniques, et cetera, et cetera, et cetera. When you have, some of our more senior sales and marketing leaders, which, heretofore has been, solely focused on the MVC business, now stepping in and trying to embrace, understand, learn, and interact with the VSE properties, by definition, you are defusing the amount of time that they have on the MVC business.

In many markets where we have similar properties, a market like Palm Desert, like Maui, like Orlando, where we're asking our in-market experts to, spend time on the VSE business, that

takes time away from their individual sites that they heretofore have only be able to focus on. So, I think that's what it is. I mean, if we had a complete redundancy and an overwhelming number of people, experts that we could have deployed and not lost track or focus, we certainly would have done that. That's not how we're structured, and we're trying to get the best possible efficiencies out of our organization. you've seen some of that in terms of what's happening with the sales and marketing numbers, so the costs have come down.

So, again, we're not—relatively unapologetic about it, because I think we've put the right focus in the right place. I think the overall results at 6.5% before the hurricane were certainly better than anybody else put up on the scoreboard. And, I think this will turn itself back around as we start to be able to kind of take the training wheels off the VSE business and refocus again on the MVC business.

Tyler Batory

Okay, perfect. That's helpful. And just as a follow-up, I wanted to ask a little bit more about the development margin, which looked pretty strong. I think you talked about more efficient marketing and sales spend. So, can you talk a little bit more about, where you're finding some of those efficiencies? And then maybe you could remind us, John, your full year target for development margin, too, that would be helpful. Thank you.

John Geller

Yeah, hey Tyler. So for the full year, we said- call it roughly 22%. Remember, for a full year basis, the reportability impact, right, as we've always talked about, is somewhat muted. So, whether it's adjusted development margin or reported development margin on a full year basis, so it should kind of converge, plus or minus, and should be around 22%. I think on the, marketing and sales side, a lot of the improvement is synergies, that we've talked about, \$13 million in the quarter. Some of that does flow through the marketing and sales side as we've collapsed the organizations, taken out redundancies, et cetera.

So it's just, as Steve said, it's really a focus on delivering the top line growth, but at the same time, looking for ways to leverage our marketing and sales cost. As we've always talked about, you do— as your contract sales grow, you do get to leverage a certain amount of, call it fixed cost, I mean, all cost within any part of the business are variable. But, when we talk about “fixed” within marketing and sales, costs that don't actually really go up in any given year with the top line growth. About half's variable of our marketing and sales costs. They do move - i.e., commissions, things like that - with the top line, and we've got about half of our marketing and sales costs that are not going to fluctuate as you grow the top line. So, we continue to get leverage on those fixed costs.

Steve Weisz

And Tyler, I just would add one more example. I think I spoke to it earlier, which is, when you get rid of OPC tours, which are very high cost and have a very low VPG associated with them, that in and of itself, helps you lower your sales and marketing costs as well.

Tyler Batory

Great. That's all from me. Thank you.

Steve Weisz

Thank you.

Operator

As a reminder, it is star one to ask a question. The next question is from Brian Dobson of Nomura. Please go ahead.

Steve Weisz

Hey, good morning, Brian.

Brian Dobson

So, I've got two quick questions for you. The first on the Exchange business and the second on free cash flow. So, I know it's early in your initiative to capture more wallet share from your closed user group, but can you talk a little bit about the traction you're getting with those programs?

Steve Weisz

Well, yeah, sure. So, the whole idea on the Third Party and Exchange business is to diversify kind of beyond their traditional Vacation Ownership Exchange business. Now, some of that is, in fact, increasing average revenue per member. So, in this era of expanded travel options, it's really important, we think, for Interval to continuously try to evolve their membership offerings, respond to changes in consumer behavior by using different technology, new tools, new offers to find a way to incent people to spend more of their travel dollars through this channel versus maybe some other alternatives that they have.

So, we think that's encouraging. I can't point to— I mean, the 2% increase in revenue per member, part of that, quite frankly, is just some price increase, that we've had. Some of it is because we've had a little bit of change in some of the demographics of the ownership base--or the membership base, but, we think that, clearly, this is the way we need to move. , I would point to one other thing as we think about kind of non-timeshare-centric customers. Y we talked about the Planet Fitness thing we did, which we think is certainly encouraging. I would expect to see more of our announcements coming forward with some additional, customers and clients in that space going forward.

So again, it's, as you think about the Exchange businesses, whether you are talking about Interval, whether you are talking about RCI, you would look at the kind of traditional growth of Exchange membership to be flattish over the last several years. And that some of this is just a share game, moving accounts from one to the other. So, in an effort to try to find a way to grow the business and have it continue to be a vibrant contributor to EBITDA, you've got to find

other alternatives in a way to kind of source revenues, and, obviously, in a high margin business such as the Exchange business, if you can get the top line loaded up, it helps the bottom line very nicely.

Brian Dobson

Great. Thanks. And then, just quickly on free cash flow, you've outlined a three-year cumulative range of \$1.5 billion to \$2.3 billion for available cash. How much of that do you think, realistically, can be returned to shareholders? I think you've done something like 80% of free cash flow historically. Should we expect that rate of return to shareholders over the next three years, as well?

John Geller

Yeah, I mean, obviously, history is probably a good way to think about how we think about the return of capital. But, Brian, as we've always talked about, first and foremost, we're going to look for opportunities to grow the business. That being said, the only acquisition we've done, obviously, is the ILG acquisition. We've talked about having looked at numerous ones over the years, and in some cases, even putting offers in, but not willing to pay what others I guess saw as higher value. So, we're going to continue to do that, whether that's on the VO side or if there are things to enhance the Exchange & Third-Party Management business. But, short of that, what we've always said is we'll continue to look to return excess cash back to shareholders.

Brian Dobson

Great. Thank you both very much.

John Geller

Thanks, Brian.

Operator

The next question is from Chris Woronka of Deutsche Bank. Please go ahead.

Chris Woronka

Hey, Good morning, guys.

Steve Weisz

Good morning.

John Geller

Good morning.

Chris Woronka

Morning. I wanted to ask a little bit about, staffing at the sales centers, and question is really, given how strong the employment reports have been, have you guys had a lot of turnover,

especially with some of the integration initiatives? And B, are you finding it, difficult to attract or retain some of your skilled salespeople?

Steve Weisz

We have had some turnover, been more focused in the VSE side than the MVC side. with that said, however, on a turnover perspective, it's decelerating versus accelerating. But even with that, if you have a person that retires or decides they want to go do something else entirely, finding, good timeshare sales people— I mean, they don't just kind of grow on trees. You've got to find people that, have certain, way of presenting vacation options to people, can take rejection well. Keep in mind, in a business, which runs a mid-teens closing rate, that means if you talked to 100 people, 15 people are going to say, yes, and 85 people are going to say no. And you have to make sure that you've got a very robust and very contemporary training program in place.

So, finding good salespeople has never been easy. I don't think that we can say with any certainty that it's any more difficult today than it used to be. I'll throw one more log on the fire. When you think about trying to source timeshare salespeople, we're in destination resort locations. As a result, some of these are not high-growth population centers. So, again, the number of people and candidates that you can attract is somewhat limited in that regard. But we're— I am very proud of our sales team. I think they consistently do an outstanding job, but, we're always looking for more.

Chris Woronka

Sure. That's great color. Appreciate that. Just second question would be,, have you—and I know there's probably 1000 or more ways you guys cut the data. But is there any— are there any discernible trends in terms of some of your, your own arrivals and in terms of where they're coming from? Or, even maybe, industries that they're affiliated with? Just kind of getting at, are some of the underlying profiles changing for better or for worse? anything that's, noticeable recently?

Steve Weisz

Well, let me break it down into brands. The MVC side, no, there's no discernible change. The average household income has drifted up just a smidgen, but nothing that we would consider to be other than just kind of where the economy has moved. We're still, obviously, learning more and more about both the Westin and Sheraton customers. As I alluded to earlier in an answer to a question, I mean, they are different customers. They do have a different profile. You might imagine that the Sheraton Vacation Ownership customer is— the demographic is a little bit lower than the Westin one is.

In terms of owner behavior, I guess the only thing I would point to is, over time, where heretofore people would consistently vacation every year at one of our resorts, when we put our points program in place in 2010 and we gave them other vacation options, cruises, tours, using their vacation time to stay in private homes, etc., we've seen more people do that,

because they liked the diversity of the experience. Our average occupancy is across the system, it's still north of 90%. And so, I can't point to anything other than maybe that where I think that all probably should make sense to people, because you talk to folks today, and they want different kinds of experiences than they used to want. And we think we've got the right product, well-positioned, to be able to provide that to them.

Chris Woronka

Okay, very good. Thanks, guys.

Steve Weisz

Thank you.

John Geller

Thanks, Chris.

Operator

We have reached the end of the question-and-answer session, and I will now turn the call back over to Steve Weisz, President and CEO, for closing remarks.

Steve Weisz

Thanks very much for your time today. We had a strong quarter with EBITDA growing 18%, once again, showcasing the resilience of our business model. Revenue grew across all of the Vacation Ownership lines of business, and membership of the Exchange business has stabilized. The integration of ILG is going well, enabling us to once again increase our synergy target. Our acquired brands delivered very strong contract sales growth in the quarter, and, with the tour package pipeline we already have for 2020, we laid the foundation for that to continue, and we're generating a substantial amount of free cash, which we're investing to grow the business while returning excess cash to shareholders. Thank you for your interest in Marriott Vacations Worldwide, and, finally, to everyone on the call and your families, enjoy your next vacation.

Operator

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