Marriott Vacations Worldwide
Third Quarter 2026 Earnings Call
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Presenters
Jason Marino, Executive Vice President & Chief Financial Officer
Matt Avril, Chief Executive Officer
Mike Flaskey, President & Chief Operating Officer

Q&A Participants
David Katz - Jefferies
Ben Chaiken - Mizuho Securities
Lizzie Dove - Goldman Sachs
Patrick Scholes - Truist Securities
Stephen Grambling - Morgan Stanley
Trey Bowers - Wells Fargo
Michael Hirsh - JPMorgan

Operator
Greetings and welcome to the Marriott Vacations Worldwide Third Quarter 2026 Earnings Call. At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I'd now like to turn the conference over to your host, Mr. Jason Marino, Chief Financial Officer. Thank you. You may begin.

Jason Marino
Thank you, operator, and good morning, everyone. Welcome to Marriott Vacations Third Quarter 2026 Earnings Conference Call. Joining me on today's call are Matt Avril, our Chief Executive Officer, and Mike Flaskey, our President and Chief Operating Officer. As we begin, I'd like to remind everyone that many of the comments we will make today are not historical facts and should be considered forward-looking statements under federal securities laws. These statements are subject to a range of risks and uncertainties that could cause actual results to differ materially from those expressed or implied in our remarks.

Forward-looking statements made on this call and in the press release we issued earlier this morning are effective only as of today, and we undertake no obligation to update them as events unfold. During the call, we will also refer to certain non-GAAP financial measures. Reconciliations of these measures to the most comparable GAAP measures are included in our earnings release and the supplemental schedules available in the Investor Relations section of our website. With that, I'll turn the call over to our CEO, Matt Avril.

Matt Avril
Thank you, Jason, and good morning, everyone. Thank you for joining us for our third quarter call. In starting our call, on behalf of our management team and Board, I want to acknowledge everyone impacted by the recent hurricane Lowell in Kauai, Hawaii, particularly local residents and guests. For context, we operate five properties on Kauai totaling approximately 1,500 rooms. This includes our owned hotel, the Sheraton Kauai Resort on Poipu Beach. We're especially grateful to our associates for their collective responses to ensure everyone remains safe and well cared for both during and after the hurricane. While it will take some time to fully reopen our resorts, we're well on our way.

Let me transition to our third quarter results. What you see reflected in our earnings release demonstrates a significant next step in the operating and financial transformation we are undergoing in 2026. During the quarter:

- Contract sales grew 29% year-over-year to $565 million. That was at the high end of the guidance range we provided on our second quarter call.
- Adjusted EBITDA was $216 million. This reflects a 27% increase over the prior year amount of $170 million.
- Importantly, the quarter's upside came through development profit and was fueled by the increase in contract sales. This reflected better margin conversion on strong VPG performance, creating marketing and sales cost leverage and disciplined execution.

We are pleased to increase the midpoint of our full year adjusted EBITDA guidance to $820 million. It's important to note this includes absorbing the estimated $16 million in foregone profits caused by the hurricane that was not anticipated in our prior guidance that we provided in the second quarter. We are also increasing the midpoint of our full year contract sales guidance to $2.13 billion. Jason will provide additional details and what it means for our fourth quarter expectations.
When we spoke in August, I noted our second quarter marked a significant inflection, the point at which the disciplined commercial playbook Mike and the team put in place started to show up in our reported performance. The third quarter extends that trajectory and gives us increased confidence that the operating leverage in our model is durable.

And let me frame the quarter against the four priorities we committed to at the beginning of this year.

- 1) Return the company to revenue growth. VPG for the quarter was $4,822, up 30% from the $3,700 in the third quarter of 2025, which drove our strong contract sales. This continues the sequential VPG acceleration we saw in Q2 as well as the deliberate reduction in our Asia Pacific tours.
- 2) Drive increased profitability. Development profit grew to $142 million, nearly doubling the $72 million from the third quarter of 2025. Our margin improved, reflecting the leverage inherent in higher VPGs and continued progress on marketing and sales efficiency and cost management. Our sales reserve was based on our

customers using more of our in-house financing and combined with stable underlying reserve rates, reflecting the high quality of our customer base.

- 3) Improved free cash flow. We are on track to deliver $420 million of adjusted free cash flow at the midpoint of our guidance in 2026, representing approximately 50% conversion of our adjusted EBITDA. This improved flow-through reflects better operating performance and lower capital spending.

- 4) Maintain disciplined capital allocation. We continue to prioritize debt reduction while preserving optionality for expanded shareholder returns as leverage declines. This achievement is evidenced by the reduction of our leverage from 4.2x at the start of the year to 3.6x as we end the third quarter. None of this would have been possible without our associates executing our business plan across the system. The pace of change this year has been rapid, and the team has adapted and delivered through major product and merchandising enhancements, new programs to drive owner engagement, and the operational discipline required to translate strategy into results.

I'd like to briefly discuss the economic environment and consumer dynamics we are operating in today as these are questions we frequently receive in our investor meetings.

We recognize that higher gas prices and interest rates may weigh on the consumer spending and sentiment. While macroeconomic conditions can affect consumers, our results are not dependent solely upon traditional demand behaviors.

Over the past year, we have highlighted a distinctive aspect of our business model. We do not simply rely on organic metrics like foot traffic to generate demand. We lean on our direct marketing and sales operation to provide visibility into our contract sales growth pipeline.

Simply put, we know the names of our guests scheduled to visit our sales galleries each and every day. We have a strong and predictable pipeline of packaged tours supported by resort occupancy of approximately 90%. As discussed, higher connection rates with owners have contributed to growth in owner tours and, more importantly, sales production. We also create entertainment and experiential events that strengthen owner engagement and loyalty while generating additional tour opportunities and memorable experiences for our guests.

While we are not immune to consumer dynamics, and a stronger customer is always better, our business model should be viewed in that context. As a direct marketing and sales company, we generate the tour opportunities needed to support our performance with results driven by daily disciplined execution.

We have assembled an experienced team, and our results over the past two quarters demonstrate our ability to execute.

Finally, we look forward to hosting our Investor Day on December 9th in New York. There we will share our longer-term strategy and our plans for continued sustainable growth and a multiyear financial framework. Based on the momentum we are seeing today, I am confident we'll have a compelling story to share.

With that, I'll turn the call over to Mike.

Mike Flaskey
Thank you, Matt, and good morning, everyone.

Our third quarter results are a direct reflection of the five-step commercial strategy we launched earlier this year, and I am excited to share the results with you. As Matt mentioned, contract sales grew 29% year-over-year, driven by a 30% improvement in VPG to $4,822. The VPG increase was driven by a $7,020 average transaction size increase.

Now let me walk you through where each of the five initiatives sit today.

- 1) Owner connections remains a key to the strategy. Our focus is on improving the owner arrival to tour ratio, which is now firmly embedded in our day-to-day marketing culture and continue to produce incremental tour flow from our highest converting customers. In the third quarter, we saw an 800 basis point lift in our North America Marriott branded connection rate compared to the beginning of this year, driving a 4% increase in North America tour flow. We expect to continue growing our connection rates as the organization refines the operating model, and we continue to expand Inner Circle.

- 2) Tour Logistics is our data-driven yield algorithm we launched in April that is now in its sixth month of execution and continues to drive higher transaction sizes and VPGs. The algorithm's role of matching the right tour with the right sales executive for each tour wave was instrumental in achieving the 30% year-over-year increase in VPG during the third quarter. Additionally, this is key to our core operating disciplines that we are now fully in place daily accountability on all results providing our most talented sales executives increased tour opportunities and getting the right tours in the hands of the sales executives with the highest propensity to convert and having sales and marketing leadership that is engaged, aligned, and accountable to our Tour Logistics culture.

- 3) The transformation of our owner loyalty program including the addition of new Reserve and Pinnacle tiers at the top. They continue to resonate deeply with our owner base. These tiers are driving both connection rate and aspirational purchase behavior while expanding our average transaction size. Owner VPGs were up 43%, showing excellent demand for our newly upgraded loyalty tiers. Our owner contract sales momentum continues to reflect the depth of the engagement opportunity we have with a points owner base that averages only about 1.3 weeks of ownership equivalency, well below the lifetime potential for a highly engaged owner base that, based on my

experience, we believe will purchase three- to four-week equivalents over the lifetime of their ownership.

- 4) Premier Vacations launched in June and is now building the pipeline of highly qualified future tours we expect. The program is doing double duty, supporting incremental contract sales at the point of sale as a sales incentive while also seeding a growing pipeline of returning owner bonus week tours that we expect to convert at some of the highest VPGs in our system. Our internal tracking indicates Premier Vacation Packages first day incentive mix of approximately 50% of the eligible sales continues to track in line with launch expectations, and we expect this long-range pipeline to be an increasingly meaningful contributor into 2027 and beyond.

- 5) Our Inner Circle experiential event platform continues to scale and deliver outsized VPGs. Through the third quarter, Inner Circle has exceeded all of our expectations, delivering highly incremental revenue from incremental tour flow and significantly higher VPGs, a meaningful contribution and, importantly, one that reinforces the lifetime value owner engagement that we are building. As I mentioned on the Q2 call, our 2027 target remains 1,000 total events for the full year, of which roughly 20% will be headline events with the remaining 80% being regional in-market events.

The commercial efficiency story is now very visible in the P&L. The growth in contract sales and focus on reducing costs resulted in marketing and sales costs as a percentage of contract sales of 48% in the quarter, continuing the sequential improvement trend that began in Q2. This represents a 600 basis point improvement from the same time last year, and we are seeing the cost reductions and leverage benefits of a focused higher productivity model.

We recently added senior leaders in partnership marketing, marketing development, and field package sales to enhance future first-time buyer growth. With the new leadership in our existing team, we will move quickly in the three channels we outlined last quarter to position ourselves accordingly.

The first channel is our preview package sale pipeline fueled by the Marriott Bonvoy and World of Hyatt databases. This will include the addition of field package sales to augment call transfer.

The second channel is partnership marketing where our team will identify partner companies with leisure-minded customers at scale to whom we will sell our Marriott-branded preview packages face-to-face to deepen our pipeline of tour flow.

And the third channel to drive first-time buyer growth is our hotel linkage program, with marketing desks in the lobbies of select branded hotels, we remain in the early innings here, but as I mentioned on the last call, we see a nice opportunity to expand from the current 40 locations and add hotels in which to sell our vacation preview packages.

Pricing continues to track well. We increased prices on July 1st by 2%. We increased pricing by another 2% in October. We will continue to monitor and take additional price increases when warranted.

As I said on the last call, recruiting of top marketing and sales talent is paramount to achieving our growth strategies, and this continues to go very well. With the combination of our brands, owner demographics, and our strategic initiatives, we continue to attract industry-leading talent. We have hired 398 new sales executives in the last six months. They collectively have achieved a Q3 VPG of $5,036, above our total company Q3 VPG of $4,822. These VPGs underscore the quality of the sales executives we have added this year.

In short, the five commercial pillars we introduced earlier this year are no longer new initiatives. They are now the operating model for the company, and they are working extremely well. In fact, the month of September, a traditionally weaker month of the year, was the second largest contract sales month in our company's 42-year history. We have been very pleased with the health of our consumer as both on the tour flow demand side and our VPGs are robust.

Our focus from here is to continue scaling the existing initiatives, increase staffing levels, and extend our marketing partnerships to support our long-range plan.

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

Jason Marino
Thank you, Mike. Our third quarter financial results reflect the broad-based progress Mike described with meaningful operating leverage flowing through to development profit and adjusted EBITDA.

Our contract sales of $565 million were up 29% year-over-year, driven by a 30% increase in VPG to $4,822. We grew our North America tours 4%, primarily by increasing connection rates with our existing owners, and our international business continues to execute on our communicated strategy to deliberately reduce tours in our Asia Pacific region.

Development revenue grew 28% year-over-year to $459 million, and development profit was $142 million, nearly doubling year-over-year, reflecting the strong contract sales growth, lower cost of vacation ownership products rate driven by lower cost inventory repurchases, and leveraging the 600-basis point improvement in marketing and sales costs.

Development profit margin was 31%, a meaningful increase from the prior year and the second quarter. Our reported sales reserve was 14.8% of contract sales in the quarter, driven by the increase in the amount of contract sales dollars financed. We financed approximately $60 million of additional contract sales sequentially, driving a $10 million increase in our sales reserve versus the second quarter of this year.

Importantly, this increased finance volume will generate good returns and increase future financing profit though we take the reserve charge now. As we look at our $3.2 billion loan portfolio, we see steady performance with our sub-120-day delinquencies improving on a sequential and year-over-year basis.

Management and exchange profit increased 2% year-over-year to $96 million, supported by continued high resort occupancy of 88% and cost reductions in our Interval International business.

Financing profit was $50 million, up $1 million year-over-year, excluding the change in the presentation of interest expense on our warehouse credit facility, which we've discussed previously.

In summary, total adjusted EBITDA of $216 million was up 27% year-over-year, resulting primarily from stronger development profit while the rest of the business largely performed in line with the trends we discussed previously.

We were active on the capital markets front during the quarter. In September, we generated $66 million of net proceeds from the sale of our Asia Pacific notes at a 6.7% interest rate. And in October, we securitized approximately $470 million of our North America consumer receivables in the traditional ABS market with an advance rate of 98% and a 5.91% weighted average interest rate. We are pleased with this execution given the broader interest rate environment, reflecting support and demand from the investment community. In fact, we had several new investors participate in our deals this year despite the market backdrop.

Also in October, we agreed to terminate the timeshare project in Puerto Vallarta, reducing our future inventory commitment in 2028 by $46 million. In addition, we continue to make progress against our target of $200 million of noncore asset dispositions by the end of 2027, closing on $11 million of dispositions in October. As a reminder, any proceeds from these noncore asset sales will be excluded from our adjusted free cash flow.

Before we turn to the balance sheet, I wanted to provide a little color on the impacts of Hurricane Lowell. As Matt mentioned earlier, Hurricane Lowell hit the island of Kauai in Hawaii where we have vacation ownership properties and the Sheraton Kauai Hotel, which generates rental EBITDA. Due to the damage from a strong storm surge on the south side of the island, we currently expect the hotel to be closed for the entire fourth quarter, and it will delay our sales process by a couple of quarters. We still expect to sell it in 2027, and we also expect to submit a business interruption insurance claim related to lost profits for the period of time we are not in operation.

Turning to the balance sheet. We finished the quarter with $2.8 billion of net corporate debt and leverage of 3.6 times. This is the first time we have reported leverage below 4 times in six

quarters, reflecting the progress and capital discipline with which we will operate the business going forward. As we look forward, maintaining leverage in the 3's and the cash-generative nature of our business, will provide flexibility for our capital allocation decisions including further debt repayment and returning capital to shareholders. Earlier this week, our Board of Directors extended our $322 million share repurchase authorization through December 2027. We will discuss our future capital allocation philosophy in more detail at our Investor Day in December.

With the rollout of our new owner benefit levels, we updated the definition of our owner families to count those who own multiple brands as one owner family. This resulted in an updated owner family count of approximately 650,000 discrete owner families as of the third quarter.

Now turning to guidance.

We are increasing the midpoint of our full year contract sales guidance to $2.13 billion and increasing the midpoint of our full year adjusted EBITDA guidance to $820 million. This reflects the strong Q3 performance and includes absorbing $16 million of Hurricane Lowell lost profits, of which we expect $11 million to impact the fourth quarter related primarily to the closure of the Sheraton Kauai Hotel.

We expect fourth quarter adjusted EBITDA of $218 million to $238 million, which is up 23% over the prior year at the midpoint and fourth quarter contract sales of $599 million to $619 million, which is up 33% over the prior year at the midpoint.

We expect full year adjusted free cash flow of $420 million at the midpoint of guidance with conversion from adjusted EBITDA in the low 50% range.

In closing, the third quarter was another strong quarter, and we are making great progress on our initiatives and goals we set for 2026. The commercial playbook is working, the operating leverage is showing up in the P&L, and we are well positioned to deliver on our updated full year outlook. We look forward to sharing more about our longer-term growth framework at our Investor Day on December 9th. With that, we look forward to your questions. Operator?

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd 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. To allow for as many questions as possible, we ask that you each keep to one question and one follow up. Thank you. Our first question comes from the line of David Katz with Jefferies. Please proceed with your question.

David Katz
Hi. Good morning, everyone. Thanks for all the detail. Jason, I just wanted to go back to the $16 million and be clear about it. I know you said $11M in the fourth quarter. Is the other $5M what we should think about having happened in the third quarter? Or is that being portioned between 3Q and next year? Or is all of it next year? What do we do with the other five, if I may?

Jason Marino
Yeah, David, that's a fair question. The five that you're referencing really, it happened in the third quarter. So, if you think about the storm, it hit us on August 27th, so really for the month of September. And again, no different than the fourth quarter. The predominant impact that we're talking about here is really on the operating hotel, the Sheraton Kauai. That's where really the bulk of the impact has been, a smaller impact in our contract sales side of the business, the development side of the business. And as I mentioned in my prepared remarks, we will have a business interruption claim. And this is also the asset that we have -- one of the noncore assets that we're looking to sell. And so, we will delay that sale, as I referenced on the call, and it will be up and running -- we expect it really early in next year to be up and operating again.

David Katz
Unfortunate. And as my follow-up, I wanted to ask about the sales reserve. And I think you may have touched on this. With sales going up as much as they are, is the propensity to finance going up? And is that the primary driver of that reserve percentage going up? What -- help us unpack that just a little bit, please?

Jason Marino
Yeah, that's exactly what's driving it. If you think about our second quarter, we had a 13.4% reserve as a percentage of our contract sales. That number went to 14.8% in the third quarter, and that was driven really by the $60 million of higher financed amounts in Q3. So, when you apply our provisioning rates against that $60 million, that's about a $10 million impact from Q2 to Q3 and at 13.4% went up to 14.8%. So, we really like this business. We've been in this business for a long time. It drives good EBITDA, good returns, and we'll see those benefits in the future, even though we do have that initial charge upfront.

David Katz
Understood. Thanks.

Jason Marino
Thank you.

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

Ben Chaiken
Hey. Good morning. How's it going? Mike, you gave some color on the sales initiatives, which is very encouraging. I guess specifically as it pertains to Inner Circle, can you remind us what do those early VPGs look like? And I think you mentioned that you're ramping to 1,000 events next year. Maybe looking at your past experience, how do you expect those VPGs to trend as you ramp event volume? And related, is there any implication to the 80-20 comments that you made, 20% headline, 80% regional? I wasn't exactly sure how to think about that. Thanks. And then one follow-up.

Mike Flaskey
So, Ben, thanks. We produced 23 of our headline events thus far since we launched Inner Circle. The VPGs from those 23 headline events have been well north of $20,000, which is triple our traditional owner VPGs. We have gotten incredible feedback from our owners about the quality of these events. And when I talk about 2027 and scaling these up to 1,000, the regional events will be 800 of those, which could be a Murder Mystery in Williamsburg, Virginia. It could be a suite in one of our markets at an arena taking in a local concert. The events that we call headline events are the events that we are actually producing with brand ambassadors. But when you take the Inner Circle model, which we know very, very well that has worked for a long time, and you pair it with our Tour Logistics, we simply can't scale it quick enough.

Ben Chaiken
Okay. That's very helpful. And then maybe setting aside Inner Circle for a moment, considering you just covered it pretty well, I think it would be helpful to hear how some of the other drivers helped 3Q and to the extent they still need to ramp assuming that's accurate. And I'm kind of referring to the loyalty program, Premier Vacations, Tour Logistics. All that stuff sounds like it contributed to 3Q. But I guess the question is, is there a way to unpack the magnitude of these items in terms of contribution versus opportunity? So, not necessarily looking for like a quantification but just where they are in their life cycle if you will. Thanks.

Mike Flaskey
I think generally speaking, I would characterize where we are in this transformation in the second inning. We are not at run rate even though our VPGs were 41% higher than the recently published peer group. We don't even believe we're at run rate or anywhere close to that given the scaling of what we just talked about on Inner Circle. Specifically, to the VPG, as I called out in my prepared remarks, we were -- we had over a $7,000 average transaction size lift, which gives us a lot of confidence that our increased and new loyalty tiers have resonated extremely well with our owners. So, this is not just pushing hard at the table. This is our owners having an aspiration to be part of this great product enhancement that we have rolled out.

I would tell you that Premier Vacations is in the very early innings. We're seeing about a 50% take rate at the point of sale. And we know historically what that pipeline will do, and it will be at the top of our VPG chain when they start traveling. In fact, we've already had a couple of travel and have had some great success. Subsequently, at the point of sale, it is a great tool that

is being used as a first day incentive to also help conversion rate. So, when you get underneath the VPG that we talk about of $4,822, it's driven by over a $7,000 average transaction increase and also a 50 bp uptick in close rate during the quarter. So, you're getting it on both sides.

We're very optimistic as we continue to staff up. We've talked about the level of talent that we have coming into the business. We've had 398 hires in the last six months that performed at over a $5,000 VPG since they've gotten here, which is higher than the 4,822 VPG we had as a company, which speaks to the quality of recruits that our team is bringing in. And as I've said before, the players know. They know our brands. They know our strategy. They know our sales merchandising, and we're very fortunate that we have talent wanting to come this way.

Ben Chaiken
Thank you. Appreciate it.

Jason Marino
Thanks, Ben.

Operator
Thank you. Our next question comes from the line of Lizzie Dove with Goldman Sachs. Please proceed with your question.

Lizzie Dove
Hey. Good morning. Thanks for taking the questions. I just wanted to ask about kind of cadence through the quarter. I know in 2Q, there was a big acceleration. And then I'm wondering on 3Q, you made that kind of interesting comment about September being the second largest contract sales month for the company's history. So, anything you'd share just about cadencing throughout the quarters? And then any kind of specifics on how kind of that has continued or not into October?

Mike Flaskey
Yes, Lizzie. Hi. It's Mike. Yeah, look, we've been incredibly pleased with the momentum. I made that point in the prepared remarks because we get a ton of questions from the investment community about the health of our consumer. And as Matt said in his prepared remarks, we're incredibly blessed with the quality of consumer that we have. In addition to that, we're a direct marketing and direct sales company. Our occupancies continue to be extremely high. Our forward bookings are excellent, and our pipeline of first-time buyers are incredibly healthy. So, I thought it was good to point out in a public format that September was not only a great month for us, but in the history of -- the 42-year history of the company, it's the second largest month ever.

Lizzie Dove
Got it. And then in terms of just longer term, of course, I don't want to front run anything into the Investor Day, but I just want a high level, how do you think about the building blocks? Like

not looking for specific numbers but just thinking about the building blocks of how you see normalized EBITDA and where you see the biggest drivers of earnings power from here, if that's going to be primarily VPG led as we've seen or if tours can be a bigger part of it? Just curious how you see that longer term.

Matt Avril
Hey, Lizzie. It's Matt. And I appreciate you giving us a little bit of an out for the Investor Day coming up in just a little over three weeks where we certainly are going to spend a good bit of time on all of those questions. But I think fundamentally, when you look at the three legs of our business, which is the origination of our development profit that Jason has described and the increased results that we had year-over-year, secondly is our management business of our COAs and the fees that come in through that, and then thirdly, from the financing business that we operate and do so profitably, and we're happy to be in that business. When you look at those three legs on the stool, if you will, of future growth and profitability, we feel very good about all three of them. And we noted that we had an increased utilization of our consumer finance, which is the -- was the math exercise on why the amount of reserve was up in this particular quarter.

As a percent of sales, the actual underlying assumptions relative to portfolio performance didn't change. So, we're excited when we have the opportunity to increase the forward-looking capability of our earnings, and that's what you saw with the uptake on utilizing our consumer finance. We're very excited about where we stand in the marketplace, and Mike just alluded to it, in terms of our ability to attract the talent that moves the needle in this business. And it's the totality of how we run the business day-to-day, the great brands that we get to represent, the quality of the resorts we have. And now candidly, we have improved the overall packaging and value proposition and experience proposition to our owners.

So, you'll hear a lot more about this on December 9th, and I appreciate the question. I think fundamentally the other thing I would say is the macro background against which our industry, and I would say broadly the industry, sits is two things. If you believe that experiences generally and travel in particular is going to be important to tomorrow's consumer. It's going to place a higher order of how they spend their dollars, and there is plenty of information that indicates that's already the case and will continue to be the case. The second piece is the wealth transfer that's going to occur for the next 20 years. I'm one of those that will be transferring eventually, and I can tell you that how that money gets spent, travel and experiential dynamics, will be incredibly important and a higher priority for tomorrow's generation in spending that. So, having been around the business now for literally 40 years, I couldn't be more optimistic about what's ahead for the industry and our company in particular.

Lizzie Dove
Great. Thank you.

Operator
Thank you. Our next question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Hi. Good morning, everyone. It seems like you've certainly made strong improvements in your sales staffing and many changes in there. And I get that it's always a work in progress. You'll never be 100% where you want to be. But with the heavy lifting of new big sellers in your sales, how far along in that process would you say at this point? Are you mostly done with the heavy lifting or still a ways to go? Some color around that. I hope that makes sense. Thank you.

Mike Flaskey
Yes, it did. Hi, Patrick. It's Mike. Look, I characterized early on that I feel like we're in the second inning of the transformation, and we're incredibly bullish on the durability as Matt said in his prepared remarks. Yeah, we've done a lot of heavy lifting. There's no confusion that it's been -- since February 17th, we've been at this thing 24/7. But it is always going to be a continuation. Our goal is to always be improving the bottom third of our sales organization, and our recruiting team has demonstrated by bringing in 398 new people over the last six months that they're capable of delivering a sales executive that is capable of producing collectively above our average mean VPG. So, we will continue very aggressively trying to, if you will, replace the bottom third of our sales organization with new talent that can ultimately increase the average mean.

Patrick Scholes
Okay. Thank you.

Operator
Thank you. Our next question comes from the line of Stephen Grambling with Morgan Stanley. Please proceed with your question.

Stephen Grambling
Hey. Thank you. I wanted to come back to some of what you're seeing in the financing business. I think we've talked about this before, but what is the average cash you're receiving as a percentage of the finance sales kind of excluding any equity in existing contracts? How have delinquency rates compared historically for upgrades where there is incremental cash versus just rolling equity? Thank you.

Jason Marino
Yeah. Thanks, Stephen. We did talk about this a little bit in the last quarter. So, just to kind of boil it down a little bit, our average equity that we do get from existing owners when they do make new purchases and cash combined are about 30%. So, we're getting significant form of down payment including the equity. The cash portion of that is about 4% to 5%. And so, as you think about it, there are existing owners who do give us additional cash at the table. And we

don't really see a big difference in the performance between the two cohorts. As we think about it, this is a product that they have used a lot in their experience. They want more. Our average FICO score on the overall portfolio is up 20 points year-over-year, which is another strong indicator.

And these are our best customers, and we're lending to them at very attractive rates. We actually increased our rates overall in the portfolio about 30 basis points in September. So, as we think about some of those higher borrowing costs that we saw in the ABS market, we increased our rates about 30 basis points here in September. And so, we're happy with the business. And this is a strong commitment from our existing owners in the form of pledging their existing equity that they've built up over the last several years of ownership with us.

Stephen Grambling
So, maybe a quick follow-up on that. Maybe -- I'm sorry if I missed this in the intro remarks. But I guess the guide increase on EBITDA, but then slightly lower cash flow. Is that just a timing thing in part because of what's happening in the financing business? Or how -- maybe you can just dig into that working capital change in the walk.

Jason Marino
Yeah. It's not really related to the financing business. There's a little component of it. But the bigger movement that we had is, as we loaded inventory into the trust here in Q4, we pulled forward some of the maintenance fee obligations that would have traditionally been in the following year related to our New York asset as we had talked about that in the last quarter. So, that was the biggest cash flow impact from Q1 of next year into Q4 of this year.

Stephen Grambling
Great. Thank you.

Jason Marino
Thanks, Stephen.

Operator
Thank you. Our next question comes from the line of Trey Bowers with Wells Fargo. Please proceed with your question.

Trey Bowers
Hey, guys. Thanks for the questions. I guess the first question is -- thanks for the color on the owner family dynamics of a change of those with cross-brand ownership. Would love to just hear more detail or color around what you're seeing on an underlying basis of owner families either growing or declining slightly across the system. Thanks.

Jason Marino
Yeah. Thanks, Trey. Yeah, as we talked about, it was really as we looked at the owner benefit levels and how we calculated the owner families. This is a combination of people that might have owned a Westin, a Sheraton, and a Marriott. The underlying trends of the ownership, obviously, that didn't impact the number of interest that we've sold over our history. The churn has been consistent in our overall portfolio. We lost about -- the number went down about 4,000 net owners in Q3 just for a little clarity around that, but it's been steady over the last several years in terms of some of those trends.

Trey Bowers
Great. And then just my follow-up would be the modernization line item peaked Q3 of '25, and it's been coming down nicely. Does it feel like the company has kind of achieved the goals they were looking for from a modernization aspect? And is that line item going to kind of go away as we cycle forward? Thanks.

Matt Avril
Hey, Trey. It's Matt. Thanks for the question. We highlighted at the beginning of the year we were going to sort of consolidate all of our efforts to improve the business each and every day. So, we have largely folded in that activity into our core business. To your point, the separated spend associated with that called out as such has definitely gone down, and the actual spend has gone down. We had a fair amount in year one associated with what you would call architectural and consultancy and things of that nature. We have brought all of that much lower. We have some remaining spend to finish off some of the technology-related enhancements, and that's really what you're seeing at this point in time.

Trey Bowers
Great. Thanks for all the color.

Operator
Thank you. Our final question comes from the line of Michael Hirsh with JPMorgan. Please proceed with your question.

Michael Hirsh
Hi there and thanks for taking my questions. So, given some of the moving pieces with your free cash flow this year, what level of free cash flow should we expect for next year? And what has to happen to get back to the 60% conversion level?

Jason Marino
Yeah, Michael, I think what we've historically talked about is this business running in, call it, that 50% conversion range. I think to get to that sort of 60% level again you'd need lower interest rates in the overall world. If you think about some of what that was based on several years ago, we were in almost a zero interest rate environment. We've had a pretty big movement in

interest rates over the last several years. And so, that's probably the biggest mover as we kind of think about it.

Michael Hirsh
Okay. And as my follow-up, you mentioned that you decided to terminate a project in Puerto Vallarta. Could you elaborate on what happened there? And is there any change in strategy?

Jason Marino
Yeah. No real change in strategy. As we've talked about some of our, I'll call it, more international businesses, Asia Pacific, a little bit in Mexico, we've been trying to optimize our portfolio. And this was an opportunity that, if you go back a couple of years, we entered into. And as we've sort of looked at that, it came, and we decided that we were going to exit that opportunity. So, it was really just a mutual agreement between us and the developer.

Michael Hirsh
Thank you.

Operator
Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Avril for any final comments.

Matt Avril
Thank you all for joining us this morning. We appreciate the time.

And as always, I want to thank our 21,000-plus associates at Marriott Vacations Worldwide for everything they do every day for our owners and guests. And lastly, we're looking forward to seeing you on December 9th in New York. We know there's a lot of interest in what we have ahead, and we'll be excited to share that story with you.

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