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Marriott Vacations Worldwide Corp. (VAC)

Q2 2016 Earnings Call

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Stephen P. Weisz
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David Katz
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Patrick Scholes
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Marriott Vacations Worldwide Second Quarter 2016 Earnings Call. At this time, all participants are in a listen-only mode. A 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, Mr. Jeff Hansen. Thank you. You may begin.

Jeff Hansen
Vice President-Investor Relations

Thank you, Rob. And welcome to the Marriott Vacations Worldwide second quarter 2016 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 July 21, 2016, 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 second quarter earnings call. This morning I'll walk through our second quarter results and provide an update on our top line growth initiatives, which give us confidence that we will achieve our full year guidance and provide a solid foundation for future growth.

I'll then turn the call over to John to provide a more detailed review of our second quarter and outlook for the year, before we open the call to your questions.

Second quarter company contract sales were $166 million, slightly ahead of the second quarter of last year and in line with our expectations as we indicated in our first quarter call. This stemmed primarily from strong performance in both our Asia Pacific and Europe segments, which combined improved over 30% or $5 million.

In North America contract sales were down 3.3% or $5 million, which was not unexpected as our Latin American sales channels continued to experience many of the same headwinds we saw in the last three quarters, driving $2.1 million of the second quarter decline. Going forward, we expect the decrease in our Latin America sales to subside as we lap the initial strengthening of the U.S. dollar, which occurred in late July of 2015.

Contract sales in North America were also impacted by the owner recognition level or ORL changes, which occurred last year. Since this promotion ran through the end of April 2015, the tough prior year comparison continued well into the second quarter. Since that time, we have seen positive indications that we are generating contract sales growth.

To that end, let me take a moment and walk you through the high level trends we have seen in the latter half of the quarter. Total North America contract sales were $145.6 million, down $5 million to the prior year. However, it is important to understand the pace of contract sales within the quarter to see the entire picture.

In the first five weeks of the quarter, our North America onsite contract sales were down over 6% to last year, as we continued to experience the comparison from the ORL changes in 2015. For the last seven weeks of the quarter, after we last that tough comparison, we were up over 4% to the same seven weeks in 2015, primarily due to a year-over-year increase of over 650 tours during this same timeframe.

Putting all of this together highlights the positive trends we expected to see from improvements in our new programs designed to drive tour flow, namely call transfer and universal Encore. These programs continue to ramp up, with the pipeline increasing an additional 3,500 tours from the first quarter of this year, while just as important activated tour packages were up almost 40% over this time last year. The vast majority of these tours are scheduled to arrive in the second half of 2016, providing confidence that we will continue our recent positive trends throughout the second half of the year.

Now let me turn to our other piece of our story, the one which is expected to provide a large part of our future growth, not just in 2016 but in the years to come. We are very pleased to have four of our six new sales centers opened and expect to have the other two opened by the end of the year. So let me provide an update on each one.

In Australia, we launched our sales operation at our Surfers Paradise resort location early in the second quarter and sales are continuing to ramp up. Additionally, I am pleased to announce that we have completed the

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renovations of all 88 vacation ownership units in the property and have opened these units to our owners and guests.

In Washington, D.C., we opened our permanent sales gallery located across the street from our units at The Mayflower Hotel, and are currently working on completing our marketing arrangements in the local area, which will allow us to maximize the opportunity in this location as sales continue to grow.

In New York, we began sales earlier in the quarter and have recently completed the permanent onsite sales center. We're off to a great start in our onsite location. We have also signed a lease for a much larger offsite sales center nearby. This additional space will allow us to handle the future tour volume we expect to generate in New York and should be open by the end of this year or early next.

At our San Diego property, we've recently opened our onsite sales gallery in conjunction with our first set of beautifully renovated rooms and common areas, and are seeing good tour flow as sales in this location begins to grow.

On the Big Island of Hawaii, the renovations of our 112 one-bedroom and two-bedroom units are well underway with the expectation of delivery in July 2017. Work on the permanent sales center is expected to be completed soon with an opening date in September of this year.

And, finally, in South Beach, we have signed a lease for the sales location very close to the property. Our expectations remain to complete the sales center by the end of the year, providing strong future sales growth as it starts to generate sales beginning in 2017.

I'm excited to see all of the new properties in our portfolio and what they bring to our company, not just from their potential sales opportunities, but also as great new vacation destinations for our owners and guests. I look forward to opening the two remaining new sales locations later this year, and updating you on their continued progress as well as our new plan locations in Valley.

Moving to our recent disposition efforts, I'm pleased to announce that we have completed the sale of the downside Surfers Paradise hotel, as well as the bulk sale of our remaining units of the Ritz-Carlton Club and residences in San Francisco.

On a combined basis, these transactions generated over $65 million of additional net cash flow. With the completion of these two transactions, only two parcels remain for disposition. A small oceanfront parcel in the Bahamas and our oceanfront parcel in Cancun, which remains a potential asset light transaction for future growth.

Now allow me to take a moment to discuss our contract sales outlook, not only as it relates to our guidance of 4% to 8% for 2016, but also for 2017 and beyond. In order to achieve the midpoint of our full year guidance, the growth target in the second half of this year is 16% over the second half of 2015.

While challenging and not without risk, let me highlight several of the trends and opportunities which showcase why we remain confident. First, we expect to see growth in our Latin America sales channels, as we lap the strengthening of the U.S. dollar, which occurred in late July of last year. Next, since we've had the tough comparison to the very successful ORL program change, which occurred in the first half of 2015, contract sales volume has grown and tour flow has increased substantially.

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In addition to these positive trends, our activated pipeline of tours in the second half of the year underscores the strong growth potential of our same-store contract sales. We expect that more than half of our contract sales growth in the second half of the year will come from these activated tours.

Lastly, as it relates to our new destinations, we have already opened the majority of our new sales centers and are on pace to open our fifth new center during the third quarter. We expect these new locations to provide the remaining growth necessary to achieve our full year guidance.

Looking past 2016, while each sales center could take two years to three years to fully ramp up, we expect these locations alone could generate well over $125 million in sales volume, once they are at full production. For these reasons, we remain confident not only in our 2016 contract sales and adjusted EBITDA guidance, but also in our ability to grow our top line in 2017 and beyond.

With that, I'll turn the call over to John who'll provide a more detailed look at our second quarter results. John?

John E. Geller, Jr.

Executive Vice President and Chief Financial Officer

Thank you, Steve, and good morning, everyone. Adjusted EBITDA totaled $64.2 million, $2.5 million or 4% higher than the second quarter of 2015, driven by year-over-year growth from our development, financing and resort management business.

For the second quarter, company adjusted development margin increased nearly $1 million to $33.1 million and adjusted development margin percentage improved 1.8 percentage points to 22.8% in the quarter. In our North America segment, adjusted development margin increased $1.8 million to $34.1 million in the second quarter and adjusted development margin percentage was 26.5%, up 3.5 percentage points from the prior year quarter.

The $1.8 million adjusted development margin improvement was driven by $9 million of lower product cost, of which $6.5 million came from favorable product cost true-up activity, with the balance coming from a favorable mix of inventory being sold resulting from the success of our inventory repurchase program. The favorable product cost true-up activity was driven by a reduction in estimated first day benefit costs and to a lesser extent from lower development spending. Partially offsetting the lower product cost, development margin was negatively impacted by more than $3 million from higher Plus Points issued, nearly $2 million from higher sales reserve activity, more than $1 million from higher marketing and sales costs associated with the startup of new sales distributions and roughly $1 million from lower contract sales volumes.

It's important to understand, however, that the majority of these higher costs will benefit us in the future. The Plus Points will eventually become rental revenues when those points are used. The higher sales reserve activity was driven primarily by a 30% increase in financing propensity, which will drive financing profits in the future and the startup costs are associated with new sales distributions, which will drive future contract sales growth for us in the second half of this year and beyond.

In the company's financing business, revenue, net of related expenses was $18.7 million, up $1.7 million or 10% from the second quarter of last year. The program we launched last summer to help drive financing propensity has continued to be successful, with our North America propensity up 30% or 12 percentage points to almost 52% in the second quarter.

With these higher financing propensity levels as well as expected growth in contract sales in 2016, we expect year-over-year growth to continue in our financing business as we progress through the year. And our purchasers

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remain very creditworthy as average FICO scores grew six points to 743 for the second quarter of this year. Additionally, we expect to execute our annual notes receivable securitization during the third quarter. Given recent transactions in the ABS market and the quality of our vacation ownership notes receivable portfolio, we anticipate excess spread similar to or slightly better than last year.

Turning to our rental business, excluding the results of operations for the portion of the Surfers Paradise hotel that we sold during the quarter, total company rental revenues were $73.1 million, slightly higher than the prior year. This reflected a 3% increase in transient keys rented, offset by a 3% decline in transient rate from the mix of inventory rented.

Adjusted rental results were $9.8 million, down roughly $1 million from the prior year. Results reflected higher direct variable expenses such as housekeeping on the increase in transient keys rented as well as a tough rental market at a resort in Paris.

In our resort management and other services business, excluding the results of operations for the portion of the Surfers Paradise hotel that we sold during the quarter, company results improved $2.7 million or over 9% to $31.3 million in the quarter. Results reflected improved exchange company activity, higher fees for managing our portfolio of resorts and higher ancillary profits.

In our Asia Pacific segment, contract sales improved $2.5 million or 31% over quarter-over-quarter, driven by both improved performance at existing sales locations as well as the impact from opening our new sales location in Australia. Total adjusted results were down $1.8 million from the prior year, driven mainly by lower development margin performance as a result of nearly $1 million in pre-opening expenses associated with our new location.

General and administrative expenses were $24.6 million in the second quarter of 2016, a $1.7 million increase over last year. Most of this increase related to technology spend in the quarter as we continue to enhance our owner facing technology and update our current Web platforms.

Turning to our return of capital to shareholders, we repurchased 1.5 million shares for $90 million during the second quarter, bringing our year-to-date repurchases to over $163 million. Regarding our share repurchase in the quarter, of the nearly 1.5 million shares repurchased, nearly 1.2 million were repurchased under an accelerated share repurchase agreement. This agreement effectively accelerated a significant amount of our third quarter repurchases and is expected to be in place through the end of the third quarter of 2016. As a result, we anticipate our ability to repurchase shares in the third quarter will be very limited.

As you know, we began our share repurchase program in the fourth quarter of 2013, and we have repurchased over 27% of our shares outstanding at that time for nearly $594 million. When you layer in the results of our quarterly dividend program, the total dollar amount we've returned to shareholders for these programs totaled over $652 million.

Moving to our balance sheet, at the end of the quarter cash and cash equivalents totaled more than $97 million and we had approximately a $105 million of gross vacation ownership notes receivable, eligible for securitization in our warehouse credit facility.

The company's total gross debt outstanding at the end of the quarter totaled $746 million, consisting of approximately $692 million of non-recourse debt associated with securitized notes and $45 million of gross debt outstanding under our corporate revolving credit facility. In addition, $40 million of mandatorily redeemable preferred stock remains outstanding which we expect to redeem in October of this year.

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Now let me turn to our outlook for the year and how that translates into contract sales performance in the second half. We had easier comparisons for the second half of the year as the owner recognition level changes are behind us and we lap the FX headwinds in our Latin American sales channels beginning in late July.

In addition, our programs to generate new tours and our new distributions are ramping up throughout the remainder of 2016 and into 2017. In order to achieve our full year guidance of between 4% and 8% contract sales growth, we expect contract sales growth to be between 10% and 15% in the third quarter.

As contract sales grow, we expect to leverage our marketing and sales cost and maintain a solid product cost for the remainder of the year, achieving a full year company development margin of 21% or higher.

Turning to free cash flow. We maintained our expectations for adjusted free cash flow of between $135 million and $155 million. As we always do, we will continue to evaluate all of our capital needs as we progress through this year, with the intent of deferring spending wherever appropriate. Also, while not included in our free cash flow calculation or guidance for 2016, we have completed the sale of the downside Surfers Paradise hotel as well as the bulk sale of our remaining units at the Ritz-Carlton Club and Residences in San Francisco. On a combined basis, these transactions generated over $65 million of additional net cash flow.

I continue to be excited about the growth opportunities that lie ahead and look forward to sharing our achievements with you in future quarters. As always, we appreciate your interest in Marriott Vacations Worldwide. And with that, we will open up the call for Q&A. Rob?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting the question-and-answer session. [Operator Instructions] Our first question comes from Chris Agnew with MKM Partners. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Good morning, Chris.

Christopher Agnew
MKM Partners LLC

Q

Thanks very much. Good morning. First question, I know you touched on two reasons that – for the favorable product cost true-up. I was wondering could you expand a little bit more upon those two items. And then what are the implications through the rest of the year from product cost true-up, is that something that we should be expecting to recur in the next two quarters? Thanks.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

Sure. Chris, its John. Yeah. On the product cost, you know as we've talked about in the past, there are certain assumptions that go into how you recognize the product cost for timeshare accounting. And the two main ones are: your revenues and your expenses. So your future revenues for selling the product and what your costs are actually related to developing that project.

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In the quarter, we had some one-time adjustments, if you will, related to both pieces of those components. On the cost side, we had certain projects where the units were completed, but we had common area costs or other construction costs that were still on our estimates to complete, and those came in less than we expected, and as a result we had a true-up. So we had previously recognized too much product cost based on our estimates at the time. So we fixed or cleaned that up, but that's a positive thing. Costs were less than we anticipated them.

And then on the other side, one of our first day benefits we've talked is Plus Points. Well, Plus Points are a reduction in that estimated revenue stream, and Plus Points has been around since we launched points a few years ago. But as we've continued to use them more and we've seen how those points are used, we've got a better sense for the actual value of those Plus Points that we should be using in our calculations and that value has come down. So the cost, if you will, has come down relative to our previous expectations.

So once again, a positive thing. It'll help going forward, but what you see in the quarter is actually truing-up those estimates from where we were before. So you won't get that type of benefit if you will going forward. In the case of the Plus Points you will get slightly lower product cost relative to our previous, but it won't be as lumpy in terms of what you've seen.

Christopher Agnew
MKM Partners LLC

Q

Got you. Thanks for clarifying. And then the activated tour packages, did I hear you right, you were saying it's up 40% year-over-year. And am I right in thinking that, that increase has accelerated. I think in the first quarter you said it was up 25% year-over-year. So a couple of questions, one, can you explain exactly what the activated tour package is? And then, what drove the increase from the first quarter? Thank you.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Sure. So I think you may recall that we have been moving on trying to generate many more tour packages for the past, call it, almost 18 months, in anticipation of what we thought we were going to be needing not only to support our new sales distributions that were coming online, but obviously to feed the existing same-store sales growth.

So what happens is that you make an offer to someone to take a future tour. And you take a deposit for that tour from that party, but you don't have an expected arrival date at that point in time. Oftentimes, so for instance in the case of our Encore packages, these are people that just completed a sales tour, they like the product, they think they may be interested, but they're just not prepared to sign a contract today. So, they say, yeah, I'd like to come back at another time and I'd like to give it some more thought. So since they were just on vacation, they are not willing to commit to an exact arrival date for that return vacation.

So once we have that tour sold as it were, then it's up to us to try to get that tour activated, working with that particular party to say, when do you want to in fact take that mini-vac, that vacation to go visit one of our resorts. And that's what we've been about is, we were in the first part of that, call it 18 months, loading up tour packages. And then in the second part of this year, and very second part of last year and the beginning of this year, we've been in the process of activating those, so that they'll come to the house. And the reason why the number of activations has grown from the first quarter than the second quarter is, that we continue to make progress in getting those tours activated. Is that helpful?

Christopher Agnew
MKM Partners LLC

Q

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Yeah, no, perfect. Thank you. And then just a quick final question. On Europe, are you – where are you in terms of selling out of Europe, given the strength you had this quarter?

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

I suspect, well, two things. The sell-out of developer inventory, we are within a year of being able to do that. There will always be a sales – active sales channel in Europe for re-sales, for what people previously owned, et cetera. One of the things that, by virtue of being kind of at the tail-end of that developer inventory, there gets to be some lumpiness that about – the quarters in which it comes in. For instance, one of the reasons why the second quarter was a little higher than you might have expected, it was because we had a bulk sale in Paris as a result. So – but we're at about a year from sell-out.

Christopher Agnew
MKM Partners LLC **Q**

Great. Thanks so much.

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

Thank you.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer **A**

Thank you.

Operator: Our next question is from Benjamin Chaiken with Credit Suisse. Please proceed with your question.

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

Hi, Ben.

Benjamin Chaiken
Credit Suisse **Q**

Hey, how is it going?

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

How are you?

Benjamin Chaiken
Credit Suisse **Q**

You guys mentioned contact sales growth accelerated, I think, in the second half of the quarter. Was this a function of new sales centers or was this more a organic basis, I guess. Any color on where these sales were sourced from?

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

Primarily same-store sales, a little bit from new sales centers. But we're in such an early phase of some of these new sales centers, I mean for instance, San Diego, opened on July 1, wasn't even in the quarter. So it is predominantly same-store and it's a function of, we were moving off on a comparative basis in the first, call it, five weeks of the quarter, when we had the comparison against the – our old numbers.

The in-house tours were down meaningfully in the first half or first five weeks of the quarter. But then in-house became much more robust in the second seven weeks or the seven weeks of the tail-end of the quarter. So it was predominantly same-store stuff.

Benjamin Chaiken
Credit Suisse
Q

Got it. That's really helpful. Thanks a lot.

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

Thank you.

Operator: Our next question is from Patrick Scholes with SunTrust Robinson Humphrey. Please proceed with your question.

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

Good morning, Patrick.

Patrick Scholes
SunTrust Robinson Humphrey, Inc.
Q

Thank you. Hey, good morning.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer
A

Good morning.

Patrick Scholes
SunTrust Robinson Humphrey, Inc.
Q

Two questions. When we started the first, last – that the second half of the last year, your Latin American, Japanese sales were down about 40% year-over-year. What was that comparable figure in 2Q and can you remind us what it was in 1Q of this year?

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

It was down about 17% in Q2, about the same amount in Q1. And as you referenced, third quarter of last year down 39% and Q4 was down 33%.

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Patrick Scholes
SunTrust Robinson Humphrey, Inc.

Q

Okay, thank you. Next – last question, on the 16% midpoint growth for the sales, how do you see the mix new versus existing customers driving that acceleration in sales growth and where did you finish with 2Q for your mix of sales to new versus existing?

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

Yeah, on the mix, we're still in that kind of 60-40, that where we've been. It might have been slightly better. We haven't seen a significant change in that direction. And I would say even over the course of the second half of the year, it should start – our assumptions assume that starts to trend more towards the 50-50, but as we talked about in the past, that's a multiyear. The programs like the call transfer program that we've referenced, those are targeted more towards first-time buyers, so that should help drive that mix that way, but it's not meaningfully different than what we saw in the first half of the year.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Same thing, obviously, Patrick, in new sales centers where we have sales distribution in markets where we heretofore have not had a presence that will help drive new first-time buyers as well.

Patrick Scholes
SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you. And then one more question. Any news or update on what you're thinking about how the sales leads are going to be distributed from Marriott versus Vistana?

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Well, let me see if I can kind of read between the lines in your question.

Patrick Scholes
SunTrust Robinson Humphrey, Inc.

Q

Sure.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

As you know, we have an exclusive license agreement with Marriott for the ability to gain access to the Marriott Rewards loyalty program as well as the Marriott reservation system, et cetera. It is our understanding that Vistana Signature Experiences, which is now by Interval International has somewhat of a similar relationship with Starwood. That transaction between Marriott and Starwood hasn't closed, although it is our understanding and simply waiting for Chinese approval to make that happen. So the question comes forward is, what happens post that consolidation.

Patrick Scholes
SunTrust Robinson Humphrey, Inc.

Q

Right.

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Stephen P. Weisz
President, Chief Executive Officer & Director

A

And essentially there has been some dialog between ourselves and Marriott. The Marriott has communicated that their – is their intent in the next several years to try to combine the Marriott Rewards program and the Starwood Preferred Guest program, and that obviously has some implications about the exclusivity arrangements that exist between ourselves and Marriott Rewards and between VSE and Starwood Preferred Guest. So, we've had some conversations. We certainly understand what Marriott is trying to accomplish in the long run and while we put great value on our contractual relationship of our license agreement, we believe that there can be some middle ground that can be found where the parties can come together and find kind of a win-win for everybody.

Patrick Scholes
SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Thank you.

Operator: Our next question is from Chris Woronka with Deutsche Bank. Please proceed with your question.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Hi, Chris.

Chris J. Woronka
Deutsche Bank Securities, Inc.

Q

Hey. Good morning, guys.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

Hi, Chris.

Chris J. Woronka
Deutsche Bank Securities, Inc.

Q

I want to ask you – I appreciate the color on how you kind of get to the full year number in the back half. Wonder if you could break that down just a little bit more between what you think is going to come from new sales centers versus same-store and lapping some of those tougher challenges last year.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

Sure, Chris. Steve mentioned in his remarks that on a kind of a straight line basis, it's 16% growth is the math to get to that midpoint. If you think about that 16% growth, call it 6% to 7% of that 16% is coming from new stores. So that's how we have it forecasted out as those ramp up. Very little sales at those new stores in the first half of the year, those are really – Steve touched on starting to ramp up now, San Diego just opened, and in New York,

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we just completed last week, the permanent sales center in the property there. So we should really start to see some acceleration of that, so that's about 6% to 7% of the 16%.

And then the other 9% to 10% in the math would be same-store. But when you peel back the same-store that – the Encore, call transfer, is probably seven percentage points to eight percentage points of that 9% to 10%. So the majority of that growth in tours that we've talked about is that ramp up. And the good news is, I can say, as we look at our forecast, call it about 90% of those tours that Steve talked about in our forecast are activated. So they're on the books if you will. You know, obviously, the people still need to show up, take their vacation, take their tour, and we need to close those at the right VPGs and all that. But we feel good about that pipeline of tours showing up.

The rest, about 1% of that growth is really Latin, we talked about. So you're getting those easier comps, we just talked to you, were down, as we talk 40% in the third quarter last year. We don't expect to get all that back. But we expect to do better, obviously. So there's some growth in Latin. And then the rest, the other 1% of the onsite is really all our other channels, which is a big chunk of the remaining tours, but relatively flat if you will.

So you can see the mix, a lot of that is coming or almost all the 16% won't be straight line, but as it ramps up from this new stores, as well as that the Encore and the call transfer programs.

Chris J. Woronka — Q
Deutsche Bank Securities, Inc.

Okay. Very good. And any, I think the provision, the increased provision in the quarter was mainly due to the higher financing propensity you mentioned. What are you guys thinking about for the back half in terms of financing propensity?

John E. Geller, Jr. — A
Executive Vice President and Chief Financial Officer

Yeah. There was, for the full company, we did have, you'll see an adjustment in Europe and Asia, related to – we had found an issue with our static pool data and how we calculated that. So that was call it about, a $1.5 million impact in the quarter that was kind of one-time. The rest of the increase is, is really related to the higher financing propensity. So, higher propensity, now we'll lap that a little bit.

The other thing, and I mentioned this on the last call is, we have seen slightly higher defaults through our Latin channels; so we're keeping an eye on that. We'll probably lap most of that here fairly soon, if they haven't defaulted obviously, they obviously still could. But some of the stuff that's gone bad. So, yeah, there was a couple of moving components in there. But we would expect, you know, based on propensity, and it should continue to be higher of that, the bad debt should kind of flow with that higher financing propensity or more notes outstanding.

Chris J. Woronka — Q
Deutsche Bank Securities, Inc.

Okay, very good. Thanks, guys.

John E. Geller, Jr. — A
Executive Vice President and Chief Financial Officer

Yeah.

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

Thank you.

Operator: Our next question is from Benjamin Chaiken with Credit Suisse. Please proceed with your question.

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

Welcome back.

Benjamin Chaiken
Credit Suisse
Q

Thank you. Thanks for the color on the SPG, Marriott Rewards member base dynamic. What about simply the Starwood Hotels? When that closes they're all essentially Marriott Hotels, so does that help you have a presence in one way or another? Does that give you any – does that put you any closer to the customers?

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

At the risk of being slightly disagreeable, they'll still be operated as Westin Hotels, Sheraton Hotels, St. Ridges Hotels et cetera. Our license agreement is specific to Marriott Hotels, Ritz-Carlton Hotels. And so, I would expect that Vistana will – would certainly continue to maintain that they have exclusive rights to do that.

Now, there could be a situation where a Sheraton Hotel owner or a Westin Hotel owner, if the Vistana Signature Experiences say that they didn't have any interest in having a linkage agreement or something like that, that might be in fair play.

Turning it around the other way, it could be a Marriott Hotel, which by virtue of our license agreement, they shouldn't be able to do. Vistana might have aspirations there. But I would expect at least for the near-term that the state of play that exists with ourselves and Marriott Hotels and Vistana with the Starwood Hotels will remain relatively static.

Benjamin Chaiken
Credit Suisse
Q

Got it. That's helpful. Thank you.

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

Thank you.

Operator: Our next question comes from David Katz with Telsey Group. Please proceed with your question.

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

Good morning.

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David Katz
Telsey Advisory Group LLC

Q

Good morning, all.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

Hi, David.

David Katz
Telsey Advisory Group LLC

Q

Thank you for all the color on the top line and the trends in the business. I just wanted to ask for one clarification or some additional color on the range of sales centers that are there. Can you talk about sort of the order of magnitude across those? Are there a couple of them that are, you know, considerably larger than the rest, as we think about sort of the timing as we roll forward. For example, is New York proportionately larger or Hawaii proportionately larger than any of the others? And then I have a couple of other detailed questions, please.

Stephen P. Weisz
President, Chief Executive Officer & Director

A

Sure. So there is really two answers to your question. One is the physical size and one is what the potential is in terms of sales. So, and New York, it's interesting because our existing permanent onsite sales center in New York is relatively modest in size, it's at the lower level of our Marriott Vacation Club Pulse property in New York City. It will, the – but the distribution in New York will get meaningfully larger. When we add that off-site sales center, which is literally around the corner and that will be completed by the end of the year.

We would expect New York, given the size of the city, the amount of people that see that as a great vacation destination, et cetera, would be at the higher end of the amount of volume that it could contribute. In a kind of a similar vein South Beach, which doesn't have – it will not have an onsite sales center, but obviously South Beach relative to not only a draw from the Northeast, but also from the Latin American market. Once that sales center is in place at the end of the year, we think that will be a very good producing sales center.

And then somewhere in the middle of all that would be D.C., at the Mayflower. We think that's probably a mid-sized sales distribution location. San Diego, again, probably mid-sized or so. And Waikoloa, I think Waikoloa, while it's a great destination, Waikoloa as you probably are well aware is kind of the number three island in terms of destination, behind Oahu and Maui and then you get to the Big Island. So it will probably be a mid-sized as well.

David Katz
Telsey Advisory Group LLC

Q

Got it. Thank you for that. And then just from a cash perspective, I know you've been very helpful at giving us a bit of a rough picture for later this year and next year. You touched on a couple of parcels of land and it sounds like Cancun is something that is not for sale. Are there any other land sales or any divestitures that we should be thinking about or contemplating in by the same token. If you could just talk about any capital needs or CapEx that you expect over the next four quarters to six quarters, that would be helpful as well?

Stephen P. Weisz
President, Chief Executive Officer & Director

A

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Sure. So, David, let me take the first part, then I'll defer to John on the second part. As I mentioned in my remarks, we do have two remaining parcels that we originally envisioned as being disposition targets. One is a small parcel in the Bahamas. We would hope to be able to continue to work to dispose of that and however longer it takes to happen, it'll happen.

Regarding Cancun, it's not that it's not for sale, but Cancun as a destination market particularly for timeshare customers, is one of the top markets in the world. It's one of the reasons why we had interest in getting into the market back a long time ago when we purchased the property. We continue to have dialog with various parties about are there potential ways to do something here on an asset light basis that would still give us a presence in Cancun without the enormous capital outlay on the frontend. However, if someone were to come along and make a substantial offer for that parcel that seemed attractive to us, we will certainly consider a sale.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

Yeah. And David on the CapEx, really two components, I think you're referring to. We have our corporate CapEx, which are things like investment and sales centers, which have been elevated this year, just given the new sales centers coming online. We don't have as many really queued up for next year given all the growth we got going this year. So that will be a little bit less.

From a technology, we'll continue to have higher – we have higher technology spend this year. I would expect to see that here for another, in the next year and even into the following year as we're making investments in our customer facing platforms. But relative to our overall cash flow, it's not meaningful. If you recall, we typically spend $20 million to $25 million a year on corporate CapEx, technology being a piece of that.

On the inventory side, the nice thing with how we've structured our new inventory is – we have a fairly good pace of and knowing when our inventory payments are due, is we bring it online. So there's nothing significant. I would expect our inventory spend to be in line with kind of what we have this year. The only wild card will be, if there was a new destination or opportunity, we'd obviously do our best to structure that, a very capital efficient way like we have so far. But that can, you know, play into timing. But we don't have anything on the horizon there, but we're always obviously out there looking.

David Katz
Telsey Advisory Group LLC

Q

Got it. And one last detail. How much exactly is left on your repurchase authorization and did you tell us whether you'd bought any since the end of the quarter?

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer

A

There's about 1.2 million shares left. I mentioned in my prepared remarks, we entered into towards the latter half of the quarter, an accelerated share repurchase program with one of our banks. And so with that, we got this – you know the bulk of those shares delivered this quarter. They have to actually – under the agreement, they actually have to go out there and complete all the trade. So there probably won't be a lot of shares repurchased in the third quarter, because we've essentially accelerated into the third quarter some of those repurchases with that agreement. So don't expect a significant amount of repurchases here, just for the third quarter, until that agreement is behind us.

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David Katz
Telsey Advisory Group LLC
Q

Got it. Okay. I'm all set. Thank you very much.

John E. Geller, Jr.
Executive Vice President and Chief Financial Officer
A

Great.

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

Thank you.

Operator: There are no further questions at this time. I'd like to turn the call back to Steve Weisz for closing comments.

Stephen P. Weisz
President, Chief Executive Officer & Director

Thank you very much, Rob. Our second quarter has highlighted the trends we are expecting to see as we enter the second half of the year. We continue to ramp up tour production and have opened several new sales centers with more to come. I'm very pleased with where we sit at this point in the year and look forward to updating you on our performance on future calls. And finally, to everyone on the call and your families, enjoy your next vacation. Thank you.

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

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