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Marriott Vacations Worldwide Corp. *(VAC)*

Q2 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, thank you for standing by. Welcome to the Marriott Vacations Worldwide Second Quarter 2012 Earnings Conference Call. During today's presentation, all participants will be in a listen-only mode. Following the presentation, the conference will be open for questions. [Operator Instructions] This conference is being recorded today Thursday, July 26, 2012.

I would now like to turn the conference over to Jeff Hansen, Vice President, Investor Relations. Please go ahead, sir.

Jeff Hansen
Vice President-Investor Relations, Marriott Vacations Worldwide Corp.

Thank you, Alicia. Welcome to the Marriott Vacations Worldwide second quarter 2012 earnings conference call. I'm 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 26, 2012 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 www.mvwc.com.

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

Stephen P. Weisz

President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

Thanks, Jeff. Good morning, everyone, and thank you for joining our second quarter 2012 earnings call. This morning, I'll provide an overview of our second quarter results and update you on our strategies and initiatives that we've been executing since our spin-off. I'll then turn the call over to John who will review our financial results in more detail. Then we'll open the call up for your questions.

Total gross contract sales for the company increased 3% to $168 million in the second quarter, carried by our core North American vacation ownership business. In North America, contract sales increased 10% and volume per guest or VPG was up 14%, continuing the strength we saw in the first quarter.

While tour counts are down slightly year-over-year, as we focus on our most profitable sales channels, we have seen improvement in both pricing and closing efficiency. As a result, our development margin continues to increase and we are on track to achieve our 2012 goal of over 12%.

As I've said before, we believe our new points-based product is very appealing to our customers, as evidenced by the number of weeks owners who have already enrolled in the new program. Since the rollout of the program in mid-2010, more than 120,000 or approximately a third of our owners who are eligible to enroll have done so adding roughly 208,000 weeks or nearly 45% of eligible weeks in the program.

This past quarter was one of our strongest quarters for enrollment, since we launched this product as we enrolled an additional 22,000 owners or 32,000 weeks into the program, due mainly to the end of introductory enrollment pricing that was offered until the beginning of the summer. As a reminder, these enrollments further augment our recurring revenue stream in the form of additional annual club dues that we will receive going forward.

Our rental business continues to improve as well, with rental revenues net of expenses increasing $3 million from the second quarter of 2011, from both higher rental revenues and lower unsold maintenance fees. With an additional 5% of inventory available to rent, as owners elected to bank their current year usage or exchange their points for our alternative using – usage options. Transient keys rented increased 11% in the quarter reflecting continued strong demand for our products.

We expect our rental business to continue to outperform the prior year over the remainder of 2012, however recognize that rental results are typically stronger in the first half of the year, in large part due to seasonality.

In our financing business, subsequent to the end of the second quarter, we completed our first notes receivable securitization as an independent public company. This was one of our strongest securitizations ever with our offering being significantly oversubscribed. We securitized $250 million of vacation ownership loans with a 95% advance rate and a weighted average interest rate of 2.625%. The success of this transaction underscores the strength of the brand and the quality of the underlying notes receivable. The securitization clearly demonstrated our continued ability to successfully monetize notes we originate.

Moving on to other segments, contract sales in Asia Pacific were relatively flat. However, bottom line results grew, as we saw development margin improve mainly resulting from the closure of certain higher cost off-site sales locations since the second quarter of last year. As we mentioned on the last earnings call, on-site sales locations have proven to be much more efficient sales channels for us than off-site sales locations.

As a result, we continue to evaluate the performance of our off-site sales locations, while focusing on capital efficient, inventory acquisitions and exciting new locations that will also provide new cost-effective on-site sales and marketing opportunities.

In our Europe segment, our focus continues on selling through our remaining inventory over the next two years. While the European economy is certainly not in our favor right now, we have recently strengthened the value proposition for this segment by now allowing European lease owners to enroll in the North American point exchange program, providing them with a more flexible and expansive product and allowing us to continue to grow our recurring revenue streams.

In the Luxury segment, you may have heard about some actions that we are taking at the Ritz-Carlton Club and Residences at Kapalua Bay, a project we manage in Hawaii. The developer of the project is a third party, in which we have a minority stake, and our minority investment was written-off in 2009. Unfortunately, the lenders on the project have filed foreclosure action against the developer's interest in the project.

Further, the management company for the project, which is a subsidiary of ours, has not been paid since June, and we understand that the associations do not have sufficient funds to continue to operate the project in accordance with Ritz-Carlton brand standards.

In light of this, we have provided notice that we will be de-flagging the resort in early September. There is always a possibility that a workout between the developer and the lenders might be achieved that could preempt the de-flagging, but there is no assurance that a workout will occur. Please rest assured that we are exploring ways to mitigate the impact of this situation to our valued Ritz-Carlton members as well as standing by in event a workout can be achieved.

In regards to the overall Luxury segment strategy, we have added inventory from our Ritz-Carlton project in Vail into the Northern American points program, as we discussed during our first quarter call. We have also made the decision to place most of the remaining unsold Luxury inventory into the North American points program as well. We feel this strategy provides our North American owners with significantly more vacation options to choose from, while allowing us to monetize our luxury inventory faster thereby reducing our near-term real estate inventory spending needs in North America. In addition, it will align with our strategy to continue to reduce the maintenance fees on unsold inventory.

So we've also announced to our Luxury fractional members that they too will have access to the North American points exchange program some time in the first quarter of 2013. In preparation for their participation in the program, we plan to add options, such has luxury cruises, private home exchange, and numerous other experiences provided through outside partners that align with our Luxury segment members' vacation expectations.

At the corporate level, we – you may recall that although we spun off the Marriott International last November, we continue to leverage them for certain technology, human resources and other administrative services through transitional service agreements. Our plan is to complete our separation over the next 18 months and establish the appropriate infrastructure and systems necessary to support a company of our size. With this transition and reorganization, we will require upfront investment, but we expect these efforts to drive substantial long-term cost savings. We continue to finalize these plans and we will share more information around costs and ongoing savings next quarter.

As it relates to our disposition of excess land and luxury inventory, we are receiving interest on listed parcels and are continuing to prepare the remaining sites to be listed on the market. At the Abaco Club at Winding Bay, our luxury project in the Bahamas, we have announced that we're de-flagging the resort effectively, unencumbering the remaining land to increase the flexibility of its use, which we expect will attract potential buyers that otherwise would find the site too limiting with its current use and design. We are working through entitlement and preparation issues for our remaining larger parcels, which once complete, will represent all of what we consider to be excess land listed with brokers.

To recap, we are extremely pleased with the continuous strength in our overall business results and particularly in our margin improvement efforts today. Given our current projections for cash flows for 2012, we are increasing our adjusted free cash flow guidance by $45 million to $130 million to $145 million for the year. John will provide a bit more context around that increase in a few moments. As we are executing well on our strategic initiatives, we are reaffirming our 2012 guidance and continue to expect to be at the higher end of the range for adjusted EBITDA.

And with that, I'll turn the call over to John.

John E. Geller

Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp.

Thank you, Steve, and good morning to everybody on the call this morning. Our performance in the second quarter continued to build on many of the positive themes we saw in the first quarter. North America continued to be the key driver of our results, with this segment once again generating strong year-over-year performance. Efforts continued on selling to our Luxury and European inventory, we saw better development margins and rental results continued to improve year-over-year.

In the second quarter, total company contract sales increased $5 million or 3% to a $168 million. These results included strong growth in North America where contract sales increased $13 million or 10% to $141 million. This was partially offset by lower volumes primarily in our Luxury segment, where we started transitioning to selling our remaining inventory to our North America points program and to a lesser extent by softer sales in Europe and the closing of certain off-site sales locations in Asia to drive margin improvement.

In North America, our strong contract sales performance reflected 14% growth in VPG to nearly $3,000, driven by a two percentage point improvement in closing efficiency and a 3% improvement in pricing. As Steve mentioned, our tour count is down slightly from 2011 as we continued to reduce tour volumes in some of our higher cost sales channels to drive our improving development margin.

Total company reported development margin improved over 500 basis points to 11.2% from the prior year. However, similar to what we saw in the first quarter, the second quarter was impacted by revenue reportability comparisons year-over-year, which negatively impacted reported margins by roughly 200 basis points.

Reportability in the quarter was impacted by certain financed sales and in our North America segment, which had not yet met the down payment requirements for revenue recognition as of the end of the quarter. As I mentioned last quarter, revenue reportability affects quarter-to-quarter earnings, however on an annual basis, we do not expect a material impact year-over-year.

After adjusting for reportability, total company development margin improved 690 basis points to 12.8% in the second quarter. We have provided supplemental information on schedules A12 through A15 in the earnings release that illustrates the impact of revenue reportability on the development margins for the total company as well as for North America.

Growth in the company's adjusted development margin continued to be driven by improvements in both marketing and sales cost and the cost of vacation ownership products. Marketing and sales showed three percentage points of improvement, primarily from higher closing efficiency and lower cost. The margin associated with the cost of vacation ownership products improved over five percentage points in the second quarter, with three of those points were approximately $3 million resulting from a favorable product cost true-up and the remainder being driven by a favorable mix of lower cost inventory being sold.

As it relates to our North America segment, our adjusted development margin improved over 800 basis points to 17.3%. Over half of that improvement was driven by marketing and sales, with the remainder coming from improvement in vacation ownership products. On a reported basis, our North America development margin improved 600 basis points to 15.4% in the quarter. As you can see, we are well on our way to achieving our 2012 total company development margin goal of 12% or higher and our North America development margin goal of 15% or higher.

As Steve mentioned, our rental business continued to – continues to show improvement from 2011. In the second quarter, rental revenues totaled $54 million. Remember, our rental inventory comes to us in several ways, through unsold inventory which we still own and control, through our owners banking their points from one year to the next, and also when owners exchange their inventory for other usage options, whether that'd be through our explore program or for Marriott Rewards Points to use at Marriott hotels worldwide.

In the second quarter, we experienced a 5% increase in available rental inventory, as more of our owners chose to exchange their points for alternative usage options. With strong overall demand for our product, transient keys rented increased 11% generating over $6 million of higher rental revenues.

When combined with $2 million of higher revenues from our Plus Points program, total revenues increased $8 million year-over-year. Total rental cost increased $6 million reflecting higher operating costs in support of the higher rental revenues, offset by $1 million dollar reduction in unsold maintenance fees.

On a net basis, our rental business generated $2 million, which was $3 million higher than last year and looking ahead, we expect our rental business to continue to outperform the prior year for the remainder of 2012. We continue to see favorable results in our resort management and other services business.

For the quarter, revenues, net of expenses, were $13 million or $3 million higher than the second quarter of 2011, and margins improved nearly four percentage points over the last year. Results included over $1 million of higher management fees over $1 million from higher revenues net of expenses from our ancillary businesses and nearly $1 million from higher enrollments in the North America points program. This business continues to provide a steady stream of revenues and improved margin for us.

Turning to our financing business, revenues, net of expenses, decreased $4 million year-over-year, as our notes receivable portfolio continues to burn-off faster than we are originating new notes. However, the big story was the completion of our first notes receivable securitization as an independent public company, subsequent to the end of the second quarter. This was one of our strongest securitization ever, selling $250 million of loans, about a 95% advance rate and a weighted average interest rates of 2.625%, which is a historical low for our company. After transaction costs, tax reserves and the repayment of approximately $100 million outstanding under our warehouse credit facility, we've generated approximately $132 million of net cash proceeds.

Our Asia-Pacific segment generated adjusted segment results of $1 million versus a loss of $4 million this time last year. While contract sales were lower by $1 million, results reflected lower cost of vacation ownership products from a favorable mix of inventory being sold as well as reduced marketing and sales costs resulting from the shutdown of less efficient off-site sales centers in the region subsequent to the second quarter of last year.

As we stated in our first quarter call, growth in our Asia-Pacific segment is predicated upon acquiring inventory and locations that provide a strong on-site sales presence. In Europe, our sellout strategy remains on track. Our second quarter adjusted financial results were break-even $3 million below prior year due mainly to the impact of lower contract sales. Despite a challenging environment, we are hopeful that with the expansion on the North America points-based exchange program to our European owners, segment results will improve as we strive towards selling out most of our remaining inventory over the next two years.

In our Luxury segment, adjusted segment results reflected a loss of $3 million, which was in line with the prior year. The second quarter results included stronger performance from our resort management and rental businesses, which were offset by lower development margin due mainly to last year's second quarter benefiting from a notes receivable reserve true-up associated with improved default in delinquency activity.

We are making significant progress towards our strategy in the Luxury segment by selling Luxury inventory to our North America points program, expanding the points program to our Ritz-Carlton fractional members and continuing our efforts to dispose off excess land and inventory. These efforts will help drive significant improvements in this segment as we reduce maintenance fees on unsold inventory.

Turning to our balance sheet and liquidity position, we continue to further strengthen our balance sheet position and drive strong cash flows. At the end of the quarter, cash and cash equivalents totaled $83 million. Inventory balances continued to decline, down $52 million since the end of last year. And since the end of 2011, total debt outstanding declined by $136 million to $714 million, which consist primarily of $711 million of non-recourse debt associated with secured vacation ownership notes. Subsequent to the end of the second quarter, as I mentioned earlier, we securitized $250 million of vacation ownership notes receivable providing us with an additional $132 million of net cash flows.

Given the strength of our recent notes receivable securitization and projected higher cash flows from operating activities, we are raising our guidance range for adjusted free cash flow by $45 million to $130 million to $145 million for the year. The higher operating cash flows reflect the impact of a higher percentage of cash sales and reduced real estate inventory spending, as we plan to sell existing luxury inventory through our North America points program allowing us to differ development spending.

And wrapping this quarter up, let me summarize by saying that we are very pleased with our overall results, with strong performance once again coming from our key North America segment, continued refinance within our Luxury, Europe and Asia-Pacific segments that we believe position us well for the future, continued development margin improvement from both lower product cost and more efficient marketing and sales spending, and last but not least, our ability to drive cash flow and further strengthen our balance sheet.

While we recognize that there is still a significant amount of work to continue growing and refining our business, we are excited with the progress to-date and look forward to updating you on continued improvements next quarter. As always, we appreciate your interest in Marriott Vacations Worldwide.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question is from the line of Eli Hackel with Goldman Sachs. Please go ahead.

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp. A

Good morning, Eli.

Eli Hackel
Analyst, Goldman Sachs & Co. Q

Good morning. I just have three questions. First, can you just give a little bit more color on the decline in tours in North America? I know you're trying to go after a higher quality customer, but does this put you in a little bit of a problem? Are you – are there enough customers that are of high enough quality for you to go after to at some point regain tour growth?

Second just on the land sales, I know you have some going on. Can you just maybe comment on the level of interest if it's up to where you thought it'd be in terms of price or people low-balling you or are there some serious offers out there? And then second, just on the inventory spend, what were you going to spend and then how much was that reduced by and your expectation for what you're going to spend now? Thank you.

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp. A

Okay, Eli, this is Steve. I'll take the first two and we'll let John talk about the inventory side of things. On the decline of tours, to be honest, this is still some continuing work that we're doing looking at every single marketing channel that we have and trying to understand where we get the highest yield out of these tours. We can have more tours if we wanted them, to be honest with you. As we continue to focus on margin improvement, we're deciding that where we want to put the biggest amount of emphasis into the high yield channels. So it's not an issue about could we get more tours, yes. It's where we see the profitability coming out of those tours, which is where we're really trying to focus.

Secondly, as it relates to land sales, again we're still relatively early on in the process. We have had some meaningful interest on several of the parcels, and I would characterize how people are viewing the value of those parcels as being within reason to what we believe is the appropriate value is. As I'm sure you're aware, the sense of urgency about buying raw land today is probably not as great as it was a number of years ago. So it may take us a while to get through this, but as we've said many times, our goal here is to dispose off this land at a, what we think, is a fair value, not to do something on a fire sale basis. But I'm reasonably encouraged by what I see. As far as the inventory, John?

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp. A

Yeah, we – total development inventory spending, Eli, was call it around $150 million for the year. There's probably some expense cost in that number too that not necessarily all capitalizable. The improvement we're getting off of that with some of the decisions we've made here in Ritz-Carlton is call it about $25 million to $30 million of that upside is what we'll see this year. It'll also help in future years by giving more ad in some of the existing development. You don't get it all necessarily just this year.

Eli Hackel Q
Analyst, Goldman Sachs & Co.

So then what would you spend over the next couple of years in terms of cash inventory spend as you go out?

John E. Geller A
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp.

Yeah, I don't have the numbers, we're not providing anything around next year yet, but when we get closer to the end of the year, Eli, we'll be able to give you a little more guidance on that.

Eli Hackel Q
Analyst, Goldman Sachs & Co.

Okay thank you very much.

Stephen P. Weisz A
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

Thank you.

Operator: Thank you. The next question is from the line of Chris Agnew with MKM Partners. Please go ahead

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Stephen P. Weisz A
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

Hi Chris.

Chris Agnew Q
Analyst, MKM Partners LLC

Thank you very much. Good morning.

Stephen P. Weisz A
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

Good morning.

Chris Agnew Q
Analyst, MKM Partners LLC

The first question, you just talked about 2Q being one of the strongest quarters, I think for enrollment of existing members, and that you'd come to the end of the introductory offer for transitioning to points. Does that have an implication for margins or VPG going forward given that I think that sort of upgrade activity typically carries a higher margin? Is there anything we need to be aware of? I'm not sure, sort of how big that was in terms of the sales?

And then just a question on Kapalua, I know you've written this off, but are there any financial implications or financial risks we need to be aware of? Is the loss of the management fee material? And is there any sort of financial liability to the Ritz-Carlton members that you might have or any risks there? Thanks.

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp.
A

Yep, on the – I'll take the enrollment question here first in terms of the impact going forward. The enrollment fee was fairly modest, call it $600. With that, with our owners for enrolling got some single-use fee, what we call the plus point. So from a revenue perspective, a lot of that enrollment fee was getting classified down in rental income as people used their plus points. The offset is going forward, if we don't make that inventory available for plus points, we'll be able to rent it. So there should be really no impact there.

I think the upside with the enrollment is the ongoing club dues that get paid. So that runs, call it, a $175 a year, once people enroll and that's an annual. And so with those enrollments, that gets spread over the year. So we're still seeing the improvement in terms of revenues as well as margin as those enrollments start to get recognized, the club dues gets recognized going forward. So I don't really see any downside on the enrollment and there's still some upside going forward.

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.
A

Yeah, and let me just add to that Chris. This is Steve. I think part of the surge, for lack of a better word, that we saw in the second quarter was really that we had already always intended to have an end date to the introductory pricing about enrollment. I think people saw – that were kind of sitting on the fence, saw that the price was going to go up materially. So that's what caused them to kind of pull the trigger in the second quarter. Having said that, we continue to enroll people every single day, after that, just at a higher price point. So I don't think there's going to be any meaningful impact in things as such as VPG or other.

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp.
A

Okay. And on Kapalua Bay, we actually today have about a $10 million reserve on our books related to Kapalua Bay that should handle any other additional exposure. So we don't necessarily see any impact from a P&L perspective going forward. But as Steve mentioned in his comments, we are hopeful and active and hopefully working something out here as – working with the developer to work something out, with the lenders, that hopefully we'll be able to preserve the Ritz-Carlton presence there in Kapalua Bay, but no guarantees there, and we're doing our best to get to a good conclusion.

Chris Agnew
Analyst, MKM Partners LLC
Q

Great, thanks. And then, one more question. Can you just dig into the increase on free cash flow guidance, mostly from cash flow from operations and I'm guessing the securitization, but just give some more color there? Thanks.

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp.
A

Sure. If you look at where we were at before, call it $85 million to $100 million, we were expecting a slightly higher financing propensity year-over-year. And what's actually happened is our financing propensity's been running a little bit lower than we anticipated, so you get more cash sales. So most – about half of your upside in that guidance is just really the fact that we're getting more cash. Now the securitization activity, if you look at our adjustments to free cash flow is broken out separately.

So with the lower financing propensity, we had less notes to securitize. However, based on our expectations of advanced rate, we did much better on the advance rate. So we were able to make up some of the downside in terms of the securitization proceeds with the better advance rate. And then the other piece of the upside, call it, operating activities is our inventory spend. As I mentioned earlier, we're probably getting call it $25 million or so less inventory spend this year because of some of the moves we're making with the Ritz-Carlton inventory.

Chris Agnew
Analyst, MKM Partners LLC Q

Excellent. Thank you very much.

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp. A

Yep. Thank you.

Operator: Thank you. The next question is from the line of Tim Wengerd with Deutsche Bank. Please go ahead

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Tim Wengerd
Analyst, Deutsche Bank Securities, Inc. Q

Good morning.

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp. A

Good morning, Tim.

Tim Wengerd
Analyst, Deutsche Bank Securities, Inc. Q

Good morning. On the rental revenues line, I'm just wondering what's – the transient key I think you said were up 11% in the quarter, I'm just wondering what's the main driver for owners banking their points and it seems like the past couple of quarters have increased quite a bit?

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp. A

Yeah, there's really two major factors that come into play there. First of it – which is I believe you're aware of the fact of the explorer components that we have put in place with the introduction of our North American Destination Club, which allows people to take their points that they might normally use to go stay at one of our resorts and in fact convert them to another kind of vacationing opportunity. It might be a cruise, it might be a tour of Italy, it might be a safari, lion tour et cetera, et cetera.

We have been pleasantly surprised with the number of people that have chosen to elect that option, which has in turn given us the way the process works. They give us their points back. We give them their vacationing opportunity, then we monetized those points through rental activity. And the great news is that the rental demand has been commensurate what we've gotten in terms of incremental supply.

The second piece of that is there are some people that – one of the advantages of our program is, if you don't think you're going to be able to use all of your points for vacationing in this current year, you can choose to bank your points into next year. In the same fashion, you can also chose to borrow from next year to add the points this year for a larger vacation, or a longer vacation or a different type of vacation. So when people bank their points, then that in turn gives us inventory that we can rent as well. So it's those two factors that have contributed to the incremental number of keys available and in turn how we've rented.

Tim Wengerd
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, thank you. And then, you talked about the effect of moving the Luxury – or adding the Luxury inventory to the points program. How much will that impact lower maintenance fees in the rental segment?

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

A

So as we've I think communicated previously, the unsold maintenance fees from the Luxury inventory is approximately $15 million a year. So as we move that inventory into the North American points trust, as that inventory gets sold, which we believe will be at a faster pace, then if we were continuing to sell that inventory under our traditional Ritz-Carlton sales platform, we believe it accelerates the timing by which that inventory gets sold. And when the inventory gets sold, then the unsold maintenance fee, liability goes away.

So we actually believe that we will see an increase in velocity of Ritz-Carlton sales, thereby the unsold maintenance fees with rollout faster. Let me also add that there's two other meaningful advantages to taking that Ritz-Carlton inventory and putting them into North American Trust. One of the things is that we now have a lot of great destinations in the North American Trust that here before didn't exist, it's – in some outstanding properties. So our North American points owners will have the ability to access that, albeit at a higher point value. And the other point that was made earlier is that as we move that inventory into the North American Trust, it generates points, which in fact pushes back R&D for capital spending to add new inventory into North American points to support our sales volumes.

John E. Geller
Chief Financial Officer & Executive Vice President, Marriott Vacations Worldwide Corp.

A

The only point I had just on the timing perspective, Tim. If this real estate needs to be deeded into the trust, there's always real estate in there, that deeding process can take several months. And then, since it is time sharing, it's a registered product, once it gets deeded in, it needs to get registered and you have to go to all of the different states. So there is, call it, another five or six months there. And then there's obviously filled completed inventory headed out in the trust. So we're going to move quickly to get it in, it won't be instantaneous and our unsold maintenance fees don't go away until it's – you really sold through the trust. So there's a little bit of a lag once we get it into the trust and it gets to the point of sale.

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

A

And Tim, this is Steve. Let me add just one other point I've neglected to mention and that is of course that beginning in the first quarter of next year where we add the ability for our Ritz-Carlton owners to in fact exchange into our North American Trust to use that inventory. Obviously, it opens up a lot more vacation destinations for them as well.

Tim Wengerd
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. And then one other question on capital allocation, you took up your cash flow guidance, it sounds like by moving inventory into the trust, you can sell inventory faster and that should lead to more cash flow sooner. Do you – have you developed an outline or a plan for how you think about capital allocation and where do you share repurchases and dividends come in? How do you plan to use this extra cash that you have?

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

A

Well, I imagined that, that question might come forward given the very positive cash flow news that we shared with you earlier this morning. And at the risk of sounding like a broken record, I'll reiterate kind of what we've said before. Clearly, the objective of our company is to try to continue to grow in a very cost efficient and accretive way for our shareholders. As we see opportunities to spend that cash that would meet our investment criteria and give us the kind of return profile that we're looking for, that would be our first priority.

If in fact, those needs have been met and there is sufficient and excess cash to – that we have on our balance sheet, we'll take the appropriate steps to meet with our board and talk about return of capital to our shareholders. That might take the form of dividend, it might take the form of a share repurchase, but it would certainly be far too sooner for us to make that kind of assessment at this point.

Tim Wengerd
Analyst, Deutsche Bank Securities, Inc.

Q

And how's the acquisition pipeline, if there...

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

A

We continue to – we do get phone calls, we continue to make phone calls. Obviously it would not be prudent on our part to kind of disclose things that maybe in various stages of discussion at this point in time. Rest assured, if we have something to share, we'll certainly make it a point to do so, even if it's before an earnings call, we'll do something through an 8-K or whatever.

Tim Wengerd
Analyst, Deutsche Bank Securities, Inc.

Q

Great, thank you.

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

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Thank you.

Operator: Thank you, ladies and gentlemen, that is all the time we have for questions. I will turn it back over to management for any closing remarks.

Stephen P. Weisz
President & Chief Executive Officer, Marriott Vacations Worldwide Corp.

Thank you, Alicia. Well, just kind of the sum up, we are very pleased with the momentum we've generated so far in 2012. We look forward to reporting our progress on future calls. And I want to thank you again for your participation on our call today and your continued interest in Marriott Vacations Worldwide. And finally, to everybody on the call and your families, enjoy your next vacation. Thank you very much.

Operator: Ladies and gentlemen, this does conclude the conference call. You may now disconnect and thank for your participation.