

**Marriott Vacations Worldwide**  
**Second Quarter 2021 Earnings Conference Call**  
**July 29, 2021**

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**Presenters**

**Neal Goldner - Investor Relations**

**Steve Weisz - Chief Executive Officer**

**John Geller - President & Chief Financial Officer**

**Q&A Participants**

**Patrick Scholes, Truist Securities**

**Ben Chaiken, Credit Suisse**

**Brandt Montour, JPMorgan**

**David Katz, Jefferies**

**Operator**

Greetings and welcome to Marriott Vacations Worldwide second quarter 2021 earnings conference call. At this time, all participants are on 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 call is being recorded. It is now my pleasure to turn the conference over to your host, Mr. Neal Goldner. Thank you. You may begin.

**Neal Goldner**

Thank you, Rob, and welcome to the Marriott Vacations Worldwide 2021 second quarter earnings conference call. I am joined today by Steve Weisz, Chief Executive Officer, and John Geller, President and Chief Financial Officer. I need to remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the press release that we issued last night and the presentation we added to our website this morning, as well as our comments on this call, are effective only when made 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 of our website at [ir.mvwc.com](http://ir.mvwc.com). With that, it's now my pleasure to turn the call over to CEO, Steve Weisz.

**Steve Weisz**

Thanks, Neal. Good morning, everyone, and thank you for joining our second quarter earnings call. As a reminder, this is the first quarter with Welk in our results, and we couldn't be more excited about the opportunity it provides us as we look to significantly expand our Hyatt

Vacation ownership business. Today, more than ever, people want to vacation to see new places, reunite with family and friends, or just to relax, and the products we offer, most with extra square footage in a resort setting, are resonating with them. You only need to look at our occupancies during the quarter to see the high demand for our resorts. And this is translating not only into higher occupancies but also into new owners with first time buyer sales growing faster than existing owners this quarter. With occupancies and contract sales in many of our North America locations ending the quarter at or above 2019 levels, we've been able to return our focus back to the transformational initiatives that will help drive long-term growth and improve margins, many of which are digitally enabled. Before I get too deep into those efforts, let me quickly review our second quarter.

Starting with our vacation ownership—business. Occupancies continued to improve in a number of key markets during the quarter. As we've discussed in the past, our two largest markets, Hawaii and Orlando, which, combined, represent more than 40% of our North American keys, were slower to recover in the first quarter, but both of these markets showed substantial improvement this quarter, with Hawaii running over 90% occupancy and Orlando running more than 85%, with both locations either in line or exceeding June 2019 levels. Our Florida beach and US Virgin Island Resorts averaged 95% for the quarter, each above 2019, and our mountain and desert resorts were nearly 90% during the quarter, well above 2019 levels. Even our urban locations saw substantial improvement as the quarter progressed, with San Diego and Boston exceeding 85% occupancy for the month of June. With a strong improvement in occupancies, we grew contract sales by 60% on a sequential basis, and we were only 6% below pre-pandemic levels.

First-time buyers represented more than 30% of second quarter contract sales, up more than 500 basis points from their first quarter, which is very encouraging. As we've illustrated in the past, first-time buyers have historically doubled their revenue contribution within the first five years of their initial purchase, so it's nice to see the mix continuing to trend back towards pre-pandemic levels. Now more than ever the product we sell is resonating with customers. This was clearly evident in our VPG this quarter, which was more than \$1,000, or 30%, higher than 2019 with the improvement coming from both first-time buyers and owners.

Results in our Exchange & Third-Party Management business were in line with our expectations this quarter. Members at Interval International declined on a sequential basis primarily due to the non-renewal of a corporate account we talked about in February. Interval exchange transactions were down sequentially due to normal seasonality but were only down 1% compared to the second quarter of 2019, and average revenue per member was up 7% from two years ago. We're often asked by investors how long we think this resurgence will last? While it's hard to answer with clarity, timeshare is still an underrepresented part of the broader leisure market and is resonating with travelers now more than ever. In addition, people have more money in their pockets, and they are just beginning to travel again. At the same time, our core customer arguably was less impacted by the pandemic. I also believe that our core product offering, which combines the benefits of staying at a fully amenitized branded resorts in a

highly desirable location, with added square footage, is resonating with people who may not have stayed at a timeshare in the past. So, while it's hard to know with certainty how much pent-up demand there is, I do think the current environment has legs, and we are well positioned to take advantage of the opportunities that lie ahead of us.

With the recovery in full swing, we've been able to turn our focus back towards many of the growth initiatives we paused last year. If you remember our Investor Day back in October 2019, we spent considerable time talking about the substantial opportunity we have to apply cutting edge digital tools to drive growth and improve margins. We've recently restarted much of that work, and I'm excited about the opportunity we have in front of us to continue to transform our business. I'll give you a few quick examples.

Our customers have been moving into a digital world, and they expect us to move with them. Two years ago, less than half of our points reservations were made online. However, as we accelerated our digital customer initiatives last year, it helped drive a substantial increase in online points transactions. Today, 60% of points reservations are being made online, and I expect that to continue to grow in the future. We will soon be enhancing the capabilities for customers to not only buy their vacation preview packages online but to book them, as well. While we believe some customers will always want to speak with a live agent, this tool offers substantial growth opportunity for our business when we begin to roll it out later this year. We're leveraging leading edge tools from companies such as Salesforce and Adobe to automate our digital marketing campaigns to hone our efforts in targeting the right customer at the right time with the right offer.

We recently relaunched our social media efforts on Facebook and Instagram. Our objective here is to leverage these low cost, targeted channels to build and optimize our preview package pipeline, focusing on generating high quality tours to drive future contract sales. We continue to expand the use of technology to lower our back-office cost and improve our associates experience by leveraging artificial intelligence to augment and automate many of our high volume internal transactional processes. And we're making good progress on the technology needed to link our Marriott, Westin, and Sheraton products into a single points-based offering in early 2022.

Going forward, we will continue to increase our use of these digital tools to strengthen our infrastructure, grow online package sales, enable self-service bookings, make real time offerings, enhance the overall customer experience, and drive back-office efficiencies. But innovation at MVW isn't limited to our vacation ownership business. In our Exchange & Third-Party Management segment, nearly 60% of Interval's Exchange get away transactions have been done online this year, and we expect that to continue to grow. We are implementing Adobe to enhance our cross-channel customer experiences and improve our ability to more effectively market to members based on a more integrated view of their activities. And as we mentioned last quarter, Interval recently introduced short stay getaways, which allows members to book their vacation for less than seven days. This program offers members greater

flexibility when running through Interval while allowing us to be more efficient in our rental programs. While still early days, short term getaways represented more than 5% of the total second quarter rentals, and we're finding a lot of members using short-term getaways as a way to extend their stay beyond a week, which is a new incremental usage case.

So, let's talk about where the second half might look like and when we think we can get back to pre-pandemic levels again. We continue to be very encouraged with the improvement of our business. Occupancies are at or above 2019 levels in the second quarter at a number of locations, while roughly 45% of our North American sales centers exceeded their 2019 levels in June. Reservations in our urban locations are building nicely for the second half of the year, though the recovery in our international locations continues to lag the United States. We sold 60% more tour packages in the second quarter than we did in the first quarter and ended June with more than 200,000 tours in our package pipeline, which is a positive leading indicator for future contract sales. We currently have 16% more owner and preview reservations on the books for the second half of this year than we did at the same time in 2019, and bookings already for next year are very strong. Interval is continuing to work to enhance the technology to significantly expand its addressable market beyond timeshare as we move through the balance of this year, and we look forward to sharing more specifics with you.

And we are working diligently to integrate Welk into our Hyatt Vacation Ownership business. There is more work to be done, but we have made great strides in setting the groundwork to re-flag the resorts, integrate the businesses and establish a revitalized brand throughout our entire Hyatt business. It becomes more evident each day that the fit between Hyatt and Welk cultures are complementary in every aspect. The second quarter strength has continued into July with VPG remaining well above 2019, and our research continues to point to a very strong leisure trends in North America. For example, over 47 million Americans traveled over the July 4th weekend with Orlando topping the list of destinations. 42% of households say they're better off financially than they were a year ago, and 45% feel now is a good time to spend money on leisure travel.

Google search queries for resorts and hotels are higher than they've been in five years. Three out of four of our owners say they are ready to travel in the next 90 days, while over 90% of Interval members survey said they plan to travel in the second half of the year. Consumer confidence hit a record high in the second quarter of 2021, which is very positive for our business, and a growing percentage of people returning to work are splitting their time between the office and home, which could have long-term positive implications for our business, all of this points to continue strong growth and gives us optimism about the balance of the year. With that, I'll turn the call over to John.

### **John Geller**

Thanks. Thanks, Steve, and good morning, everyone. Today, I'm going to review our second quarter results, the continued strong recovery across our businesses, the strength of our balance sheet and liquidity position, and our third quarter expectations. As Steve mentioned,

this is the first time we have Welk in our results, and their performance exceeded our expectations this quarter. Given the relative size of Welk, we won't be providing pro forma results, but we will talk about certain items where Welk significantly impacted the quarter.

Moving to our second quarter results, I'm very happy with our performance, with most of our business approaching 2019 profit levels. Looking first at our vacation ownership business, we're seeing more people vacationing at our resorts. As Steve noted, our two largest markets, Orlando and Hawaii, finished the quarter at or above 2019 occupancy levels, illustrating the resilience of our leisure focused business model. And with the majority of our contract sales coming from people staying at our properties, we drove increased tours and contract sales in the quarter. We grew contract sales by 60% compared to the first quarter to \$362 million, including \$31 million from Welk. We're seeing more new faces at the sales table, which is good for the long-term health of our business, while owner tours also continued to grow nicely. VPG was well above pre-pandemic levels in the second quarter, illustrating how well our product is resonating with customers, though, with the mix of first-time buyers beginning to normalize, as well as the addition of Welk, it was down slightly on a sequential basis as we expected.

Development profit was \$65 million in the quarter, and margin was 22%, despite \$13 million of negative reportability, which we don't adjust when reporting results. Excluding revenue reportability, adjusted development profit more than doubled on a sequential basis to \$81 million, and, more importantly, margin was 26%, approximately 240 basis points above 2019. This was despite lower contract sales and highlights the benefits of more efficient marketing and sales spending, lower inventory costs, and synergy savings. Our rental business also improved nicely in the quarter. Revenues increased 43% sequentially, with growth coming from both higher transient keys rented and revenue per available key. As a result, we reported \$15 million of rental profit in the quarter. The stickier revenue businesses within our vacation ownership segment also performed well in the quarter. Resort management profit increased \$18 million sequentially, driven primarily by the substantial improvement in our ancillary business, which was nearly back to 2019 levels and the inclusion of Welk this quarter.

And financing profit increased 20% compared to the first quarter, primarily due to the inclusion of Welk. But more importantly, profit was in line with Q2 2019. Excluding Welk, our notes receivable balance would have declined during the quarter. However, that trend stabilized during the quarter, with notes receivable increasing during the month of June as originations exceeded repayments for the first time since the pandemic started. Delinquency rates also continued to decline sequentially during the quarter, with delinquencies for the Marriott Vacation Club at one of the lowest levels we've seen in the past decade, and Sheraton and Westin are at the lowest levels we've seen since we acquired them back in 2018. As I mentioned, we're not providing detailed results for the Welk business given its relative size. However, I did want to highlight that the vacation ownership results I just discussed included \$12 million from Welk, better than we anticipated. As a result, total adjusted EBITDA in our vacation ownership segment increased sequentially to \$182 million, 90% of the EBITDA that we delivered in the second quarter of 2019.

The second quarter benefited from the strong improvement in contract sales, rentals, and ancillary activity and the impact of our business transformation and synergy savings. Turning to our Exchange & Third-Party Management segment, as expected, adjusted EBITDA declined \$4 million compared to the first quarter. While active members declined on a sequential basis, Interval also saw positive trends from its developer partners, which helps drive new members. In fact, Interval added 20% more new members than it did in Q1, and we continue to work hard to add more resort affiliations to the system. After adjusting for share-based compensation expense and certain pandemic related expenses, corporate G&A expense increased—\$17 million sequentially, primarily related to reinstating our variable compensation plans, as well as the inclusion of Welk. In total, adjusted EBITDA more than doubled in the quarter on a sequential basis to \$164 million, with margin approaching our second quarter 2019, even with lower revenue, demonstrating the strength of our business model, the recovery and leisure travel, and the benefits of our synergy initiatives. We ended the quarter with incremental run rate synergy savings of approximately \$150 million, taking us closer to our goal of at least \$200 million, which we expect to achieve by early next year.

Moving to our balance sheet, in June, we issued \$500 million, 4.5% senior notes due 2029 to refinance our 6.5% senior notes due in 2026, extending our maturity profile and saving us \$10 million a year. Pro forma for those transactions, we ended the quarter with \$780 million of cash and total liquidity of nearly \$1.5 billion, including gross notes receivable eligible for securitization of \$97 million. After adjusting for the July debt repayment, we had \$4.8 billion of debt outstanding at the end of the quarter, comprised of \$3 billion of corporate debt and \$1.8 billion of non-recourse debt related to our securitized notes receivable. With the continued strong recovery in earnings, the higher free cash flow conversion we're anticipating from our excess inventory, as well as the cash on our balance sheet, we've been preparing to return to a balanced capital allocation approach. We are currently evaluating exiting the covenant waiver under our revolving credit facility early, as well as a combination of repaying some of the \$1 billion of debt we issued since the pandemic began and returning cash to shareholders.

Looking ahead, while we're not giving guidance, I do want to help you think through what the rest of the year could look like. Our vacation ownership business continues to recover nicely, and we expect that to continue this quarter. With occupancies in Orlando and most of our US beach and mountain resorts ending the quarter at or above 2019 levels, we expect tours will continue to grow in the second half, while VPGs will continue to normalize, but remain well above pre-pandemic levels. As a result, we expect contract sales to grow to between \$380 and \$410 million in the third quarter, up around 9% at the midpoint and roughly in line to slightly above third quarter 2019 contract sales. Finally, there are some near-term headwinds to consider as you think about the rest of the year in the path back to 2019 adjusted EBITDA. One is our slower recovery in our Europe and Asia Pacific regions where we expect contract sales and rental revenue to remain below 2019.

In our North America business, in order to get more of our owners back on vacation, we decided early in the pandemic to allocate more of our rental keys to owners as demand recovered. As a result, with the strong owner demand we're seeing for the rest of the year, we expect rental profit to remain below 2019. And in our Exchange & Third-Party management business, we expect greater owner usage to reduce available inventory for exchange which will impact our revenue and profit in the short term. As a result, while we do expect adjusted EBITDA to grow sequentially in the third quarter, these factors could keep us from getting all the way back to the \$190 million of adjusted EBITDA we generated in Q3 2019. The good news is we expect these headwinds to continue to abate as we move into 2022. Finally, while we're not providing free cash flow guidance today, with more than \$650 million of excess inventory, I would expect our adjusted EBITDA to adjusted free cash flow conversion to be well above our normal 55% range for a number of years. With that, we'll be happy to answer your questions. Rob?

**Operator**

Thanks, John. 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. One moment, please, while we pull for questions. Our first question comes from David Katz with Jefferies. Please proceed with your question.

**Steve Weisz**

Good morning, David.

**John Geller**

David?

**Operator**

David, are you muted? If you're muted, please unmute.

**Steve Weisz**

We must have answered all his questions.

**Operator**

Okay. David, if you're muted, please unmute your telephone. I'm going to go to the next question. Our next question comes from Patrick Scholes with Truist Securities. Please proceed with your question.

**Patrick Scholes**

Alright. Good morning, everyone. I am here. Thank you. Couple of questions here, sort of a little bit long term modeling related questions. You know, how should we think about next year's net

interest income versus 2019 levels? you know, and I guess, at a high level, you know, thinking about what the loan portfolio balance is versus 2019, certainly you had lower sales, this year and a lower loan balance, but you've had the Welk acquisition. From a sort of high-level modeling perspective, how to think about next year's net interest income versus, again, '19?

**John Geller**

Sure, Patrick. Good morning. yeah, as we did in the quarter, you know, financing profit, in the second quarter, obviously, with the addition of Welk, was basically flat to the second quarter '19. The good news, as I mentioned, given our recovery in contract sales in the second quarter, all the way—almost all the way back to pre-pandemic levels and the guidance we just gave, we do expect contract sales to be running at or above '19. and in June, as I mentioned, our legacy MVW note balance, kind of hit the equilibrium and originations because of where our contract sales exceeded, normal loan repayments, right? So, the balance should grow going forward on the legacy MVW, you know, even if we hadn't done the Welk acquisition, my back of the envelope, obviously a lot of different assumptions go into this on continued contract sales growth and kind of where we're at today. But I would expect that legacy MVW on its own would have been back to close to 2019 levels, from a financing profit in '22, and Welk is going to be growth on top of that. We acquired about \$240 million of gross notes receivable, in the Welk acquisition. So, hopefully that gives you some detail around, what you're looking for.

**Patrick Scholes**

Okay. That's very helpful. Just want to make sure we're all modeling that correctly. And then, related— somewhat related. For '22, how should we think about the ongoing earnings hit, from—you lost a corporate client in the RCI membership. How should we think about that earnings hit? And then also, from member loss over the past, year and a half I guess, again, as compared to sort of what it was in 2019?

**Steve Weisz**

Yes, Patrick. This is Steve. I think you're referring to the Diamond, transition from Interval to RCI, correct?

**Patrick Scholes**

Yes, that—yes, correct. That and, , you know, if you lost members over the past year and a half, what is sort of the run rate so we can sort of match it up (2019 again. Thank you.

**Steve Weisz**

Let me speak to the Diamond thing specifically, and then, I'm sure John can chime in a little bit on the EBITDA side of things. So, Diamond was 165,000 members, roughly 10% of the, of the Interval membership at the time that they lost. We were able to retain 29,000 members, from that, 165,000 in Interval, who continue to want to keep their membership with us. I should also point out that the 165,000 only 15% of those were actually active exchanges. Now, you know, 165,000 members you do get the annual corporate membership fee, which has, it's not the



lion's share of what you get from membership, but it certainly is important money. But the real money made in the exchange business is on a transaction basis when people go to exchange. We believe that, at the end of the day, by retaining the 29,000 members, which were obviously active users because they wanted to stay with Interval, that it's really going to be relatively de minimis in terms of the financial impact from Diamond. Now, with that said, there were others that because of you have normal attrition in the exchange business, that happens every year. Typically speaking, what happens is, as new developer sales happen, you have new memberships that are gained, and, under ideal circumstances, the new members outweigh the normal attrition. Obviously, in 2020, there were very few new member additions being made across the affiliate network, and you still had the continued attrition. So, there will be some leakage at the EBITDA side. So, I think John may be able to chime in a little bit with some additional numbers.

### **John Geller**

Yep. I mean that—as Steve walked through, obviously, a lot of moving parts and assumptions there about the average revenue per member of the members that left and all those things. But if you take a step back up to 30,000 feet, and you look at the EBITDA that that segment delivered in 2019 and kind of what we expect to deliver this year, I would say the loss of members from an EBITDA perspective is probably roughly \$25 million of EBITDA give or take, is kind of the back of the envelope as we look at it. But like I said, there is a lot of assumptions that potentially could go into that number, so I try to keep it, you know, a bit high level.

### **Patrick Scholes**

Okay. Very good. I really appreciate the color. Just last quickly, here. You know, when you made the Welk announcement, early this year, you had, at a high level targeted 29 million of EBITDA— I'm sorry doubling the 29 million EBITDA over three to four years. Would you say at this point you're, ahead of that, in line, or behind, which I probably don't think you are, but would you think you're ahead of that original expectation or in line with it at this moment?

### **John Geller**

Yeah. You know, in terms of how we underwrote it, at least for the first year here, obviously, we didn't expect the recovery, and that's really what you're seeing right now. We're outperforming our expectations, but it's just how strong the recovery is, and Welk is all North America, so they don't have some of the international exposure that we have. Our North America businesses, you know, essentially recovered, if you will, in terms of contract sales back to pre-pandemic levels, too. So, they're outperforming there. You know, in terms of the integration, a lot of the synergies the upside to that, that's all still to come. Our goal is to get, the resorts and the points club at Welk rebranded to Hyatt early next year, and so a lot of work on that front. That's going to unlock a lot of the development margin improvement we've talked about, and our ability to leverage the more cost-effective branded channels we get, through the Hyatt system. So that's a lot of the opportunities. And then, overall, there are some other synergy and integration savings we'll get over time, but, you know, the upside, if you will,

is really yet to come. The outperformance is just that the overall business is recovering quicker and performing, quite frankly kind of better than they were seeing back in '19 at this point.

**Steve Weisz**

Patrick, certainly nothing, that we have seen would cause us to be any less optimistic about what we called out it when we did the acquisition four months ago.

**Patrick Scholes**

Okay. good to hear. Thank you very much. I'm all set.

**Steve Weisz**

Thank you.

**John Geller**

Thanks.

**Operator**

Our next question comes from Ben Chaiken with Credit Suisse. Please proceed with your question.

**Steve Weisz**

Hi, Ben.

**Ben Chaiken**

Hey. How's it going? Hey. You mentioned some digital initiatives on the sales process. I think this is different than digital call transfer. Can we just dig into this for a second how exactly would it look, Is this like serving a Facebook or Instagram ad and then allowing a consumer to book or purchase a MiniVac, or is this actual timeshare sales process, meaning someone could, you know, buy a \$25,000 timeshare if they wanted on their phone?

**Steve Weisz**

No, Ben, it's the former, not the latter. And you have it, very well characterized. you know, the great news about Facebook, Instagram, and there are some other platforms out there that we're experimenting with is that you do have the ability to selectively target who we want to put an offering in front of, and as well as what offer you want that to be. As a result, if it is to generate preview packages, which, in turn, as they come through the house and do their tour, et cetera, hopefully generate, a good sale. It's a cost-effective way to sell preview packages. It gives you broader distribution, than some of the traditional methods, the timeshare operators have used in the past, and we're very encouraged by what we see by it.

**Ben Chaiken**

It seems like kind of like an exciting and maybe obvious channel. Was there a hurdle that maybe you couldn't—preventing you historically from using it or just evolution of the business, or can we talk about that?

**Steve Weisz**

No, it's more about evolution of the business. I mean, I think if you may remember back in the October of '19 Analyst Day, we talked about some early experimentation we had done and — let's be honest both, in both of those platforms in particular, they've advanced their technologies and their ability to, target customers, a lot better than they used to be, as well. Obviously, in 2020, we stood down from a lot of that because, to be honest with you, people weren't interested in thinking about booking a preview package to buy timeshare when they were in the midst of the pandemic and all the concerns about jobs and everything else. So— but we've started to dial it back up late last fall and are well engaged in it now, and we're very pleased with what we're seeing so far.

**Ben Chaiken**

Got you. Appreciate it. One more, if I may. You also mentioned the single platform kind of bringing all the brands under one umbrella. This seems like a, you know, another very interesting kind of tailwind, as well. It is too early to talk about some of the top line benefits? It seems like—I don't want to necessarily steer the conversation, but it seems like this could benefit, you know, close rate, price and just the consumer value proposition overall. So, I'm just hoping to get your perspective there.

**Steve Weisz**

You've touched on several, that are not only logical, but somewhat obvious, and this is again— this is three of the four brands. It would not include Hyatt, by virtue of our license agreement and everything else, but the Sheraton, Westin, and Marriott brands into a single platform, and we believe that, it does increase the customer value proposition. We believe that it should help improve close rates. and then ergo, you'd like to think that it has a nice impact on things like VPG. but, you know, again, we're talking about rollout early next year. We are very pleased with the progress we're making on all the bits and pieces behind the scenes that we have to put in place in order to get this thing together. But, between what we would think logically, as well as some customer research we've done, we think this will resonate very well with not only our existing owners but, new owners, as well.

**Ben Chaiken**

Okay. Cool. I appreciate it. Thank you.

**Steve Weisz**

Thank you.

**Operator**

As a reminder, if you'd like to ask a question, please press star one on your telephone keypad. One moment, please, while we pull for questions. Our next question comes from Brandt Montour with JP Morgan. Please proceed with your question.

**Brandt Montour**

Hey. good morning, everyone. Good morning. Thanks for taking my questions. Obviously, strong results, in contract sales and VPG, especially, given the new owner mix shift, positive mix shift that you called out. What would you say—where would you say 2Q VPG would have shaken out ballpark, if you would have normalized completely to historical mix levels knowing what you know about consumer demand and their propensity to buy and close right now?

**Steve Weisz**

That's a great question.

**John Geller**

So, you're looking for, if we were back at more of a 60/40 or 55/45 mix of owners to first time buyer sales, how would that blend out in terms of how much lower VPG we go all else being equal?

**Brandt Montour**

I'm trying to isolate a lift to VPG from the elevated close rates in today's consumer environment.

**John Geller**

Yeah, that's hard) to try and, figure out how much of the close rate is the environment, right, or not. So, I don't know. It's an interesting question, Brandt. I'm not sure, we have a good answer off top of our heads.

**Brandt Montour**

Fair enough. Don't worry. I have another one. when you think about '22 and building back to, you know, a full slate of tour flow as you see—as you see it as your new normal, let's say, right, so international, and Asia is all the way back to where you want it. But hypothetically you would have called some of the lower yielding channels. Can you give us a sense order of magnitude, you know, how much of that channel calling, would, you know, would, you know, lower tours on an absolute basis next year versus '19. Then, you said contract sales should be running ahead of '19, so clearly, you know, whatever it is, it's going to be offset by higher VPG. But is that the way we should think about it? And then maybe you could help us quantify that delta.

**Steve Weisz**

Yeah. Without getting into the numerics, kind of be at 20,000 feet on concepts. We have shut down, with the exception of Hawaii, virtually everything in OPC, which is, as I think you know, a relatively high-cost low yield channel. And we don't envision turning that stuff back on for the

foreseeable future. I think we've learned a valuable lesson if there is something to be said about having gone through things like we went through in 2020 that we realize that we can—in fact, we live in an environment with fewer low yield tours, and put our focus more on the higher yield, channels that we really benefit from. The second one is linkage, as not a foreign concept to anyone on the call, obviously, the hotel environment continues to struggle with its rebound. and, depending on who you listen to, there were some saying it's '23, '24, before hotels kind of get back to some sense of normalcy. So, we have been very judicious about, looking at turning back on linkage channels, which, in 2019, if my memory serves me correct, I think produced about \$100 million worth of the sales for us. We won't turn on a new linkage channel in a given market unless we can convince ourselves that, there is enough good traffic and volume in the hotels to be able to warrant being open on a cost-effective basis.

The flip side is, on the encore side of the business, which is really one of the most, vibrant channels for us in terms of producing high yielding tours et cetera, that encore channel has continued to actually grow. In fact, in the second quarter we actually booked more encore tours than we actually had come through the house, so we're adding that. An encore has a very high VPG to it. So, if you put all those together, again, I haven't given you any numbers because, quite frankly, we've just kind of gone through the process of planning from the second half of this year. We haven't really begun the process of going through the budgeting and channel optimization and everything else for 2022. But, I think I should give you some sense of where we're going to continue to put our focus, and go from there.

#### **John Geller**

Yeah, I think, Brandt, your question, we could give you how many tours in a vacuum we might not get back from OPC and some of less linkage. To Steve's point, we're doing all this stuff to more than offset, hopefully, the losses, right? And that's where—we'll get more visibility selling packages is a big one. You know, and so, you got to look at both sides, right? Our goal always was to get rid of OPC. Obviously, we were doing that over time, and then COVID hit and, we turned that stuff off. But we always said as we got rid of OPC, we were ramping up other channels, the digital marketing channels, you know, the encore packages and all that. So, we'll update you as we get later in the year what the outlook looks like for getting back to 2019 tours, which I think is your question. But we've got lot of moving parts right now, and we expect to hopefully get closer back to the 2019 tours. But, you know, once again, VPG being 30% above 2019, at least right now and it will continue to normalize, to your first question. We're not giving you what that could look like. Those are obviously the two moving parts that we're continuing to work through as we think about 2022.

#### **Brandt Montour**

Great. Thanks for all the color.

#### **Steve Weisz**

Thank you.

**Operator**

Our next question is from David Katz with Jefferies. Please proceed with your question.

**David Katz**

Hi. Good morning, everyone. I wanted to maybe put this on John. You know, you do securitization deals, right, that are at ever improving terms, right? And I think it's hard to argue that they aren't, you know, super compelling terms. And, you know, you had at the same time sort of the equity response I think it's fair to say inconsistent. I'd love for you to just talk about what those—that investor base, you know, asks about. What are their, you know, likes and dislikes and concerns? What are those discussions like compared to the discussions that, you know, that we have on the equity side? Because right there has always been and then there is now sort of a growing divide seemingly in how those are priced.

**John Geller**

Sure. yeah, you know, obviously, right now, we have seen a lot better terms, the deal we just did at 1.5%, 98% advance rate on the notes was, by far the best deal we ever had. Obviously, some of that's the interest rate environment we find ourselves in right now. but when you look at the investors we meet with, we've been doing securitizations now 20 plus years, right? we've got— and what's helped improve the economics over time is we have more and more investor interests, right? We've got folks that have been in our program for the entire time, and continue to be in the program. As you're well aware of, David, I'm not aware of anyone ever losing a \$1 on a timeshare securitization deal. That's a fact, right? You've had lot of ups and downs, and you've seen how the notes have performed through some pretty turbulent times, whether it was the financial crisis and now more recently in COVID, and I'm not just talking about our notes, but notes in general from an industry. So, when you have that performance over time, right, it draws more and more interest. Notwithstanding how good our terms are on a, you know, risk adjusted basis, you know, investors can get a little bit better yield, right? So, when we talk to them, they know our program, most of them. They know how well the business performs, and they know why we don't have to buy out the defaulted notes just given our inventory model and our need for inventory to fuel future sales, it's just—it's a very efficient program. and so, that gives you a little bit of the color, I think, high level in terms of what we hear and see.

**David Katz**

And apologies if I missed earlier. What—have you indicated about, you know, when there could be a next securitization deal, you know, forthcoming how far out that might be?

**John Geller**

Yeah. No, we haven't. But from a historical basis, with ILG call it pre-COVID, right, we would do call it two a year, right? We did one earlier this year. Given the contract sales guidance we gave you, right, we're originating notes now back to kind of where we were pre-pandemic. So, I think we're back on the cadence for two a year, so the goal would be to do another one here call it in the fourth quarter.

**David Katz**

excellent. Appreciate it. Thank you very much.

**John Geller**

Alright. Thank you.

**Steve Weisz**

Thank you.

**Operator**

We've reached the end of the question and answer session. At this time, I'd like to turn the call back over to Steve Weisz for closing comments.

**Steve Weisz**

Thanks, Rob, and thank you, everyone, for joining our call today. Whether it's to relax or just be with family and friends, people make time for vacation. And coming off last year, it's never been more true or more important. But for some people, the way they vacation has changed, and we're finding that the products we offer are resonating with customers more than ever before. It's evident in our occupancies, our sequential growth, and our VPGs. A quick review of our second quarter gives you a sense of that. We grew contract sales by 60% sequentially, and we're within 6% of the second quarter 2019 contract sales, while VPG was more than a \$1,000 above two years ago. We're also seeing strong growth from both existing owners and first-time buyers, which is good for the long-term health of the system. Interval Exchange transactions were within 1% of 2019 levels, while average revenue per member was up 7% over the same time period.

Adjusted EBITDA more than doubled compared to the first quarter, with margin nearly back to 2019 levels, and the third quarter has started off strong. With this strong recovery, we've turned our focus back to the digitally enabled transformational opportunities we still have in front of us to drive long-term growth and improve margins. We're also laying the groundwork to return to a more balanced capital allocation strategy, including evaluating options to repay some of the debt we issued during the pandemic, exit our covenant waiver early, and begin returning cash to shareholders. It's a great time to be in the vacation business, and we think it's a great time to be a shareholder of Marriott Vacations Worldwide. As always, thank you for your interest, take care of yourselves, and finally, to everyone on the call and your families, stay safe and enjoy your next vacation.

**Operator**

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