

**Marriott Vacations Worldwide
Second Quarter 2025 Earnings Call
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Presenters

Neal Goldner, Vice President of Investor Relations
Jason Marino, Executive VP & CFO
John Geller, CEO, President & Director

Q&A Participants

Ben Chaiken - Mizuho Securities USA
Brandt Montour - Barclays Bank
Patrick Scholes - Truist Securities
David Katz - Jefferies
Stephen Grambling - Morgan Stanley

Operator

Greetings, and welcome to the Marriott Vacations Worldwide Second Quarter 2025 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If you require operator assistance during the conference, please press “*”, “0” on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce you to your host, Neal Goldner, Vice President, Investor Relations.

Thank you, Neal. You may begin.

Neal Goldner

Thanks, Alicia, and welcome to the Marriott Vacations Worldwide Second Quarter Earnings Call. I am joined today by John Geller, our President and Chief Executive Officer, and Jason Marino, our Executive Vice 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, which could cause future results to differ, materially, from those expressed in or implied by our comments. Forward-looking statements in the press release as well as 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 in the schedules attached to our press release and on our website.

With that, it's now my pleasure to turn the call over to John Geller.

John Geller

Thanks, Neal. Good morning, everyone, and thank you for joining our second quarter earnings call. We delivered \$203 million in adjusted EBITDA in the quarter and reiterated our full year guidance, reflecting the continued demand for leisure travel, the resilience of our business model and the hard work of our associates around the world.

The first half of the year was certainly interesting, yet despite all the external noise, leisure customers continue to prioritize vacations and our team focused on what it could control, providing great experiences for our owners, members and guests, while executing on our modernization program.

Exiting the first half of the year, our business is well positioned. We're the only vacation ownership company focused solely on the upper-upscale part of the market. Our owners have a median annual income of \$150,000, and more than 80% of them do not have a loan on their timeshare, so we are confident they will be vacationing with us. And our exchange business includes most of the top- tier names in the timeshare industry.

Quickly reviewing the quarter, we delivered nearly 90% resort occupancy with strength seen in Maui, Coastal Florida, and the Caribbean, while Vegas was relatively weak.

We made further progress on our modernization initiative and remain on track to deliver \$150 million to \$200 million in run rate benefits by the end of 2026, with half coming from revenue initiatives and the other half coming from cost savings and efficiencies.

As we've talked about, the second quarter started off soft but trends improved as we progressed through the quarter. As a result, contract sales were down less than 1% for the quarter, an improvement compared to Q1.

First-time buyer sales were up year over year, our fourth consecutive quarter of higher year-over-year first-time buyer sales, and I'm particularly excited about this trend as new owners tend to buy additional points over time. First-time buyers represented a third of total contract sales in the quarter, up 200 basis points from a year ago, reflecting the success of our new owner strategies. Owner sales were down, year-over-year, due to lower VPGs, while owner tours were flat.

As you know, late last year we announced a modernization program that we believe can deliver an incremental \$150 million to \$200 million in adjusted EBITDA benefits on a run rate basis, by the end of next year. The reason for pursuing this initiative is to speed decision-making across

the organizations, right size our cost structure, optimize our IT platforms, and provide the foundation to drive growth in our leisure-focused business.

We expect half of the benefit to come from cost savings and efficiencies, while the other half will come from revenue initiatives. And while most of the expected benefit is still ahead of us, we are making great progress.

For example, during the second quarter, we launched and expanded a number of revenue initiatives, including:

- Expanding our enhanced call transfer program across the Marriott system, resulting in our best package sales quarter, since the pandemic. This should help drive future sales.
- We also increased our use of non-traditional channels through a combination of roadshows, virtual tours and other events, accounting for over 13% of our total contract sales in the quarter.
- We expanded our new owner experiences campaign, which contributed to higher first-time buyer VPGs. We also implemented a campaign to drive additional near-term owner stays driving incremental tours.
- And soon, we plan to start using FICO score data for marketing purposes, which should result in higher VPGs and improved credit metrics.

With our data and analytics and marketing and sales teams working together, we built and deployed an AI-based propensity model, focusing on renters most likely to become owners, which we believe will help drive higher sales.

We are also using internally-developed advanced analytic predictive models to better support our sales execs, and we are also rolling out new sales training.

And we introduced a refundable Getaway pricing option at Interval International, which we believe will drive higher rentals and profitability over time.

In total, we expect these and other revenue-enhancing initiatives will help us deliver \$75 million to \$100 million in incremental EBITDA by the end of the next year on a run rate basis.

We also expect to deliver another \$75 million to \$100 million from cost savings and efficiencies.

- We expect significant savings to come from retiring legacy technology debt, which will lead to efficiencies in how we run the business, eliminating manual processes and taking costs out that are currently required to maintain these legacy systems.

- We also expect to deliver substantial benefits from increasing automation, lowering procurement costs, reducing overhead costs, including corporate G&A and optimizing our organizational structure.

And while not part of our expected \$150 million to \$200 million EBITDA benefit, early indications suggest maintenance fees on our points-based products may be flattish next year, partially due to our modernization initiatives, which enhances the overall value proposition for our owners, as well as our first-time buyers.

But just as important is the momentum we've built in our early successes, we're changing how things get done, increasing the speed of decision-making and driving accountability, and I'm pleased with the way our associates have embraced the new ways of working.

Looking forward, occupancy is expected to remain high. Tour capture rates are increasing and owner keys on the books for the second half of the year look strong. A majority of owner villa reservations are now being done online, and we expect that to grow further.

Loan delinquencies continue to trend down. Guest satisfaction scores remain strong. And we ended the quarter with nearly 270,000 packages in our pipeline, with almost 30% scheduled to take a tour in the second half of the year, providing us good tour visibility.

Contract sales increased slightly in July, compared to June, on higher tours and stable VPGs, and the team is focused on ramping up a number of new sales initiatives scheduled to launch in August as well, as increasing investment in sales training.

Looking out longer term, despite the noisy environment, leisure consumers continue to prioritize travel and timeshare remains a great value for many of them. As the only upper-upscale player in the industry with the best collection of brands, we believe our company is uniquely positioned for long-term growth, offering a product that resonates with today's consumer that is looking for space and experiences, combined with brands they trust.

Despite some ups and downs, our long-term financial model hasn't changed. We think we can grow tours and VPG in the low- single- digits, lever our fixed costs to improve margins and use our free cash flow to reduce leverage and buy back shares. Over time, that should result in high single-digit to low double-digit EPS growth. And with the bulk of our modernization benefits still ahead of us, we should be able to do better than that for the next few years.

With that, I'll turn the call over to Jason to discuss our results in more detail.

Jason Marino

Thanks, John. Today, I'm going to review our second quarter results, our balance sheet and liquidity position and our outlook for the year.

Contract sales were down less than a point with 2% higher tours offset by lower VPG. First-time buyer sales increased 6%, driven by higher tours and higher VPG, while owner sales declined 4% on lower VPG. As you know, first-time buyers typically carry a lower VPG than owners, so the growth in first-time buyer sales negatively impacted VPG in the quarter.

Our sales reserve was 13% of contract sales in the quarter, with delinquencies declining 50 basis points, sequentially, and 110 basis points, year-over-year, to the lowest levels in two years.

For the full year, we expect our sales reserve to be in the 12.5% range.

Development profit more than doubled compared to the prior year, reflecting last year's \$57 million net sales reserve adjustment. Excluding that, development profit declined 11% year-over-year due to lower VPGs and higher marketing and sales costs, partially offset by lower product costs as a percent of revenue.

Total company rental profit declined \$7 million, or 16%, to \$35 million, driven by increased unsold maintenance fees and marketing expense, partially offset by higher ADRs.

Management and exchange profit increased 3% to \$98 million, with increased revenue in our Vacation Ownership segment, partially offset by lower exchange revenue at Interval.

Financing profit increased 7% to \$53 million. Corporate G&A was flat, excluding the \$7 million of lower variable compensation related to the sales reserve adjustment, last year. And adjusted EBITDA increased 29% to \$203 million, with margins improving 360 basis points, as we lap last year's sales reserve adjustment.

Moving to the balance sheet, we ended the quarter with leverage of 3.9 times and \$800 million in liquidity. Our zero percent convert matures in January next year, and we've already backstopped the majority of it with a delayed-draw term loan facility, providing us optionality as we look to refinance it, later this year.

We were precluded from buying shares during most of the quarter, but you should expect us to be opportunistic buyers of our own shares in the future, as benefits from the modernization are realized.

Looking forward, we are maintaining our full year contract sales and adjusted EBITDA guidance. We expect product costs this year to be flat as a percent of contract sales, reflecting our first half results. We now expect rental profit to decline around \$20 million to \$25 million due to the

higher cost of rental inventory, and we also expect corporate G&A to be flat to down slightly, this year.

Our modernization program is progressing well, and we still expect to deliver \$150 million to \$200 million in run rate benefit, by the end of next year. For modeling purposes, we still expect to generate \$35 million in P&L benefit this year with an additional \$60 million to \$80 million coming next year and the full run rate in 2027.

Moving to cash flow, we still expect our adjusted free cash flow to be \$270 million to \$330 million this year, excluding roughly \$100 million of one time cash costs related to our modernization initiatives.

We acquired 52 completed timeshare units in Khao Lak, Thailand, for \$43 million during the quarter. We still have a number of noncore assets we plan to dispose of over the next few years, which we estimate could be worth \$150 million to \$200 million, and our team has been working hard to monetize them. With \$200 million of spending already designated to the modernization program through the end of next year, we plan to use proceeds from any asset dispositions to repurchase shares and reduce leverage.

We ended the quarter with \$1 billion of inventory on the balance sheet. Looking ahead, we have \$310 million of inventory commitments due over the next few years, including payments for Waikiki, our second phase of Khao Lak, additional units in Bali and a new Nashville resort, which is scheduled to open in 2027.

Beyond that, we plan to restrict our inventory spending to low-cost reacquired inventory, as well as capital-efficient arrangements where we don't pay for the inventory until we start sales and where we can add a new sales gallery, which helps drive future sales. Our goal is to get closer to the one and a half to two years of inventory on the balance sheet.

So to summarize, we ended the quarter strong. And while the environment is still somewhat fluid, we remain focused on what we can control, including ensuring our owners, members and guests have great vacation experiences, while also executing on our modernization program.

With that, we'll be happy to answer your questions. Alicia.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would 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 poll for questions.

Thank you. Our first question comes from the line of Ben Chaiken with Mizuho. Please proceed.

Ben Chaiken

Hey, good morning, thanks for taking my questions. Just would love to dig in on contract sales for a moment. From what we can tell just based on some of the commentary you gave last quarter and intra-quarter, it seems like June contract sales were positive, maybe in the low single-digit range. Was there -- I guess, is that correct? And then was there -- is that a sequential acceleration versus May, or was it more comp related? And then just to confirm, did you say July was better than June? Did I catch that right? Thanks.

John Geller

Yeah, July contract sales were up slightly from June. Going back to your other question, yes, June was up about 3%, year-over-year and sequentially, it clearly improved because as we had talked about, we were down 4% in April. We said that on our last call, and we were down 3% in May, which we didn't say how much, but we had said we had gotten a little bit better. So there was some acceleration. June was a bit of an easier comp year-over-year. I would say that. If you remember, last year, that's where we saw some of the first-time buyer headwinds. But net-net, good acceleration as we came through the quarter and down a little bit less than 1%.

Ben Chaiken

Got it. Understood. And then I believe in the prepared remarks, you mentioned a 12.5% loan loss provision is the expectation for the year. Can you just remind us, how does that compare to your previous expectation? And then maybe parallel to that, I believe you mentioned that the maintenance fees should be flattish in 2026, in part, because of some of the modernization initiatives. Do you think that will show up in -- I guess, like theoretically, should that show up in an improvement in loan loss provision? Thanks.

Jason Marino

Yeah, Ben. So the 12.5% is about 0.5 point higher than our previous guidance, which was about 12% for the full year. The modernization and the lower maintenance fees, we certainly, if you go back a couple of years, I think some of the delinquencies that we had were attributable to the higher-than-normal inflationary increases or the higher inflation. So we do think that will help, going forward.

But the loan book is in good shape, as we talked about, with delinquencies down to really the lowest levels in two years, both on a sequential and a year-over-year basis being down pretty materially 110 basis points year-over-year on the delinquencies. So, we feel good about where the loan book is.

John Geller

Yeah, keeping the maintenance fees not -- flattish, just big picture, that obviously helps with the value proposition, right? Maintenance fee is a component of the long-term cost of prepaying or buying timeshare. So everything we can do to continue to enhance the value proposition, we think it helps from a sales perspective, helps from an owner satisfaction perspective, should have some impact, hopefully positive on our loan loss. So it is and will continue to be a focus.

Operator

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

Patrick Scholes

Hey, good morning. Certainly, flattish maintenance fees, welcome news after -- I think I was up mid-teens a couple of years ago, but definitely attest to the value proposition there. A couple of questions. I've seen some headlines here about an expanded owner benefit, that being ability to use Club points to directly book stays at thousands of hotels, around the globe. Is that an earnings needle mover for you folks? Will that actually show up in EBITDA growth, or how do we think about that?

John Geller

Yeah. No, it's really more optionality for our owners, Patrick. Before, we had a couple of hundred Marriott hotels that we offered people to use their ownership points to book into. It was a bit of a manual process you had to call. And this really automates that but more importantly, opens up most of the Marriott system or resorts where, like I said, it was limited.

Nobody, and I've said this before, exchange options give people additional ways to vacation. They're never going to be the best value option for an owner. That's always going to be staying within our 120-ish resorts around the world because, right, you've got to take those weeks, pay for the vacation and then we've got to rent it to offset the cost of the owner's vacation. So there's value leakage from an owner perspective. But it does give the owner just more options if they want to stay outside the vacation ownership system.

Patrick Scholes

Okay. So sort of add that into the value proposition of the product.

John
Yeah.

Geller

Patrick Scholes

A follow-up question, and then I'll hop back in the queue. I think I heard you mentioned you were precluded from buying shares in the most recent quarter. Can you provide any color on why that was? Thank you.

John Geller

Yeah. No, like any time, there can be blackout periods for different things. So, we've never publicly -- we've had them in the past. We've never publicly commented on when we're in the market, when we're not in the market. We just thought because early on in the quarter, obviously, the stock price was very low on a relative basis, and we were blacked out at that point. So going forward, we'll continue to be opportunistic blacking out -- or excuse me, buying back shares as we look at the right opportunities.

Operator

Thank you. Our next question comes from the line of Brandt Montour with Barclays. Please proceed.

Brandt Montour

Thank you very much. Good morning. Thanks for taking my question. So I wanted to circle back on the contract sales commentary earlier in the guidance -- or sorry, the June, July commentary. And I think that that was pretty clear what you were saying, John, about June through July. But it did feel like trends got better. The contract guidance, contract sales growth guidance you guys gave was unchanged. Just curious if you feel any better about that guidance range? Or was that just the sort of acceleration, month-to-month, that you had already sort of baked in?

John Geller

Yeah, I mean we felt at the midpoint of, call it, down 1.5%. That's where halfway through the year, we're still down. And obviously, we were down in the second quarter. So, we're hoping we do better as we move through the year, but there is still some broader macro uncertainty. Obviously, you had the jobs report stuff last week, things like that, that probably keep us a little bit on the -- we got to continue to move through the year and deliver on the contract sales.

Brandt Montour

Okay, thanks for that. And then maybe for Jason, and maybe I missed this earlier. I think you did say that loan loss provision guidance went up 50 basis points from 12% to 12.5%. I'm just trying to sort of square that against the commentary in the quarter where you said delinquencies were at a 2-year low and that they got better. So why did -- I guess, why did the loan loss provision go up for the year, unless I missed something there?

Jason Marino

Yeah, so, what we're seeing is a little bit long-term trends, obviously, all going in the right direction, which is great, and we're happy to see, and we've been working really hard at that for obviously, the last couple of years. If you look at the second quarter, we did have -- we were kind of up in that 13% range due to, about half of that was due to higher propensity. There's a little bit of seasonality in there. And then we did have a little bit of higher defaults in our Asia

business, about \$2.5 million in the quarter. So not big dollars at \$2.5 million, but that is about 60 basis points on a contract sales basis.

So just for overall context, as we expand our loan book -- we expand our Asia business, that loan book, right now, is about \$150 million on gross notes of about \$3 billion. So still a relatively small portion of the overall book. So that's what we saw in the second quarter, and that informs some of the guidance going forward to the 12.5%.

John Geller

And we continue to focus, as Jason mentioned, delinquencies are down. They're at a 2-year low, which is all positive. But they're still not kind of back to where we'd like them to be. So hopefully, the trends continue. And if we can continue to get the delinquencies back down to more 2022 level before we started seeing some of the issues, that will give us more confidence to take a look at the overall reserve going forward.

Operator

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

Stephen Grambling

Hey, thanks. I just want to clarify, you made this comment about being more efficient around inventory and taking down the amount years on hand. What are the implications to cost of VOI not just this year, but as we look maybe further out? Should we be assuming that that cost of VOI actually as a percentage of contract sales will come down, or what are some of the puts and takes to think through?

Jason Marino

Yeah, so as we -- I think you're referring maybe to the cash flow guidance came down about \$10 million on the inventory spending. I think you highlighted that in your note. And then, yeah, we've been consistent in saying that we want to get our inventory levels down to that one and a half to two years on hand. So I think all of that is consistent with our -- kind of how we've talked about inventory and how we think about it, going forward.

Also, as we've talked about it, we do see our cost of inventory ticking up slightly over the next few years as the mix of inventory changes, incorporating some of the new inventory that we're purchasing like Waikiki and some of the projects in Asia.

So that's what we see over the long term. Again, it's not going to rise very quickly, but we do see over the next three to five years, probably a slight increase in our product cost going forward, and that's pretty consistent with how we've talked about it in the past.

Stephen Grambling

Got it. Okay. I thought there was maybe something new on the efficiency there. One other unrelated question. Harley-Davidson just signed a partnership with KKR and PIMCO to basically sell a portion of its financing receivables for 1.75 times book. And also, rather than securitize, actually sell to them at a premium. I guess I'm curious, how do you think about the value of your financing receivables relative to book value and maybe the rise of private credit markets and maybe potential other opportunities to maybe be more efficient on the securitization front? Thanks.

John Geller

Yeah, I'll start, and Jason can add anything here as well. We're always looking, whether it's our financing business or anything, how do we maximize the long-term value for our shareholders. So, we've looked at a lot of stuff with the financing business over there, and we'll continue to look at it. What I can tell you high level, I think our securitizations are a lot more efficient than maybe what you -- Harley-Davidson was doing. I mean, we get a 98% advance rate.

And I think the real question is how you think about that is bringing in a third party, they've got a cost of capital. What's that going to cost you versus maximizing our profits on our balance sheet. And we'll continue to evaluate all those opportunities. And if it makes sense from a shareholder value creation, we would definitely take a look at it.

Operator

Thank you. Our next question comes from the line of David Katz with Jefferies. Please proceed.

David Katz

Hi, good morning. Thanks for taking my question. I know this was discussed a bit earlier, but I just want to go a little farther, frankly, getting some questions and some of my own on this with respect to the 50 basis point increase on the loan loss. I mean, some of the other external data we see seems to be moving in a positive direction. And I think part of the answer earlier suggested more propensity. But are you just being conservative in there or a bit more conservative than you were the last time we talked about it? Could we just elaborate a bit more? Thank you.

John Geller

Yeah, David, if you say conservative, I think there is a bit of unknown. Like I was saying earlier, while delinquencies continue to trend better, and we're seeing them as low as they've been in two years, they're still higher than they were back in 2022. We want to see continued improvement. And then I think if we get that continued improvement, then we'll look at our reserve, going forward. So, I don't know if you want to say that conservative. It's not really being conservative per se as much as reacting to what we're seeing and getting our delinquencies back down to where we've seen them, historically.

David Katz

Okay, thank you very much.

Operator

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

Ben Chaiken

Hey, thanks for letting me sneak back in here. You had some positive commentary on Maui in the prepared remarks. I guess what are you seeing from a sales perspective? We haven't talked about this in a while because I don't think there's been much to share, but is there any maybe quantitative way to frame where we are versus maybe pre-fire or where we are in the recovery process? Just some way to gauge. Thanks.

John Geller

Sure. Sure. Well, I'll start overall with Hawaii. Hawaii had a strong quarter, year-over-year, with contract sales were up VPG tours. So, it is one of our brighter spots in the quarter. So that's good. I'd say on Maui, a couple of things. I think on the transient side, occupancies were up year-over-year, which was good, and rate was up 8%, 9%. So that was all positive on the rental side.

Sales in Maui were kind of flat versus last year. And some of the lingering stuff we have talked about, which is our owners coming in back into Maui, are getting better, but still kind of below where they were, as well as some of the packages.

And then also, we've got that re-piping project at the Maui Ocean Club, which is taking units out. That'll get wrapped up, call it, first half of next year. So, a bit of noise out there. And I'm happy to say there was a wildfire that occurred yesterday in Maui that was put out fairly quickly, but that risk is still out there, happy everybody is safe out there, but did impact us. We had to close sales for the day, and there were some power outages and stuff. So something we continue to pray for the best out there. But overall, Hawaii was pretty strong in the quarter on a relative basis.

John Geller

All right. I think that does it for the questions. So, thank you, everyone, for joining our call, today. We delivered another solid quarter with strong occupancies and increased first-time buyer sales. Our modernization initiatives are taking root, and we have a lot of new plans scheduled for the second half of the year. So we are well positioned to deliver on our guidance, this year.

We're also making good progress on our modernization program and remain on track to deliver \$150 million to \$200 million in incremental run rate adjusted EBITDA by the end of next year.

On behalf of all of our associates, owners, members and guests around the world, I want to thank you for your continued interest in our company and hope to see you on vacation, soon.

Thank you.

Operator

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