Marriott Vacations Worldwide
Third Quarter 2023 Earnings Call
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Presenters
Neal Goldner, Vice President-Investor Relations
John Geller, President and Chief Executive Officer
Jason Marino, Executive Vice President and Chief Financial Officer

Q&A Participants
Patrick Scholes - Truist Securities
Brandt Montour - Barclays
Shaun Kelley - Bank of America
David Katz - Jefferies
Ryan Lambert - JP Morgan

Operator
Greetings and welcome to the Marriott Vacations Worldwide Third Quarter 2023 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Neal Goldner, Vice President, Investor Relations from Marriott Vacations Worldwide. Thank you. You may begin.

Neal Goldner
Thank you, Melissa, and welcome to the Marriott Vacations Worldwide third quarter 2023 earnings conference call. I'm joined today by John Geller, 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 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, 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 reference 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 to the Investor Relations page on our website at ir.mvwc.com.

Before I turn the call over to John, as you saw in our earnings release last night, with four vacation ownership resorts in West Maui, the wildfires had a negative impact on our results in the third quarter despite having no physical damage to our properties.

To facilitate a conversation this morning about our business excluding the Maui wildfire's impact, our discussion and commentary this morning about our consolidated results for the quarter will exclude the impact of the fires, except where noted.

We added a table to our earnings release last night to illustrate the impact the wildfires by line of business to facilitate your analysis. In addition, during last year's third quarter with the launch of Abound by Marriott Vacations Worldwide, we aligned the contract terms of vacation ownership sales across our Marriott, Westin, and Sheraton brands. We also aligned and combined our accounting methodologies for the reserve on vacation ownership notes receivable for these brands.

These changes, which we refer to as "the Alignment", resulted in a non-recurring benefit of $44 million to last year's third quarter adjusted EBITDA due to the acceleration of revenue from the sale of Marriott branded vacation ownership interest.

The schedules we provided in last night's earnings release illustrate what our results would have been in prior year quarter and year-to-date period, without this benefit. During our call today, all of our discussion and commentary about year-over-year changes exclude last year's Alignment benefit.

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 third quarter earnings call. I wanted to start the call today by reflecting on one of the most significant happenings in the third quarter, the wildfires that battered West Maui.

While we did not have any physical damage to our resorts, the wildfires had a profound impact on our associates and their families with several hundred of them losing their homes. For all of our associates in Maui, our thoughts and prayers continue to be with them as they work with each other and their community to rebuild.

Thanks to the hard work and dedication of our associates, we have reopened our resorts in West Maui, although occupancy in October was well below normal. We are seeing reservations build for the balance of the year, though we expect it'll take until early next year until occupancy returns to more normal levels. At the same time, our focus has been on educating

our owners, members, and guests on respectful travel as the community rebuilds and encouraging any visitors to explore the island and enjoy local businesses that need the support of tourism.

Moving to our third quarter results, it was only a year ago when we first announced Abound. Our enthusiasm at the time to provide owners and first-time buyers direct access to a much broader portfolio of resorts using a common currency couldn't have been higher. Since then, thousands of owners and other customers have been introduced to Abound, and we continue to see elevated interest at our resorts with people wanting to learn more about Abound and its benefits.

Despite the near-term impacts of the transition, there's no doubt in my mind that it is, fundamentally, a better product. For legacy Marriott owners, they are now able to book directly into any of our Sheraton and Westin resorts using their points. And for legacy Sheraton and Westin owners, who had previously had access to a more limited system of resorts, they can now book directly into any of the more than 90 Marriott-branded vacation ownership resorts around the world using a common currency. In addition, legacy Sheraton and Westin owners now have a much more robust selection of vacation options to choose from, with new access to thousands of other vacation alternatives using their points, from hotel stays and cruises to sporting events, Broadway plays, and more.

Over the past year, we've been working hard educating consumers about the benefits of Abound and our salespeople are getting more experience selling it. We have also seen three times the number of legacy Vistana owners elect to use the Abound program this year compared to last, which will allow more owners to experience the benefits firsthand. This was evident in our results this quarter, where VPG for sites that transitioned increased more than 15% sequentially from the second quarter. And in our legacy Welk business, the changes we've made helped drive a 5% sequential VPG improvement. As a result, total company VPG improved 2% sequentially from the second quarter, despite the impact of the Maui fires.

We also formally launched the Hyatt Vacation Club brand during the third quarter, bringing our 22 former Hyatt Residence Club and legacy Welk resort properties under a single brand. And with the launch of the new BEYOND program, Hyatt Vacation Club owners now have access to more travel offerings, including cruises and vacation experiences, which will help drive higher owner satisfaction and incremental tours.

Our international business continues to provide strong growth, with contract sales across Europe and Asia Pacific growing 42% year-over-year. But with more U.S. consumers traveling abroad this year, this has negatively impacted our North America results.

We continue to focus on driving sales of new owners, with first-time buyers representing half of our tours in the quarter and a third of our contract sales, which is good for the long-term health of the system.

On the development front, we acquired a property in Savannah, Georgia, which we intend to convert into a 73-unit Westin Vacation Club. Savannah consistently ranks as a top tourism destination by our owners. This resort will also add new sales centers in the market when it opens in a few years.

In our Exchange and Third-party Management segment, our Interval business performed in line with expectations this quarter. Active members were down slightly year-over-year, while revenue per member increased.

Looking forward, travel demand continues to revert to historical patterns and economic conditions are mixed with consumers starting to feel the impact of higher interest rates and inflation. At the same time, the changes we've made in our Marriott-branded vacation ownership business with the launch of Abound, as well as those to our legacy Welk business, are encouraging. VPG has improved 2% from the second quarter and we're up 17% above 2019 Q3 levels, even with the Maui fires impacting our results, reflecting the benefits of our team's hard work.

Taking the longer view, our businesses fundamentally sound with long-term growth opportunities. We have some of the best brands in the vacation ownership industry, each with its own expansion potential. We're making smart investments in digital technologies to enable more self-service by our owners and members. We're leveraging data to make the right offers to the right people at the right time, while streamlining processes to lower costs across our organization. We also have a substantial amount of high-margin recurring revenue streams that reduce our exposure to economic cycles at times like this, and we generate substantial free cash flow year-in, year-out, and at our current stock price I can't think of a better use of that cash except to return it to shareholders.

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

Jason Marino
Thanks, John. Today, I am going to review our third quarter results, the strength of our balance sheet and liquidity, our updated 2023 guidance, and some early thoughts about 2024. In addition, as Neal mentioned, to facilitate a conversation this morning about our business, all of my comments will exclude the estimated impact of the Maui wildfires, except where noted.

Starting with our Vacation Ownership segment. Contract sales declined 4%, excluding the estimated $28 million impact of the Maui fires. At over $4,100, VPG was only down 5% year-over-year in the third quarter versus a 14% decline in the second quarter, illustrating the benefits of our sales training and sharing of best practices across the organization, as well as the continued owner education about the benefits of Abound. Another encouraging sign is that our package pipeline continues to be robust and grew 10% compared to a year ago, which is a key driver of future sales.

As you saw in our release last night, we recorded an additional $59 million loan loss charge in the quarter on our $2.8 billion gross notes receivables portfolio. As we discussed last quarter, we saw delinquency trends improve earlier in the year, but they still remain above the prior year and our expectations. Based on this, and the mixed macroeconomic data we have observed in 2023, we expect this to continue in the near-to-medium-term and we adjusted our estimate for the loan loss provision taking these factors into account. With this adjustment, we believe our consumer loan portfolio is adequately reserved. After the partial offset of approximately $10 million in cost of vacation ownership, the impact to adjusted EBITDA was $49 million, which we have not added back in our calculation of adjusted EBITDA.

Rental profit declined $13 million on a year-over-year basis, primarily due to lower RevPAK in Orlando and our mountain locations, as well as higher inventory holding costs.

Finally, financing profit increased 3% year-over-year and resort management profit grew 8%, reflecting the recurring nature of these high margin revenue streams.

As a result, adjusted EBITDA on our Vacation Ownership segment would have decreased 24% year-over-year to $195 million in the third quarter, excluding the estimated impact of Maui.

Moving to our Exchange and Third-party Management business, adjusted EBITDA declined $8 million compared to the prior year, driven by fewer exchange transactions at Interval International and lower RevPAR at Aqua Aston, while margin was just over 50% for the quarter. As a result, total company adjusted EBITDA would have declined to $174 million in the quarter.

Moving to the balance sheet. We ended the quarter with approximately $1 billion in liquidity and a net debt to adjusted EBITDA ratio of 3.5 times. Our balance sheet remains in good shape with no corporate debt maturities until Q3 2025, when our variable rate term loan B matures, and after our $300 million of interest rate hedges mature in April, our corporate debt will still be 70% fixed with an interest rate of only 4.2% at today's underlying rates.

We repurchased $86 million of common stock in the quarter, bringing our year-to-date total repurchases to almost $250 million with $476 million remaining in our repurchase authorization.

Moving on to our 2023 guidance. As you saw in our release last night, we now expect our adjusted EBITDA to be between $745 and $765 million, including an estimated $50 to $55 million impact from the Maui fires and the $49 million net decrease from the increased loan loss provision. For the fourth quarter, we expect adjusted EBITDA to be between $170 and $190 million, including an estimated $26 million to $31 million impact from the Maui wildfires.

We now expect full-year contract sales to be between $1.75 billion and $1.77 billion this year, after an estimated $60 million to $65 million impact of the Maui fires and for development margin to be around 27%, after the 200-basis point impact of the extra loan loss provision. For

the fourth quarter, we expect contract sales to be between $425 and $445 million, after an estimated $32 to $37 million impact of the Maui fires.

We expect resort management profit to increase more than $5 million year-over-year in the fourth quarter, and for financing profit to be down slightly, due to continued higher interest rates in the ABS market. In addition, we expect rental profit to decline a few million dollars year-over-year due to lower RevPAR and higher operating costs and an approximately $5 million estimated impact of the Maui wildfires.

In our Exchange and Third-Party Management business, we expect profit to decline roughly $5 million in the fourth quarter, due primarily to lower transactions at Interval International and lower RevPAR at Aqua-Aston.

As a reminder, we reported a $7 million alignment benefit to adjusted EBITDA in last year's fourth quarter that will not recur, this year.

Moving to cash flow. We ended the quarter with approximately $430 million of excess inventory, enough to support more than $2 billion in future sales. However, with the lower expected adjusted EBITDA this year, we now expect our adjusted free cash flow to be between $430 and $460 million this year.

Finally, while we are still working on our 2024 plans, we wanted to provide a little color for next year. We expect revenues and contract sales to grow, despite having to rebuild a portion of our marketing and sales team in Maui. However, there are two parts of our vacation ownership business where we expect profit to decline year-over-year due to cost pressures.

We expect maintenance fees to owners to increase in the mid-teens next year due to inflationary pressures in labor, materials, and insurance costs. This will result in higher inventory costs in our rental business, which we do not expect to be offset by increased revenue. And in our finance business, we expect continued higher interest rates in the ABS market to negatively impact our financing profit.

In addition, the return of variable compensation expenses will negatively impact G&A expense next year. We'll be able to give you more clarity when we report earnings in February, when we will also have more information about the recovery in Maui.

As always, we appreciate your interest in Marriott Vacations Worldwide, and we'll be happy to answer any questions you have now. Melissa?

Operator
Thank you. 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.

Our first question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Hi. Good morning, everyone.

John Geller
Hey, Patrick.

Patrick Scholes
A number of questions here. First one, can you help bridge your full-year guidance cut by $140 million at the midpoint? What we know is, Maui, roughly $50 million, the loan loss provision another $50 million, but there's a difference there about $40 million. What is--am I thinking about that correctly, and if so, roughly what is that $40 million? Thank you.

John Geller
Sure, it's really two pieces, primarily. We did take contract sales down, excluding Maui, just given where we were in terms of-- mostly tour flow was off, has been off a little bit in the third quarter versus our expectations. Still continues, if you exclude Maui for the third quarter, tour flow was up about 3.5%. But we were expecting something more in the, call it 5% increase. And same thing on the VPG, on the margin, we're doing well in terms of sequential improvement, but we did expect VPG to be a little bit higher.

So, based on that, kind of the miss in the third quarter, we ran that through. So, that was, I'll call it, roughly $50 million if you look at contract sales, what we previously got excluding Maui. We kind of based it on a little bit lower than our expectations here in the third quarter and running that through from kind of the trends in the fourth quarter. That gives you probably about half of the $40 million you're talking about in terms of the impact on development profit.

And then the other piece, as we've talked about in the past, is our rental business continues to do well. But relative to last year, just some of the trends and some of our markets, particularly Orlando, [and] some of our mountain resorts, we have seen slightly softer ADRs, as well as slightly lower occupancies.

So, it was really those two things. You got a couple of things, plus or minus in G&A, couple million in there, plus or minus, but it's really around the rentals and the development profit.

Patrick Scholes
Okay, on that first part, was some of that related to continued weakness due to the inclusion of Abound into the sales program?

John Geller
I'm going to say there wasn't a little bit. But if you look at Abound, that was very positive. From the second to the third quarter at the transitioned sales centers, we saw about a 15% increase in VPG, where overall VPG in the quarter was up about 2% sequentially, right. So, we made really good progress and I think we'll continue to make good progress here going forward.

We haven't kind of closed the gap on the pre-Abound VPGs yet. And then on the Hyatt side, same thing, you started to see improvement about 5% sequentially from the, call it, the Welk sales centers and changes we've made there. And with the launch of our BEYOND program and enhancements to that offering, we expect to get more traction going forward. So just more generally, like I said, it's a couple points of tours more broadly throughout the system and VPG being a point or two below what we expected for the quarter.

Patrick Scholes
Okay. Let's move on now to the topic of taking the loan loss provision hits. It seems to me that it's from one or the other, or possibly a combination of just forecasting that didn't go right, or has there been any material actual downturn in your customers' ability to pay their loans?

I mean, are you seeing any challenges with paying loans or just something didn't go right in the forecast when you sit down and do these forecasts?

John Geller
Sure. Yeah, a little bit of background. We project future loan loss reserves based on historical loan loss reserves, right. So, we have static pools that look at the history of how loans defaulted in the past based on FICO scores and timing of when they defaulted in the curve. And based on that, the static pool projects what your loan loss reserve should be going forward.

So, in any given quarter, you're always going to have some pluses and minuses, right? As we talked about last quarter and even in the first quarter a little bit, we were seeing on a kind of historical basis versus those static pools and versus last year, higher delinquencies, right? And we did take some true-ups in the first couple quarters of the year related to that.

We talked about last quarter though that those delinquencies, sequentially, continued to trend down, but they still remained above the expectations in the static pool and prior year.

And so, as we had a couple quarters of that, we said, look, based on these trends, let's look out and say, assuming some higher defaults here going forward, we need to adjust the reserve. So, we took a charge, which we think now adequately reserves us—remember, we've got a $2.5 billion, $2.6 billion loan portfolio. So, you're talking about a couple points here of higher reserves on that book. We think now we're adequately reserved on that loan portfolio.

And going forward, our loan loss reserve should be similar to what we've experienced prior to this quarter, which if you look at it high level, if you look at contract sales, net of resales, probably going be in that 9.5%, plus or minus of that net contract sales number.

And that assumes kind of a roughly 63% to 65% financing propensity, which is what we've been running historically, here. So we think this puts us in a good spot going forward based on all the information we have and based on our best estimates today.

Patrick Scholes
Okay. So, just one related follow-up question. I'm really just trying to dig down, is there a problem with the consumer here? And you do have a pretty high net worth demographic, it's $150,000 or above average household income, $1.5 million net worth, sort of puts you solidly upper middle class here. Is it just--are you seeing something weak in that consumer because I'm not really seeing it other places? And related to that, has there been any changes in your underwriting standards here, over the last year or two?

John Geller
No, nothing's changed in terms of how we underwrite our loans, over the last five plus years. I would say, I mean, I don't know about you. I mean, put the income aside, I think, given higher inflation, higher interest rates, yeah, on the margin, there's got to be impact we're seeing from a consumer.

I think on the bright side, there are plenty of consumers out there that are continuing to spend on travel, right? And so there's nothing we've seen that says, well, it's this consumer or that consumer. But we are seeing generally, I think the consumer is a little bit more stressed now than they were a year ago. That's my general consensus from what I can see and just observe in the marketplace, but--and that's kind of what you're seeing. You're seeing, like I said, call it a couple points, if you will, in terms of the additional charge we took here. It feels a bit on the margin, right, in terms of it. It doesn't feel like it's a broader pervasive issue by any means.

Patrick Scholes
Okay. I'm sorry, one last question. Would you say where you're seeing that weakness, is it across sort of the FICO score spectrum or is it closer in the high-600s, or is it in the 800s, or just all the above?

John Geller
Look, FICO as we all know, there's--the FICO score is great at some level for predicting defaults, but it doesn't take into account your balance sheet, right? It's just how you manage your consumer debt. We haven't seen one band or another. We've seen, generally, increases across the band. So, it's not like it's specific to a lower FICO score band versus a higher FICO score band, I think. Jason, if you want to add any color there. But I haven't seen anything where it's like specific to one band or another.

Jason Marino
No, Patrick. I would just add that it is more pronounced at the lower FICO bands, call it the sub-700s versus the above 700s. They're all up a little bit, but the sub-700s are up more.

Patrick Scholes
Remember, sub-700 for us is what percent of our loan pool?

Jason Marino
Sixty percent of our loan pool, today, is above 700 FICO.

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

John Geller
Brandt, we can't hear you.

Brandt Montour
Can you hear me? Can you hear me now?

John Geller
Yeah, that's better. That was all crackling.

Brandt Montour
Sorry about that.

Brandt Montour
So, just I think one question from me, or one or two questions from me. Following up on the loan loss provision, and we sort of dug in and I appreciate all the commentary. When we sit here today and you think you're well reserved for everything you can sort of see in the consumer behavior today, help us understand sort of what that assumes for the sequential behavior of the consumer from here.

So if nothing changes, then we go back to sort of 9.5% loan loss provision next quarter. If the consumer gets sequentially worse, even if it's marginal, you would have to look at taking another charge, correct? I mean, just trying to figure out if there's a little bit of cushion in there for what you think could happen for the consumer from here.

John Geller
We've tried to factor in what we expect, given some of the broader macro. So yeah, I would say, it's an estimate, it's our best estimate today. And it doesn't, at least in the nearer term, doesn't expect any great increase in terms of what we've kind of been seeing here over the last

couple quarters. But yeah, going forward, I guess, depending on--if we did see a materially worse change and how big that was, yeah, I mean, we haven't factored that in.

I guess if that's your question, we haven't assumed a big deterioration in the broader macro environment that would drive higher defaults. But at least in the near to medium term here, we haven't necessarily assumed that you're going to have a great increase in some of the stuff we've been seeing.

Brandt Montour
Okay. That's helpful. And then back to some of the commentary you gave around the $40 million sort of, what I would sort of call core or sort of non-Maui, non-LLP full-year guide down. You gave a lot of color, I mean, rental, softer ADR, softer occupancy, and then softer tour flow and a little bit of softer VPG, ex-Abound. Good to hear that Abound's getting a little bit better.

If I'm sort of like adding all of those or rolling all of those comments up, is it fair to just say that the macro is having an impact across your business on a sequential basis? I know people are still traveling, I know there's still demand, but sequentially things have gotten a little bit worse. Is--you are seeing the consumer pullback a little bit in terms of leisure travel?

John Geller
Well, I think that's a great question. But I think sequentially, right, we've kind of seen with the improvements in Abound like we talked about, VPG was up a couple points sequentially. Abound was up about 15%. Hyatt was up about five. I think the non-transitioned sales centers were generally up 1%, 2%.

So, yeah, it feels like it's kind of stabilized. Clearly versus last year, like we've talked about, we now realize how good last year was, like we talked about from a VPG, but more importantly, from a rental side, especially in a lot of our higher-end markets, we talked about this on the last call.

Obviously, you have the Maui impact of the fires here in the third quarter. But even excluding that, what we've been seeing - and we thought we'd see some firming of that, and it is stabilized, a bit from the second quarter is - ADRs are down, year-over-year, in a lot of our markets in Hawaii and occupancy's off a couple points, right? Some of that in the higher end markets here in the U.S., as well.

So, still better than '19. Tough comp to last year given some of the change in travel patterns. We do expect a lot of that U.S. higher-end traveler that went abroad will probably maybe stay in the U.S. this year in some of the higher-end markets.

But that wasn't something we factored in, in terms of as we thought about our rentals for the full year. So, they're still on a historical basis doing very well, just year-over-year that's where we realized, today, how strong last year was. But the team's working on renting rooms, pushing

rates, and getting occupancies up. So, we feel like it's generally stabilized, if you will, in that part of the business as well, just a little bit lower than we expected.

Brandt Montour
Thank you.

Operator
Thank you. Our next question comes from the line of Shaun Kelley with Bank of America. Please proceed with your question.

John Geller
Good morning, Shaun.

Shaun Kelley
Hi. Thank you, everyone. Hi. Good morning. Thank you for taking my question. So, I'm just trying to think through a couple of the building blocks you gave for 2024. I mean, if we just start with the provision piece, if—excluding, obviously, the one-time kind of the one-time forward component, if we just run rate this on a modestly higher level of provision, can you give us any guideposts for how we should think about, let's call it, a year-on-year headwind to either the provision dollars or I think, more importantly, the broad-based company EBITDA or margins as the results for just kind of accruing more for that going forward? Is that something you could help us with?

Jason Marino
Yeah, Shaun, this is Jason. I think as John mentioned, we think we're in a good place for the overall portfolio. I think as you look forward into Q4 and then into next year, we'll have a tiny headwind, I would call it, maybe 50 basis points as a percentage of contract sales, something in that neighborhood.

So I don't think it's a big change to expect for next year, going forward. But John mentioned that 9.5%, 10% area for a loan loss provision on a normalized basis, assuming the low-60s propensity. I think that's a good place to think about it.

Shaun Kelley
Great. Thanks for that. And then, just on the financing piece, I think we're all trying to grapple with the broader rate environment. You did kind of call this out. I think one of your competitors kind of gave us a little bit of a ballpark, but relative to the size of your program - again, appreciate it's early and you're probably still running through some of these numbers for your own budget purposes - but can you help any kind of guideposts or broad ranges you can give us to think about the financing headwind? I believe that TNL talked about roughly $30 million on what I believe is a bit of a larger loan book than you guys have.

Jason Marino
Yeah, so, really, Shaun, it depends on where you think rates are going to go next year. We did our deal in earlier this year, and we did a print at around 5.5%. We're in the market here, pre-marketing right now, and we'll be doing a deal here, potentially, in the short term. So we'll see more where that lands, where you see where the TNL deal priced, call it a month or so ago, obviously rates have moved both in the underlying as well as in the spread.

So, I think that's kind of the ballpark in terms of the movement that you can expect. And then really, it just depends on what happens next year. Your crystal ball is probably as good as ours in terms of the rate environment.

Shaun Kelley
Okay, thank you very much.

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

David Katz
Hi. Good morning, everyone. Thanks for taking my questions.

John Geller
Good morning, David.

Jason Marino
Good morning, David.

David Katz
I wanted to--good morning. I wanted to just focus on Abound a little bit from a higher level. It's good to see that it's showing some signs of improvement, but I wanted to just double back on sort of why now? What did we know about Abound going into it, that--or what did we think we know that didn't quite happen the way we anticipated? There obviously were some surprises with it. So I just wanted to go back on the strategy of it, please.

John Geller
Sure, yeah. So, David, the thing we knew going in was that, as we talked about, it's a better product, right, the overall offering. And we always knew, because we've transitioned to different products before, that there can be some impact. So part of it is educating.

Specifically, the sites we're transitioning are your legacy Vistana sites, so think Westin and Sheraton. We've transitioned most of the Westin now. The Sheraton, because we still have inventory in the Sheraton Flex product, is still selling the old product. It gets you into Abound. it's just not selling the new Marriott Vacations Abound product. So, we knew there would be

some part of transition and there could be bumpiness. Part of it is, there's really two things that need to happen.

One, those owners who bought the Westin Flex or the legacy Westin week product, that's what they bought. They bought for a certain reason and that was that product fit their traveling needs. Now we're introducing to them a new product, right, that can enhance their traveling needs, but might be what we think is a better product might not be a better product, or they need to experience.

So, we can try to educate them. We send them a lot of information online and information--but really, the best chance is when people come in and they want to take a tour and understand it. So that part of the education process.

The second piece is people actually using the product. And that's what I talked about in my comments. By the time we launched it this year, very few people--people had [already] elected to use their vacation like they always had for '23. Now, you're seeing about three, three and a half times more people this year for '24 elect into the Abound program from the legacy Westin and Sheraton. So, use the product, better educate yourselves on that.

And then the other piece, right, like we've always talked about is it is a different sales pitch, right. They were sold the Westin product a certain way based on what that product was and the offering. And now that sales team--and we do all the training and then we retrain--but there is a bit of getting the sales team experienced and confident selling to the new product. So, we attempted to do all the things that we could to lessen what that disruption could be in terms of lower VPGs, things like that. And it was probably a little bit more than we expected.

Now, the good news, like I talked about, is you're starting to see the rebound here in the third quarter. And while we're not all the way back to pre-Abound launch on VPG, we're getting pretty close, right, on an overall basis.

So it looks good. Our VPGs here in October were basically flat to last year, which was probably, arguably, a little tougher comp than we've seen year-over-year. So, the trends today all look very positive. But it's going to continue to help to get those legacy Vistana owners to actually use the Abound program, and that happens with a little bit of time.

David Katz
Perfect. Thank you very much.

Operator
Thank you. As a reminder, if you would like to join the question queue, please press "*", "1" on your telephone keypad. Our next question comes from the line of Ryan Lambert with JP Morgan. Please proceed with your question.

Ryan Lambert
Hi. Thanks for taking my question. Just wanted to get kind of your view on the attractiveness of Maui, longer term. Do you still find it to be an attractive market? I know it's got some kind of different dynamics with the labor market and the majority of the economy being driven by tourism, and you have Lahaina that was significantly impacted.

So, it's a lot different than what you might see in a kind of a Florida hurricane scenario. So, just wondering how you think about that market longer term, and if your opening of Waikiki property next year has any sort of effect on that. Thank you.

John Geller
Yeah. No, we're still very bullish, long-term, on Maui. Obviously, what happened in Lahaina, very tragic. But to your point, in terms of the overall island versus a hurricane, for example, that could come through and really do a lot more damage more broadly to an island's infrastructure like we see with some of the hurricanes in the Caribbean, it is a bit isolated.

As I talked about, we've seen our occupancies come back for October. We probably ran in our five resorts there in West Maui on the vacation ownership side, call it about a 60% occupancy. Which, given they just kind of reopened, so you're seeing the owner demand. We expect that to build going forward. Our resort operations are a couple percentage points down on being fully staffed right now but we're working through some of that. I think for us, I do think you're going to see occupancies, like I talked about in my remarks, early next year, remember, we typically at our VO resorts in Maui run a 95%, 96% occupancy.

So, I do expect as we get through this year into early next, we're probably going to see that where--and Jason touched on it in his comments, we've got to look at our marketing and sales staff. We have seen some people there, potentially, leave the island. We're not sure if they'll come back as we ramp back up sales here. So, we’ve got to rebuild the marketing and sales team a little bit here. But we've got a little bit of time and the team's working hard to do that.

So that's the impact. I think we'll get back to all the previous numbers and then some going forward. I haven't heard or seen anything that gives me any pause that Maui won't go back. And Waikiki and Hawaii in general, we are this year a little bit here--since the Maui, not surprisingly, you're seeing some pickup in the other islands, just because people have traded out of going to Maui maybe to go to some of the islands here in the fourth quarter.

So we're excited about that launch. It's our first sales center in Waikiki and obviously gives us a flag on the map in Waikiki, which we don't have. We're out in Ko Olina on O'ahu there. So, we're super-excited for that property to open up and really believe long term in the demand for people to travel to Hawaii, overall.

Ryan Lambert
Great. thank you. And just wondering on your kind of forecast for impact in the 4Q, if that kind of builds in any sort of unknown-unknowns or if you feel fairly comfortable in forecasting the impact there. Thanks.

John Geller
When you say unknown-unknowns, not sure exactly what that means. But it's, based on what we know today, obviously, Maui, you know, we've talked here about sales reserves and the fact that this reserve we took here, we feel gets us adequately reserved going forward based on everything we're seeing in the numbers today.

Yeah, and as I talked about, I mean, we're off to a good start here in October in terms of contract sales. If you adjust for the Maui impact in October, we'd be up year-over-year, right? So the trends continue pretty good and we're hoping to continue to make progress on the rental side, which has been a bit of thorn in those side this year in terms of just our expectations on rate and occupancy.

So the setup here as we go into November and December, people want to travel. It's--I don't want to--notwithstanding some of the broader macro, we are seeing great demand. What's on our books for the first half of the year for our resort occupancies is higher than this time last year, right. So that's the key, 85% of our sales come from people staying at our property.

So all that bodes well. And we do see improvements and, to a small extent, in our exchange business. We're seeing good sequential [growth] in terms of tightening and exchange transactions. And we expect that, hopefully, as we go through the fourth quarter into next year, continue to build and get growth going forward on our exchange business. So, we're optimistic about the outlook here, notwithstanding some of the broader macro.

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

John Geller
Thank you, everyone, for joining our call today. Despite the mixed economic environment, we ran 90% resort occupancy in the third quarter, excluding Maui, and we have more reservations on our books for the first half of next year than we had at the same time a year ago, illustrating our customers' desire to go on vacation.

We're making good progress educating consumers about the benefits of Abound, while our salespeople are getting more experience selling it. That was evident this quarter, where VPG at our sales centers that have transitioned increased more than 15% sequentially, and the enhancements we've made to our core product offering will provide growth for years to come.

Our international business continues to be a bright spot with sales growing more than 40% year-over-year.

We expect to generate around $450 million in adjusted free cash flow this year and have already returned nearly $330 million to shareholders.

We've announced two new development projects this year, Savannah, Georgia and Charleston, South Carolina, each of which will provide us with a new sales center when open.

And we're looking forward to opening our new Waikiki resort late next year, which will also come with a new sales center.

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

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