

07-May-2019

# Marriott Vacations Worldwide Corp. (VAC)

Q1 2019 Earnings Call



### CORPORATE PARTICIPANTS

Neal H. Goldner

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Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

John E. Geller, Jr.

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

### OTHER PARTICIPANTS

Jared Shojaian

Analyst, Wolfe Research LLC

Brian H. Dobson

Analyst, Nomura/Instinet

David Katz Analyst, Jefferies LLC

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to Marriott Vacations Worldwide First Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. A question-answer-session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Mr. Neal Goldner, Vice President Investor Relations. Thank you, you may begin.

#### Neal H. Goldner

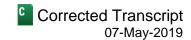
Vice President-Investor Relations, Marriott Vacations Worldwide Corporation

Thank you, Rob, and welcome to the Marriott Vacations Worldwide first quarter 2019 earnings conference call. I'm joined today by Steve Weisz, President and Chief Executive Officer; and John Geller, Executive Vice President and Chief Financial and Administrative Officer. I do need to remind everyone that many of our comments today are not historical facts and are considered forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties, as described in our SEC filings, which could cause future results to differ materially from those expressed in or implied by our comments.

Forward-looking statements in the press release that we issued this morning, along with our comments on this call, are effective only today 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, as well as the Investor Relations page of our website at ir.mvwc.com.

It's now my pleasure to turn the call over to Steve Weisz, President and CEO of Marriott Vacations Worldwide.

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### Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Thanks, Neal. Good morning, everyone and thank you for joining our first quarter earnings call. I'm extremely pleased with how we've started the New Year with our financial results in line with our expectations. Adjusted EBITDA for the first quarter totaled \$166 million; on a more comparable combined basis and excluding the impact of the sale of VRI Europe, adjusted EBITDA grew 6%, driven primarily by growth from our Vacation Ownership segment as well as synergies related to the acquisition. Consolidated contract sales grew 5% on a combined basis including nearly 10% growth for Legacy-MVW, offset partially by the Vistana and Hyatt businesses. As we mentioned last quarter, we expect to deliver strong sales growth in our Legacy-MVW business throughout the year and we started the year off well.

We also continue to expect that this growth will be offset by the Vistana and Hyatt timeshare businesses during the first half of the year, as we implement strategies employed in the Marriott Vacation Ownership business across our expanded portfolio. We expect growth in the Vistana and Hyatt businesses to accelerate as we move throughout the year. We saw some of this growth starting to occur towards the latter part of the first quarter, and it has continued into the current quarter.

Looking at just the Legacy-MVW North America Vacation Ownership business, tour flow grew over 6% in the quarter, including a 9% increase in first-time-buyer tours and a 5% increase in owner tours. The higher first-time buyer tour flow was driven by contributions from our linkage and Encore package programs as well as continued growth in our newer sales distributions. I'm also pleased to report that our tour package pipeline remained strong, growing 5% in the first quarter as compared to the same time last year, and activated tours with a scheduled arrival date during the remainder of 2019, grew nearly 12% over the same time last year.

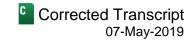
VPG for the Legacy-MVW North America vacation ownership business remained strong at \$3,777, up more than 1% year-over-year despite the increase in first time buyer tours, which typically have a lower VPG than owner tours.

Shifting to the legacy ILG Vacation Ownership business, contract sales on a combined basis declined 2% year-over-year. While tour flow increased 3%, VPG was down 6% due to a slight decline in closing efficiency in the quarter due in part to some program changes made as a result of the integration. For example we significantly modified a legacy Vistana financing program for buyers with FICO scores below 600. While the program previously generated incremental contract sales, the average delinquency rate on those sales was significantly higher than the rest of the portfolio. We modified the program to continue sales to these buyers, but requiring a significantly higher cash down payment. We estimate that this program change alone accounted for roughly a third of the decline in VPG in the quarter. While negatively impacting the top-line, we believe this change is in the best interests of the company longer term.

We continue our work to grow Vistana's contract sales in VPG, over time, to levels closer to those achieved by Marriott Vacation Club as we focused on best practices and more efficient and profitable marketing channels. We've already made very good progress aligning our pricing, sales incentive programs, and income qualifications across the system to help ensure consistent messaging across the brands. We are also focused on growing tour flow and building the tour package pipeline by expanding our call transfer program with Marriott International, our marketing linkage opportunities across the Marriott branded lodging properties, and Encore package production.

And while still early in the integration process, we are excited in the tour flow growth in the quarter as well as the tour package pipeline that's been created. In fact, I'm pleased to say that in the first quarter we were able to grow

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tour packages for the Vistana brands by nearly 14% as compared to the same time last year, and we added three new linkage arrangements into legacy Starwood properties in the quarter. All good signs for future performance from these brands.

We're also very excited about our new San Francisco property that we will be rebranding this month. This property along with its new onsite sales center is a wonderful addition to our Marriott Vacation Club Pulse portfolio, and is expected to be a significant contributor towards our future contract sales growth. Our contract sales guidance includes contribution from this new property. It also reflects continued improvement from the existing business mainly from many of the initiatives I've just mentioned as well as from anticipated further growth in tour volumes as we continue to expand profitable programs across the brands.

In fact we just recently completed an agreement to enter into a call transfer program with a major rental car company, and are looking forward to what this arrangement can do to drive incremental tour flow. However, as I previously mentioned what we are most looking forward to is our ability to tap into the digital marketing environment. In the second quarter, we expect to launch a pilot program with Marriott International, similar to our traditional call transfer program, this marketing channel will allow us to make attractive offers and promotions to users of Marriott.com, which we expect will drive higher tour flow to our Marriott, Westin, and Sheraton branded locations. We also see similar opportunities in other social media and digital advertising platforms. We recently began piloting various programs and, I'm pleased to say, we have begun to see some very positive signs.

We are optimistic these programs will continue to ramp up and provide us with not only with incremental tour flow and contract sales, but also do so in a cost efficient manner.

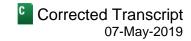
Looking ahead to 2020, we have begun focusing on product enhancements for the various brands. Specifically, we are working hard to develop an integrated product form that can be leveraged across the Marriott, Westin, and Sheraton brands, enhancing the overall value proposition for our owners and customers. It will take time to finalize and roll out this new product form; however, we are very excited about the potential it will provide and we look forward to updating you in the future as this work evolves.

For our Exchange & Third-Party Management segment, year-over-year results were negatively impacted by [our decision to dispose] of our interest in VRI Europe in the fourth quarter of 2018. As you may recall, this disposition provided us with a great opportunity to recycle capital while still maintaining our overall strategic focus. In addition, as expected, and in line with our discussion last quarter, we also saw a decline in active members in the quarter, reflecting the impact of non-renewal of certain agreements as compared to the prior year. Looking ahead, our strategy for these businesses includes diversifying beyond the traditional vacation ownership exchange business, increasing average revenue per member, identifying and expanding benefits to exchange members, and of course, adding new resorts and properties to the network.

Now, let me shift towards our continuing integration efforts. As I've mentioned in the past, we view this integration as a once in a lifetime opportunity to not only align processes and gain operational efficiencies from the combination, but also a chance to make a transformational change to the way we do business. We continue to target total annual run-rate savings in excess of \$100 million within the next three years, and we aren't planning to stop there. The teams are working to identify additional opportunities to exceed this target.

As it relates to savings realized to date, I'm pleased to say that as of the end of the first quarter we have achieved run-rate savings of roughly \$40 million. While there is still a lot of work remaining, we continue to target over \$50 million of run rate savings by the end of the year, equating to roughly \$35 million to \$40 million of in-the-year savings.

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Before I turn the call over to John, let me touch upon our full-year outlook. Last quarter, we laid out our expectations for full year contract sales growth of 7% to 12% on a combined basis. And with that strong top-line growth, we projected adjusted EBITDA between \$745 and \$785 million. I'm very pleased to say that given our first quarter financial performance, we are reaffirming our full-year guidance for 2019. I'm very excited about the many opportunities our newly expanded business provides, and I'm proud to say that even with all the changes occurring, we are still projecting significant growth from the business at the same time.

With that, let me hand the call over to John to walk through further details on our first quarter results.

#### John E. Geller, Jr.

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

Thank you, Steve, and good morning everyone. I'm very pleased with how we've begun the year generating strong first quarter results all in line with our expectations. As we did last quarter, to better highlight how the business performed, we have included additional supplemental financial results in our earnings release including 2018 financial information that combines Legacy-ILG's first quarter 2018 results with Legacy-MVW's 2018 results to be comparable to our current year presentation.

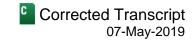
Total company adjusted EBITDA totaled \$166 million in the first quarter of 2019. On a combined basis this represents a 4% increase from the prior year. While these results were in line with our expectations, it's important to highlight two items that unfavorably impacted our year-over-year growth in adjusted EBITDA. First, as you know, we do not adjust for the impact of revenue reportability when calculating adjusted EBITDA. However, as a result of strong contract sales volume in the latter half of the first quarter, which will be closed and reported as revenue in the second quarter, adjusted EBITDA in the first quarter was unfavorably impacted by roughly \$21 million of revenue reportability, \$13 million higher than last year. Remember this is simply a timing matter as the sales have occurred, but revenue will be recognized when the contracts close. Second, year-over-year growth was negatively impacted by \$4 million of profit in the prior year quarter related to the disposition of VRI Europe. Adjusting for both of those items, adjusted EBITDA on a combined basis would have grown 13% year-over-year.

Now let's turn first to our Vacation Ownership segment. Segment adjusted EBITDA totaled \$171 million in the first quarter. On a combined basis, this represents an increase of 5% year-over-year. Adjusting for the \$13 million of unfavorable revenue reportability, segment adjusted EBITDA on a combined basis would have increased \$21 million or 12%.

In our development business, consolidated contract sales on a combined basis increased 5% to \$354 million in the first quarter, including a 10% increase related to Legacy-MVW. Our total development margin was \$44 million in the first quarter, up 2% to the prior year on a combined basis. However, adjusting for revenue reportability and other charges adjusted development margin was \$67 million, an increase of 30% over last year on a combined basis. Adjusted development margin percentage on a combined basis was 20.5% reflecting a 370 basis point improvement due primarily to lower inventory costs.

In our financing business on a combined basis, revenues increased 14% to \$67 million in the first quarter of 2019. Financing revenue, net of expenses and consumer financing interest expense, increased \$4 million or 12% on a combined basis. These results reflect an \$8 million increase in revenue primarily from our growing notes receivable balance partially offset by roughly \$4 million of higher interest expense due to a higher outstanding debt balance and a slightly higher cost of funds. Our notes receivable portfolio continues to perform very well. The average FICO score for buyers who financed with us in the quarter was 744 while delinquency rates remain near historic lows and financing propensity remained strong at nearly 62%.

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In our rental business on a combined basis, rental revenues increased 2% to \$147 million and rental revenues net of expenses on a combined basis increased 4% to \$45 million. These results were driven by a 3% increase in transient rate, and over \$2 million of higher plus point revenues.

In our resort management and other services business, revenues increased 4% on a combined basis, and revenues net of expenses increased 5% to \$59 million in the quarter. These results were driven by higher fees from managing our portfolio of resorts and higher club activity.

Turning to the Exchange & Third-Party Management segment, adjusted EBITDA on a combined basis was down \$15 million year-over-year, including \$5 million resulting from the disposition of VRI Europe in December of 2018. Roughly half of the remaining decline related to the expected impact in the quarter of the non-renewal of contracts as compared to the prior year period, with the remainder being related to lower than expected membership and transaction fees. Average revenue per member on a combined basis was down 3% in the quarter driven largely by certain inventory supply and customer demand challenges. As Steve mentioned, we continue to work to identify new incremental revenue streams for these businesses and we'll update you as the year progresses.

Turning to our G&A, on a combined basis, costs declined \$11 million year-over-year, driven primarily by synergy savings and the timing of technology and other spending, partially offset by normal inflationary cost increases. We achieved nearly \$8 million of synergy savings across the business in the quarter and remain on target to achieve \$35 million to \$40 million of in-the-year savings for 2019.

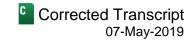
I do want to highlight, that as a result of the ILG acquisition, we have begun a comprehensive review of our Vacation Ownership property and equipment to determine the best strategic direction for the combined Vacation Ownership business. This includes undeveloped parcels, future phases of existing resorts, operating hotels, and other non-core assets.

As you might expect, a key focus of the review will be to evaluate opportunities to reduce holdings in markets where we have excess supply. This effort will enable us to refocus future inventory spend in markets that create incremental cost effective sales locations in areas of high customer demand. The result of this review could have a material impact on the carrying value of certain assets, which, in turn could result in non-cash impairments. While work continues in this area, we do expect that this effort should generate significant cash flows for MVW over the next few years.

In this regard, subsequent to the end of the first quarter, we entered into a contract to sell land and improvements associated with the future development of roughly 600 units at an existing resort location in Orlando, Florida for \$10 million. As a result, we recorded a non-cash impairment of \$26 million in the first quarter. The impairment is primarily attributable to the fact that the book value of the assets include common area cost incurred when we built the existing 300 units at the resort. As you may recall from when we undertook a similar effort subsequent to our spin-off from Marriott International in 2011, the impact of these efforts will be excluded from adjusted EBITDA and adjusted free cash flow.

Moving to the balance sheet at the end of the quarter, cash and cash equivalents totaled \$222 million. We also had approximately \$132 million of gross Vacation Ownership notes receivable, eligible for securitization. Further, we had roughly \$521 million in available capacity under our \$600 million revolving credit facility. Our total corporate debt outstanding at the end of the quarter totaled \$2.2 billion. This excludes \$1.7 billion associated with our non-recourse securitized notes receivable. From a leverage perspective, assuming that companies were combined for the last four quarters and including \$100 million of total synergy savings, our combined net debt to

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adjusted EBITDA ratio at the end of the quarter would be 2.7 times, slightly higher than our longer term target of 2 to 2.5 times.

Looking ahead to the second quarter, we are targeting a term securitization which we expect will include notes from both Legacy-MVW and Legacy-ILG brands for the first time. While work continues towards closing later this month, we expect note volumes of roughly \$450 million, and given current market conditions, expect the cost of funds and excess spread to be more favorable than our prior year transaction.

Regarding our return of capital in the first quarter, we repurchased 1.2 million shares for \$106 million at an average price per share of \$86.32. We also paid dividends of \$41 million.

Now, turning to the outlook for 2019, as Steve mentioned, we began the year strong and in line with our expectations. With the first quarter behind us, the positive changes we are making to align policies and procedures primarily in the marketing and sales arena, and our progress on our synergy efforts, we are reaffirming our full year 2019 guidance. I look forward to updating you on our continued progress as we move throughout the year. As always, we appreciate your interest in Marriott Vacations Worldwide.

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

### QUESTION AND ANSWER SECTION

**Operator**: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] One moment please while we poll for questions. Our first question comes from Jared Shojaian with Wolfe Research. Please proceed with your question.

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Good morning, Jared.

Jared Shojaian

Analyst, Wolfe Research LLC

Hey, good morning. Thanks for taking my question. So I know it's early in the year to be updating guidance, and you're still working through the integration, so it's probably even more reason why people really shouldn't have expected a change. But as you talk about your expectations today, I think you said the quarter was in line with what you're expecting. You also had the reportability shift into the second quarter and it sounds like the end of the quarter got better than what you were expecting. So I guess my question is, are you feeling more optimistic and confident about the full year guidance today versus what you were thinking a couple of months ago?

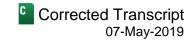
Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

I guess – this is Steve. I guess we feel equally optimistic as we did in the first part of the year. As you might imagine, we were thoughtful about how we thought the year would play out. That's when we gave you the guidance that we gave you. There's been nothing that we've seen in the first quarter that caused us to feel any less optimistic. And if anything it just reaffirms that the strategies that we are embarking on and employing are certainly delivering the results we're looking for.



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#### Jared Shojaian

Analyst, Wolfe Research LLC

Great, thank you. And then I think your ILG – legacy ILG contract sales were down about 2% and you talked about the intentional programs, which drove that I think I may have missed this, I think you said something about a third of the impact was driven by some of those intentional programs, but I'm a little confused by that. So I guess maybe another way of asking it is excluding some of those intentional decisions, can you give us a sense as to what the legacy ILG business would have looked like on contract sales and VPG?

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Yeah. Just to clarify, I said about a third of the six point drop in VPG or call it two point was attributable to that one change we made in the sub-600 FICO scores for the Sheraton brand that they were using. The other things are as we have — we've gone through the quarter harmonizing pricing, and sales incentives, income qualifications, and when you have a sales force, a distributor sales force such as it is, you should expect to have some short-term impact on performance, and that's what we experienced in the first quarter. But as we continue by working to increase VPGs by transitioning their programs and policies to align with our Legacy-MVW approach in terms of aligning pricing, and first day benefit grids, and expanding lower cost marketing channels and eliminating high cost ones, and expanding call transfer, we absolutely believe that this will turn the corner. And in fact we've seen some evidence of that. I'll give you some sense in the Vistana businesses.

So for instance in February, contract sales in Vistana were down about 8.5%. And then it turned around and grew 2.7% in March. And we've seen some continuing improvement in April. So we think we're turning the corner. But unfortunately there's no magic light switch which you can just flip the switch and everything changes. You have to take the time to go through training and our experience has been as you make substantive changes such as we've done that it just takes a while for everybody to try to adjust to the new normal. And we're very encouraged by what we see.

Jared Shojaian

Analyst, Wolfe Research LLC

Great. That's helpful. Thank you. I'll jump back in the queue.

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Thank you.

Operator: Our next question comes from Brian Dobson with Nomura. Please proceed with your question.

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

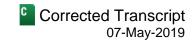
Hi, Brian.

Brian H. Dobson

Analyst, Nomura/Instinet

Hey, good morning. So I guess continuing on that – on that line of questioning when it comes to the sales cadence for the Legacy-ILG unit, does your back half guidance I guess do you contemplate an acceleration in

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contract sales in the back half of the year? Is that – is that a portion of your contract sales guidance or do you take a more muted viewpoint?

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

No. We believe that in fact the second half of the year will be materially better than the first half of the year.

Brian H. Dobson

Analyst, Nomura/Instinet

All right. Great. And then, in terms of new product offerings, I guess what consumer are you going after in relationship to your existing consumer? Is it a slightly more, call it slightly more middle of the road consumer or what?

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Well, we've done a fair amount of work already on understanding each of the brands, the value propositions, looking at the demographics from where we source customers et cetera, and I would say to you that the Marriott, Westin, and Hyatt brands are not terribly dissimilar, there are some nuances between the brands, and the only thing that's slightly lower is Sheraton, but that's not a material thing, it's certainly not a mid-market offering. So I would say there's maybe some minor tweaks, but nothing of any substance that I would be focused on here, Brian.

Brian H. Dobson

Analyst, Nomura/Instinet

Okay. And then with Sheraton, have you spoken with Marriott about their efforts to revamp that brand, and do you think that I guess in the medium term that brand will look stronger or are you contemplating perhaps rebranding your timeshare offering for Sheraton?

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Well, we certainly have no intentions of rebranding our Vacation Ownership properties that carry the Sheraton flag today and regarding – yes, of course we've talked to Marriott, we know a fair amount about what they're doing in terms of repositioning that brand. I would argue that it's a brand that has languished over time, and has lost some of its luster, and I think Marriott's doing its best to try to restore that. We're encouraged by that, and we think we'll do nothing but enhance the value of the brand name that's on our Vacation Ownership resorts.

Brian H. Dobson

Analyst, Nomura/Instinet

Great. Thank you very much.

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President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Thank you.

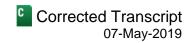
John E. Geller, Jr.

Stephen P. Weisz

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

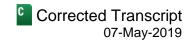


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Thanks, Brian.	
Operator: Our next question comes from David Katz with Jefferies. Please proceed with your que	stion.
Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.  Hi, David.	A
David Katz  Analyst, Jefferies LLC  Hi. Good morning, everyone. How are you?	Q
Stephen P. Weisz  President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.  Great. How are you?	A
David Katz  Analyst, Jefferies LLC  Very good. So I just wanted to ask, we're always trying to process some of the fluidity around the beginning of quarter in, quarter out, and obviously we're trying to process the rate at which you can and you have the businesses, what would have to happen, what would be the blocks that would have to build in the higher end of the guidance range or above it versus what the blocks would look like to wind up end of the range. And I'm not even going to mention [ph] below it (00:29:25)?	e integrated order to get to
John E. Geller, Jr.  Executive Vice President & Chief Financial & Administrative Officer, Marriott Vacations Worldwide Corp.  You're talking about current year EBITDA guidance?	A
David Katz Analyst, Jefferies LLC Yes.	Q
John E. Geller, Jr.  Executive Vice President & Chief Financial & Administrative Officer, Marriott Vacations Worldwide Corp.  Purely as it relates to synergies?	A
David Katz Analyst, Jefferies LLC No.	Q
John E. Geller, Jr.  Executive Vice President & Chief Financial & Administrative Officer, Marriott Vacations Worldwide Corp.  Just more generally, yeah, yeah	A

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Analyst, Jefferies LLC

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Generally speaking, yes.

John E. Geller, Jr.

A

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

No, I mean, I think first and foremost, a lot of stuff Steve hit on here in terms of the acceleration of growth in the Legacy Vistana timeshare businesses. So as we talked about, we started to kind of turn the corner there here over the last couple months, and so as we continue to get traction on the changes we've made, that's going to go a long way towards getting us – towards the higher end of the range when you think about our overall Vacation Ownership business model.

Clearly on the synergy side, if we can outperform in terms of the \$35 million to \$40 million of – in the year and we're trending at a good rate, a lot of the additional synergies that will come into place are later in the year because I think as I've talked about in the past are tied more to some of the major HR system and financial reporting system changes that are underway, but really won't get done till towards the end of the year. So we continue to work hard, and try and outperform even our own expectations to get those synergies in place.

David Katz	
Analyst, Jefferies LLC	

Got it. Thank you very much.

John E. Geller, Jr.

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

[indiscernible] (00:30:56).

Analyst, SunTrust Robinson Humphrey, Inc.

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

Patrick Scholes

Hi, good morning.

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Good morning.

John E. Geller, Jr.

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

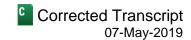
Good morning.

Patrick Scholes
Analyst, SunTrust Robinson Humphrey, Inc.

Couple questions here. First, on the Legacy-ILG, Vistana, would you say at this point, it has been performing at, above, or below your initial underwriting standards for that acquisition?

going forward in terms of our guidance, and how we think about life going forward.

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#### Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

I would say overall at, I mean, in all fairness, the last half of 2018, I think it underperformed a bit. I think we talked about that at the - in our call in February, but all things considered when you think about the complexity and the size of this acquisition, it's not all that material. So I think it's performing about what we thought it was. We have -I'm happy to report that we have found some additional opportunities that we had not previously seen, as you might imagine in a business this size you can't see everything when you're going through due diligence. So we think there is some other stuff there that we can take advantage of, and we've kind of baked that into our thinking

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Thank you. And then my next question concerned you briefly mentioned a pilot – a digital pilot program. I'm wondering what would that look like, let's say I'm hypothetically booking a Marriott reservation would I get online, would I get a pop-up ad, maybe a little bit more color on what consumers can expect to see?

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Without getting into the particulars, to be honest, one of the things we're going to pilot is a couple of different executions of how exactly that might look, but that's the concept is that as you're in the midst of booking a lodging reservation on Marriott.com then you're going to be presented an opportunity to take advantage of a value promotion or package et cetera that we would offer. And should you choose to do that then obviously we'll take you down the path of booking that, and which ultimately will result in a tour. So – but that's the concept, it's really, think about it this way, it's no more than an electronic version of what the call transfer does today, which is the same thing where an agent says, hey, would you like this, and you either opt in or opt out.

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. Good. Looking forward to seeing that. And then last question here, and I apologize again I'm splitting hairs a little bit. When you raised your EPS guidance up a little bit, and I – sort of back into the share repurchases, looks like that raise was - implies a couple more cents than just share repurchases. Any changes to your assumptions in depreciation or interest, am I thinking about this correctly?

John E. Geller, Jr.

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

No. It's really just the share repurchases that we had done through the end of the guarter. So could be it's a couple of...

[indiscernible] (00:34:04)

Patrick Scholes

Analyst, SunTrust Robinson Humphrey, Inc.

Rounding?

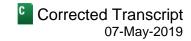
John E. Geller, Jr.

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

## Marriott Vacations Worldwide Corp. (VAC) Corrected Transcript Q1 2019 Earnings Call 07-May-2019 ...rounding, yeah in terms of your numbers. Patrick Scholes Analyst, SunTrust Robinson Humphrey, Inc. Okay. Okay. Thank you. That's it. Thank you. John E. Geller, Jr. Executive Vice President & Chief Financial & Administrative Officer, Marriott Vacations Worldwide Corp. Thank you, Patrick. Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. Thank you. Operator: Thank you. Our next question comes from Jared Shojaian with Wolfe Research. Please proceed with your question. Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp. Hi again. Jared Shojaian Analyst, Wolfe Research LLC Hi. Thanks for taking my follow-up. So last quarter you were talking about potential available capacity to repurchase \$380 million to \$480 million of stock in 2019, but you also weren't sure what the ILG business interruption insurance proceeds would be. So two-part question, I'm wondering if you have an update on insurance proceeds, and also if you still feel good about the \$380 million to \$480 million or maybe something's broke more positively perhaps than you expected. John E. Geller, Jr. Executive Vice President & Chief Financial & Administrative Officer, Marriott Vacations Worldwide Corp. No. In terms of the BI, we're still working through that. I think we expect to resolve that here in the second quarter, we're getting towards the end. But we still expect a meaningful amount to come in under the Legacy-ILG BI claim. In terms of the overall free cash flow, we didn't change our guidance there. We reiterated obviously whatever that business interruption is for the ILG should be a net positive, and we'll continue to return capital to shareholders notwithstanding if there's some other item that we would look at to invest in. But nothing's changed on our overall strategy about how we think about capital return. Jared Shojaian Analyst, Wolfe Research LLC

Okay, thank you. And then as I look at inventory historically every year since the Marriott spin-off, the inventory line item on your cash flow statement has been a positive number, which I believe essentially means your inventory spending is lower than your cost of goods sold. So my question here is, how long do you think that can continue, is this a multi-year runway of opportunity to repurchase deeded weeks from legacy owners, and then can you just remind me what percent of your owner base today are still points owners, I'm sorry still weeks owners versus points owners.

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#### Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Let me take the second half of that question, and I'll let John go back on the first part. The – of our Legacy-MVC owners, I'm going to – this is going to be a swag, but I think it's directionally close around 40% of our Legacy-MVC owners are still weeks owners or 60% of the Legacy-MVC owners are points owners. Now keep in mind since 2010, we've been selling nothing but points. So over time, you would expect that percentage to shift as – to the exit program, as you mentioned, people that have owned the product for 10 years, 15 years, 20 years whatever it is, and for whatever reason because of a life event have decided that they don't want to own it anymore and we buy it back. So – and when that happens, then we take that inventory, we put it into our Florida based land trust, and then we turnaround and sell it as points. So just doing that cadence, the percentage will continue to drop over time. When that – what that number finally becomes and all that, it's hard to imagine. I would point out also that in the Vistana businesses, they had a very, very modest buyback program, and we've begun to amp that up as you might imagine, we see that as an opportunity as well. Now, I'll let John take on the first part of the question, which was about the – whether how long the inventory replacement versus the inventory of product costs thing on the balance sheet works.

John E. Geller, Jr.

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

Yes. So you have to take the different brands and products at this point kind of separately because you have different trusts now that we're managing. So on the – the larger Marriott Vacation Ownership Trust, we probably have a little bit of excess inventory in there, so there's always the ability to get a little bit of benefit. Within the Vistana, different trusts that we have, certain trusts like our Aventuras product down in Mexico has multiple years. But other trusts like the Westin Flex product is going to need inventory here in the near term, the Sheraton Trust has a little bit more.

So what I'll say is this, we think there's still some time here over the next year or two to continue to get more efficient on our balance sheet, and that's we – what we always strive to do. And as I've always said, the only caveat in any given year is the opportunities that we're looking at, right. So we've been very, I think, successful managing on a capital efficient basis, and not overspending on inventory. We expect to approach every new deal like that to kind of replace what we're selling off the shelf or spending less to burn it down, but for the right deal, if we can't get it done capital efficiently, we'll do it on balance sheet. We've done them in the past and still been able to get kind of that capital efficient done for the full year. So probably a couple of more years here of getting a little bit of benefit. And we'll continue to update as we get further down the road.

Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

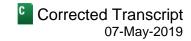
And let me just add one other thing, Jared, we plan to do an Investor Day here in the fall, and I think we'll have an opportunity then to give you some more visibility into kind of the business on a multi-year basis going forward which may be helpful in that regard as well.

Jared Shojaian

Analyst, Wolfe Research LLC

Great thank you very much. One last one for me, can you give us a sense as to how much reportability will benefit the second quarter and then what – how we should think about the cadence really for the third quarter and fourth quarter on the reportability line?

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John E. Geller, Jr.

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

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Sure. So in the cadence, actually for this year should be similar to what we saw last year right? In terms of when you think of it quarter to quarter, typically your first quarter has the most the unfavorable revenue reportability because when you think about December it's a little bit more of a shoulder season between Thanksgiving and Christmas, so sales on an absolute basis it's not your strongest month. Those are the contract sales that get closed and get reported in the first quarter, exiting the first quarter March is a very strong month. You're getting the benefit of spring break starting, sometimes Easter holidays and all that. So you typically have stronger growth, and those go into the second quarter, but when you think of the second quarter June is another strong month and typically stronger than March, so you'll continue to have probably to a much lesser extent negative reportability in the second quarter. September starts to get a little bit slower, so you'll see – you'll start to see a turnaround in the third quarter with some favorable reportability, and then the fourth quarter is when you're going to get the big influx because now you've got a comparable year to – year-over-year review.

So it's kind of the same revenue reportability, nothing's changed on that from last year. It's just at times depending on when the growth happens in the quarter and what happens at the end of the previous quarter it can be a little bit, I guess harder to model them, and obviously one of the reasons we've always tried to stay away from giving quarterly guidance because of some of the timing issues. We look at it for the full year, and as you saw last year, we got great revenue reportability in the fourth quarter in our year end results.

Jared Shojaian Analyst, Wolfe Research LLC	Q
Great. That's very helpful. Thank you very much.	
Stephen P. Weisz President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.  The artists are also as a second se	A
Thank you.	
John E. Geller, Jr.  Executive Vice President & Chief Financial & Administrative Officer, Marriott Vacations Worldwide Corp.  Thank your	Д
Thank you.	

**Operator:** Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call back to Steve Weisz for closing comments.

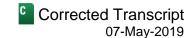
#### Stephen P. Weisz

President, Chief Executive Officer & Director, Marriott Vacations Worldwide Corp.

Thanks, Rob. I'm very excited with how we've started the year with strong contract sales growth and adjusted EBITDA performance, but I'm even more excited about the opportunities that lie ahead for us in 2019 and beyond. I'm confident that the transformational changes we've identified and plan to execute will result in robust performance for our shareholders for many years to come.

Thank you for your time today and look forward to updating you on our progress on these many fronts in the coming quarters. And finally, to everyone on the call and your families enjoy your next vacation.

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

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