

## Marriott Vacations (VAC)

**\$88.18** (As of 08/04/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

### Summary

Shares of Marriott Vacations have declined sharply so far this year. Recently, the company reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. However, both the metrics declined year over year. With theme parks reopening, the company witnessed rebound in occupancy and it reached nearly 35% by Jul 4. However, occupancy rate declined to approximately 25% due to rise in coronavirus cases in Florida. Also, increase in the cost of vacation ownership products and high rental, financing and administrative costs raise concerns. Notably, earnings estimates for 2020 have declined in the past seven days. However, the company's shift to more efficient marketing channels bode well. Management stated that it has enough liquidity to tide over the pandemic.

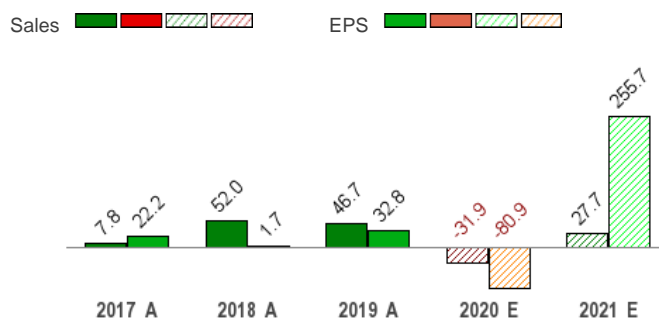
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$131.27 - \$30.10
20 Day Average Volume (sh)	381,682
Market Cap	\$3.6 B
YTD Price Change	-31.5%
Beta	2.41
Dividend / Div Yld	\$1.53 / 1.7%
Industry	<a href="#">Hotels and Motels</a>
Zacks Industry Rank	Bottom 4% (243 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-58.6%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	-60.8%
Expected Report Date	11/02/2020
Earnings ESP	-333.1%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,028 E	913 E	948 E	1,066 E	3,786 E
2020	1,010 A	480 A	680 E	855 E	2,965 E
2019	1,060 A	1,068 A	1,139 A	1,145 A	4,355 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.40 E	\$1.38 E	\$1.61 E	\$1.95 E	\$5.30 E
2020	\$1.71 A	-\$1.76 A	-\$0.09 E	\$0.95 E	\$1.49 E
2019	\$1.45 A	\$1.99 A	\$1.97 A	\$2.43 A	\$7.81 A

\*Quarterly figures may not add up to annual.

P/E TTM	20.3
P/E F1	59.2
PEG F1	6.6
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

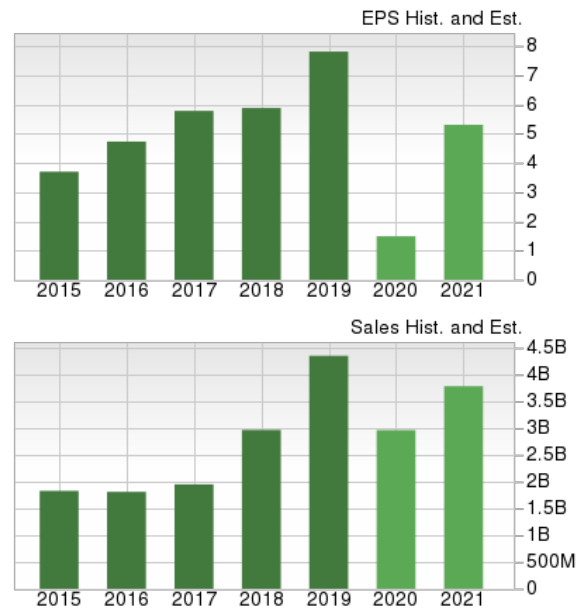
## Overview

Marriott Vacations Worldwide Corporation, a leading global vacation company, offers vacation ownership, exchange, rental, resort and property management services. As of 2019-end, the company had more than 100 resorts, and 660,000 owners and members in a diverse portfolio of seven vacation ownership brands. It also has exchange networks and membership programs in more than 3,200 resorts in 80 countries.

Marriott Vacations' business is operated under two major segments — Vacation Ownership (accounting for 89% of total revenues in 2019) and Exchange & Third-Party Management (11%). The Vacation Ownership Exchange segment generates the major chunk of its revenues from four sources — selling vacation ownership products; managing vacation ownership resorts, clubs and owners' associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

The company's Exchange & Third-Party Management segment revenues are fee-based and are derived from membership, exchange and rental transactions, property and owners' association management, and other related products and services.

In 2018, Marriott Vacations announced the completion of its merger with ILG, Inc., a renowned provider of vacation experiences. Marriott Vacations closed the deal on paying roughly \$4.6 billion. On the completion of the acquisition, Marriott Vacation's board of directors included two members from ILG's board.



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## Reasons To Sell:

- ▼ **Coronavirus Impact:** Given the widespread and profound nature of the business, Marriott Vacations suffered massive downfalls in occupancy, rentals and contract sales due to the COVID-19 impact. Notably, the company withdrew its 2020 guidance. It also suspended its share repurchase programs and dividends payment for the foreseeable future. Nonetheless, the company initiated certain actions to offset the negative impact. This includes furloughs, reduced work hours and a 50% salary cut in the company's executive leadership team. It also drafted plans to curb investment in capital expenditures and inventory.
- ▼ **Increase in COVID-19 Cases in Florida Hurts Occupancy:** With theme parks reopening, the company witnessed rebound in occupancy and it reached nearly 35% by Jul 4. However, due to rise in coronavirus cases in Florida, occupancy rate declined to approximately 25%.
- ▼ **Q2 Results Decline Sharply:** The company reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. However, both the metrics declined sharply year over year. In the quarter under review, adjusted loss per shares came in at \$1.76, wider than the Zacks Consensus Estimate of a loss of \$1.11. In the prior-year quarter, the company reported adjusted earnings of \$2 per share. Total revenues of \$480 million beat the consensus mark of \$450 million by 6.7%. However, the top line declined 54% on a year-over-year basis.
- ▼ **High Expenses:** Despite cost synergies from the ILG acquisition, the company has been bearing the brunt of steep expenses. In 2019, total expenses flared up 44.3% year over year due to an increase in the cost of vacation ownership products as well as high rental, financing and administrative costs. Escalated marketing and sales expenses along with management and exchange costs too affected total costs. Costs in the coming quarters are likely to shoot up due to the coronavirus impact. Management stated that monthly cash burn will be \$10 million from May through December even if sales and rentals are not resumed to the pre-pandemic levels this year.
- ▼ **Cyclical Nature of the Industry Poses Concern:** The hospitality industry is cyclical and a worsening of global economic conditions might in turn dent Marriott Vacations' revenues and profits. Consumer demand for services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Declines in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower the revenues and profitability of the company owned properties.
- ▼ **Cutthroat Competition:** The hotel industry is highly competitive as major hospitality chains, with well-established and recognized brands, are continuously expanding global presence. Marriott Vacations is continuously facing intense competition from large hotel chains and smaller independent local hospitality providers. Increasingly, the company also faces competition from new channels of distribution in the travel industry. Additional sources of competition include large companies that offer online travel services as part of their business model such as Alibaba, search engines such as Google and peer-to-peer inventory sources. These allow travelers to book stays on websites that facilitate short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms, such as Airbnb and HomeAway.

Coronavirus outbreak and high expenses are concerns. Notably, the company withdrew its 2020 guidance due to the pandemic.

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## Risks

- **Occupancy Increasing Gradually:** In late May, the company started reopening some of its resorts for renters and guest. When the resorts were reopened the company witnessed very low occupancy. However, occupancy increased through June led by drive-to locations. The company's Florida beach resorts and South Carolina resorts occupancy rates were 17% and 30% on Memorial Day, respectively. However, occupancy at Florida beach resorts and South Carolina resorts increased to 65% and 70% by the end of June, respectively. Moreover St. Thomas and St. John resorts by the end of June jumped to 60%. As of Jun 30, the company opened eight sales centers in its vacation ownership business. Another 34 sales centers have been reopened since then.
  - **Cost Synergies From Acquisition:** Marriott Vacations completed the acquisition of ILG, Inc., a provider of professionally delivered vacation experiences in September 2018. Post the completion of the acquisition, Marriott Vacations' pipeline expanded to more than 100 resorts. The company expects to realize greater cost synergies from the ILG acquisition in 2020. In 2019, it realized \$49 million through the integration of ILG. In fact, management expects to realize merger cost synergies within \$25-30 million in 2020 and about \$125 million by the end of 2021. The company achieved roughly \$65 million of synergy run rate by the end of 2019. Notably, it expects to achieve at least \$95 million by the end of 2020.
  - **Digital Innovation:** Hoteliers are adopting aggressive technological ways to sustain competition and meet the changing nature of consumer demand. Marriott Vacation has also been focusing on digital expansion and innovation of latest techniques. In the second quarter 2019, the company launched its digital marketing program with Marriott, which will allow users of Marriott.com to receive attractive offers and promotions. Following the shift to more efficient marketing channels, the company's tour package pipeline grew 13% year over year in fourth-quarter 2019. In the first, second and third quarters of 2019, the company's tour package pipeline grew 5%, 8% and 11%, respectively, year over year. The company announced that package pipeline remains robust. Marriott Vacations is also pursuing opportunities in other social media and digital advertising platforms. Management is optimistic about integrating further data analytics into its marketing strategy.
  - **Enough Liquidity to Tide Over Coronavirus Pandemic:** Marriott Vacations has sufficient liquidity to temporarily survive in the current scenario of unpredictability. As of Jun 30, 2020, the company's cash and cash equivalents were \$566 million compared with \$651 million at the end of Mar 31, 2020. Although the company's long-term debt at the end of first-quarter 2020 stood at \$4.6 billion, down from \$4.7 billion as of Mar 31, 2020, it has no corporate debt maturities until September 2022. The company has an impressive liquidity position to sustain it the current scenario. At the end of the second quarter, the company had debt-to-capital ratio of 0.6, which indicates that its debt load is manageable.
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## Last Earnings Report

### Marriott Vacations Q2 Earnings Miss Estimates, Down Y/Y

Marriott Vacations Worldwide reported mixed results for second-quarter 2020, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same.

In the quarter under review, adjusted loss per shares came in at \$1.76, wider than the Zacks Consensus Estimate of a loss of \$1.11. In the prior-year quarter, the company had reported adjusted earnings of \$2 per share.

Total revenues of \$480 million beat the consensus mark of \$450 million by 6.7%. However, the top line declined 54% on a year-over-year basis.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	6.66%
EPS Surprise	-58.56%
Quarterly EPS	-1.76
Annual EPS (TTM)	4.35

### Segmental Performances

**Vacation Ownership:** During the second quarter, the segments revenues decreased 56.2% year over year to \$405 million, compared with \$924 million as on Jun 30, 2019. The decline was primarily attributed to lower resort occupancies resulting from the coronavirus pandemic.

Revenues excluding cost reimbursements fell 69% year over year owing to 92% decline in contract sales and a 91% decrease in rental revenues, partially offset by growth in management fees and financing revenue.

The segment's adjusted EBITDA came in at (\$19) million, against \$203 million reported in the prior year quarter.

**Exchange & Third-Party Management:** The segment's revenues totaled \$58 million in the quarter, down 50% from year-ago quarter's figure of \$116 million. The decline was primarily attributed to lower exchange and rental transactions in its Interval International business, due to the impact of the coronavirus pandemic.

During the second quarter, total Interval Network active members declined 7% year over year to 1.6 million, while interval International average revenue per member fell 30% to \$30.17. The segment's adjusted EBITDA decreased 58.7%, year over year to \$41 million.

### Corporate and Other results

The segment, which primarily consists of general and administrative costs, improved \$45 million year over year, courtesy of synergy savings and decline in compensation related expenses. It also included \$6 million credit under the CARES Act legislation, thereby motivating the company to pay associates' benefit costs while not working.

### Expenses & EBITDA

Total expenses in the quarter declined 42.1% year over year, to \$521 million, compared with \$900 million reported in the year ago quarter.

The company's adjusted EBITDA in the second quarter came in at (\$10) million, against \$195 million reported in the year ago quarter.

### Balance Sheet

Cash and cash equivalents, as of Jun 30, 2020, was \$566 million.

The company had \$4.6 billion in debt outstanding (net of unamortized debt issuance costs) at the end of the first quarter, up \$0.5 billion from year-end 2019. This includes \$2.7 billion of corporate debt and \$1.9 billion of non-recourse debt related to its securitized notes receivable.

During the second quarter, the company issued \$500 million of senior secured notes and repaid the entire outstanding balance on its Revolving Corporate Credit Facility.

Owing to the uncertainty revolving around the global pandemic, the company has temporarily suspended its share repurchases and dividend payouts.

### Operational Update

Marriott Vacations has started reopening its resorts and sales centers amid the global pandemic. As of Jun 30, the company had opened eight sales centers in its vacation ownership business. Additional 34 sales centers have been reopened since then.

As on Jul 29, 2020, fewer than 240 resorts remain closed in its Interval International business.

Resultantly 40% of its associates are still on furlough while 16% are on reduced work week (or reduced pay). However, for those who have returned from furlough, majority have been assigned on the resort operations area.

## Valuation

Marriott Vacations' shares are down 31.3% in the year-to-date period, but up 3.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down by 33.9% while Zacks Consumer Discretionary sector is down by 5.5% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 21.2%, but up 4.5%, respectively.

The S&P 500 index is up 2.7% in the year-to-date period and 15.1% in the past year.

The stock is currently trading at 19.61X forward 12-month earnings, which compares with 47.9X for the Zacks sub-industry, 33.97X for the Zacks sector and 22.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.51X and as low as 3.81X, with a 5-year median of 14.96X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$75 price target reflects 16.7X forward 12-month earnings.

The table below shows summary valuation data for VAC.

Valuation Multiples - VAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.61	47.9	33.97	22.6
	5-Year High	25.51	47.9	33.97	22.6
	5-Year Low	3.81	15.55	16.12	15.25
	5-Year Median	14.96	20.4	19.84	17.55
EV/EBITDA TTM	Current	12.68	13.52	10.65	12.8
	5-Year High	26.08	23.07	17.81	12.85
	5-Year Low	5.99	9.3	8.34	8.24
	5-Year Median	11.58	14.49	12.24	10.89
P/B TTM	Current	1.31	19.28	3.23	4.52
	5-Year High	4.05	23.97	4.96	4.56
	5-Year Low	0.51	3.18	2.22	2.83
	5-Year Median	2.03	8.42	4.21	3.72

As of 08/04/2020

## Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Hyatt Hotels Corporation (H)	Neutral	4
Extended Stay America, Inc. (STAY)	Neutral	3
Wyndham HotelsResorts Inc. (WH)	Neutral	3
Choice Hotels International, Inc. (CHH)	Underperform	4
Hilton Grand Vacations Inc. (HGV)	Underperform	3
China Lodging Group, Limited (HTHT)	Underperform	5
Intercontinental Hotels Group (IHG)	Underperform	5
WYNDHAM DESTINATIONS, INC. (WYND)	Underperform	4

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	VAC	X Industry	S&P 500	HGV	WH	WYND
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	F	-	-	B	F	B
Market Cap	3.62 B	3.07 B	22.75 B	1.77 B	4.31 B	2.32 B
# of Analysts	4	5	14	2	7	4
Dividend Yield	1.74%	0.34%	1.76%	0.00%	0.69%	7.34%
Value Score	D	-	-	B	D	A
Cash/Price	0.29	0.14	0.07	0.44	0.16	0.52
EV/EBITDA	14.12	12.19	13.09	8.68	15.57	7.84
PEG Ratio	6.56	11.59	2.95	NA	3.76	NA
Price/Book (P/B)	1.31	1.70	3.16	3.38	4.62	NA
Price/Cash Flow (P/CF)	7.30	10.35	12.32	7.13	10.35	3.86
P/E (F1)	59.08	59.00	21.81	87.58	37.78	NA
Price/Sales (P/S)	0.96	1.35	2.46	1.26	2.51	0.78
Earnings Yield	1.69%	0.17%	4.40%	-0.63%	2.66%	-3.78%
Debt/Equity	1.70	0.54	0.76	4.33	3.03	-6.11
Cash Flow (\$/share)	12.08	3.17	6.94	2.92	4.48	7.07
Growth Score	F	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	14.83%	14.83%	10.46%	-6.46%	NA	-10.42%
Proj. EPS Growth (F1/F0)	-80.92%	-85.41%	-7.16%	-106.16%	-62.63%	-118.28%
Curr. Cash Flow Growth	82.73%	6.05%	5.47%	-26.88%	15.45%	6.13%
Hist. Cash Flow Growth (3-5 yrs)	32.34%	4.04%	8.55%	5.36%	NA	-4.49%
Current Ratio	3.49	1.48	1.32	8.09	3.14	3.61
Debt/Capital	62.92%	56.81%	44.36%	81.23%	75.18%	NA
Net Margin	-2.94%	2.79%	10.25%	5.82%	-2.50%	0.13%
Return on Equity	6.39%	-0.62%	14.67%	15.26%	21.25%	-13.97%
Sales/Assets	0.41	0.42	0.51	0.42	0.36	0.39
Proj. Sales Growth (F1/F0)	-32.80%	-35.67%	-1.71%	-38.54%	-32.74%	-45.39%
Momentum Score	D	-	-	C	C	C
Daily Price Chg	6.51%	3.02%	0.42%	2.61%	5.25%	3.65%
1 Week Price Chg	-4.09%	-2.67%	0.14%	1.00%	-3.39%	-9.00%
4 Week Price Chg	4.98%	1.19%	4.97%	-1.42%	7.00%	-5.90%
12 Week Price Chg	16.21%	12.81%	15.30%	21.14%	11.35%	13.35%
52 Week Price Chg	2.94%	-23.11%	2.34%	-21.09%	-14.67%	-31.93%
20 Day Average Volume	381,682	381,682	2,082,836	833,400	830,708	1,029,666
(F1) EPS Est 1 week change	-53.35%	0.00%	0.00%	239.29%	3.50%	14.72%
(F1) EPS Est 4 week change	-60.78%	-10.34%	0.93%	-36.24%	-2.50%	-1,230.56%
(F1) EPS Est 12 week change	-76.19%	-44.59%	0.78%	-36.24%	-8.67%	-987.04%
(Q1) EPS Est Mthly Chg	-116.15%	-12.65%	0.17%	-62.50%	-12.41%	-25.78%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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