

Marriott Vacations (VAC)

\$91.89 (As of 03/10/20)

Price Target (6-12 Months): **\$96.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Shares of Marriott Vacations have outperformed the industry in the past year. The trend is likely to continue, given strong fourth-quarter 2019 results. Impressive top-line growth over the last few quarters is encouraging. The upside can be attributed to improvement in vacation ownership contract sales. The company has been focusing on digital expansion and innovation of latest techniques. It has been remodeling the business framework. It turned into a more point-based and capital-efficient system, with less dependence on the securitization market. Synergies from the ILG acquisition also bode well. Estimates for 2020 have moved up over the past 30 days, reflecting analysts' optimism over the stock. However, increased debt from the ILG acquisition and high expenses are concerns.

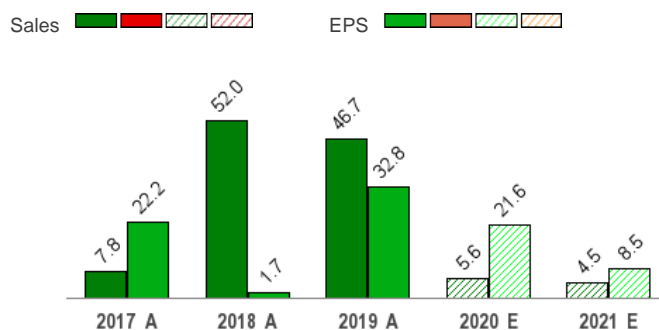
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$131.27 - \$82.43
20 Day Average Volume (sh)	499,803
Market Cap	\$3.8 B
YTD Price Change	-28.6%
Beta	1.89
Dividend / Div Yld	\$2.16 / 2.4%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 20% (203 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.8%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	5.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,193 E	1,195 E	1,247 E	1,290 E	4,808 E
2020	1,120 E	1,131 E	1,174 E	1,206 E	4,599 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	\$2.11 E	\$2.67 E	\$2.65 E	\$2.90 E	\$10.31 E
2020	\$1.88 E	\$2.48 E	\$2.44 E	\$2.70 E	\$9.50 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	11.7
P/E F1	9.7
PEG F1	1.1
P/S TTM	0.9

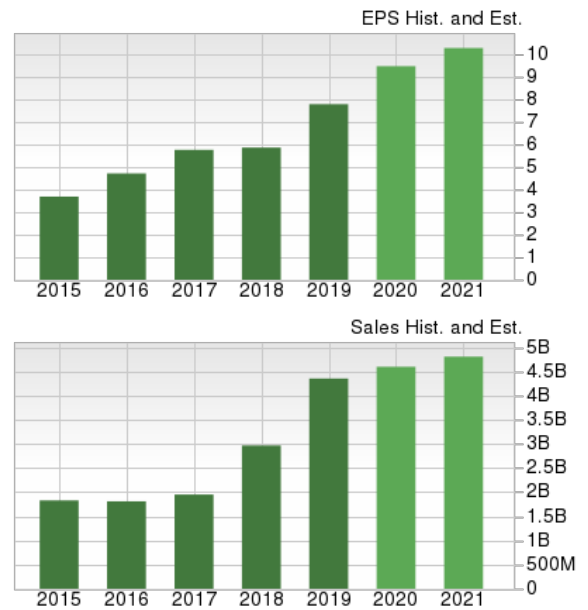
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

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.



Reasons To Buy:

▲ **Strong Revenue Growth:** Shares of Marriott Vacations have outperformed the industry in the past year. The performance can be primarily attributed to impressive top-line growth. In 2019, the company's revenues surged 42%, following 46.7% gain in the preceding year. The upside can be attributed to revenue growth across its segments. Also, consolidated Vacation Ownership contract sales rallied 42% to \$1.5 billion in 2019. For 2020, the company expects consolidated contract sales growth in the range of 7-11%.

Strong revenue-building capacities, digital innovations and synergies from ILG acquisition encourage.

▲ **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, 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. Marriott Vacations is also venturing opportunities in other social media and digital advertising platforms. Management is excited to further integrate data analytics into the company's marketing strategy.

▲ **Strong Financial Position:** In 2019, Marriott Vacations repurchased an additional 4.7 million shares for \$465 million, at an average price of \$98.24 per share. Also, it paid dividends of \$81 million in 2019. For 2020, it expects adjusted free cash flow within \$425-500 million. Further, it continues to expect cash flow generation to support sales growth.

Reasons To Sell:

- ▼ **High Expenses:** Despite cost synergies from the ILG acquisition, the company has been bearing the brunt of high expenses. In 2019, total expenses rose 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. Increased marketing and sales expenses along with management and exchange costs too affected total costs.
 - ▼ **High Debt:** As Marriott Vacations is highly capital intensive, it faces a lot of debt burden. The company's total net debt outstanding at the end of 2019 was \$4.1 billion (up 7.3% from a year ago), primarily consisting of \$2.2-billion corporate debt — most of which resulted from the ILG acquisition — and \$1.9 billion associated with non-recourse securitize notes receivable. Owing to a higher debt burden, the company might fail to finance the upcoming projects. Moreover, any downturn in macroeconomic and credit market conditions would make it difficult for Marriott Vacations to pay or refinance debt moving ahead.
 - ▼ **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.
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High expenses and debt pressure from ILG acquisition are concerns.

Last Earnings Report

Marriott Vacations Q4 Earnings Miss Estimates, Up Y/Y

Marriott Vacations Worldwide Corporation reported mixed results for fourth-quarter 2019, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same.

Adjusted earnings of \$2.43 per share lagged the consensus mark of \$2.58 by 5.8% but improved 63% year over year. Quarterly revenues were \$1,145 million, which beat the Zacks Consensus Estimate of \$1,134 million by 1% and surged 9% from the year-ago quarter's figure. The upside can be attributed to improvement in vacation ownership contract sales.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	0.96%
EPS Surprise	-5.81%
Quarterly EPS	2.43
Annual EPS (TTM)	7.84

Segmental Performances

Vacation Ownership: Consolidated Vacation Ownership contract sales totaled \$394 million, up 10% year over year on a combined basis. Revenues, excluding cost reimbursements, increased 9% year over year. Consolidated contract sales rose 10% on a year-over-year basis. Legacy-MVW contract sales amounted to \$223 million, up 9.3% year over year. Legacy-MVW North America volume per guest (VPG) amounted to \$3,499 million, up 9% year over year.

Rental revenues in the fourth quarter were \$139 million, up nearly 18.8% from year-ago quarter's figure.

On a combined basis, the segment's adjusted EBITDA increased 16.8% year over year to \$226 million in the fourth quarter. Adjusted EBITDA margin improved 60 basis points from the year-ago quarter's figure, excluding cost reimbursements.

Exchange & Third-Party Management: The segment's revenues totaled \$103 million in the quarter, down from year-ago quarter's figure of \$121 million. Total Interval Network active members were 1.7 million at the end of the quarter and average revenue per member was \$38.4.

The segment's adjusted EBITDA, on a combined basis, was \$50 million. The figure declined 13.8% year over year (after excluding VRI Europe from year-ago quarter's level).

Corporate and Other results

The segment, which primarily consists of general and administrative costs, improved \$6 million year over year, courtesy of synergy savings and decline in compensation related expenses. This was partially offset by normal inflationary cost increases.

Expenses & EBITDA

Total expenses in the quarter amounted to \$991 million, up 5.5% year over year. Rise in expenses were caused by an increase in the cost of vacation ownership products, and high rental and financing costs. Higher marketing and sales expenses, and management and exchange costs affected total costs. The company's adjusted EBITDA in the fourth quarter was \$207 million, which surged 15% from the year-ago quarter.

Balance Sheet

Cash and cash equivalents, as of Dec 31, 2019, was \$287 million compared with \$231 million as of 2018 end. Inventory was \$846 million. The company had \$4.1 billion in debt outstanding (net of unamortized debt issuance costs) at the end of the fourth quarter.

2019 Highlights

Adjusted earnings of \$7.81 increased 33% year over year. Revenues also grew 42% year over year to \$1.5 billion. Adjusted EBITDA increased 81% from a year ago to \$758 million in 2019.

2020 Outlook

The company's 2020 guidance does not include any additional impact from the coronavirus outbreak.

For 2020, the company expects adjusted earnings of \$9.01-\$9.72 per share. Adjusted EBITDA is projected between \$820 million and \$860 million.

Valuation

Marriott Vacations' shares are down 28.3% in the year-to-date period and 0.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 24.6% and 17.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.1% and 6.8%, respectively.

The S&P 500 index is down 10.2% in the year-to-date period but up 4.4% in the past year.

The stock is currently trading at 9.52X forward 12-month earnings, which compares with 17.4X for the Zacks sub-industry, 16.93X for the Zacks sector and 16.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.51X and as low as 7.43X, with a 5-year median of 15.29X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$96 price target reflects 9.95X 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	9.52	17.4	16.93	16.58
	5-Year High	25.51	26.95	23.23	19.34
	5-Year Low	7.43	16.6	16.15	15.18
	5-Year Median	15.29	20.45	19.88	17.42
P/S F12M	Current	0.82	1.67	1.9	3.05
	5-Year High	2.27	2.25	3.19	3.44
	5-Year Low	0.65	1.13	1.81	2.54
	5-Year Median	1.15	1.65	2.53	3.01
EV/EBITDA TTM	Current	8.95	13.72	10.21	11.04
	5-Year High	25.03	23.07	17.58	12.87
	5-Year Low	7.05	10.99	10.21	8.49
	5-Year Median	12.3	14.56	12.29	10.79

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 253)



Top Peers

Choice Hotels International, Inc. (CHH)	Neutral
Hyatt Hotels Corporation (H)	Neutral
Hilton Grand Vacations Inc. (HGV)	Neutral
China Lodging Group, Limited (HTHT)	Neutral
Intercontinental Hotels Group (IHG)	Neutral
Wyndham Hotels & Resorts Inc. (WH)	Neutral
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral
Extended Stay America, Inc. (STAY)	Underperform

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	VAC Neutral	X Industry	S&P 500	HGV Neutral	WH Neutral	WYND Neutral
VGM Score	A	-	-	F	D	B
Market Cap	3.80 B	3.16 B	20.21 B	1.84 B	4.27 B	3.09 B
# of Analysts	6	5.5	13	3	7	7
Dividend Yield	2.35%	1.10%	2.18%	0.00%	2.55%	5.09%
Value Score	B	-	-	C	C	A
Cash/Price	0.18	0.08	0.05	0.07	0.02	0.15
EV/EBITDA	13.91	14.05	12.36	8.86	15.08	8.47
PEG Ratio	0.99	2.97	1.78	NA	1.32	NA
Price/Book (P/B)	1.27	1.91	2.77	3.23	3.57	NA
Price/Cash Flow (P/CF)	7.60	12.67	11.04	7.38	10.17	5.00
P/E (F1)	8.90	18.91	16.09	8.31	13.30	5.82
Price/Sales (P/S)	0.86	1.42	2.17	1.00	2.08	0.76
Earnings Yield	10.34%	5.10%	6.20%	12.04%	7.51%	17.19%
Debt/Equity	1.35	0.58	0.70	2.90	1.73	-10.64
Cash Flow (\$/share)	12.08	3.11	7.01	2.92	4.48	7.07
Growth Score	A	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	19.57%	19.35%	10.85%	NA	NA	2.16%
Proj. EPS Growth (F1/F0)	21.64%	2.01%	6.14%	22.75%	4.36%	8.13%
Curr. Cash Flow Growth	82.73%	6.05%	6.09%	-26.88%	15.45%	6.13%
Hist. Cash Flow Growth (3-5 yrs)	32.34%	4.04%	8.52%	5.36%	NA	-4.49%
Current Ratio	3.16	1.10	1.24	4.94	1.08	3.27
Debt/Capital	57.42%	56.24%	42.57%	74.34%	63.42%	NA
Net Margin	3.13%	7.60%	11.69%	11.75%	7.60%	12.52%
Return on Equity	10.90%	5.81%	16.74%	36.19%	24.70%	-92.76%
Sales/Assets	0.48	0.52	0.54	0.61	0.44	0.54
Proj. Sales Growth (F1/F0)	4.24%	2.41%	3.71%	8.76%	-9.44%	0.79%
Momentum Score	B	-	-	F	F	C
Daily Price Chg	6.43%	2.94%	4.87%	1.46%	3.43%	4.96%
1 Week Price Chg	-1.96%	-5.47%	-0.67%	-9.15%	-4.42%	-4.94%
4 Week Price Chg	-25.03%	-19.40%	-15.65%	-32.75%	-23.28%	-27.35%
12 Week Price Chg	-27.49%	-20.68%	-13.60%	-37.62%	-24.69%	-29.29%
52 Week Price Chg	-2.66%	-10.92%	-2.27%	-31.70%	-12.23%	-15.67%
20 Day Average Volume	499,803	499,803	2,778,843	936,477	1,430,539	840,575
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	10.45%	0.00%	0.00%
(F1) EPS Est 4 week change	5.36%	-8.43%	-0.16%	-13.16%	-3.39%	0.73%
(F1) EPS Est 12 week change	4.78%	-8.82%	-0.57%	-11.83%	-4.01%	0.47%
(Q1) EPS Est Mthly Chg	6.59%	-5.03%	-0.49%	-30.81%	-4.92%	-5.13%

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	B
Growth Score	A
Momentum Score	B
VGM Score	A

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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