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<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

Good afternoon, we are going to get started. My name is Mike Bellisario. I'm the Senior Analyst covering the hotel REITs and C-corps at Baird. Today, we have ILG with us in the vacation ownership business. Craig Nash, Chairman, President and CEO is up here with me today. If you have questions during the presentation session5@rwbaird.com, feel free to send those as they arise. First for the benefit of the consumer, investors, the generals in the audience are not familiar with the story, can you give a quick two minute overview of the business, the business segments and the drivers that you look at.

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Sure. Good afternoon, it's great to be here. Again my name is Craig Nash. I've been in the shared ownership business ever since I graduated from the law school 1978. I started working for a gentleman who created the concept of interval ownership which was a form of timesharing which allowed consumers to receive title insured real estate as part of their purchase. As you know or may know shared ownership or timesharing was created as a second – as an option to owning a second home.

After that I became legislative counsel for Interval International and created a network of state laws and construct a regulation protecting the consumer along with some other industry participants during the early days of shared ownership. And we're proud to say that shared ownership is like the first part of what was the invasion of the shared economy which is so prevalent today technology-driven of course, ours is a little bit different.

But ILG is an outgrowth of Interval International, which was started in 1976 by the same gentleman that I started working for as a lawyer. And over the years Interval International as an exchange company, an independent exchange company, it didn't own or manage any properties. It just provided developers who develop timeshares, a marketing and sales tool to assist in their sales to consumers as well as provide consumers with flexibility to be able to use occupancy rights across different properties that were not managed by the same developer.

So we've been through seven different ownership structures since 1976. We were part of private equity, a couple times. We were obviously a start-up once, we were a division of public companies twice and last year, we did a reverse mortgage plus merger with the Starwood timeshare business with Starwood. But I think the journey that I really want to talk real quickly begins in 2008, we were part of Barry Diller's IAC. We were spun-off in August of 2008 as a standalone public company along with standalone public companies to get Master, Home Shopping Network, LendingTree. So IAC has a pattern of spinning off some of the businesses. We were one of them.

So we really spun-off into one of the obviously the worst economic environments ever where the customers of Interval International, the developer clients, a number of them who lost liquidity the ability to finance sales of timeshare interest, went bankrupt. And other developers who add strong balance sheets ended up having to pull back sales to new customers because they needed to preserve cash as many businesses did during the Great Recession.

So what we did as a management team is we diversified our platform and broadened our fee-for-service and asset-light business model to not only include the Interval International exchange business. But we became the largest manager of legacy timeshare resorts through a series of acquisitions and a joint venture in Europe. We became at that time the largest provider of transient occupancy in the Hawaiian Islands to our two purchases of Aston hotels and resorts and Aqua another management company in the Hawaiian Island.

So then we got to the point where we had these fee-for-service businesses, CapEx light but the growth opportunities by not controlling your own content were more challenging. So through a series of acquisitions, we acquired the timeshare business at Hyatt and at Starwood. So now we are the global licensee, master licensee for the Hyatt, Westin and Sheraton brands in shared ownership.

We have a growth trajectory because of embedded inventory, its in that platform that if you look at the Investor Day information or if you listen to it or you can go on listen to the webcast, you'll see that we have a great growth story moving forward. And that's because of the content, the upper upscale content that we now control in the embedded inventory that came along with the Vistana transaction in May of last year.

So that's kind of – so we have two segments exchange and rental, which includes our exchange businesses Interval International, Trading Places as well as the proprietary branded clubs that Hyatt Residence Club has as well as our Vistana Signature Network which was formerly known as Starwood Vacation Network, which is the proprietary brand – priority branded exchange system that encompasses Westin and Sheraton. So that's our exchange and rental along with the Trading Places business. And then vacation ownership business includes our branded development business as well as our legacy management business that I talked about earlier.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And the Vistana acquisition was started there, we've known that for a little while now. How was the integration gone and what did you see in that asset when you were pursuing that 18, 24 months ago?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

So the thing that people need to know is that back in 1997, when we were divested pursuant to an FTC consent decree in one of our ownership structures. We brought in Hyatt, Marriott, Carlson Hospitality and later Starwood shareholders in our private business. We got to know a lot of the players. We worked with Hyatt as well as Starwood for 20 years and we are able to get a relationship where we are very close in understanding how the consumers protected and how our business ran so that that transaction closed just over a year ago.

So from a cultural standpoint, we knew everybody and respected everybody, they’re professional, good people, integrity, hard working and built a great business. So from a standpoint of integration, there's a lot of systems work in blocking and tackling at the time of closing. We had to get on the HR systems that was done financial systems, we rolled out the telephony system and we started to do a lot of integration around our shared services, IT, legal, HR and some other functions.

We have – we're probably in the third inning, a lot of the upside comes from revenue enhancements in melding together the best of the Vistana platform and the Hyatt platform. We’ve already put together leaders of the marketing in sales side at the ILG VO level as well as acquisition and development. But we have speed to market initiatives, you got to understand the Hyatt’s much smaller than Vistana. And can benefit from a lot of the scale and the experience in the programs that they have that can be grafted onto the Hyatt platform.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

You mentioned the inventory that you acquired almost $7 billion, you develop that, how do you monetize that what’s the endgame for that inventory?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Yeah. So the great part of the deal with Starwood was – we’ve got this embedded inventory, two of the projects are front-loaded. Nanea, which is a 390 unit project on Ka’anapali beach, the third kind of phase of the project they have there which will be over 900 units when completed. And we completed by the end of this year that had to be built all at once, because the permitting sunsets on that entitlements in the case of the Westin Cabo that was built all at once instead of building it back as a hotel after was destroyed in a hurricane. And we built it back as a timeshare resort both of those have open, Nanea is not all the units are done but per se it is definitely open.

So our thoughts behind the inventory that we got is that this is front-loaded, all the other inventory that we have on our balance sheet. Moving forward is going to be developed on a just-in-time basis meaning that it will be built in alignment with our projected sales velocity as we move forward into our development plan. But when you hear other participants in our space talk about just-in-time and fee-for-service but we had to build these two, was the smartest thing to do we capture all of the EBITDA from it.

And all of our other projects that we have in our plan today are our own self-sourced, just-in-time inventory, so you are getting the same kind of benefits of just-in-time. We’re just capturing all of the EBITDA from it.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

Anything why do-it-yourself versus funding third-party capital?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Well, our cost of capital is less than buying somebody else’s balance sheet. So what you're ending up doing is selling the project and then buying it back. So they can have a profit and if you do it just-in-time, you're not out long, you're constantly selling it and if you're putting it into the pipe based on your expected velocity of sales, you’re actually doing much better.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And then with the multiple brands, you have across the platform. What are the synergies you see there and what are the benefits of having Hyatt and Starwood’s brand and what benefits between those two programs, do you see over time?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Well, aside from leveraging best practices and all the other things with respect to the integration it’s always good to have multiple master licensors. The Hyatt brands and the Westin brands from a quality perspective are really up there in the upper upscale space. Hyatt has been built more as a boutique smaller unit markets that are not as competitive as some of the other markets in the shared ownership. Westin has got into big box kinds of markets and done extremely well and Sheraton has amazing global appeal. So we feel that having options of the different types of opportunities that we see that we can utilize the brand it’s most efficient and most accretive with a true benefit.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And then with the Marriott and Starwood merger now complete in months about eight or nine or so. How do you manage that from a sales perspective, how do you manage that more importantly from a customer perspective then what do you think happens in 18 months from now when they merged a two loyalty programs and how customers have to make a decision about where they’d redeem that point?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

So from the standpoint of how we work with Marriott, a great relationship with Marriott, I told you before that they were part of our ownership group back in 1997 to 2002. And so we have a great relationship, they are doing some things on the marketing side with us that Starwood would need and do. On the Hyatt side, clearly we have a good relationship which will build every time as we build volume. So in terms of relationship with Hyatt what they ultimately do with the rewards program. We don't know I haven’t really said what they're going to do. We have the rights to any of the loyalty program that’s tied to Westin and Sheraton in our agreements with them. We intend to build out our business plan on that basis.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And then has the industry changed at all or the competitive landscape given the recent spin-out of HGV from Hilton?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

I think the most important change is I guess an intense – a more intensive pursued a good talent whether that’s on a sale side or other areas. When you got now four companies that are hospitality remains out there, three upper upscale brands all located in the same area. Competition for talent we want to be the employer of choice. So we are doing everything we can from a cultural standpoint and from a growth trajectory standpoint to be able to track the best talent and keep the best talent.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And any changes from a customer perspective then about where they are choosing to?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Not really, we've always been in competition, there actually been more our developers out there that were competing with us, consolidation has created a smaller number. The volumes have not gotten back to pre-Great Recession stage. So we will be able to compete, we’ve got the products. We think we've got the best assets, the best resorts in the business and you can’t reproduce this Oceanfront, Westin and Cabo or any of the other kinds of properties that we got as far as the deal.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And taking a step back, what’s the customer demographic like today versus maybe 20 years ago and where do you see that evolving over time?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

It's very similar, people always talk about millennials and clearly you have to adapt your product and service delivery to be in-sync with the times. But we've always been selling to young families or families with children. We don't sell a lot to singles but we do sell across the range. What we're doing from the standpoint of our product structure and talk about this every time they had an opportunity, when you think about our conversions of our hotels. We are really focusing on activities in the common areas, communal areas where the vacation experience can be shared in that kind of a setting. We have more casual dining opportunities, more children's related activities and other kinds of experiences that are specific to that particular resort area, whether it's Maui or whether it’s Cabo, or whether it’s Cancun.

We have a professionally delivered vacation experience less of an emphasis on some of these new projects inside the unit, although the inside of the unit are really great brand standard of quality. But we are spending more time and attention and money in communal areas and the vacation experience aspect.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And maybe it's just market specific but are you seeing any impact from Airbnb or HomeAway, any changes in that competitive landscape?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Well, I think any time you have an increased array of options for vacationing, they’re on the margin you're going to be impacted. But I think we at least impacted on our upper upscale professionally managed vacation experience business. We do have a rental business in Hawaii through our Aqua-Aston business. They have been impacted by VRBO and those kinds of providers in the past. Interestingly enough recently with Expedia, we're actually getting more distribution and more bookings in our vacation rentals through that distribution platform.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

With Expedia owning HomeAway that impacted you around?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

It’s created more of a distribution and more attention to the vacation rentals, so it’s actually helped us.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

Okay. And then with regulation in the industry where do you see that going and there's been some bad press somewhat recently do you think that’s in a rearview mirror now?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Well, I started off when I talked about my background was very involved in the regulation of the timeshare industry from the early days when the first statutes that were ever inactive. I’ve got to say that the consumer is more protected buying a timeshare than they are any other product I can think of. You’ve got a recession period, you have guarantees which you're going to get what you bought. Even in the event of bankruptcy you got recession. So in terms of policing sales practices which I think you hear more about that we heard the more about in the press last year. The consumer is protected pursuant to state law.

And I think that the players that conductive business in a way of integrity particularly when you got in our case. You’ve got licenses that I mean launching [ph] the brands you want to treat customer with integrity and with respect, whether they’re on a tour or whether they are – one of your customers that’s already bought, you want to treat them the same way. I don't think it's a big issue particularly with us because there’s great regulation out there, are we a little too much. And you've got course of conduct which we believe we are a good player.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And you think about growth, what new markets are out there that you are looking at and how do you evaluate potential markets for investment?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

So today if you look at the embedded inventory we have – we've got a very – we’ve got as a – like to say, we’ve got a paved runway. We have identified properties we own them. And we have a schedule of how they are going to roll off the balance sheet and increase ROIC over time. So we don't really have to look for new properties for a long time. But we are opportunistically, you hear about just-in-time and you hear about fee-for-service. We would like if sourced, third-party sourced, just-in-time kind of scenario in markets that we don't currently serve so as long as they are accretive marketing channels they come along with it. So whether that’s Las Vegas or New York or another market that we're not served that can be a driver of growth and its accretive. We are open to all that.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And if you take a step back and look at the industry, what is the potential for more consolidation look like for you?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

There has been a lot of consolidation. There's probably more consolidation opportunities to follow. We have been a big consolidator, we consolidated management companies, we bought another little exchange company. We bought the Hyatt and the Starwood timeshare business. We're really focused on the integration of Vistana right now that was $1.1 billion transaction that occurred just about a year ago. And it is a big driver of our growth over the next several years and we need to pay attention to that.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

So its sounds like there will be more tuck-in if anything that not another transformational?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Let me say tuck-in. Tuck-in sometimes take as much effort and as aggravation as anything else. Yeah, while there might be some tuck-ins available we are really focused on the integration of Vistana.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And how do you think about uses of capital today?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

So as you can see in our presentation, the last two years we spent quite a bit of money investing in the business. And that is the front-loaded nature of Nanea project as well as the Westin and Cabo. We will continue to invest in the business, we return to $170 million of – $180million in free cash flow last year to investors in the form of dividends and stock buybacks. We have a run rate – annual run rate now at $75 million a year of divided. We continue to look at our stock buyback opportunities within the limits of some of the restrictions we have in the tax matters agreement. But of course number one is our investment in our business, number two and three are clearly more dividends and stock buyback policies.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And on the share repurchase, with in relation to the RMT transaction, how long do you have to cognize set of tax matters and is there any restriction on how much stock you can buy that in a fiscal year?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

The tax matters agreement is two years, the number that's been all the advisors have been throwing out to us is 10% clearly we haven't reached that point yet. So we continue to look at those opportunities.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

Got it. And I wanted to circle back to the exchange and rental business. Can you give us a quick overview on that and maybe how that has evolved over time and where do you see that business going?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Well, the exchange let’s talk about the exchange business for a second. As I said before, Interval International is a grower, a double-digit grower every year with the industry growing as long as we got market share it grew along with the industry. The Great Recession kind of changed all that because of the dislocation of the developer pipeline. And so we pulled back let’s say, hey, exchange market has changed whether you're talking about cable and TV and streaming video, its all capturing the eyes of the consumer and the wallet of the consumer. And we said, we want to be in every aspect of that exchange transaction model.

So we expanded into the direct-to-consumer exchange model with Trading Places that require membership. And clearly through our Hyatt and Starwood transactions now have a pretty robust proprietary branded exchange business. So we look at it all together, the headwinds that are in the membership model, the Interval International business is a consequence of developers not selling as much to new buyers where Interval International gets its numbers.

On the rental side, we've been focused primarily on Hawaii and we've got a huge market share there. We are second now because of the Marriott acquisition of Starwood. But we continue to look at that business and believe will spend more time trying to grow that platform outside of Hawaii.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And since the election, have you seen any change in sales pace or people buying a second and third interval what’s the changes if any that’s occurred in the last seven months or so?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

I think it's been pretty consistent. We want to get to 50 in terms of sales to new buyers as well as to our existing customers. We are at 45% to new buyers today around that number. So we're not seeing a great change, our customers would love our product. They want to buy more as we add more locations of – replacing the locations like Cabo and Nanea and others that we have. We believe they're going to want to buy more and stay with us.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

On average of customer, how many intervals do they have with you?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

I can't really, I don't know right off the top of my head.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

I think the average in the Interval International system that means 1.7 week. And then if you take a step back and look at the risk that the industry whether they're kind of one, two, three threats you see out there over the next five or so years that really keep you up at night?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

You always have to be innovative. We continue to think about the secondary market, we continue to think about how do we create a product that is not a lifetime product. There are a lot of accounting, even the recognition rules around that. But I think that as we continue to innovate our product and our product structures, we want to reach a broader demographic and we want to expand internationally as well. We are the only U.S. brand to be in Mexico, and that's because the second largest market in the world. And we are proud of the fact that we can execute in the marketplace.

But you just got to execute and as long as people want a vacation and they have the wherewithal financially to be able to acquire our product, we think it will be very successful.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

And with interest rates still near all time lows, how does that affect your benefit your business and then how does that come into play over the next five years you think about capital deployment?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

Well, I think that obviously our arbitrage on our financing side has benefited greatly from the lower cost of funds on the securitizations as rates go up or if they go up then we'll get a little bit compression there, the arbitrage. But so long as the rates are low we are able to continue to have our debt levels that are manageable. We think that it's a positive and we can definitely would stand interest rate increases.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

Just on the top of the risk was development and you're getting the inventory completed what are the risks surrounding that process and what do investors will be thinking about as you completed just-in-time inventory?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

I think investors are – I feel very comfortable with the fact that we've got an amazing team that have build thousands and thousands of units over the years. Our Nanea and our Cabo properties are coming in, ahead of time, ahead of schedule and on budget. And those are the hard ones, so those were the big ones all at once. The rest of them are conversions or adding new units, the existing resources that we have already thousand or more units in Orlando. The team, the experience as well as execution that they had shown in the past I think to give comfort to investors.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

As you think about managing the balance sheet risk, where it's current leverage now and what's your long-term target?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

So we're comfortable around two, we're below that now. In between securitizations we pull on that line and our revolver. We did as much as three in the past when we got spun-out we were three times when we levered up the three acquisitions towards the end of 2014. We were at three but we are comfortable with two time.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

In your career of doing this, how was the sales process changed to get the customer to convert and say yes?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

I think that in the branded environment, the brand helps a lot. Having more flexibility, having more attributes it tied to that brand and giving variety of experience has been extremely helpful. The product started out as a fixed week, fixed unit it truly was I want to go to Sanibel every year this time of buying that week with that view and it has evolved into this comprehensive hospitality product where experiences are much more important than ever before. And that's what we're really focused on in our new developments and the amenities and the services and the experiences we continue to add to make sure that this is an environment that customers a treasurer and want a vacation every year.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

I mean with those increase in members are you seeing increased customer spend when they're at the property?

<<Craig M. Nash, Chairman, President and Chief Executive Officer>>

I don't have that number right off the top of my head but at the property you got to understand this is a prepaid vacation, the beauty of the model is that people go on vacation and they don't have to spend as much. I'm sure they do in other things on activities and experiences outside the resort environment, yes, they will spend in our restaurants. But part of the allure of timesharing particularly for families is that you got a kitchen or kitchenette that you can have a meal or two with your children in the unit which makes it a much more appealing environment for a family.

<<Michael Bellisario, Analyst, Robert W. Baird & Co., Inc.>>

Any questions, the session5@rwbaird.com. I don't have any. So call it a wrap. Craig, thank you for joining us again for the second, appreciate that. Next up Grand Ballroom I & II is Sally Beauty; Under Armour is in Grand Ballroom III; Diebold is in Empire Ballroom II; Insight Enterprises…