Deutsche Bank
Research

Rating
Buy

North America
United States

Consumer
Leisure

Company
Wyndham Destinations

Reuters	Bloomberg	Exchange	Ticker
WYND.N	WYND US	NYS	WYND

Date
15 June 2018

Forecast Change

Price at 14 Jun 2018 (USD)	48.06
Price target	62.00
52-week range	57.15 - 42.67

Chris Woronka
Research Analyst
(+1) 212 250-9376
chris.woronka@db.com

Carlo Santarelli
Research Analyst
(+1) 212 250-5815
carlo.santarelli@db.com

Steven Pizzella, CFA
Research Associate
(+1) 212 250-9817
steven.pizzella@db.com

Reinstating and Transferring Coverage; Rating is Buy, PT is $62

Revising Rating Upon Reinstatement of Coverage

Following a lengthy restriction, we are reinstating coverage of WYND (formerly WYN—Wyndham Worldwide) and transferring coverage to Chris Woronka. Our rating is Buy. We believe risk/reward is compelling at current levels and our favorable disposition is largely predicated on management's ability to deliver on stated targets with respect to growing the base of new owners without sacrificing margins. Similar to the old WYN, we expect WYND to make the consistent return of capital a high priority. If these points come to fruition, we see headroom for WYND to grow into a more robust multiple. Our PT is $62, implying 29% potential upside, excluding the current 3.4% dividend yield.

Core Thesis: Mgt. Delivers, Aided by Blue Thread, New & Improved WH

Our confidence that WYND will ultimately be successful in achieving 900bps of favorable mix shift by 2022 and thereby securing a path to future earnings growth stems from an expectation that the Blue Thread initiative to date has only scratched the surface in terms of its potential to deliver new timeshare buyers to WYND. As WH gets further down the path of harmonizing its umbrella branding strategy (each brand will eventually carry the "by Wyndham" tag), the value of this mutually beneficial relationship should crystallize. The real key, however, is that each next batch of new owners transacts similarly to the in-place owner base in terms of propensity to purchase upgrades at a later date. All owners are not created equal.

Why We See Upside on Valuation from Here

At 7.1x 2019E EV/EBITDA and an 11% free cash flow yield, valuation itself can be a catalyst. We think WYND specifically is going through some natural (and transitory) shareholder churn post the WH spin, and also believe group multiples are being constrained at the moment by investor positioning ahead of the planned closing of the VAC-ILG merger. Once these events pass, we think earnings momentum (beats/raises) will spur a return to the more robust multiples we saw earlier this year. To be clear, we do not assume WYND trades on par with the new VAC-ILG and we do in fact see a healthy valuation there as a bit of a prerequisite for WYND itself to reach a more fulsome valuation.

Price Target Set at $62; Risks

Our PT is based on a SOTP EV/EBITDA approach, where we value the core Vacation Ownership segment at 8.0x and the Vacation Exchange unit (RCI) at 9.0x, less Corporate SG&A at the blended multiple of 8.3x (on a 2019E basis). Risks relate primarily to factors that may affect WYND's ability to close profitable VOI sales, including a downturn in discretionary income or unfavorable mix; rising interest rates can impact financing profitability/securitization economics.

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-5.0	-9.9	7.4
S&P 500 INDEX	1.8	0.4	13.7

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2017A	2018E	2019E
FY EPS (USD)	–	4.73	5.32

Source: Deutsche Bank estimates, company data

[1] Includes the impact of FAS123R requiring the expensing of stock options.

Investment Thesis

Portfolio Manager Summary

Outlook: Our Buy rating on WYND is predicated on our belief that management will execute on key strategic initiatives at a high level. If that indeed unfolds as we expect, we see a fairly straightforward path to significant free cash flow generation and multiple expansion. Meaningful return of capital is a hallmark of the legacy Wyndham Worldwide platform, and we believe management remains committed to being a shareholder-friendly steward of capital.

To be clear, the company is undertaking an intentional shift in its targeted business mix. Growing the base of new owners is critical in terms of shaping WYND's five to ten year growth profile, because new owners historically spend an additional $2.60 for every $1 of initial investment. New owners also are key to refilling the high-margin consumer financing unit. The most critical task for WYND management—the one we are projecting them to get right—is to grow that new ownership base without having to sacrifice margin in terms of customer acquisition costs. Equally as important is that those new customers transact in a manner similar to the in-place customer base in terms of propensity to finance and upgrade, without experiencing any meaningful uptick in default rates.

Valuation: Consistent with our approach across the broader leisure and hospitality real estate space, we employ a sum-of-the-parts (SOTP) EV/EBITDA methodology to value WYND. We believe an EBITDA-based valuation remains the preferred metric by investors, as it generally maximizes comparability between various companies across the broader sector. We value the core Vacation Ownership segment at 8.0x and the Vacation Exchange segment at 9.0x; this results in an EBITDA-weighted blended multiple of 8.3x, from which we subtract unallocated corporate expenses at the same multiple.

We believe WYND's current valuation is being held back by two key items: 1) since Marriott Vacations Worldwide (VAC) is in the process of merging with ILG Group (ILG), there appears to be some natural investor positioning that is currently diluting VAC's multiple; assuming that deal closes as expected, we believe the combined VAC-ILG entity's multiple can expand. And 2) we think there is still some shareholder churn in WYND post the spin of Wyndham Hotel Group (WH), along with something of a discount owing to the newness of the WYND management team to the public markets. Execution on the strategic plan and establishing a pattern of earnings beats and raises and consistent return of excess capital can lead to a higher multiple, in our view.

Risks: Key risks include WYND's potential inability to achieve profitable net new owner growth, a potential increase in default rates on consumer loans (in response to third party timeshare exit companies or other factors), and any unfavorable macro-economic developments that negatively impact employment, discretionary income, or consumer confidence. Rising interest rates can also present risks in terms of financing profitability and/or the ability to securitize notes on favorable terms.

Key Themes

New as a standalone company, but investor familiarity is there. WYND serves as "RemainCo" of the former Wyndham Worldwide, following the spinoff of Wyndham Hotel Group (WH) on May 31. We believe most investors are already intimately familiar with the core of WYND's business model and are expecting the return of capital story that was part of legacy Wyndham's DNA to continue. What's new, or relatively new, is CEO Mike Brown and his explicit strategy to solidify the path to future earnings growth by increasing the mix of timeshare sales made to first time buyers.

Bull/Bear tug likely centers around strategy shift (and at least a little macro). By virtue of our rating, we are in the camp that believes WYND will be successful in achieving the desired mix shift, while not sacrificing margins. We see the Blue Thread initiative (read on) as a key driver of keeping new customer acquisition costs in check. Bears are likely to question whether the pool of potential new buyers is deep enough and whether the new buyers WYND does find will be as profitable over time as existing owners. Ultimately, timeshare is a discretionary purchase so positioning in the stock should at least in part by shaped by expectations regarding the strength and sustainability of consumer spending.

Newly-minted potential to leverage the strategic relationship with Wyndham Hotel Group (WH). As part of the separation/spin process, WYND signed a long-term licensing agreement with WH whereby it will have full access to WH's loyalty members and the ability to market to them directly, in addition to collection of hotel data and other IP housed at WH. Given that WH itself is in the process of attaching the flagship Wyndham name across its entire hotel brand platform, this should provide attractive and heretofore unavailable opportunities for WYND get the same cross-selling benefits its timeshare peers have had for some time. Incentives are well-aligned too, since WH will receive reasonably-priced, completely variable royalties based on "Blue Thread" sales that are generated from these internal leads.

Broader view on timeshare: long term demographic tailwinds, but noise along the way. We are subscribers to the theme that consumers are placing a greater emphasis on experiences (i.e., travel) than on tangible goods. Timeshare plays well in that context, particularly if home ownership or second home ownership becomes cost prohibitive for aspirational buyers. That said, customer acquisition costs, inventory sourcing (which can get more expensive), and loan loss provision trends are topics than can make owning the stocks challenging from time to time.

Getting to Know WYND

WYND at a Glance – In Pictures, With Key Points

WYND is currently the largest publicly-traded timeshare and vacation rental enterprise, as measured by market cap, revenues, EBITDA, and number of owned or affiliated resorts. However, VAC and ILG are in the process of merging and the combined company is currently anticipated to be larger than WYND in terms of revenue and market cap.

Figure 1: Tale of the Tape: Public Timeshare Operators

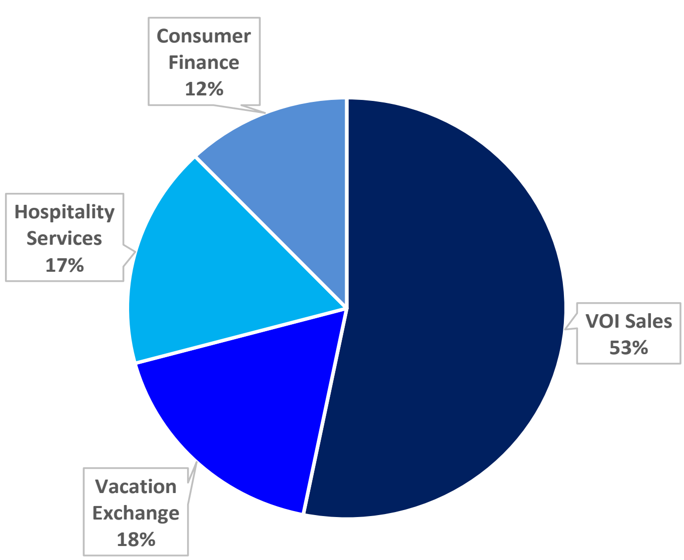
	WYND	HGV	VAC	ILG	VAC + ILG
Affiliated Resorts	**221**	48	65	43	108
Market Cap (m)	**$4,858**	$3,959	$3,337	$4,353	$5,873
2018E Revenue (m)	**$4,014**	$1,943	$2,256	$1,918	$4,174
2018E EBITDA (m)	**$947**	$494	$321	$360	$756
2018E EBITDA Margin	**23.6%**	25.4%	14.2%	18.8%	18.1%
Dividend Yield	**3.4%**	-	1.3%	2.0%	1.3%

Note: VAC+ILG assumes 0.165 VAC shares per ILG share, $75m of synergies to EBITDA and $1.60 annual dividend

Source: Deutsche Bank Estimates, FactSet, Company information

Slightly more than half of WYND's revenues are derived from the sale of vacation ownership (timeshare) products. WYND employs an exclusively points-based system, whereby customers purchase points that enable them to occupy units at WYND-affiliated resorts. At the end of 2017, there were 878,000 owners in the Wyndham vacation ownership system.

Figure 2: Composition of WYND's Revenues (2017A)



Source: Company Information

WYND also offers financing to buyers of its vacation ownership products. This is effectively a spread business; WYND's profits are equivalent to its net interest margin less a provision for defaults. WYND typically securitizes a portion of the notes it underwrites. We discuss key trends later in the report.

The company's Hospitality Services unit (17% of revenues in 2017) collects management fees from affiliated resorts. This is effectively a "cost plus" business that charges ownership associations a fee for managing all of the activities at a given property and collecting the annual maintenance dues (WYND is reimbursed for operating expenses incurred).

WYND also owns the RCI network, which is a vacation exchange platform. Owners of timeshare products (fixed week intervals or points) can purchase an RCI membership, which enables them to "trade" inventory with another owner on the platform and WYND (via RCI) collects transaction fees. RCI had about 3.9 million members as of 12/31/17.

The Business Model

There Are Four Key Top Line Drivers

As we mentioned, WYND essentially has two distinct business units: vacation ownership (including management services and financing) and the RCI exchange platform. Each of those units has two key revenue drivers.

The single largest top-line driver is volume per guest, or VPG. This represents the dollar value of all vacation ownership sales divided by the number of customers that attended a presentation (hence it also reflects the close rate, since the average first time owner buys about $25,000 worth of points, on average, but VPG is in the range of $2,400).

Note that it is not unusual to see inverse relationships between these variables in any given quarter or year, with one increasing while the other decreases.

Figure 3: Key Revenue Drivers and Earnings Sensitivity

Driver	Change	EBITDA Impact	% of EBITDA
Tour Flow	100bps	$6.0m	0.6%
VPG	100bps	$9.0m	0.9%
RCI Members	100bps	$4.5m	0.5%
Revenue per Member	100bps	$7.0m	0.7%

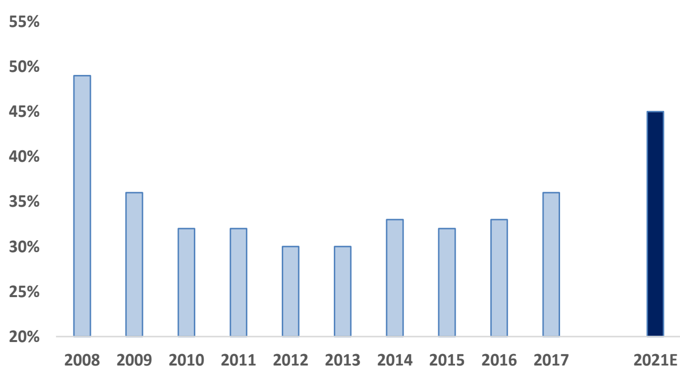
Source: Company Filings and Deutsche Bank

What Matters Most

Growing the New Owner Base is Important…..

WYND's top strategic priority is to meaningfully increase the level of vacation ownership sales to new owners. For its part, WYND has published a target here (45% by 2022) and we believe management will be evaluated against its ability to achieve that target. Growing the base of new owners is critical in terms of shaping WYND's five to ten year growth profile, because new owners historically spend an additional $2.60 for every $1 of initial investment. New owners also are key to refilling the high-margin consumer financing unit.

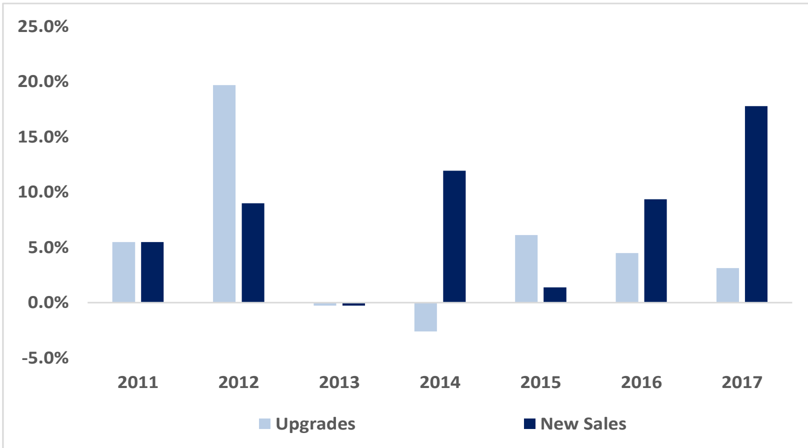
Figure 4: New Owners as % of Total Mix



Source: Company Filings and Deutsche Bank

WYND has had success migrating the mix in favor of new owners in recent years. In 2015, growth in upgrade sales was 6.1% vs. 1.4% for growth in new owner sales. But in 2017, growth in new owner sales rose 17.8%, compared to 3.1% growth for upgrade sales.

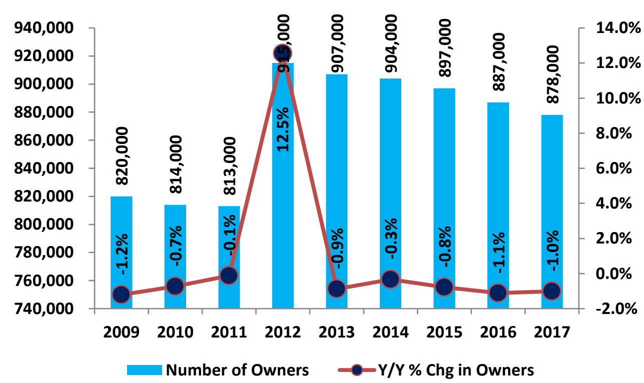
Figure 5: Growth Trends in Sales Dollars, Upgrades vs. New Owners



Source: Company Filings and Deutsche Bank

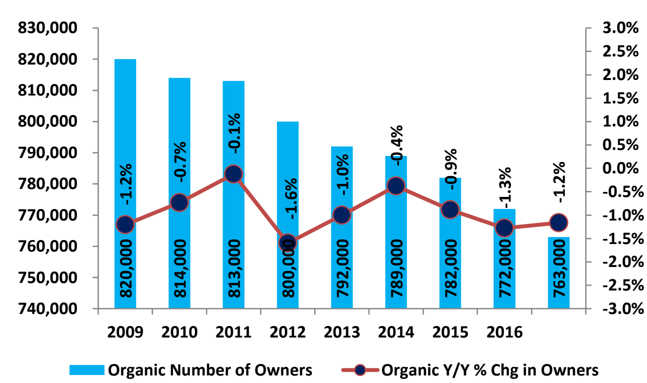
The other reason that growing the new owner base is important is that there are in fact owners that exit the system every year. On a net basis, WYND has seen a slightly negative trajectory in terms of the total ownership base. In the figures below, we show these trends both on an as-reported basis and on an "organic" basis, which attempts to show the impact that the acquisition of smaller timeshare operators has had over time (using 2006 as a base year).

Figure 6: Ownership Trends (Total)



Source: Company Filings and Deutsche Bank

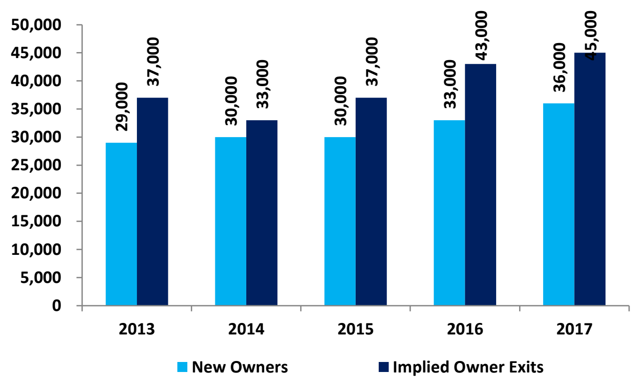
Figure 7: Ownership Trends (Organic, ex-Acquisitions)



Source: Company Filings and Deutsche Bank

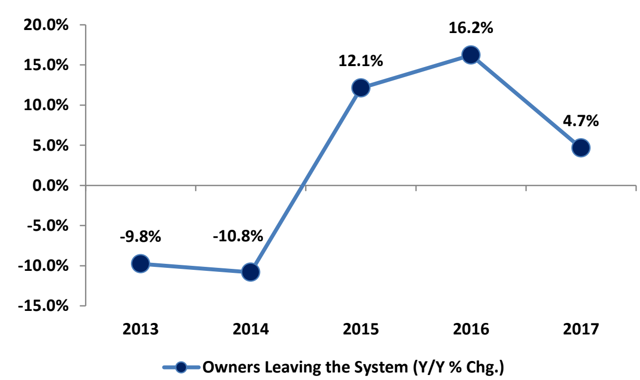
Based on our calculations, WYND has added an average of about 32,000 new owners per year between 2013 and 2017, but we calculate that about 39,000 members on average have left the system each year over that same time period. Some of the exits relate to defaults (including those spurred by timeshare exit companies), while others resulted from negotiations between WYND and owners wishing to leave the system (many through the "Ovations" or "Wyndham Cares" programs).

Figure 8: Gross vs. Net Owner Additions



Source: Company Filings and Deutsche Bank

Figure 9: Y/Y Change in Implied Owner Exits



Source: Company Filings and Deutsche Bank

…..Provided the New Owners Transact in a Similar Way

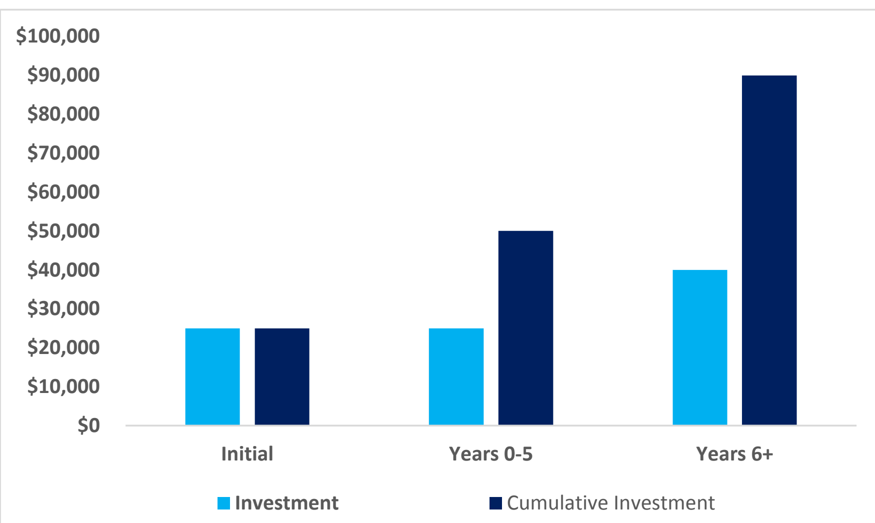
Our current assumption is that management is successful in growing the mix of new owners from 36% of total in 2017 to 45% of total by 2022. But equally important to the story is how those new owners transact in subsequent years (and whether their propensity to finance the initial investment is similar).

Historically, for every $1 of initial investment in points, WYND's owners have spent another $1 on upgrades within the next five years and another $1.60 on upgrades after the sixth year of ownership.

The propensity to upgrade is quite important because, as we discuss later, there is a significantly lower cost associated with repeat business compared to new customer acquisition. Management has indicated that it expects the future new owner pools to transact similarly over time, but this has yet to be proven. We think this aspect is equally important, if not more important than, the number of new owners (or new vs. existing customer mix) in isolation.

WYND has indicated that across its entire vacation ownership platform, the average lifetime spend per member is $65,000. This includes a portion of owners that will spend $90,000 in total and others that will only make the initial investment of $25,000 or so. It does not include RCI memberships, exchange transactions, or finance payments.

Figure 10: Initial vs. Cumulative Spend Over Time: Multi-Transaction Owners



Source: Company Filings and Deutsche Bank

Incentive Structure on Blue Thread Sales a Differentiator

WYND launched the Blue Thread sales initiative in April 2017, so it still remains early days in terms of evaluating the effectiveness of the program. The Blue Thread program is designed to tap into the Wyndham Hotel Group's (WH) vast network of hotel guests in order to identify potential buyers of timeshare. There are 56 million members in the legacy Wyndham Rewards loyalty program and 13 million members in the La Quinta Returns program (not adjusted for overlap) and over 9,000 hotels in the Wyndham system globally.

WYND's 100-year licensing agreement with WH provides it with exclusive access to and use of the loyalty program database. We believe the terms compare favorably to those at VAC and HGV, as the royalty rate is lower and there is no annual fixed fee (see figure below). This structure means that incentives are highly aligned between WYND and the Hotel Group in terms of generating leads for vacation ownership sales.

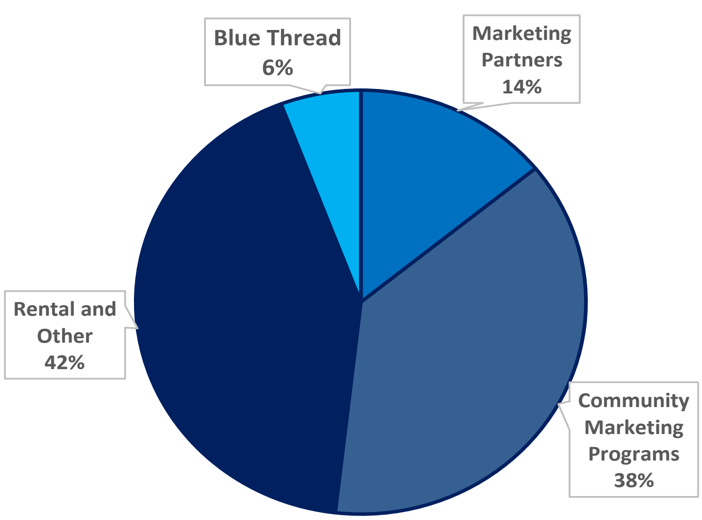
Figure 11: Comparison of Licensing Agreements

	WYND	HGV	VAC
Annual Fixed Fee (m)		$5.0	$48.9
Variable Fee (% of sales)	4.25%	5.0%	1.0% to 2.0%

Source: Company Filings and Deutsche Bank

The Blue Thread initiative appears to be a sizable opportunity in terms of sourcing potential first time buyers of vacation ownership products. In 2017, just 6% of new owner sales were attributable to Blue Thread leads. This is, by some length, the least expensive customer acquisition channel when compared to others (although, to be clear, WYND will continue to rely heavily on partnerships with other consumer-facing companies).

Figure 12: Origination Source for Sales to New Owners (2017)



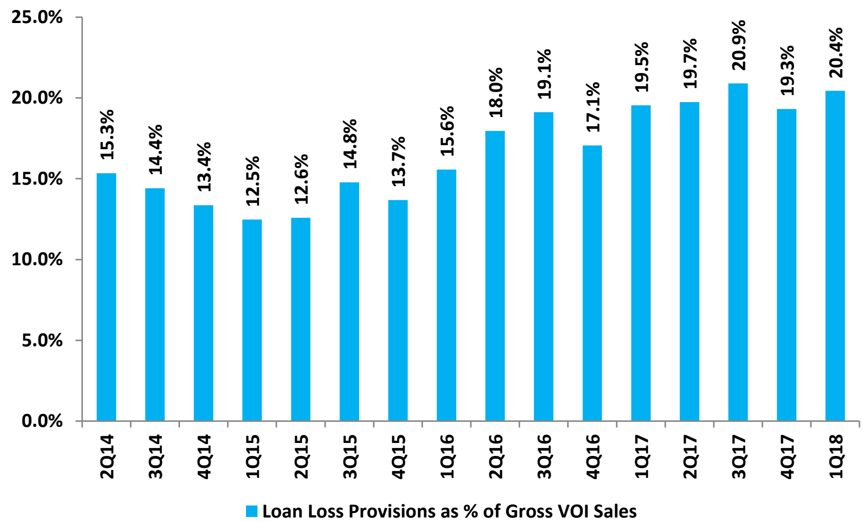
Source: Company Filings and Deutsche Bank

Financing Unit: High Margins, But Also a Source of Noise

WYND offers financing to buyers of its vacation ownership products. This is effectively a high margin spread business; WYND's profits are effectively equivalent to its net interest margin less a provision for defaults. The pacing of defaults has understandably received quite a bit of attention from investors. During the Great Recession, loan loss provisions went sharply higher. In 2014 and 2015, there was relative stability in the provision (in the 12% to 14% range)—but then third party timeshare exit companies became more common and essentially induced more owners into default by sending "cease and desist" orders to WYND (which prohibited WYND from reaching out to those customers to discuss potential exit options).

Our view is that default trends (as measured by the increase in loan loss provisions attributable to third party exit companies) have probably reached a peak; we expect loan loss provisions to decline slightly over the balance of 2018 and into 2019, particularly given a likely more proactive customer engagement process by WYND and overall healthy macroeconomic trends in terms of employment and discretionary income.

Figure 13: Loan Loss Provision Trends (as % of Gross VOI Sales)



Source: Company Filings and Deutsche Bank

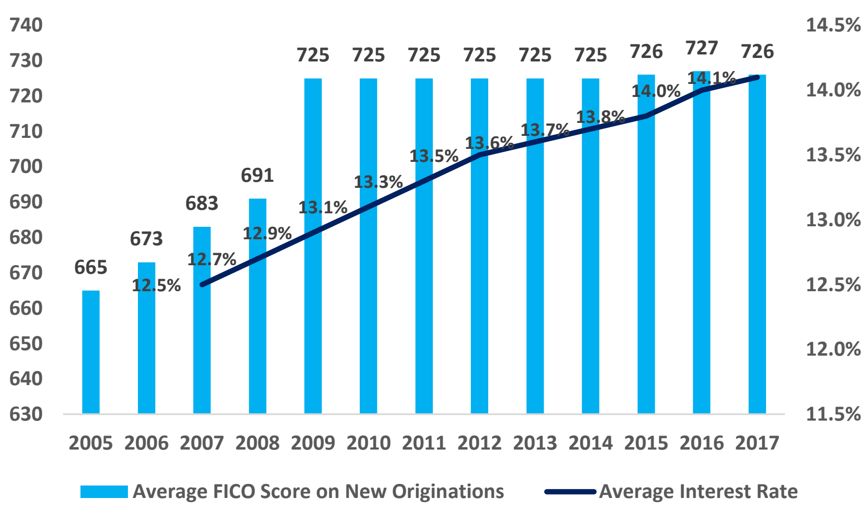
WYND typically securitizes a portion of the notes it underwrites in order to recycle capital and reduce on-balance sheet loan exposure. In 2014-2016, WYND completed three securitizations per year, with most of the transactions in the range of \$300-\$400m each. Average coupons were in the 2.5% to 3.0% range, with advance rates typically around 90%. No securitizations have been completed since March 2017 due to the announced separation of the Wyndham Worldwide businesses, but we expect WYND to resume securitization activity in the coming months.

Investors naturally wonder what impact rising interest rates would be expected to have on WYND's financing operations. Historically, the company has been able to raise the rate it charges consumers in response to increases in market rate debt. We believe one of the reasons this is possible is that traditional retail banking outlets do not offer their customers loans that will be used to purchase a timeshare product.

Second, since the average monthly payment on a vacation ownership product might be equivalent to a car payment or something of similar value, the amount of that payment often does not change materially in response to changes in borrowing rates (the term of the loan can also generally be adjusted such that the monthly payment is kept below a targeted threshold).

Borrowers' average FICO scores have remained fairly constant after rebounding post the Great Recession. We do believe it is important to track trends here, particularly since management has indicated it has no plans to drop its lending standards in order to generate new sales.

Figure 14: Average FICO Score and Interest Rate Charged Trends



Source: Company Filings and Deutsche Bank

Customer Acquisition, Inventory Sourcing Key to Margins

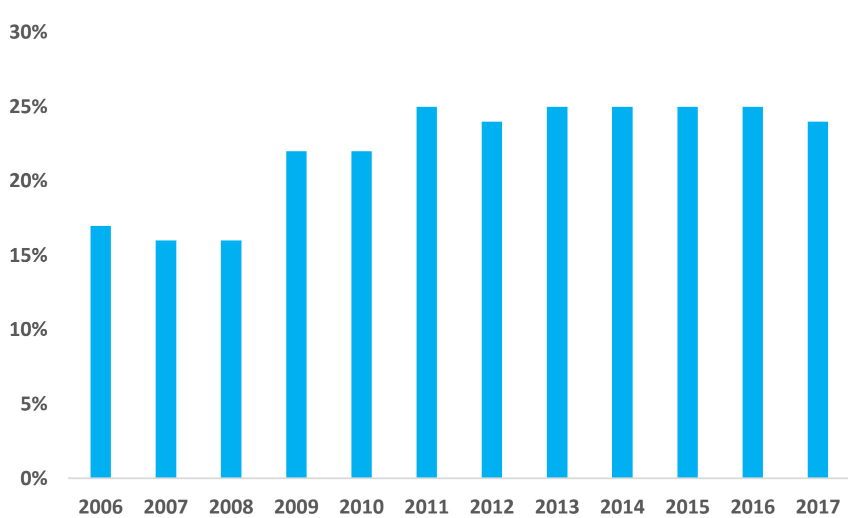
While we don't necessarily view WYND as a margin expansion story (we see it as more of a margin maintenance with top line growth story), we do believe management's execution of the new owner growth strategy will be reflected in EBITDA margin trends.

Prior to the spinoff, the Vacation Ownership segment margins at Wyndham Worldwide were quite consistent between 2009 and 2017—always in the 22% to 25% range.

Looking forward, we think the two most important drivers of margin performance will be customer acquisition costs and inventory sourcing. Can WYND grow the new owner base without incurring a large increase in marketing costs? Certainly the Blue Thread initiative is aimed at doing just that. But will the final few percentage points of mix shift that management is targeting be incrementally more expensive on the customer acquisition front? Only time will tell.

In terms of inventory sourcing, it is generally accepted that new construction is the least preferable method, particularly in light of a recent uptick in inflation on labor and raw materials. Instead, we expect WYND to focus primarily on just in time (JIT) inventory and on repurchasing inventory (points) from customers wishing to exit their investment. We believe the JIT model (which is a derivation of the asset-light Wyndham Asset Affiliation Model, or WAAM, that Wyndham Worldwide developed in 2008) is likely to be the preferred method of inventory sourcing for WYND over the next several years. WYND also has the ability to purchase hotel inventory and convert it to timeshare or take down residential-like (condo) inventory in master-planned mixed use (or financially disjointed) projects.

Figure 15: WYND Vacation Ownership Segment EBITDA Margin Trends



Source: Company Filings and Deutsche Bank

RCI: Source of Relative Stability, But Can It Grow?

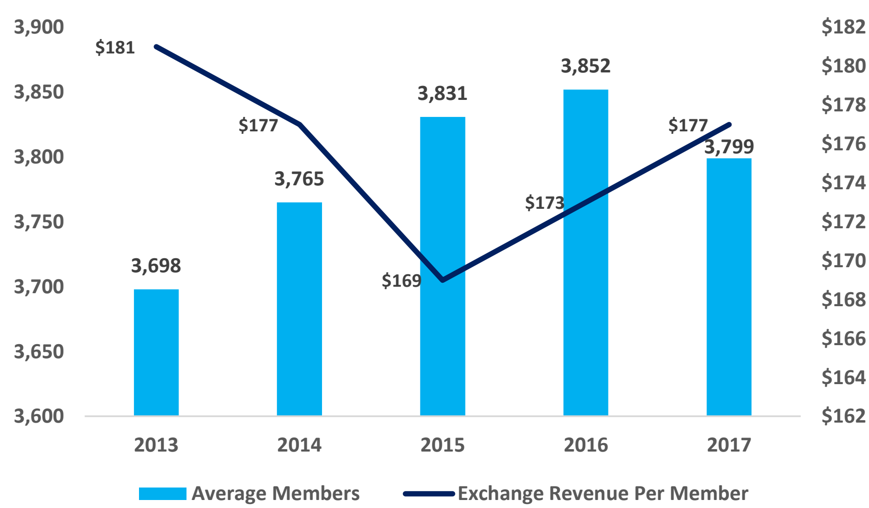
WYND's Vacation Exchange platform has been a source of relative stability over time. In this segment, it is not uncommon for the change in average members to be inversely proportional (at least directionally) to the change in average transaction spend per member.

Given that the other public timeshare companies generally offer some form of exchange option internally, our view is that WYND's membership base is unlikely to experience meaningful growth in coming years, absent the development of a new service that attracts new members.

But we do believe there is an opportunity for exchange revenue per member to exhibit growth, owing to the fact that inactive (i.e., low spend) members tend to exit the system. Further, we believe modest increases to annual membership dues are possible and RCI also continues to develop new premium priced options aimed at providing increased levels of exchange flexibility to those members who are willing to pay a little more for it.

This segment is also a "cash cow" for WYND as its capital needs are minimal given that it does not have a hard asset/real estate component. It is a purely fee for service model.

Figure 16: RCI Membership and Exchange Spend Trends



Source: Company Filings and Deutsche Bank

Historical "Spin Economics" Seemingly Favor WYND

While we must begin with the caveat that past performance is no guarantee of future performance, it is clear that the last three timeshare spinoffs have performed very well compared to the S&P 500 index over their respective periods.

Figure 17: Timeshare Spinoff Stock Performance

	Begin Trading	+6 months Return	+6 months SPX Return	vs. SPX	+12 months Return	+12 months SPX Return	vs. SPX
VAC	11/21/11	67.0%	10.3%	56.7%	127.8%	16.6%	111.2%
HGV	1/4/17	38.6%	7.0%	31.6%	64.2%	20.0%	44.2%
BXG	11/17/17	53.5%	5.5%	48.1%	N/A	N/A	N/A
Timeshare average		**53.0%**	**7.6%**	**45.4%**	**96.0%**	**18.3%**	**77.7%**

Source: Company Filings and Deutsche Bank

Valuation

WYND Has Two Relevant Public Comps

As mentioned earlier, Marriott Vacations Worldwide (VAC) is in the process of merging with ILG, Inc. (ILG). We believe VAC's valuation has become at least temporarily disjointed due to the natural investor positioning that typically occurs in similar merger situations. That said, we view the combined VAC-ILG entity as the best apples-to-apples comp for WYND based on size and business segment mix. Hilton Grand Vacations (HGV) is also quite relevant, although there are more variances in its business model, 2018 free cash flow profile, and brand concentration. We value WYND and VAC on an EV/EBITDA basis, as we believe that metric allows for the best comparability across both the public timeshare space and the broader hospitality real estate sector.

For WYND, we value the core Vacation Ownership portion of the company at 8.0x 2019E EBITDA and the Vacation Exchange unit at 9.0x (also on a 2019E basis). This implies a blended multiple of 8.3x on a weighted EBITDA basis. We subtract unallocated corporate overhead at the blended multiple. Finally, we subtract estimated year-end 2019 net debt to arrive at our equity valuation.

Figure 18: Price Target

WYND	**6/14/2018**
Current Price	$48.06
Shares Outstanding (MRQ)	102
Market Cap *($ in MM)*	$4,885

Segment	**2019E EBITDA**	**Price Target Multiple**	**Firm Value**
Vacation Exchange	$280	9.0 x	$2,522
Vacation Ownership	$801	8.0 x	$6,398
Subtotal	**$1,081**	**8.3 x**	**$8,920**
Corporate & Other	($47)	8.3 x	($392)
Total	**$1,034**	**8.3 x**	**$8,528**
Less Net Debt (2019E)			$2,423
Equity Value			$6,105
Shares Outstanding (2019E)			98
Price Target			**$62**
2019E Dividend Yield			*3.4%*
Potential Total Upside/Downside to Target			*32.4%*
2019E Free Cash Flow per Share			$5.64
Implied FCF Yield at Price Target			9.0%
2019E EPS			$5.32
Implied PE Multiple at Price Target			11.7x
y/y EPS Growth (2019E vs. 2018E)			12.7%
Implied PEG at Price Target			0.9

Source: Company Filings, FactSet and Deutsche Bank

An attractive current valuation is one of the key reasons for our initiation of coverage with a Buy rating on WYND. At current levels, we have the stock trading at 7.2x 2019E EV/EBITDA, 9.3x 2019E P/E, and an 11.8% free cash flow yield (also on a 2019E basis). If WYND successfully executes its business plan in terms of growing the new owner base while maintaining the current margin profile, we believe multiple expansion would be warranted.

Figure 19: Overview of Current Valuation

June 14, 2018

Current Multiple Data		**Current Multiple Data**	
Share Price	$48.06	Share Price	$48.06
Shares Outstanding (MRQ)	101.6		
Market Cap *($ in MM)*	$4,885		
2017 Net Debt	$2,959	2017 EPS	-
2018E Net Debt	$2,614	2018E EPS	$4.73
2019E Net Debt	$2,423	2019E EPS	$5.32
2017 EV	$7,844	**2017 PE**	**-**
2018E EV	$7,499	**2018E PE**	**10.2x**
2019E EV	$7,308	**2019E PE**	**9.0x**
2017 EBITDA	$914	2017 Free Cash Flow	-
2018E EBITDA	$971	2018E Free Cash Flow	$563
2019E EBITDA	$1,034	2019E Free Cash Flow	$551
2017 EV/EBITDA	**8.6x**	**2017 Free Cash Flow Yield**	**-**
2018E EV/EBITDA	**7.7x**	**2018E Free Cash Flow Yield**	**11.5%**
2019E EV/EBITDA	**7.1x**	**2019E Free Cash Flow Yield**	**11.3%**

Source: Company Filings, FactSet and Deutsche Bank

Our price target assumes that WYND can reach 11.7x 2019E P/E (+240bps vs. the current level) and trade at a 9.7% free cash flow yield (130bps below its current yield of 11.0%). Based on anticipated y/y EPS growth of 12.7% in 2019, our price target implies that WYND can trade at a 0.9x PEG ratio vs. the current ratio of 0.7x.

Below, we provide a price target sensitivity analysis to show the impact that a range of changes to our 2019 EBITDA forecast and/or changes to our blended target multiple could have on our current price target. A one turn change to our blended target multiple or a 10% change to our 2019 EBITDA forecast would implicitly impact our price target by approximately 16% to 18%.

Figure 20: Price Target Sensitivity Analysis

		Price Target Sensitivity								
% chg. in EBITDA		*-20.0%*	*-15.0%*	*-10.0%*	*-5.0%*		*5.0%*	*10.0%*	*15.0%*	*20.0%*
2019E EBITDA (m)		**$827**	**$879**	**$930**	**$982**	**$1,034**	**$1,085**	**$1,137**	**$1,189**	**$1,240**
Net Debt (m)		**$2,766**	**$2,680**	**$2,595**	**$2,509**	**$2,423**	**$2,337**	**$2,251**	**$2,165**	**$2,080**
Shares Outstanding (m)		**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**	**98**
Price Target Multiples	**4.3x**	$8	$11	$14	$17	$20	$23	$26	$30	$33
	5.3x	$16	$20	$23	$27	$31	$34	$38	$42	$45
	6.3x	$25	$29	$33	$37	$41	$45	$50	$54	$58
	7.3x	$33	$38	$42	$47	$52	$57	$61	$66	$71
	8.3x	**$41**	**$47**	**$52**	**$57**	**$62**	**$68**	**$73**	**$78**	**$83**
	9.3x	$50	$56	$61	$67	$73	$79	$85	$90	$96
	10.3x	$58	$65	$71	$77	$84	$90	$96	$103	$109
	11.3x	$67	$74	$81	$87	$94	$101	$108	$115	$121
	12.3x	$75	$83	$90	$97	$105	$112	$119	$127	$134

Source: Company Filings, FactSet and Deutsche Bank

In terms of relative valuation, our general view is that the "Big 3" (WYND, HGV, and the combined VAC/ILG, while excluding Bluegreen due to a very small public float)—on an undisturbed basis—are likely to trade in a fairly narrow band of multiples. This is due to our belief that key macro trends ultimately shape the companies' earnings power in a similar fashion.

As it stands currently, WYND trades at a modest discount to HGV and VAC (pre-merger). This too, makes sense, given that the company is the newest entrant to the public markets on a standalone basis and also has a higher loan loss provision, in part due to higher exposure to tactics by timeshare exit firms.

Figure 21: Comparative Valuation Table

Company	Ticker	Price	Shares Outstanding	Market Cap	2017 EV/EBITDA	2018E EV/EBITDA	2019E EV/EBITDA	2020E EV/EBITDA
Marriott Vacations Worldwide	VAC	$117.86	26.6	$3,131	10.6x	9.3x	8.3x	7.5x
Hilton Grand Vacations	HGV	$38.79	96.8	$3,756	10.4x	8.3x	8.5x	7.7x
Interval Leisure Group	ILG	$33.90	124.3	$4,214	12.6x	12.2x	10.1x	8.9x
Bluegreen Vacations	BXG	$22.21	74.7	$1,660	10.3x	9.5x	8.6x	7.8x
Wyndham Destinations	WYND	$47.90	100.8	$4,828	8.5x	8.2x	7.8x	7.3x
Timeshare Average					**11.0x**	**9.8x**	**8.9x**	**8.0x**
VAC / ILG **	***VAC***	***$117.86***	***47.1***	***$5,549***	***10.5x***	***10.3x***	***8.9x***	***8.0x***

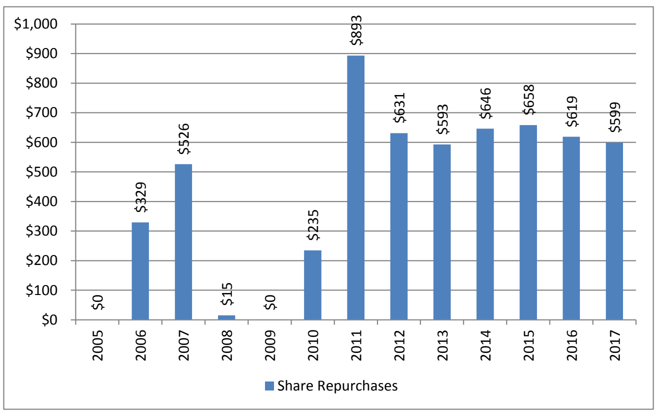
*Source: FactSet Consensus (**VAC/ILG combined is based on information provided by VAC in conjunction with its planned acquisition of ILG)*

Liquidity & Free Cash Flow

FCF Generation a Hallmark of the "Wyndham 1.0" Story

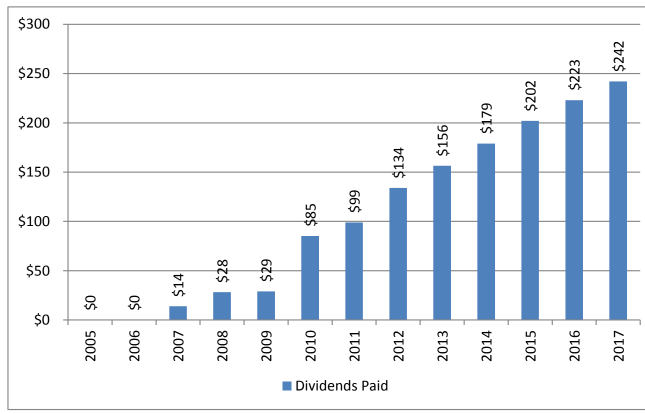
Long history of returning significant capital to shareholders via dividends and share repurchases. We believe investors were attracted to the consistent return of excess capital and are expect WYND to also prioritize return of capital. Post spins WYND is currently trading at a 3.4% dividend yield and has ~$1.0bn remaining under its current share repurchase authorization. Below we show historical WYN annual share repurchases and dividend.

Figure 22: WYN Annual Share Repurchase



Source: Company Filings and Deutsche Bank

Figure 23: WYN Annual Dividends Paid



Source: Company Filings and Deutsche Bank

Management

WYND Team Has Decades of Industry Experience

Although WYND's senior management team is new to the public markets, we view the CEO and CFO as being exceptionally seasoned industry veterans with a combination of lengthy experience both within the Wyndham network and with competing companies in the public timeshare sector. In our opinion, the quality of the WYND executive team should be viewed as an asset to the company.

Michael Brown is WYND's President and CEO. He was appointed to lead Wyndham Worldwide's timeshare business in April 2017. Mr. Brown has over 25 years of experience in the industry including approximately ten years at Hilton Grand Vacations (HGV) where he was COO for approximately three years and prior to becoming COO had senior responsibilities relating to sales and marketing for the U.S. and European business. Prior to HGV, Mr. Brown was at Marriott International (MAR) and Marriott Vacations Worldwide (VAC) for approximately 16 years; his tenure included a variety of positions including sales, development, operations, and finance leadership roles throughout the U.S., Europe and Caribbean.

Michael Hug is the company's CFO. Mr. Hug was been EVP and CFO of WYND's predecessor company, Wyndham Vacation Ownership ("WVO," a unit of the former Wyndham Worldwide) since 2005 and was SVP and Controller prior to being elevated to the CFO role. Prior to joining Wyndham Vacation Ownership, Mr. Hug was at Ernst & Young for approximately 11 years.

Model

Figure 24: Earnings Model ($ in MM, except per share data) Pro Forma for Wyndham Destinations

	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	2019E
Revenues:												
Vacation Exchange	1,572	243	234	248	202	927	246	242	258	208	954	968
Y/Y % chg.	*2.2%*						*1.2%*	*3.5%*	*3.9%*	*2.9%*	*2.9%*	*1.5%*
Vacation Ownership	2,795	639	745	768	729	2,881	661	778	837	786	3,063	3,251
Y/Y % chg.	*0.8%*						*3.4%*	*4.4%*	*9.0%*	*7.9%*	*6.3%*	*6.1%*
Corporate & Other	(77)	2	0	3	3	8	0	0	0	0	0	0
Total Revenue	**$5,599**	**$884**	**$979**	**$1,019**	**$934**	**$3,816**	**$907**	**$1,020**	**$1,095**	**$994**	**$4,016**	**$4,219**
Y/Y % chg.	*1.2%*						*2.6%*	*4.2%*	*7.5%*	*6.4%*	*5.3%*	*5.1%*
Direct Expenses:												
Vacation Exchange	1,215	168	171	165	167	670	180	176	174	161	692	688
Vacation Ownership	2,101	522	698	577	596	2,393	537	585	627	575	2,324	2,450
Corporate & Other	34	15	13	16	17	61	13	13	13	14	53	55
Total Expenses	**4,268**	**705**	**882**	**758**	**780**	**3,124**	**730**	**774**	**814**	**750**	**3,069**	**3,194**
Y/Y Adjusted Expense % chg	*-0.3%*						*3.5%*	*-12.2%*	*7.5%*	*-3.7%*	*4.9%*	*4.6%*
EBITDA:												
Vacation Exchange	357	75	63	83	35	257	66	66	83	46	262	280
Vacation Ownership	694	117	47	191	133	488	124	193	211	211	739	801
Corporate & Other	(111)	(13)	(13)	(13)	(14)	(53)	(13)	(13)	(13)	(14)	(53)	**(55)**
Total EBITDA	1,331	179	97	261	154	692	177	246	281	244	947	1,026
Non Recurring Expenses (Gains)												
Vacation Exchange	27			(4)	9	5	11				11	
Vacation Ownership	15	5	135		67	207	5				5	
Corporate & Other	(10)	5	1	0	4	10	4	2	1	1	8	8
Total Adjustments	41	10	136	(4)	80	222	20	2	1	1	24	8
Adjusted EBITDA												
Vacation Exchange	384	75	63	79	44	262	77	66	83	46	273	280
Y/Y % chg.	*4.3%*						*2.7%*	*4.6%*	*5.1%*	*4.7%*	*4.2%*	*2.8%*
Margin	*24.4%*	*30.9%*	*26.9%*	*32.0%*	*22.0%*	*28.2%*	*31.3%*	*27.2%*	*32.4%*	*22.4%*	*28.6%*	*29.0%*
Vacation Ownership	709	122	182	191	200	695	129	193	211	211	744	801
Y/Y % chg.	*3.2%*						*5.7%*	*6.0%*	*10.2%*	*5.6%*	*7.0%*	*7.7%*
Margin	*25.4%*	*19.1%*	*24.4%*	*24.9%*	*27.4%*	*24.1%*	*19.5%*	*24.8%*	*25.1%*	*26.8%*	*24.3%*	*24.6%*
Wyndham Destinations Segment	**0**	**197**	**245**	**270**	**244**	**957**	**206**	**259**	**294**	**258**	**1,016**	**1,081**
Y/Y % chg.							*4.6%*	*5.7%*	*8.7%*	*5.4%*	*6.2%*	*6.4%*
Margin	*0.0%*	*22.3%*	*25.0%*	*26.5%*	*26.2%*	*25.1%*	*22.7%*	*25.4%*	*26.8%*	*25.9%*	*25.3%*	*25.6%*
Corporate & Other	(122)	(8)	(12)	(13)	(10)	(43)	(9)	(11)	(12)	(13)	(45)	(47)
Y/Y % chg.	*-10%*						*13%*	*-8%*	*-8%*	*30%*	*5%*	*428%*
Adjusted EBITDA	**$1,372**	**$189**	**$233**	**$257**	**$234**	**$914**	**$197**	**$248**	**$282**	**$245**	**$971**	**$1,034**
Y/Y % chg.	*5.9%*						*4.2%*	*6.4%*	*9.5%*	*4.4%*	*6.3%*	*6.4%*
Margin	*24.5%*	*21.4%*	*23.8%*	*25.3%*	*25.1%*	*23.9%*	*21.7%*	*24.3%*	*25.7%*	*24.6%*	*24.2%*	*24.5%*
Adjusted Net Interest Expense	127											196
EBITDA to Net Income Reconciliation												
EBITDA	1,331					914	197	248	282	245	971	1,034
Depreciation and amortization	(253)					(131)	(31)	(31)	(31)	(31)	(124)	(124)
Interest expense	(135)					(130)	(40)	(40)	(40)	(40)	(159)	(161)
Interest income / Other	(3)					(297)	(9)	(9)	(9)	(9)	(36)	(36)
Income Before Tax	**940**					**356**	**117**	**168**	**203**	**165**	**653**	**713**
Provision for Income Tax	(327)					235	(32)	(45)	(54)	(45)	(176)	(193)
Tax Rate	*34.7%*					*-66.0%*	*27.4%*	***27.0%***	***26.5%***	***27.3%***	*27.0%*	***27.0%***
Income before effect of accounting change	613					591	85	123	149	120	477	520
Minority Interest	(1)											
Net Income	612						85	123	149	120	477	520
Dividends per common share	$2.00						$0.41	$0.41	$0.41	$0.41	$1.64	$1.64
GAAP EPS	**$5.52**						**$0.84**	**$1.21**	**$1.48**	**$1.20**	**$4.73**	**$5.32**
Basic	110											
Diluted	111						102	102	101	100	101	98
Reconciliation of Income to Adj Net Income												
Net Income	612						85	123	149	120	477	520
Acquisitions costs	(1)											
Restructuring & impairment costs	(32)											
Separation & stand-alone costs	0											
Legacy contingent asset/liability adjustments	12											
Interest Expense	0											
Other adjustments	(28)											
Tax effect of adjustments	25											
Total Adjustments	(25)											
Adjusted Net Income	**$637**						**$85**	**$123**	**$149**	**$120**	**$477**	**$520**
Adjusted Diluted EPS	**$5.75**						**$0.84**	**$1.21**	**$1.48**	**$1.20**	**$4.73**	**$5.32**
Y/Y % chg.	*12.6%*											*12.7%*

Source: Company Filings, FactSet and Deutsche Bank

Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Wyndham Destinations	WYND.N	47.90 (USD) 13 Jun 18	1,7,8,14,15

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Historical recommendations and target price: Wyndham Destinations (WYND.N)

(as of 6/13/2018)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

**Analyst is no longer at Deutsche Bank

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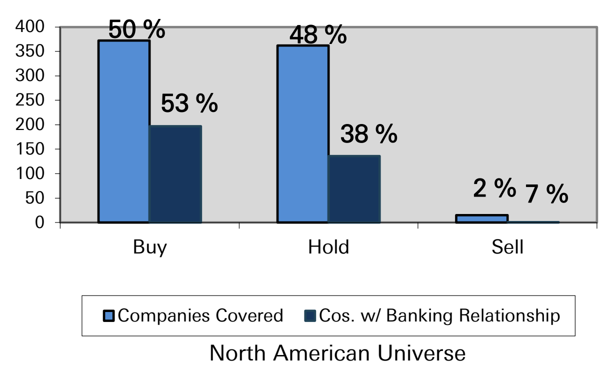
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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David Folkerts-Landau
Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
Global Head of Equity Research

Anthony Klarman
Global Head of
Debt Research

Paul Reynolds
Head of EMEA
Equity Research

Dave Clark
Head of APAC
Equity Research

Pam Finelli
Global Head of
Equity Derivatives Research

Andreas Neubauer
Head of Research - Germany

Spyros Mesomeris
Global Head of Quantitative
and QIS Research

International locations

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500