Hilton Grand Vacations Inc.

Q3 2022 Earnings Call

Wednesday, November 9, 2022, 11:00 A.M. Eastern

CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President of Investor Relations*

Mark Wang – *President and Chief Executive Officer*

Daniel Mathewes – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to Hilton Grand Vacations' Third Quarter 2022 Earnings Conference Call.

A telephone replay will be available for seven days following the call. The dial-in number is 844-512-2921, and enter pin number 13726011.

I would now like to turn the call over to Mark Melnyk, Senior Vice President of Investor Relations. Please go ahead, sir.

Mark Melnyk
Thank you, Operator and welcome to the Hilton Grand Vacations Third Quarter 2022 Earnings Call.

As a reminder, our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated by these forward-looking statements. These statements are effective only as of today. We undertake no obligation to publicly update or revise these statements. For discussion of some of the factors that could cause actual results to differ, please see the risk factor section of our 10-Q or other applicable SEC filings.

We'll also be referring to certain non-GAAP financial measures. You can find definitions and components of such non-GAAP numbers as well as reconciliations of non-GAAP and GAAP financial measures discussed today in our earnings press release, and on our website at investors.hgv.com.

Our reported results for all periods reflect the accounting rules under ASC 606, which we adopted in 2018. Under ASC 606, we're required to defer certain revenues and expenses related to sales made in the period when a project is under construction, and then hold off on recognizing those revenues and expenses until the period when construction is completed. To help you make more meaningful period to period comparisons, you can find details of our current and historical deferrals and recognitions in Table T-1 of our earnings release.

For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA, and our real estate results refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. A complete accounting of our historical deferral and recognition activity can be found in Excel format on the financial reporting section of our Investor Relations website.

In a moment, Mark Wang, our President and Chief Executive Officer will provide highlights from the quarter in addition to an update of our current operations and Company strategy. After Mark's comments, our Chief Financial Officer, Dan Matthews will go through the financial details of the quarter. Mark and Dan will then make themselves available for your questions.

With that, let me turn the call over to our President and CEO, Mark Wang. Mark?

Mark Wang
Good morning, everyone and welcome to our third quarter earnings call.

Before I get started, I'd like to take a moment to express our heartfelt sympathies to our owners and team members who were impacted by Hurricane Ian. We believe that all of our team members are safe, and that as a Company, we did not suffer any material financial impact from the storm. But we know that is not the case for many other Floridians. We'll continue to provide assistance to our affected team members as they recover, along with maintaining our partnership with the Red Cross to support those communities in need.

Looking at the quarter's results, we had another strong performance with contract sales ahead of 2019, driven by solid improvement in tour flow. We produced a record $295 million of EBITDA in the quarter, over 37% ahead of pro forma 2019 with strong margins. We achieved our recently increased cost synergy goal well ahead of schedule. While our customers are not immune to the macro, our exclusive focus on leisure makes us a prime beneficiary of the resilience of the travel trends across the country. We see it in travel surveys. We see it at major airports, serving markets throughout our portfolio. Importantly, we're seeing it at our properties and sales centers.

So despite the tougher macro environment, we have several distinct advantages that have allowed us to outperform in this environment and maintain metrics ahead of 2019 across a number of KPIs. The prepaid nature of the product produces significant recurring revenues for our business, while also providing some insulation for our members against inflation. Additionally, our direct sales model allows us to actively engage with marketing guests in every environment, enabling us to leverage our relationship with Hilton, and their growing pool of high quality, travel-minded Hilton Honors members.

Our compelling value proposition has been enhanced by HGV Max and Ultimate Access, which are key differentiators that are gaining tremendous traction with both owners and new buyers. So, we feel confident in the strength of our offering and the momentum we've seen through October, and that confidence in the business enabled us to raise guidance again for the year.

Before we get into the details, let me start with an update on our strategic initiatives and integration. We've made steady progress expanding our marketing channels to engage our owners and marketing guests. Our Virtual Tour channels showed notable growth again this quarter with tour volumes, close rates, VPGs and contract sales all improving against Q2 and at a lower cost than our traditional channels. We've seen favorable response from our owners and marketing guests on our Virtual programs, with a number of guests already returning for their second virtual tour since the program's inception.

We've also continued to receive incredible response from our members on our Ultimate Access experiential platform. We're really excited about the quality of the upcoming events we have planned for our guests, and we expect that it will only get better as we continue to evolve the program.

Turning to our rebranding, we're making great progress executing against our plan. We've completed the rebranding of our sales centers, and are selling HGV Max across our network. More than 50,000 members have joined Max since we launched sales in the spring, and we'll continue to roll out additional features and benefits to Max throughout '23 and beyond to further enhance the compelling value proposition. I'm impressed with how fast we were able to execute Max launch in the midst of our overall integration, and we're getting great feedback from our members on the program.

Since our last call, we also rebranded eight additional resorts, bringing our total to 19 since the close. By the end of this year, we'll have rebranded 20 of our largest Diamond properties, representing over one-third of the total keys acquired. We remained on schedule to have nearly all Diamond targeted properties rebranded by 2025.

Now, let me turn to the performance for the quarter. Contract sales were at a record $621 million, driven by strong tour flow and continued strength in VPG. Our tours were at the highest level since 2019, with a particularly strong September, as we've continued to make steady progress in our tour flow recovery. Owner tour flow pace has surpassed 2019 and I was very pleased with our new buyer trends.

New buyer tour flow outpaced owners against the prior year and versus 2019 as our package pipeline conversion, and marketing efforts have shown success. VPGs of just over $4,200 was nearly 28% ahead of 2019. But as we expected, we've seen some moderation as our segment mix and close rates continued to normalize versus the pandemic highs.

Turning to demand indicators, our system occupancy improved to 83% with September occupancy equal to 2019, the first month we've reached pre-pandemic levels. We saw broad trend improvements across our network led by our Southern region and destination resorts, along with a continued improvement in Hawaii. As we look to the fourth quarter, total room nights and arrivals for our owners and rentals are ahead of 2019 levels.

Even as we've monetized our package pipeline, we continue to see robust demand for new travel packages, which is another healthy side for our business and the travel environment in general. We now have over 532,000 packages in our pipeline, and the percentage of those packages with a set travel date is the highest since 2019. We'll continue to focus on monetizing our pipeline to support NOG and drive embedded value in the business.

As I mentioned earlier, the direct financial impact of Hurricane Ian was limited, and our team members did a fantastic job of executing our protocols to minimize the storm's effects. We sustained damage at some of our sold-out legacy resorts that we manage in Southwest Florida, and we're working with our insurers to get those repaired. We don't have any sales centers in the directly affected region, and we estimate that the impact of the storm was immaterial to our EBITDA.

Turning to other segments, NOG was 3.8%, with Diamond adding 1,900 new members in the quarter, bringing our member base up to 515,000. That drove another quarter of revenue improvement in our resort and club business. Our rental business also produced sequential revenue growth, supporting our view that the leisure travel environment remains robots. Taken together, these factors produced a really strong EBITDA result in the quarter, even after excluding a onetime benefit that Dan will get into.

We also produced strong cash flow, enabling us to not only invest in the business, but also to maintain our commitment to returning cash to our shareholders through repurchases that were well in excess of our prior guidance.

So to sum up, I'm happy with our progress this quarter. The travel environment remains strong, with arrivals on the books exceeding 2019's levels, demand for our new Max membership continues to be robust, and our value proposition stands out more and more each day. We're seeing success in our marketing efforts with the expansion of our digital channels, the

excitement around ultimate access platform and our investment to monetize our package pipeline.

We're generating more free cash flow than we ever have, allowing us to invest in our business and still return a substantial amount of cash to shareholders. The momentum in our business gave us confidence to raise guidance again.

With that. I'll turn it over to Dan to talk you through the numbers. Dan?

Daniel Mathewes
Thank you, Mark, and good morning, everyone.

Before we start, please note that our reported results for this quarter included $86 million of sales recognitions that added to recorded GAAP revenue due to the opening of the second phase of our Mori project. We also recorded an associated $43 million of direct expense recognitions from those sales, resulting in a net benefit of $43 million to our reported EBITDA for the quarter. In my prepared remarks, I'll only refer to metrics excluding the impact of deferrals, which more accurately reflects the cash flow dynamics of our financial performance during the period.

Now, let's review the results for the quarter. Total revenue in the third quarter was just over $1 billion. We saw sequential revenue growth during the quarter led by gains in our real estate segment, building upon the strong improvement in Q2. Q3 reported Adjusted EBITDA was $295 million with margins at 29%. It is important to point out that during the quarter, we released $16 million of reserves that had been built ahead of the recent exploration of several government stimulus programs. I'll get into those details shortly, but those would be considered a onetime benefit that dropped straight through to EBITDA.

We reached cost synergy run-rate of $150 million during the quarter, which met our recently increased target several quarters ahead of schedule. I'm really proud of the team for the efforts they've made during the integration to reach that milestone, and we intend to maintain our cost discipline as we move forward. Despite the macroeconomic noise, we saw a solid performance across Q3, with September being the strongest month of the quarter. We think this speaks to the strength of our offering as well as the advantages of our direct sales model, which enables us to engage with existing and prospective owners in any environment.

Now let's walk through the segment details. Within real estate total contract sales were $621 million. The strong improvement in new buyer tour flow continued this quarter with sequential and year-over-year tour growth again, outpacing that of our owner channel. The strength of owner VPGs this quarter lead owner contract sales mix to increase slightly to 71%. But we're very happy with the improvement that we've seen in our new buyer metrics as well. We'll continue to invest in our new buyer channel through the rest of this year and remain focused on driving toward our steady state goal of 40% new buyer mix.

VPG was just over $4,200 for the quarter. As we've discussed before, as new buyer tour flow continues to recover towards 2019 levels, we've seen an expected normalization of our VPGs from the historic highs we've seen over the past 24 months. But we continue to expect that VPGs will stabilize roughly 10% to 15% ahead of 2019 levels, due to our new product offering and efficiency initiatives.

Cost of product was 17% of net VOI sales for the quarter, below our target of roughly 20%. Real estate SG&A expense of $233 million for the quarter was 38% of gross contract sales, as we made investments in our new buyer channel to drive additional tours. Real estate profit was $234 million for the quarter with margins of 43%. As I mentioned earlier, we've benefited from a lower provision for bad debt this quarter, which boosted our margins by roughly 300 basis points. In our financing business, third quarter segment profit was $43 million with margins of 63%. Combined gross receivables for the quarter were $2.5 billion or $1.75 billion net of allowance, and our interest income was $61 million.

Our originated portfolio weighted average interest rate was 14.2%, while our acquired portfolio had a weighted average interest rate of 15.7% and includes a $7 million cost of revenue for the amortization of a noncash premium associated with the portfolio receivables that we acquired from Diamond during the acquisition.

Our allowance for bad debt was $762 million on that $2.5 billion receivables balance. Of these amounts, the acquired Diamond portfolio, which used their underwriting standards was $388 million on a portfolio balance of $803 million. Our annualized default and delinquency rates for our originated portfolios continue to outperform levels achieved in 2019 and remain lower than our expectations for normalization of credit trends as we head into 2023. Our provision for bad debt was $32 million or 7% of contract sales. Adjusting for the one-time reserve release I mentioned earlier, this ratio was in double digits, which is up sequentially from Q2 but still below our steady state expectation of a normalized provision in the mid to high teens.

In our resort and club business, our consolidated member count was 515,000. Looking at HGVs legacy business, NOG was 3.8% at the end of the quarter. Diamond also added 1,900 net new members during quarter. Revenue was $130 million for the quarter and segment profit was $85 million with margins of 65%. It's worth noting, Q3 was the first quarter close where we fully integrated Diamond into HGV's general ledger system. In conjunction with this, we finalized the detailed mapping of Diamond's charter of accounts resulting in certain one time year-to-date true-ups impacting our resort and club business for the quarter. Excluding these true-ups, resort and club showed operational growth both on top line and profit bases, with margins approximating historical norms of roughly 17%.

Rental and ancillary revenues were $159 million in the quarter with segment profit of $15 million. Our ancillary revenues and expenses were similarly impacted by the previously mentioned true-ups, resulting in certain onetime impacts that reduced our margins for the quarter. For the full year, we still anticipate rental and ancillary margins to be in the low double digits. We still expect that rental and ancillary margins will continue to gradually improve each year as we sell to our inventory pipeline, lowering our developer maintenance fees and continuing to rebrand Diamond properties, bringing both revenue and cost synergies as the rooms are rented out.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, corporate G&A was $41 million, license fees were $33 million and JV income was $5 million. Our adjusted free cash flow in the quarter was $393 million, which included inventory spending of $23 million and excludes acquisition-related costs of $34 million. Our adjusted free cash flow conversion rate in Q3 was well over 100% in the quarter, owing to the timing of cash flows from our August securitization.

In Q4 you will see the impact of higher contracted inventory spend, cash tax payments and regular seasonality of our business driving negative adjusted free cash flow in the quarter. So,

while our year-to-date EBITDA to cash flow conversion rate is 82%, we still feel confident with being well within our guidance of 50% to 60% conversion for the year.

During the quarter, we've purchased 2.3 million shares of common stock for $89 million. Through November 9 the Company has repurchased an additional 1.1 million shares for $38 million and currently has $290 million remaining of the $500 million repurchase plan approved by the Board in May of 2022.

Turning to our outlook, we are raising our guidance again for the year, this time to $1.025 billion to $1.045 billion. As of September 30, our liquidity position consisted of $425 million of unrestricted cash, $218 million of escrow deposits on VOI sales, and a $1 billion of availability under a revolving credit facility. Our debt balance at the quarter end was comprised of corporate debt of $2.6 billion and non-recourse debt balance of $1.2 billion. At quarter end, we had $750 million of remaining capacity on our warehouse facility, of which we had $178 million of notes available to securitize and another $324 million of mortgage notes we anticipate being eligible following certain customary milestones such as first payment, deeding and recording.

Turning to our credit metrics at the end of Q3, the Company's total net leverage on a pro forma TTM basis was 2.1 times.

We will now turn the call over to the Operator and look forward to your questions. Operator.

QUESTIONS AND ANSWERS

Operator
Thank you.

Our first question comes from the line of Ben Chaiken with Credit Suisse. Please proceed with your question.

Benjamin Chaiken
Hey, good morning.

So, sounds like you have completed the rebrand of the sales center. Can you just talk about the receptivity of Max with the Diamond customers? Any color there would be super helpful?

Mark Wang
Yes, sure. Ben it's Mark. Look really pleased with the reception we received with Max. As a reminder, this is the first new membership program that we've rolled out in decades and feedback has been very positive, not only with the Diamond members, but also very, very good feedback from our HGV members. So, just to remind you, we've added a lot of flexibility around the program, a lot of new features. But most importantly, we added the destinations, right. So, when we recalibrated our point levels for HGV, we created a common currency which allowed any Max members to go across the different portfolios, go across the HGV portfolio and the Hilton Vacation Club portfolio.

So, we added new destinations like Lake Tahoe, in Arizona, Virginia Beach. Those are locations that HGV members didn't have before in our portfolio. The same for the Diamond members who can now go to New York, Washington, DC, Oahu in Hawaii. So anyways, good reception so far. We've got some new benefits in there from Hilton, which have also been positively received.

Since the rollout, we've achieved more than 50,000 members since April. We expect to achieve nearly 70,000 by yearend. So all-in-all, I feel really good about the rollout.

Most importantly, I'm really pleased with how fast our teams were able to get this done. If you think about it, we closed in August, and we were able to roll it out in April. That was a big, big hurdle that we had to achieve. The teams did a really great job with it.

Benjamin Chaiken
That's really helpful. Then just one more quick one. Sounds like you gave some kind of commentary around the package, the pipeline package. Am I thinking about this correctly? So, '22 was exposed to more existing owners for obvious reasons, limiting your occupancy for rentals and package tours. So, as we think about '23, and occupancy opens up, should that create a tailwind on tours, '23 versus '22, because of the package pipeline kind of like buildup? Is that a fair way to frame it?

Mark Wang
Yes, I think, when we think about our packages, first of all, I think it's a great indicator of just really strong demand. So, our activations during the quarter were the highest level we've had. So what I mean by that is we have more people with actual dated reservations then we've had since '19. So, activations have really picked up and we saw some really good sequential growth, when you go back to from Q1 to Q2 to Q3.

Now, while our activations picked up our actual pipeline actually increased too. So, we're really capitalizing on the demand that's out there on the leisure side, and we continue to work with Hilton to generate those tours and we've been investing into that segment, with staffing and just improving our tours in order to activate those packages. So, from a standpoint of availability room, so we're in a really good place, and should we get to a point where there is more demand than we have available rooms, we rent tens of thousands of rooms from Hilton on any given year.

So, we have plenty of supply to meet the ability to monetize that pipeline. So all-in-all, we feel really good about trajectory and the path we're on right now to bring back new buyers.

Benjamin Chaiken
Okay, that makes sense. That's super helpful. Thank you.

Operator
Thank you. Our next question comes from the line of David Katz with Jefferies. Please proceed with your question.

David Katz
Good morning, everyone. Thanks for taking my question.

Dan, did you talk at all about securitizations, for the rest of the year or the near term? Apologies if I missed it. But do you expect to do more deals? Any thoughts on what those could look like?

Daniel Mathewes
Hey, David, thanks. I did not speak specifically the timing of the next deal. But given where we are in available collateral and the fact that we just completed securitization, just over a month ago, we do not plan to do another deal this year. So, we would roll into probably Q2 of next year, would be where we anticipate it to fall.

Fortunately enough for us, from a securitization basis we had some great execution earlier this year. Quite frankly, some great times. I mean, we've done two deals about sub 5%, the most recent one at 4.83% with a 96% advance rate. There is still a lot of demand for ABS timeshare, without a doubt. I'm sure you've noticed, some of our competitors just recently completed a deal at clearly higher rates, just given where interest rates have gone. But if we wanted to get a deal done, or anyone in timeshare, to be quite honest, they're clearly getting done. So, it's still very robust demand.

Where the interest rates have gone, that clearly would lead to some compression in margin. But we do have a little bit of wiggle room from our perspective, when we look at rates or what we charge the consumers. We're not going to be able to mitigate that fully. It's more of a partial offset. We look at this on an at least quarterly basis. But we will most likely be looking to raise rates nominally to our consumers in the near future as well.

David Katz
Just to follow that up, any order of magnitude in terms of what those rate increases might be? Then I had one other detail I was really hoping to ask about, which you talked about a bit was the loan loss was benefited by a one timer in the quarter, that would have been, sounds like low double digits, and you're expecting to get back to normal. Just unpacking that a bit. What's in there is I assume the involvement of Diamond as well, right? So, that's sort of a combined number. Is there some evolution to that, or some learnings to that, that we can garner even though there's some noise in at this corner?

Mark Wang
Sure.

David Katz
I realize there's a lot in there. Yes.

Daniel Mathewes
Yes, no problem. So, the first part of question with regards to order of magnitude for us increasing interest rates, it's unfortunately, it's not tripled basis points. It's more on the order of magnitude of 25 to 50 basis points. So again, a partial offset to what we've seen from a spread perspective with regards to the ABS market.

With regards to our portfolio, the good news is it's still outperforming not only last year, but 2019 levels. If we look at delinquency rates, compared to 2019 we're still in excess on the Diamond side, still in excess of 100 basis points better than where they were in '19 in HGV, just under that—just around 60 basis points better. On a default basis, materially better, Diamond's close to 600 basis points better on the default basis and HGV's closer to 100 basis points better than 2019 level. So, the portfolio continues to perform extremely well. These things naturally, just given the demographics, over time revert to a mean.

So, we do anticipate in 2023, that that will slowly revert back to a mean, maybe we do a little bit better than we did historically, just given some of the dynamics of the acquisition and the integration, etc. But that remains to be seen. But right now we're in a good spot. The release of the reserve was associated with the termination of certain government stimulus packages that impacted our mortgage portfolio. So, that $16 million, kind of a one-time clip that came back to us in this quarter. That's at the end of the day the remnants of the reserves that we set up at the beginning of COVID that was all tied to employment levels where the portfolio performed back in

2008, etc. So, there's some nominal amounts that's probably still lingering in there, but this is the last material chunk that I would expect you to see.

David Katz
Got it. So we still want to be mid-teens out into next year and onward?

Daniel Mathewes
I think ultimately building up to mid teens. That's correct.

David Katz
Okay. Thanks for the extra questions. Appreciate it.

Mark Wang
Of course.

Operator
Thank you. Our next question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Hi, good morning, everyone.

Mark Wang
Good morning, Pat.

Patrick Scholes
Mark, I wonder if you could give us your latest thoughts on the return of the Japanese customer? Certainly going slow, yes, going slower than initially expected, but perhaps starting to come back to you. What are your latest thoughts and observations on that? Thank you.

Mark Wang
Yes, sure. So look, we expected a nice recovery from our Japan owners. In recent months, we're estimating that approximately 1 out of 5 guests traveling to Hawaii are from Japan, are HGV-related and that compares to 1 out of 10 back in 2019, which shows not only our continued dominance, really in that market, but the desire for those who really invested in the great quality products that we have in that market to get back to their Hawaiian homes. It's been 2.5, 3 years now.

While demand is not entirely back the positive move to lift all the restrictions on October 11, has really had a beneficial impact for what we're seeing. So, all of that said, we expect the slope to full recovery will take about 12 months, as we await the necessary airlift return. We really need to get the airlift and that is coming. It's on its way. We've also rolled out some initiatives to help our Japan owners return in light of the continuing weakness in the yen. But when you look at where we're at, we were—arrivals were about 50% of '19's in Q3, and right now, what we have on the books is 67%.

So clearly, we're not back, but the good news is it's all moving in the right direction. This was, with restrictions, it was an artificial push back on demand. The demand has been there. We have seen it over the years. Even during COVID our Japanese members were making reservations. But they would cancel them due to the restrictions. But, all-in-all really pleased

with how the team's managed it. Our expectation is we get through—well into '23 we'll get back to a more normal cadence there.

Patrick Scholes
Okay, great. Then one follow-up question, you talked about achieving the $150 million run rate cost synergies? Is it possible that you could go above and beyond the $150 million? Thank you.

Mark Wang
Yes, look, I'll take part of this, and maybe Dan can jump in. I'll just say, number one, just really pleased with our ability to achieve the cost synergies that we laid out. I mean, we originally put $125 million out there in our first 24 months. The time we closed we raised it to $150. We achieve that three quarters ahead of what we originally said. Then if you recall, on top of that we took $25 million of savings that we realized early part of the pandemic, we took that out. So, all-in-all we are much more efficient business now. Our teams are more productive and efficient than ever. I don't know, Dan, if you want to add to that, but…

Daniel Mathewes
Yes, no, absolutely. I mean, it's very impressive to see what the teams have done without a doubt. What is also interesting is—well, maybe not interesting, but what's important to know is when you go through something like COVID, you shut down all of your resorts and basically build everything up, it really changes your mindset. That coupled with an acquisition where you've committed to significant cost savings, the discipline and the level of discipline within the organization has just shifted right.

So that, without a doubt, we do not plan to lose. But as you go forward, the business is more integrated than it was. It's going to be harder for me to say, hey, this is due to the acquisition. There are some benefits that we have not realized yet that will build on the $150 million. We've talked about these in the past. Most notably, as we rebrand the resorts and they go on hilton.com, we will save expenses associated with OTAs. Some of the bookings will clearly go to hilton.com on a dramatically lower cost basis. So, that will contribute to further cost synergies. But going forward, it's going to be really difficult for us to say, hey, this is specifically associated with the acquisition.

If anything material does come to mind, we always highlight that, but at this point, it's really—the most important thing to me is that increased discipline and on cost initiatives and just maintaining that focus as a combined organization going forward.

Patrick Scholes
Okay, thank you for the clarity on that. I'm all set.

Operator
Thank you. Our next question comes from the line of Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Hey, everybody, good morning. Thanks for taking my questions.

The first one would be on tour flow, looks like you had a really nice lift quarter-over-quarter on tour flow. You were talking about Japan coming back in '23. Maybe to work our way backwards, when Japan comes all the way back in '23 or when Japan comes all the way back, is tour flow going to be very similar looking to '19 in absolute numbers, or is there some channel churn or

channel culling that we should sort of expect on the Diamond side or anywhere else that you aren't going to come back versus '19?

Mark Wang
Yes, no, Brandt, good question. I think, number one, I think if you kind of look at our tour flow, and you look at the trajectory of the recovery, out of the gate, our primary objective was to get our owners back. They've made a long-term commitment to our brand. We took a—we put a lot of time and took a lot of care into our owners during the pandemic. That's really paid off. We're now exceeding our owners coming back, or exceeding where we were in '19.

From a new buyer perspective, as you mentioned, the latter has been the Japanese guests. I talked about that, on my—on the previous question from Patrick. So, our expectations is that gets back to a more normal pace by, by the time we get into the back half of '23.

Now, one area that we're recovering on the new buyer side is on the Diamond side. Diamond actually took out 40,000 less efficient tours. They took that out pre-acquisition during the early part of the pandemic. As far as replacing those tours and generating incremental tours, we've now sold 50,000 packages to legacy Diamond locations that have been rebranded Hilton Grand Vacations. We're just starting to see those tours arrive at our sales centers.

So overall, I think we saw a nice increase in new buyer tour flow. It's been growing, it's outpacing our owner tour flow growth right now. Despite converting our pipeline to drive new buyer tours during the quarter, we grew our pipeline. So, that's a great indicator that we've got more opportunities out in front of us. We continue to invest in that. I talked about it maybe earlier on the staffing side. We've invested in more digital tools. We've improved our processes to activate those packages.

So, our thinking is that we're going to continue investing in working hard to get back our new buyers. The expectations are we'll be ahead of where we were in '19 with owners, and we'll be back, at least to our new buyer levels in '23.

Brandt Montour
Great, that's great. Thanks for that. Then Dan, maybe for you on VPG, reiterated the 10% to 15% level that you're sort of looking to hold. Can you remind us when you think about that 10% to 15% what's in there, right versus '19? Is it—it's close rates, is it pricing? Is there anything else—what's sort of the makeup of that number? Why is that number where you guys are confident you can hold as things normalize?

Daniel Mathewes
Yes, no, thanks for that. With regards to the 10% to 15%, it's driven across several metrics, right? HGV as a standalone, some of the products that we were bringing online, a little higher transaction price, Maui, Cabo, Charleston and Sissoko club level product. That combined with revenue synergies, which would most notably transfer through the close rate with the acquisition, are also supporting that 10% to 15% over 2019.

Mark Wang
Yes, and I'd also add to that, Brandt, that we have better insight into our customer than we ever have before. Our algorithm has gotten a lot more advanced. We know who's spending, who's not spending, we know who's traveling who's not traveling. Our focus is around putting our resources around those that are traveling. So, I think we've just gotten better during this period of time identifying in a more precise manner, on the customers that we want to go after. Then

also just the value proposition of adding a HGV Max and Ultimate Access, along with what Dan mentioned, all-in-all, I just think we have a much better value proposition than we did, with a much better way to identify the customer.

Brandt Montour
Okay, that's great. Then if I could squeeze one more in here on loan loss provisions, Dan, if I'm reading your words correctly, the mid- to high- teens assumes a complete reversion of delinquency rates back to sort of prior cycle levels. Obviously, I guess you made it seem like you might not ever—you might not get there, if the portfolio continues to outperform. Do you think the portfolio is outperforming because you guys have added so much value to the system, to the product that your customers just are less likely than maybe in prior cycle for each of these two individual businesses and systems, are less likely to want to give it up? Do you think that's some of that?

So, maybe that could be a bit of a good guy in terms of when you do hit a normalization point?

Dan Mathewes
I definitely do. What I would say to that front is look, it's very important for—I think just generally people to recognize it, just because you put a brand on something does not mean someone will not default, right? A lot of things have to go along with that. It's putting the brand on it. So rebranding the Diamond and Hilton Vacation Club, but also how do you treat the customer? How does the sales process go? What are you actually delivering? Are you living up to the promises that you've sold the individuals?

We, as you know, take the brand very seriously. We're big protectors of the brand. We try to live up to a very high standard. So, as that rolls out, and as that experience is gained by our consumer base, I do see potential upside to that complete revision. But at the end of the day, we are only 12 months into the integration. So that is the reason for the air of caution of where we are this quarter, where it's just under 11% provision, if you exclude the $16 million benefits to where you ultimately may go back to which is 15%, 16% area.

Brandt Montour
Okay. Thanks for everything, guys. Good quarter.

Dan Mathewes
Thanks.

Operator
Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Wang for any final comments.

Mark Wang
All right. Well, thanks everyone, for joining us today. I want to give a special thanks to our team members for going above and beyond to deliver outstanding vacation experiences to our members and guests. I'm also proud that we were named at fifth in Newsweek's top 100 most loved workplaces and number one for the most Values Driven Company. It's the dedication and passion of our team members that really creates our unique and amazing culture here at HGV. We appreciate all that you do. Thank you have a great day.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.