# Hilton Grand Vacations Inc.

## Q1 2023 Earnings Call

## Thursday, April 27, 2023, 11:00 A.M. Eastern

**CORPORATE PARTICIPANTS**

**Mark Melnyk** – *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' First Quarter 2023 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 13735179.

(Operator Instructions)

I would now like to turn the call over to Mark Melnyk, Senior Vice President of IR and G&A. Please go ahead, sir.

**Mark Melnyk**
Thank you, Operator, and welcome to the Hilton Grand Vacations First Quarter 2023 Earnings Call.

As a reminder, our discussion 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 a discussion of some of the factors that could cause actual results to differ, please see the risk factor section of our 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**
Morning, everyone, and welcome to our first quarter earnings call.

Today, we announced another quarter of strong results, and I'm pleased with our performance, particularly in light of the difficult comparisons with last year. Contract sales grew to $523 million and EBITDA was $216 million with margins at 23%. The key indicators of our business continued to demonstrate the resilience of travel-related spending, arrivals on the books are ahead of last year, and point to further occupancy strength going forward.

Year-over-year tour flow growth was the highest since the first quarter of last year, with a number of tours nearly returning to 2019's level. We sold more preview packages this quarter than we ever have, and at the same time we also activated more packages than ever before. Our new buyer channel growth has continued to outperform our owner channel, which is consistent with our strategic focus on long-term value of the business.

Early in the pandemic, we focused on servicing our owner base and maintaining their strong commitment to traveling with HGV. But our focus continues to be on restoring our historical mix, growing tours and new buyer sales, driving the long-term health of the business and embedding future value. While we're seeing positive trends among our consumer base, we're also continuing to monitor the macroeconomic environment closely. For some time, we've been guiding to an expected moderation of some of our KPIs as they return to more historical levels.

This is the natural result of growing our tour volumes and seeing a wider variety of customers with more typical spending patterns. It's also the result of our focus on new buyers, which creates a mix effect, since they carry lower initial KPIs than owners. While we anticipated this moderation and our KPIs against the record highs over the past year, the positive leading indicators I mentioned before give us confidence that we're able to navigate through any macro headwinds.

Before we get into the details of the quarter, let's start with an update on the integration and initiatives. It's been a year since we officially launched sales of HGV Max, and we've welcomed over 90,000 members into the program in that time, outperforming our expectations. We had a great response, and we're pleased with how well the product is resonating with existing owners and legacy DRI members, showcasing their broad appeal of HGV Max. This year, we'll continue to evolve the program by activating additional features and adding new benefits.

Turning to our experiential platform, HGV Ultimate Access, we continue to expand the popular program on the heels of a very successful launch year. This year, we expect to host nearly 100,000 members at Ultimate Access events, demonstrating considerable growth versus the prior year. We're excited about the opportunity in front of us with Ultimate Access, and I'm really proud of the team and the work they've done to build a platform, and we're thrilled to have such a great set of brand ambassadors to provide our members with unique culinary concert and event experiences.

Turning to our diamond property rebranding, we're making good progress and remain on schedule. Through the first quarter, we've rebranded 22 resorts to help the Vacation Club, representing over 6,500 keys, over 40% of the acquired portfolio. We've completed two conversions so far this year and will add another 11 properties by year end, bringing us to 33 resorts since acquisitions closed.

On the rental side, those Hilton Vacation Club properties are benefiting from the improved economics of being part of the Hilton network. In the first quarter alone, we booked over 60,000 room nights at our rebranded resorts through hilton.com with higher ADRs and lower costs than

before. We've also seen strong demand for those rebranded properties from our members and marketing guests, with nearly 80,000 preview packages sold that will generate marketing tour flow at those properties in the months ahead.

To more effectively engage those marketing guests, we're continuing to enhance our use of data and analytics. The scoring models we've been using at HGV continue to help us better segment our marketing prospects. We've recently rolled that predictive modeling to legacy diamond as well and expect to experience a similar positive result that should support sustainable improvements to close rates at VPG.

Now, let me take you through a more detailed look at our performance in the first quarter. Contract sales growth was driven by strong improvement in tour flow, which more than offset the expected VPG declines. Tours were up 32%, despite lapping a difficult comparison in the prior year. Those owner tours and new buyer tours showed great growth in the quarter, but new buyer tours were particularly strong, growing over 40% from the prior year and representing the highest mix since the pandemic began in the first quarter of 2020.

In addition, our tour flow enabled us to drive robust transaction growth in the quarter. VPG for the quarter was nearly $4,000 with both owner and new buyer declining against record VPGs from last year.

Turning to our forward indicators, as I mentioned in my opening remarks, we're seeing continued positive trends. Occupancy in the quarter was 79%, up 400 basis points versus last year and the strongest first quarter since 2019. Our forward bookings suggest continued strength in occupancy through the rest of the year. Our marketing pipeline grew to over 550,000 packages, despite the significant amount of convergence during the quarter, indicating that consumers' intention to travel remain strong. Our mix of activated packages is now nearly a quarter of our pipeline, the highest since 2017, after total activated packages grew 65% versus the prior year.

We're happy with the investments we made in our marketing channels that are helping provide additional visibility and confidence in our tour flow for the year.

Turning to our non-real-estate segments, higher spending activity among our members and rental guests drove solid top line growth in our Club, Resort, Rental, and Ancillary segment. We ended the quarter with 519,000 members and a NOG of 3.3% on a combined basis. Our financing business also continues to perform well, despite the recent shift toward higher cash purchases and prepayments. From a credit perspective, our portfolio continues to exceed expectations.

As we look at the remainder of the year, we're optimistic about the path ahead. We're monitoring the strength of the consumer closely and we continue to see a strong desire to travel, as evidenced by our privy package pipeline and forward-booking activity. HGV Max provides a tremendous value proposition that's really resonating with our consumers, and we're activating more features and adding new benefits.

When you combine the strength of our offerings with the new technology tools we're applying to our marketing, we expect to generate additional tour and add new Max members. These efforts have set the stage for sustainable efficiency improvement, driving additional free cash flow and long-term value creation for our shareholders in addition to capital returns.

With that, I'll turn it over to Dan, who will walk you through the numbers. Dan?

**Dan Mathewes**
Thank you, Mark, and good morning, everyone.

Before we start, note that our reported results for this quarter included $4 million of sale recognitions, which increased reported GAAP revenue associated with the opening of another phase of our Maui project. We also recorded an associated $2 million of associated direct expense recognitions resulting in a net reduction of $2 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.

Turning to our results for the quarter. Total revenue in the first quarter was up 13% to $930 million. All segments showed year-over-year top line gains led by strength in our financing and rental and ancillary segments. Q1 reported Adjusted EBITDA was $216 million with margins of 23%.

Turning to our segments. Within real estate, total contract sales of $523 million were up 3%, which is really encouraging given that we are lapping record levels for a number of KPIs in the first quarter of last year. We had very strong tour growth with total tours up 32% year-over-year, which is the highest tour growth we've seen since the first quarter of 2022. We saw a nice acceleration in our year-over-year owner tour growth, but I'm particularly pleased with our new buyer tours; they were up over 40% versus prior year and the highest mix of total tours since the first quarter of 2020, when the pandemic first started.

Mark mentioned we've seen very strong growth in both our number and mix of activated packages that drove robust new buyer tour flow in the quarter, as well as visibility into our upcoming tour flow pipeline. VPG was just under 4,000 for the quarter, which was down against the record VPG of last year, due to the expected moderation of our close rates along with a higher mix of new buyer contract sales.

As we discussed, we're expecting those year-over-year declines to persist in 2023 as our VPG continues to moderate, particularly as we lap the tough comparisons in the first half. But we're still comfortable that our VPG will settle in the range of 10% to 15% ahead of 2019 before resuming a more normal pace of year-over-year growth.

Cost of product was 16% of net VOI sales for the quarter. Real estate sales and marketing expense was $239 million for the quarter, or 46% of gross contract sales. Our selling and marketing percentage remains elevated, owing to the continued investments into growing our new buyer channel along with the flow through of lower VPG during the quarter. We expect Q1 to be the peak of our sales and marketing percentage, and as we move through the year and lap those channel investments we should see improvement in this metric. Real estate profit was $133 million for the quarter with margins of 32%.

In our financing business, first quarter revenue was $74 million and segment profit was $50 million, with margin of 68%. Combined gross receivables for the quarter were $2.5 billion, or $1.8 billion net of allowance, and our interest income was $66 million. Our originated portfolio weighted average interest rate was 14.5%, while our acquired portfolio had a weighted average interest rate of 15.6% and includes a $3.6 million contract revenue for the amortization of a

noncash premium associated with the portfolio of receivables that we acquired from Diamond during the acquisition.

Our allowance for bad debt was $743 million on that $2.5 billion receivable balance. Of these amounts, the acquired Diamond portfolio, which used Diamond's underwriting standards, was $325 million on a portfolio balance of $663 million. Our annualized default rate for our consolidated portfolios including the Diamond acquired and underwritten portfolios was 8.4%.

This is generally consistent with where we ended 2022, which was down over 100 basis-points from 2021 with both the acquired and originated portfolios continuing to demonstrate solid performance relative to our initial underwriting assumptions. Our provision for bad debt was $30 million, or 9% of owned contract sales.

While we provide on new loans in the mid-teens on a consolidated basis, higher cash purchases and elevated prepayments, coupled with generally good default performance, continues to depress provision as a percent of contract sales.

In our resort and club business, our consolidated member count was 519,000 and our consolidated NOG was 3.3% at the end of the first quarter. Revenue of $131 million was up 5% for the quarter and segment profit was $89 million with margins of 68%. Our club expenses increased in the quarter as we ramped additional resources to further enhance our service levels for increasing member activity. Rental and ancillary revenues were $158 million in the quarter with segment profit of $6 million.

As we mentioned last quarter, Q1 margins reflect the impact of a change in expense timing for member benefits at Diamond. During the first quarter, this timing shift resulted in $7 million year-over-year impact to the first quarter expenses. Looking at Q2, we expect the timing shift to cause a $3 million year-over-year impact to segment profit. In the back half of the year, we expect that this timing shift will drive a $10 million year-over-year benefit to expenses, making the impact of the timing shift neutral to the full year.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, corporate G&A was $33 million, license fees were $30 million, and JV income was $3 million. Our adjusted free cash flow in the quarter was $33 million, which included inventory spending of $152 million and excludes acquisition-related costs of $25 million. This inventory spend included the final payment for The Central in New York that had been deferred since the pandemic, which drove the use of cash. For the year, we still feel confident with an EBITDA to free cash flow conversion ratio that will be at the low end of our 50% to 60% target range.

During the quarter, the Company purchased 1.9 million shares of common stock for $85 million at an average price of $45.37. Through April 21, we have repurchased an additional 1.3 million shares for $60 million. We currently have $83 million remaining of the $500 million repurchase plan approved by the Board in May of 2022, and we remain committed to enhancing the total return for our shareholders by returning capital via share repurchases.

Turning to our outlook, we are reiterating our 2023 Adjusted EBITDA guidance of $1.090 billion to $1.120 billion. As of March 31, our liquidity position consisted of $389 million of unrestricted cash, $671 million of availability under our revolving credit facility. Our debt balance at quarter end was comprised of corporate debt of $2.9 billion, and non-recourse debt balance of $1.1 billion.

At quarter end we had $575 million of remaining capacity on our warehouse facility, of which we had $312 million of notes receivable to securitize, and another $279 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 Q1, the Company's total net leverage on a TTM basis was 2.5 times.

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

**Operator**
Thank you.

(Operator Instructions)

Our first question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

**Patrick Scholes**
Thank you, Operator. Good morning, everyone.

**Mark Wang**
Good morning.

**Patrick Scholes**
Couple of questions here. It sounds like you're doing exceptionally well with new buyer tours. Without giving away the secret sauce to your competitors, from a high-level, where are you drawing these new buyers from? Is this through the Hilton Honors Program or on-site marketing initiatives? Then related to that, do you see most of these new buyer tours going into your legacy, more higher price, Hilton product or is this going to the more moderately priced Diamond type of product? Thank you.

**Mark Wang**
Yes, Patrick. Yes, so first of all, really pleased with our momentum in selling these preview packages, and I think this is an area where we've had a strong competitive advantage for years and part of that is just the relationship we have with Hilton, and this goes back for well over a decade and our ability to source customers through Hilton.

I would say the majority of our new buyer growth is coming through that relationship and through a few other partnerships that we have out there, but still the majority is coming through, the Hilton relationship. Our pipeline now sits at 550,000, but what's really important is while we were continuing to sell packages during the period of the pandemic and when COVID was going on, the activation of these packages have really picked up.

We've seen a broader set of customers that are now willing to travel, so we are really pleased with that. There was some hesitancy, I think, around some of the travelers early on, but those activations have been a top priority of ours, and the result of that is our activated packages ended-up at the end of Q1 was up 65% versus prior year, and that really goes back to a period back to 2017 where we've had that level of activation. Really pleased with that.

Most importantly, it gives us a great line of sight into our future new buyer tour flow. As we talked about in our prepared remarks, we were up 40% year-over-year. Two times of what we saw with owner tour flow growth. Owner tour flow was still healthy, but new buyer definitely came in into play here, and this is something we've been working on for a considerable amount of time because we know it's extremely important to get new buyers into the system.

Now, as far as where these packages are going. We've now sold approximately 80,000 packages into what we would call our Diamond Legacy markets, so I think it's really benefiting us, having this bigger platform and having new markets to offer the Hilton guest the opportunity to view one of our properties.

All in all, we are seeing a bit of a shift to the DRI properties, but still seeing strong demand into our core HGV markets.

**Patrick Scholes**
Thanks. Just talking out loud. I think that was probably part of the original intention with the Diamond acquisition, because you had this huge marketing base and just needed probably more mid-scale type of products there to sell it to them. Good to hear on that.

Lastly, just give us an update on Hawaii. I think your most recent comments were you expected it to be fully back hopefully by the end of this year; is that still progressing? Thank you.

**Mark Wang**
Yes, look, it's definitely making progress in Hawaii. In fact, we've seen our tour flow recovery that was below 60% in Q1 ’22 to it's nearly 85% of ’19 and Q1 of ’23, and all the forward bookings look encouraging. I think by the time we get out to the fourth quarter, we're seeing about 90% of our Japanese owners back to Hawaii. That's what we're seeing on the books. Tour flow is definitely recovering, and it's nice that Japan is totally taking all the protocols around in-bound travel or outbound travel away. So, all-in-all very encouraging in what we're seeing.

In fact, approximately 25% of all Japanese arrivals to Hawaii right now are HGV-related, so you're seeing our owners are coming back at a faster pace than you're seeing with the general population of Japanese coming back to Hawaii. All in all, pleased with the progress. Our expectations it will still probably be mid next year before we get back to full recovery.

But in the meantime, we are really benefiting with our new property in Sesoko, in Japan. If you recall, we opened that up back in the end of ’21 and we have a lot of Japanese traveling there and sales to Sesoko has exceeded our expectations. We're really pleased with the way that timed out and the way it helped us during this period of time where Japanese were more reluctant to travel to Hawaii.

**Patrick Scholes**
Okay. Thank you very much. All set.

**Operator**
Our next question comes from the line of Dany Asad with Bank of America. Please proceed with your question.

**Dany Asad**

Hi. Good morning, Mark and Dan, and thank you for taking my question. Just on VPG, I understand that part of that slowdown year-on-year is mix related. Are you able to parse out how much of that 18% decline is mix? Then are you able to give us any more color? Dan, I know in your prepared remarks you talked about close rates, can you give us anymore just tidbits of data around that, and how that's been trending specifically?

**Mark Wang**
Yes. Okay. Dany, this is Mark. I'll take the first part. I will let Dan jump in on the close rates. We calculate about two thirds of the VPG change versus Q4 was due to mix. We've been saying for a number of quarters that we expected VPG to moderate, given really the record post-pandemic performance. Part of that was we had a lot of tailwinds. The release of the strong pent-up demand for travel that occurred from COVID. Obviously, a lot of excitement around the acquisition of Diamond. We also saw our most committed owners coming back first. At the end of the day, we've been expecting to get back our new owners.

In fact, we view VPG really as an outcome, and while it's important for us to try to manage the best VPG we can, at the end of the day it's not how we manage the business. Our focus is really on contract sales growth and the associated transaction growth that comes with it. Obviously, we execute to the best we can based on what the market gives us. But for us historically, tour flow has been the best predictor of growth for us. In fact, when you go back and you look at our business from ’07 to ’19, except for ’09, we had contract sales growth, and in all cases but one year we had tour flow growth and during those years where we had tour flow growth we had five years where we had VPG contraction.

At the end of the day, we're now focused very heavily to get back more new buyers because we know the lifetime value outweighs the short-term drag.

Dan, I don't know if you want to connect on the closing percentage.

**Dan Mathewes**
Yes, sure, Dany. From a close rate perspective, it’s still performing extremely well compared to historical levels in 2019. When you look at—just looking between new buyer and existing owner, existing owner is performing very strong, again, relative to ‘19 new buyer. As we would expect and as we've been talking about, it seems like forever now for about eight quarters, with the increase in new buyers and having new buyers coming through the system, we expected a bit of a contraction in new buyer close rate, and we've seen that. But both are performing very well.

If you look at the pace through the quarter, we actually improved from January through March, across both new buyers and existing owners.

**Dany Asad**
Got it, thank you very much for the color. That's it from me.

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

**David Katz**
Hi. Good morning, everyone. I appreciate all the commentary and the detail. When we start to think about the opportunities that may present as a result of financial markets tightening. I'm wondering what your thoughts are on potential M&A, presuming that it's more tuck-in oriented

than transformational. But would there be opportunities out there and are you starting to see any that make sense for you?

**Mark Wang**
Yes, obviously, we value and see the value in consolidation in the industry, and we just undertook a major strategic transaction with Diamond, and it's really allowed us to leverage our brand across a broader base of assets and accessing more owners and such. Generally, this is something that we will continue to monitor. Clearly, we believe it could be positive and beneficial. We've seen it play out very well with our acquisition.

At the end of the day, we've talked about this before, it's a fairly narrow group of companies left out there. Diamond actually was a roll-up company. Their strategy was roll-up. They did 11 acquisitions over their history, and so there's not a lot of potential out there, but this is definitely an area we'll continue to look at.

**David Katz**
Got it. Perfect. Thanks very much.

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

**Brandt Montour**
Hi, guys. Thanks for taking my questions. Most of them have been answered. I just wanted to maybe try and ask for some extra color on the quarterly cadence for VPGs this year, because I think you guys did a great job just explaining to us the 1Q drawdown, sounds about two-thirds of its mix. I'm assuming that's both mix and—from mix from both, more Diamond tours versus Legacy HGV tours plus more new owners versus repeat owners, and that makes a lot of sense.

The other third of it is—you mentioned close rates, Dan, going down, or obviously going down as you bring up 40% growth in the order. Sorry, I know it's a big wind-up. I guess the point is, you guys have really—the comparison for VPG throughout the rest of the year are sort of even, but obviously much different than the first quarter last year. Anything you can help us on in terms of how we should think about those different factors that we've all just been talking about—how they changed throughout the year. That might be helpful.

**Dan Mathewes**
Hi, Brandt, it's Dan. Great question. When you think about the growth in new buyer tours, it makes it probably a difficult question to answer. In Q1, we had just over 80,000 new buyer tours, and we're looking to ramp that up sequentially. But if you look at historical seasonality for VPGs, going from Q1 to Q2, you typically see a decline in VPGs, and then ramping back up with Q4 actually being the strongest quarter in the back half of the year. That's how I would think about it. It's going to be an interesting mix this year just because of that ramp and new buyer tour flow.

**Mark Wang**
Yes, I think it's just more pronounced this year, because our pipeline is so big. The activation is very, very strong, as I mentioned now. Really excited about what's on the books. If you look at this summer, we're 10% above for owner’s arrivals on the books, but we're 30% above our marketing arrivals. So again, I think it's just going to be more pronounced. We're really ramping

up new buyer tour flow this year. But as Dan said, it does converge back in the fourth quarter where you see that convergence, and so we'll generate VPG tailwind as we close out the year.

**Dan Mathewes**
Right, so if you think about it just mathematically, Q1 compared to Q1 of ’19 came in over 11% higher on the VPG front. I'd look for something similar when comparing Q2 to Q2 of 2019, and then we've always said that we felt that VPGs would stabilize somewhere in the range of 10% to 15%, and we look for the back half of the year to probably slightly outperform what you would expect in Q1 and Q2 for what I've said for Q1.

**Brandt Montour**
Yes, that's super helpful, guys. Thanks for that. Just a quick follow-up, one of your competitors yesterday called out a little bit of a wobble in the second half of March that coincided with the concerns over the SVB failure and the concerns maybe closer to people on the West Coast regarding that event. It doesn't sound you saw anything like that, but do you have any thoughts on that? Did you see anything like that?

**Dan Mathewes**
No. We really didn't see, I would consider, any type of wobble or anything like that. At the end of the day, backdrop continues to change, right? At the end of the day, I think the good part is we're seeing people want to travel and their desire to travel super high. We've talked about it in our forward-looking pipeline. At the end of the day, we're really excited about what the rest of the year looks like, and we're just going to be—naturally, we expect VPGs to moderate.
But ultimately, I think the consumer is in that mindset to continue traveling and that.

For us in this environment. It's about traffic through your sales centers, right? I talked about earlier before, for us, we win if we can win with traffic through the sales centers. You're going to have your ups and downs over the years and within quarters and within given months, but at the end of the day, if we can win on the tour flow front, that's one lever that we have more control over, that gives us a lot more confidence in our ability to continue driving contract sales growth and transaction growth.

**Brandt Montour**
Perfect, thanks so much for all the color.

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

**Ben Chaiken**
Hi, how is it going?

**Mark Wang**
Not bad.

**Ben Chaiken**
Hi, maybe just adding somewhat to the first question where I think you were, Mark, suggesting some very healthy trends from your Hilton Honors base. Related, is there any color on the DRI owner reception of Max post sales center rebrand. Is that a metric you track, i.e., the origin of ownership, and if so, how is it trending?

**Mark Wang**
Yes, Ben, I don't have the details sitting in front of me, but I can tell you I think it's gone really well. We had a record year. I think we talked about in our prepared remarks, we have 90,000 Max members today, and we launched in April of last year. We had a record year last year as far as owner transactions go, and we saw a very positive response on Max from both the Legacy HGV and Diamond members.

I don't have a breakdown of the differences, but at the end of the day I think with the transformation of the sales centers and as we continue to evolve the turnover of the properties, I think we've got 22 converted over to HVC now, and we've got another 10 or 11 scheduled for the rest of this year. But as that continues to happen, that should only improve that engagement. But all-in-all, I think the engagement from both ownership groups have been very positive around the value proposition for HGV Max.

**Ben Chaiken**
Got it. That's really helpful. Just in the quarter, you called out sales and marketing a little higher than normal. I think that was expected. Is this related to the launch of HGV Max? A little more color on specifically what makes you comfortable this will come down through the year, and then is it fair to say it will normalize at your historical levels, whatever that is, low-40s? Thanks.

**Mark Wang**
Yes, no, absolutely. Q1 is a bit unusual in the sense that from a seasonality perspective, from a contract sales perspective, it's typically the lowest, that obviously from a percentage has an impact. But it also is stemming from primarily a continued investment in that new buyer. As we sell packages, engaging with employees and hiring individuals to actually do that, coupled with some unusual items that you see in Q1, just from a seasonality perspective, a lot of our Ultimate Access—some of our larger, in particular, a golf tournament that we host in Q1 has an impact on that as well.

As we play out through the year, we start to lap some of those initial investments and, obviously, Ultimate Access is not as heavily weighted that will help contract that sales and marketing expense as a percent of contract sales, coupled with of course growth in contract sales.

**Ben Chaiken**
Okay. Got it. Thank you.

**Operator**
We have reached the end of the question-and-answer session. Before we end, I will turn the call back over to Mark Wang for any closing remarks. Mr. Wang?

**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, and we look forward to speaking with you soon again. Thank you.

**Operator**
This concludes today's conference, and you may disconnect your line at this time. Thank you for your participation.