Hilton Grand Vacations Inc.

Q2 2023 Earnings Call

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CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President of IR and G&A*

Mark Wang – *President and Chief Executive Officer*

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

PRESENTATION

Operator
Good morning and welcome to the Hilton Grand Vacations' Second 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 13735180.

(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 Second Quarter 2023 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, and 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 Factors section of our SEC filings.

We will 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 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 for 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 second quarter earnings call.

I'm happy to report that we had another solid set of results. Contract sales were $612 million, and EBITDA was $252 million, with margins of 25%. Tour flow growth of 21% continues to stand out in this environment, which is critical to growing our member base and embedding future value into the business. And our investment to drive new buyer demand is paying off, with new buyer transactions and the mix of tours at their highest levels since the beginning of the recovery.

Forward demand indicators also remain robust, suggesting ongoing support for leisure travel. Arrivals remain ahead of last year and should support further occupancy improvements in the back-half of the year. We've made additional progress with our package sales, setting new records in both the size of the pipeline and the number of activated packages, and the growth in new buyer tours continues to outpace that of Owner channel.

So, the demand indicators that we see in our business remain healthy and point to the prioritization of leisure travel and a growing share of the consumer wallet.

The consumer macro environment is a bit more uncertain today, but with our large base of members and ability to source from the growing Hilton Honors database, we have the advantage of generating our own tour flow from a high-quality source. And we're further refining our approach to driving additional tour growth with new initiatives like the expansion of our digital sourcing capabilities and HGV Max platform. So, overall, I remain confident in our focus on driving tour growth and NOG, and I'm really happy with our execution and our ability to adapt to the environment.

Before we get into the details of the quarter, let's start with an update on our strategy an integration initiatives.

As I've mentioned previously, a key pillar of our strategy has always been focused on generating new buyers and driving positive NOG, which supports the embedded value of the business. This is critical to our long-term success, since we estimate that nearly two-thirds of the revenue generated in the life cycle of an owner comes after the initial sale. Nearly 25 points of that comes in the form of our recurring financing and club fees, which provide us with steady, high-margin EBITDA streams, and the remainder are generated from follow-up upgrade sales, which come with substantially better margins than the initial sale. So, we've refocused our post-pandemic efforts on driving new buyers, in order to build a base of future, high margin and recurring value through the contribution of those downstream elements.

We've also talked on previous calls about the investments we're making in new technology and experiences in order to increase our member base, drive engagement, and ultimately improve the lifetime value of our members. With that, let me provide some additional context around those investments and how they're helping us expand our marketing funnel.

Digital marketing was already our fastest growing lead channel with a 50% increase in the number of tours driven through digital since 2019. And since the acquisition of Diamond, we've significantly increased our reach through both social and earned media, leveraging our celebrity Brand Ambassadors and our sponsorship of signature events like the Tournament of Champions and the upcoming Formula 1 race in Las Vegas.

Our digital offers are also more personalized based on demographics, propensity to purchase, and real-time consumer behavior to drive a higher response rate and improved tour outcomes. Our data shows that this type of personalization and targeting is crucial in the first years of membership, where driving engagement and usage of the product is key to turning a new member into a lifetime promoter.

And we're increasingly deploying an omnichannel marketing model, maximizing lower cost channels at the top of the funnel while leveraging higher-cost channels for retargeting and activation. We're also applying this approach to sales, with virtual and in-person options allowing guests to interact with us when and how they want.

Moving down the funnel, over one-third of our vacation package activations are digital today. This makes it easier for a customer to select their preferred dates, improves package conversion, and allows us to leverage our inventory more effectively.

And finally, the investments we're making in expanding the capabilities of HGV Max will enhance its attractiveness, not only improving our conversion rates but also maximizing the lifetime value of our member once they do join.

We're also continuing to enhance HGV Ultimate Access, our leading platform of curated experiences and events. The activities and experience market is still highly fragmented, and we've chosen an integrated and high-touch approach to tailor the customer experience. We're expanding our programming based on member interests and feedback, which is important because it introduces an element of continuous newness to the value that members get from the brand. It allows us to attract new customer segments that are approaching vacation ownership for the first time through experiences, and it also provides an additional opportunity to engage with existing owners, supporting increased member lifetime value and loyalty.

So, our investments are focused on evolving the core elements of our business: expanding the lead generation funnel, maximizing the efficiency of tour flow, and offering a compelling portfolio of properties and membership features to drive additional tour flow and, ultimately, member growth.

Now, let me take you through a more detailed look at our performance in the second quarter.

Contract sales were driven by another strong improvement in tour flow, which offset the moderation of VPG against last year's difficult comparisons. Tour growth in the quarter was again led by strength in our new buyer tour flow, which was more than double that of our Owner tour growth. This brought our mix of new buyer tours to two-thirds of the total, which was the highest level since the third quarter of 2019. I'm also pleased that we were able to generate double-digit growth in our Owner tour flow despite lapping the launch of HGV Max last spring, which generated a large amount of Owner interest and activity.

VPG for the quarter was just over $3,700, still well ahead of 2019 levels and on our expected path of moderation. Looking at Q2 versus Q1, our strong new buyer performance was again a significant driver of the VPG change, with nearly two-thirds of the delta due to a higher mix of new buyers.

Turning to our demand indicators, occupancy for the quarter was 83% and the strongest we've seen since 2019. Our forward bookings remain well ahead of the same period last year and in

2019, which will support occupancy and tour growth through the rest of the year. And our total marketing pipeline expanded again this quarter to nearly 560,000 vacation packages, indicating strength in consumers' willingness to travel over the near term.

Looking at our non-real estate segments, this travel demand also drove another quarter of top line growth in our rental business, along with an improvement in our profit contribution.

Finally, we had solid results from our Club and Financing businesses, which are a recurring source of more than half of our total EBITDA. NOG was 2.8% in Q2 and brought us to 522,000 members at quarter end. We surpassed over 100,000 HGV Max members during the quarter, which is a great achievement for the team and another significant milestone for HGV. We also had another solid quarter from our financing business despite the changing interest rate environment.

Finally, in the quarter we repurchased $121 million of shares, which was ahead of our pace from last quarter. On a cumulative basis, since restarting our repurchase programs in the Spring of 2022, we've bought back 11 million shares, nearly half a billion of our stock.

To wrap up, I'm really pleased with our execution. While we continue to monitor changes in the macro environment, the teams have done a great job in adapting to these changes while remaining focused on our priorities. We've been successful in driving new buyer tour flow, generating NOG, and growing our member base. We're refining and augmenting our lead flow channels to bring in more efficient tours through additional investments in technology and, at the same time, we're adding additional features to Max to further strengthen the compelling value proposition it offers. These efforts remain focused on driving long-term value of the business and generating sustainable free cash flow and returns for our shareholders.

With that, I'll turn it over to Dan to talk 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 $6 million of sales deferrals which reduced reported GAAP revenue, associated with presales of the newest phase of our Sesoko project. We also recorded $2 million of associated direct expense deferrals, resulting in a net benefit of $4 million to our 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 second quarter grew 6% versus the prior year, to just over $1 billion. All segments again showed year-over-year top line gains, led by strength in our Financing and Club & Resort segments. Q2 reported Adjusted EBITDA was $252 million with margins of 25%, or 28% excluding cost reimbursements.

Turning to our segments, within Real Estate, total contract sales of $612 million were just shy of last year's level, which was encouraging given that we were lapping another very difficult comparison with record KPIs. Tour growth of 21% continues to be very strong overall, and our efforts to drive new buyer tours resulted in another impressive quarter of growth, with tours up nearly 30% in that channel. We also saw further improvement in the size of our tour package pipeline and the mix of activated packages, which will help to sustain the solid pace of new buyer tour growth.

For the quarter, new buyer contract sales made up 32% of the total, which was the highest mix of new buyer sales since the third quarter of 2019.

VPG was just over $3,700 for the quarter, which was down against the near-record VPGs of the prior year, but was also 16% ahead of Q2 2019. Year-to-date this puts our VPG 14% ahead of 2019, or nicely in the range of plus 10% to 15% where we think VPG will settle out.

Cost of product was 14% of net VOI sales for the quarter, lower versus last quarter and last year owing to favorable sales mix and incremental low-cost inventory recoveries.

Real estate S&M expense was $275 million or the quarter, or 45% of contract sales. This compares to 48% in Q1 and 36% in the second quarter of last year.

I'd like to pause here and note that in an effort to improve transparency, we've made a change to the current and future disclosure and calculation of sales and marketing expense. This change has resulted in the addition of a several non-GAAP metrics that are disclosed in our earnings release. The change will make the historical S&M expense number not comparable to what you have in your current models. Before we get into specifics, please note while this will have an impact on the optics of the Real Estate segment, it has no impact to the consolidated Adjusted EBITDA, margin or Adjusted Net Income margin.

Historically, we have disclosed a more operational view of our Real Estate segment. Specifically, the revenue generated from marketing package stays at HGV properties was viewed as an offset to sales & marketing expense in our Real Estate business, which had the effect of netting down the S&M. These revenues were also included in our Rental and Ancillary business, but ultimately eliminated when reporting consolidated Adjusted EBITDA. Going forward, we have eliminated this add-back to Real Estate S&M expense, which in general resulted in several hundred basis points of margin drag versus our prior reported profit margin for the Real Estate segment. As it was ultimately eliminated, our consolidated Adjusted EBITDA and margins of the overall business were not impacted by this change.

In order to adjust your models for a like-for-like basis for this new calculation, we have updated the historical financials file that we provide quarterly to reflect the new sales and marketing calculation in the Real Estate Profit tab. That information is provided on our Investor Relations site.

Real Estate profit was $148 million with margins of 31%, versus 38% in the prior year, both making the aforementioned adjustments to our S&M expense. In the first half of this year, including these adjustments, our sales and marketing expense was 46% of contract sales. As we move into the back half of the year, we expect to see an improvement of several hundred basis points in this expense ratio as we further improve our sales efficiency.

In our Financing business, second quarter revenue was $76 million and segment profit was $52 million, with margins of 68% versus margins of 63% in the prior year. Combined gross receivables for the quarter were $2.50 billion, or $1.74 billion net of allowance, and our interest income was $65 million.

Our originated portfolio weighted average interest rate was 14.7%, while our acquired portfolio had a weighted average interest rate of 15.7% and includes a $3.2 million contra-revenue for the

amortization of a non-cash premium associated with the portfolio of receivables that we acquired from Diamond during the acquisition.

Our allowance for bad debt was $760 million on that $2.5 billion receivables balance.

Of these amounts, the acquired Diamond portfolio, which used Diamond's underwriting standards, was $313 million on a portfolio balance of $626 million. Our annualized default rate for our consolidated portfolios, including the Diamond acquired and underwritten portfolios, was 8.68%. Our provision for bad debt was $41 million, or 9.5% of owned contract sales versus 9.2% last year

Revenue of $133 million was up 7% for the quarter, and segment profit was $89 million, with margins of 67% versus 65% last year.

Rental & ancillary revenues were $173 million in the quarter, with segment profit of $19 million and margins of 11% versus 12% last year. As we mentioned last quarter, Q2 margins reflect the impact of a change in expense timing for member benefits at Diamond. During the second quarter, this timing shift resulted in a $3 million year-over-year headwind to the second quarter's expenses, which was in line with our expectations. In the back half of the year, we still 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 year. And while developer maintenance expenses remain elevated owing to newly added inventory, we expect to maintain double-digit margins for the year in our Rental & Ancillary business.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, Corporate G&A was $33 million, license fees were $34 million, and JV Adjusted EBITDA was $3 million.

Our adjusted free cash flow in the quarter was a use of $13 million, which included inventory spending of $22 million and excludes acquisition-related costs also of $22 million. We remain confident in achieving the low end of our targeted 50% to 60% conversion range for the year.

During the quarter, the Company repurchased 2.7 million shares of common stock for $121 million.

On May 3, 2023, our Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to an aggregate of $500 million of its outstanding common shares over a two-year period, which is in addition to the prior repurchase authorization. As of June, we had $522 million of remaining availability under the share repurchase programs of which $500 million was under the 2023 Repurchase Plan. And as with our prior repurchase plan, we are targeting consistent level of repurchase spend of roughly $100 million per quarter.

Turning to our outlook, we are reiterating our 2023 Adjusted EBITDA guidance of $1.09 to $1.12 billion.

As of June 30th, our liquidity position was roughly $920 million, consisting of $252 million of unrestricted cash and $671 million of availability under our revolving credit facility. Our debt balance at quarter end was comprised of Corporate debt of $2.942 billion and a non-recourse debt balance of $882 million.

At quarter end, we had $710 million of remaining capacity on our warehouse facility, of which we had $299 million of notes available to securitize and another $291 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 Q2 the Company's total net leverage on a TTM basis was 2.69 times.

Lastly, you may have noticed we recently filed a 15-G. We are in the market currently with an ABS deal of approximately $300 million and expect to close it in the near future, so some of the metrics around free cash flow generation and collateral utilization were lower in the quarter due to timing.

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 is coming from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Good morning, Mark and Dan.

Mark Wang
Good morning.

Patrick Scholes
Good morning. Mark, one thing I found very interesting in your prepared remarks—and it's sometimes what you don't say as opposed to what you do say, and I'll compare and contrast this to other hotel companies or some other timeshare or vacation ownership companies that have reported. You really didn't call out top comps for the back half of the year as it relates to domestic leisure. I'm wondering what's different for you folks. Is it the fact that the Japanese is still coming back—never really fully returned back? What might be different for you folks? Thank you.

Mark Wang
I think, Patrick, you hit on the Japanese. We are seeing a recovery, especially in the back half of the year, of our Japanese owners coming back. But I think what I'd look at, just kind of the outlook, first of all everything we see on the books is really strong. Arrivals on the books are up 10% versus the same time last year, right? So, we feel really good. Our owners are booking. Our owners are up 108%. Our marketing packages are up 114% and that's really due to the great work our teams have done activating our package pipeline. We have the industry-leading pipeline of over 560,000 packages sold to date and those are all sourced through Hilton, so that gives us a really good line of sight.

All in all, I think we're in a really good position to grow our tour flow and capitalize on the opportunity with the great inventory we have and HGV Max has surely been a great success for us. We exceeded over 100,000 members in just a year now.

So, I'd say we feel really good about tour flow and our expectations is new buyer tour flow will continue to grow faster than our Owner.

We are seeing that there's going to be a moderation of VPG that we saw in Q2, and we still think it's around that 10% to 15% range, so there are difficult comps there, but they do get a little easier on the VPG side as you go through the year. But, as a reminder, look, we are focused on recovering our new buyer tours because it's such an important part of our long-term strategy. When you think about the value it embeds into our system, it's really important. Approximately 32% of our revenue is captured on that first sale, so in essence we get 68% of the value of that Owner that's tied to after that initial sale and we know it's really important to continue driving those new buyers through the system, and I think last quarter we were about 36% of our transaction. Our goal is to get back up to 40%.

Diamond, when we acquired them they were about 80/20 and they had taken out 40,000 tours, so we had a steep hill to climb and we are climbing it. So, all in all, feel pretty good about the back half.

I don't know if that really covers what you were looking for. Dan can give you maybe a little bit more color.

Patrick Scholes
Maybe a little more color…

Dan Mathewes
Patrick, just…

Patrick Scholes
… on the Japanese…

Dan Mathewes
Sure. Before we jump to the Japanese, just to cover off on arrivals, Mark mentioned Club arrivals being up over 100%, 108%, and marketing arrivals being up 114%. The rental arrivals are also up; they're up 105-plus percent, so we're seeing all arrivals for the back half of the year when you compare it to 2022. Just to shore off the three components.

Mark Wang
Yes. Then on the Japanese side, it's really—we're seeing a recovery both in Japan and our Japanese coming to Hawaii. Now, I provided a data point, I think a call or two calls ago, that we were seeing about 25% of all Japanese arrivals into the island of Oahu were HGV related. This last quarter it was 16%. Pre-pandemic it was at just under 10%. So the good news, our owners are coming back faster than the general population of the Japanese. Now, we obviously want to get more Japanese traveling to Hawaii because we do a good business, a good amount of new buyer business there. It's going to come back; it's just going to take longer. Our expectations now is it's going to be well in '24 before that fully recovers, but we did see some really good movement in the quarter and by year's end we're expecting to be almost back to 2019's levels for arrivals. So, really pleased with what we're seeing there.

Then the Japanese business in Japan is also recovering. There's a lot of domestic—it's not like the Japanese aren't traveling. They're just traveling heavily domestically, and so with our new property in Sesoko, Okinawa, we're seeing great occupancies there. All in all, we're happy to see that business coming back finally.

Patrick Scholes

Great. Thank you. Extremely impressive trends for a domestic leisure company. I sure have listened to a lot of earnings call before this quarter and I would say next to the cruise lines, which have probably the easiest of easy comps, to me it sounds like you have the best going for you, at least for the back half of this year for a domestic leisure company.

My follow-up question, when I think about historically the Diamond customer and the legacy HGV customer, certainly the legacy HGV customer, higher financial demographic, more mass market for legacy Diamond. Any differences right now in propensity to spend or take a tour? Anything you're seeing in the leisure spending habits between sort of those two legacy customers? Thank you.

Mark Wang
Yes. I would say there isn't—we're not seeing a whole lot of difference. I think there's pretty good consistency on the purchase trends across those two customer sets. I would say that we're probably seeing a stronger occupancy of owners coming back on the HGV side coming back to the property, and maybe less, a little bit less demand for the Diamond members coming back at this point.

But what's really encouraging is we've seen now 90,000 room nights through Max where HGV members are taking advantage of the new destinations that Max offers across the portfolio. So, really encouraged about that. But all in all, I think from a propensity to buy standpoint we're seeing pretty similar trends across the board.

I don't know, Dan, is there any differences on the delinquencies or defaults?

Dan Mathewes
No. I was just going to add what we're also very pleased with—and I've said this on previous calls but it's definitely worth repeating. When we look at the Diamond portfolio versus pre-acquisition, it's improved materially, 500-, 600-plus basis points from a default rate perspective. And even if you look sequentially on defaults greater than 30 days on the Diamond portfolio, it's actually improved. Not much – it's relatively flat but you see improvement sequentially.

That combined with our propensity to borrow on the HGV side being back to historical norms is encouraging.

On the Diamond side, it still trails pre-acquisition but that's really driven virtually 100% by the fact that we've eliminated our low down payment program. So we are enforcing the 10% down payment upon original purchase rather than allowing people to do a low down payment program, which historically has just underperformed from a delinquency/default perspective.

So the resiliency on the Diamond side is really strong and very much akin to HGV, just from a movement perspective. So, that's encouraging.

Patrick Scholes
Okay. That's it for me. I appreciate the color. Thank you.

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

Brandt Montour
Hey everybody, thanks for the comments and taking my question. Just one from me. One of your timeshare peers had called out close rates that were softening throughout the quarter and into July. It felt like maybe a normalizing comment versus last year. Your VPG was down a lot. It looks like it was more due to mix. So I'm just curious if you want to comment on sort of just owner close rates versus owner close rates throughout the quarter and then new owner close rates versus new owner close rates throughout the quarter.

Mark Wang
Yes. Look, I think, Brent, we don't really break that down, but I will say that owners continue to trade up at a very robust rate, above what we saw in 2019 and historical levels, right? Then I'd say new buyers are really moderating quicker back down to what we would call historical levels. But still, all in all very healthy VPGs. We're still 17 above where we were in '19.

Look, it's a bit harder today with the new buyers, and if it took us nine new buyer tours to generate a sale, today it's taking us approximately 10 new buyers. Obviously the backdrop continues to evolve right now and the environment evolves, but, you know, I think all in all still very pleased with the performance. It's nice to be a in full employment environment, even though you have a lot of noise out there.

All in all, I think we feel pretty comfortable that we're going to still fall in that range, probably settle in that 10% to 15% range that we've been talking about for a while, and really the biggest driver on overall close percentage will be the cadence of new buyer tours. And based on the way we see the forward bookings, we are going to continue to see new buyer tours grow at a pretty material difference than our Owner tours. Even through with Owner tours last quarter grew at 10%, we had significant growth on the new buyer side.

Brandt Montour
Okay. That's super helpful. Then just sort of a follow-up. Was it consistent throughout the quarter, the close rates? Or did you see sort of an exit at a more normalized rate than it had been when you came in?

Mark Wang
We actually saw an acceleration coming out of the quarter, and I think one of the things too, Brandt, that I really want to point out is we're willing to trade off a little bit of close rate in the short term as we ramp up these new channels, and then make them more efficient over time. Like, our digital channel I talked about in my prepared remarks, it's our second largest new buyer tour channel now and it has grown significantly. We continue to work that channel. We think it's got great potential, but it's also—it has challenged us a little bit on VPG, but the cost of generating that tour is lower than it is to generate it in other channels.

At the end of the day, this is an investment and so, like I said, we're going to make some trade-offs sometimes to get that ramp and that's kind of the period we're going through right now.

Brandt Montour
Great. That's all helpful color. Thanks a lot.

Mark Wang
Thank you.

Operator
Thank you. (Operator Instructions)

Our next question is coming from the line of Rita Chen with Jefferies. Please proceed with your question.

Rita Chen
Hi. Thank you for taking my question. I'm just wondering if we can come back and talk a little bit more on the consumer travel trends that you've seen, particularly dynamics around inbound and outbound travel.

Mark Wang
Yes. Look, I think what I can—I think when you think about what we're seeing is we are seeing arrivals on our books for the balance of the year up 10% versus the same time last year. I think I already talked about the fact that Owner tours are actually back at historical levels and that's because arrivals are back above historical levels. Our new buyer tours are approaching 90% of where we were in '19 and that is again a reflection of the fact that we keep building our pipeline and our activation continues to grow. All in all, I feel like the backdrop for leisure travel remains very strong.

Our teams have done a really good job on the rentals side. If you look at the rentals side, we have seen some leveling off on rate gains after some big growth over last year, but our ADRs in Q2 were still up over last year. You have to remember our model always creates its own limited supply for rental inventory, and when you look at our performance we tend to outperform our STR. We track our STR and we tend to outperform almost in every market. Part of it is because we're able to manage our supply by we've got this built-in demand from our Owners that are booking up 50% of our room nights, and then we have our marketing pipeline that's taking another nice piece of the supply there, and then we're able to yield better on the remaining room nights we have.

On the books, we're showing I think 108% on the second half for rental. And again, some pressure on ADR in that where we saw ADRs in the highest markets, but ultimately demand looks find still.

Dan Mathewes
I think the only thing I'd add to that is even if you look at the various geographies, nothing really stands out as really good or really bad. It's relatively consistent.

Mark talked about the packages. The one thing that we haven't highlighted—we may have had this in our prepared remarks, but just the activated packages year-over-year, those improved 66%, which obviously is a leading indicator that people are willing to utilize those packages, and year-to-date it's up 66%, so some really strong growth there and some really good solid demand.

Mark Wang
I'd argue that our packages, these vacation packages are even more compelling in this high inflationary, high rate environment today, and I think the value proposition of those packages are stronger than they've ever been.

Dan Mathewes
And that pipeline at 560,000, the percent activated is at the highest level it's been since 2017, just to put things into perspective.

Rita Chen
Great. Thank you so much for the color.

Operator
Thank you. Before we end, I will turn the call back over to Mark Wang for any closing remarks. Mr. Wang?

Mark Wang
Yes, thank you. Thank 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. Thank you.

Dan Mathewes
Take care.

Operator
Thank you. Ladies and gentlemen, this does conclude today's teleconference and webcast. We thank you for your participation and you may disconnect your lines at this time.