Hilton Grand Vacations

Q4 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mark Melnyk - *Vice President of Investor Relations*

Mark Wang - *President and Chief Executive Officer*

Dan Mathewes - *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Hilton Grand Vacations Fourth Quarter 2019 Earnings Conference Call. A telephone replay will be available for seven days following this call. The dial-in number is 844-512-2921, and the PIN is 13697040#. At this time all participants have been placed in a listen-only mode, and the floor will be opened for your questions following the presentation.

If you would like to ask a question, please press star, 1 on your telephone to enter the queue. If, at any point, your question has been answered, you may remove yourself from the queue by pressing star, 2. If you should require operator assistance, please press star, 0. If using a speakerphone, please lift your handset to allow the signal to reach our equipment. We ask that you please limit yourself to one question and one follow-up to allow the opportunity for everyone to ask questions. You may then reenter the queue to ask additional questions.

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

Mark Melnyk
Thank you, operator, and welcome to the Hilton Grand Vacations Fourth Quarter 2019 Earnings Call. Before we get started, please be reminded that 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 refer to the Risk Factors section of our 10-K. 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.

As a reminder, our reported results for both periods in 2019 and 2018 reflect accounting rules under ASC 606, which we adopted in 2018. Under ASC 606, we are 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 T1 of our earnings release.

Also, for ease of comparability and to simplify our discussion today, our comments on adjusted EBITDA and our real estate results will refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. Finally, unless otherwise noted, results discussed today refer to fourth quarter 2019, and all comparisons are accordingly against fourth quarter of 2018.

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 Mathewes, will go through the financial details for the quarter and our forward expectations. After that, Mark and Dan will 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. Earlier today, we released our fourth quarter results. Total revenues were up 3% and contract sales grew 1.4%. For the year, contract sales were flat and finished in line with the guidance we provided last quarter. NOG was 5.5% and marked our 27th consecutive year of net order growth. Adjusted EBITDA grew 18% to $124 million with margins at 25%, up 320 basis points versus last year. For the year, our adjusted EBITDA was up 7% to $453 million versus our revised guidance of $415 million to $435 million. Our margins were 24%, up 85 basis points versus 2018. I think that says a lot about our team and our model that we were ultimately able to deliver solid EBITDA growth and margins during the transitionary period for our portfolio. It was no easy task, and I applaud our teams for their efforts.

Now, let's jump into what we saw in the quarter and the year. In our real estate segment, our Q4 contract sales growth was driven by 5% increase in tours offset by lower VPGs. Our fourth quarter close rates increased year-over-year as operational improvements and a continued focus on execution drove an acceleration in our transaction growth each quarter of 2019.

Regionally, we saw growth in tourism both in mainland and APAC and we saw close rates up in both regions as well contributing equally to the gain we saw in the quarter. Our owner engagement remains strong with arrivals up 7% for the year, and our capital efficient mix increased 500 basis points to 83% of contract sales, underscoring our commitment to efficient inventory sourcing.

Our non-real estate business continued to demonstrate strength fueled by NOG. At our club and resort business, the compounding benefits of growing our member base resulted in another solid quarter with record revenues of $61 million and EBITDA of $49 million for margins of 80%. This capped off a strong year for the business with EBITDA of $145 million on revenues of $191 million, and our member base now stands at over 325,000 members.

Our financing business also generated another solid quarter with EBITDA of $29 million on revenues of $43 million from margin of 67%. For the year, revenues of $170 million and EBITDA of $117 million continue to provide us with a stream of consistent, high-margin cash flow in addition to the well-received ABS offering that we talked about in the third quarter.

Now I'd to talk you through some of our near-term initiatives that we're focused on for 2020. As it relates to inventory, we're just beginning to realize the initial benefits of the inventory investments we have made over the past two years. We recently received approval from New York to begin sales of the Quin and from Hawaii to begin sales of Phase 2 of Ocean Tower. And as we move through the year and obtain additional state regulatory approvals, we will expand their distribution into our sales network. We expect sales to gain momentum each quarter as these projects ramp, resulting in strong contract sales run rate as we exit the year.

In addition, we expect to receive approval to commence initial offsite sales of our Maui and Cabo projects in the first half of this year, and we're excited to enter these two new markets. We will also start sales of our sequel property in Waikiki in the second half. Sales at these properties will build through the back half of this year and into 2021 as we layer on additional distribution. Along with this new inventory, we're laser-focused on execution. In addition to the process adjustments at key sale centers that we touched on last year, we've taken additional steps to bolster our sales teams training and aligned our incentive programs to focus more sharply on execution metrics.

At our club and resort business, we're piling in a cash and points initiative that allows owners to

supplement their point packages with cash, providing them with flexibility to maximize their points and expand their usage of the HGV network. And we'll build upon the success of our owner exclusive programs that we've piloted last year, which drives increase on our occupancy during low seasonal periods.

These programs are part of our commitment to continually improve the guest experience, which supports our customer loyalty and creates value for HGV well beyond their initial purchase. Company-wide, we'll maintain our cost discipline as we capitalize on these initiatives.

Corporate G&A was down 17% in the quarter to $24 million, and we believe this is a sustainable level of spending that will still support our anticipated growth. This should also allow us to maintain industry-leading EBITDA margins, despite a headwind and our rental and ancillary division as we transition to Quin from rental to timeshare.

Shifting to the longer term, we continue to make strides in our strategic growth initiatives including continued investment in technology to enable increasingly sophisticated multichannel, data-enabled marketing efforts. We see this as key to our ability to attract the right customer to the right distribution center and offer them the right product at the right time.

In 2019, we created new campaign analysis tools to help us improve our tour efficiency, and we invested in our campaign management capabilities to support current and future high-volume, multi-channel campaigns. We invested in a new web foundation and launched a new unified site at hiltongrandvacations.com that will help us better convert qualified prospects into leads and, ultimately, into owners. We advanced our consumer data quality and actionability, and as a result our digitally sourced leads became a larger part of our marketing mix with over 30,000 packages sold for the year.

In 2020, we'll continue to invest in this important digital strategy to refine and optimize these processes and make consumer data an even stronger part of our marketing plans going forward, and we'll work closely with Hilton to apply this data in new ways throughout our marketing channels.

Overall, I'm excited about what the future holds for HGV. Over the past decade, we more than doubled our owner base, tour flow, contract sales, and EBITDA all while never losing focus on providing our guests with exceptional customer experiences. While I wasn't satisfied with our 2019 results, I'm encouraged by how we closed out a challenging year. And looking ahead, I think that we have the right brand, the right team, and the right inventory in place to deliver another strong decade of performance for HGV.

Before we move to Dan, I'd like to provide an update on coronavirus. On February 14th, we were informed that a guest who stayed at our Grand Waikikian property was later diagnosed with the virus after returning home to Japan. The health and safety of our owners, guests, and team members is always our highest priority, and we acted swiftly to implement emergency procedures and protocols and we're in continuous communication with both local and national health agencies.

On February 21st we passed through the 14 day suggested monitoring period from when the guest departed our property and have received no reports of further infections. I'm proud of how our team reacted to successfully address the incident with our owners, guests, team members, and the community.

Like many travel-related companies, we have experienced some disruption since the onset of the media coverage surrounding the virus, mainly in Japan. Given the importance of our business in Japan and Hawaii, we felt it would be prudent to frame a potential impact from the virus. This situation

obviously remains very fluid, but having experienced similar disruptive events in the past, the prepaid nature of our product and the desire of our guests to travel leaves me confident in the resilience of our business.

I'll turn things over to Dan and give you additional details and walk you through our financial results.

Dan Mathewes
Thank you, Mark, and good morning, everyone. Before getting into the results, I'd like to cover a quick refresher on deferrals. As you will recall, our model allows us to pre-sell new projects up to two years in advance of opening. GAAP ASC 606 requires that we defer the revenue, cost of product, and direct SG&A associated with those pre-sales until we open the property for occupancy. Put simply this requirement creates deferral items on our balance sheet that grow during the presale phase, and consequently there's an artificial reduction to adjusted EBITDA during this period. Once we obtain a temporary certificate of occupancy for a project, we reverse those items in their entirety, creating a large, positive income statement recognition that inflates EBITDA in that period.

As these adjustments create misleading volatility in our revenues and EBITDA, and the sales booked during the presale period generate cash flow, we manage our business internally by focusing on earnings, excluding deferrals and recognitions. Hence, all references to net income, adjusted EBITDA, and real estate results on this call for current, prior, and future periods exclude the impact of deferrals and recognitions.

This quarter, deferrals were a drag of $19 million on our reported ASC 606 EBITDA. Further details can be found in tables T1 and T15 in our press release, and 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' site. We would encourage you to reach out to Mark Melnyk for additional help in understanding deferrals in your modeling and valuation work.

Now let's turn to the results for the fourth quarter and full year 2019. Total fourth quarter revenues increased 2.9% to $503 million, reflecting growth in our real estate, resort, and club, and financing businesses with flat rental and ancillary revenues. Q4 adjusted EBITDA came in at $124 million versus $105 million last year, a year-over-year increase of 18%. Q4 adjusted EBITDA also came in well ahead of our implied guidance for Q4. These results were driven by the growth in revenues combined with a continued focus on cost efficiency. Adjusted EBITDA margins improved by 318 basis points.

It is important to note on the cost efficiency front, a couple of items are specific to 2019. Specifically, we benefited from a gain of approximately $4 million associated with the change in certain employee benefits as well as an additional $4 million gain in our real estate segment, which I'll discuss in a minute.

For the full year, our adjusted EBITDA was $453 million, versus $424 million last year with margins up 85 basis points to 23.6%. This includes the $8 million of unique items that I just mentioned. Net income was $91 million, and diluted earnings per share was $1.05 compared to net income of $39 million and diluted earnings per share of $0.40 in the fourth quarter of 2018. Full year net income was $261 million and diluted earnings per share was $2.92 versus prior year of full year net income of $219 million and diluted earnings per share of $2.24. Within real estate, Q4 contract sales gained 1.4% as solid tour growth of 5.2%, partially offset by a 2.5% decline in VBG.

As Mark discussed earlier, our increased focus on execution was reflected in the gain our close rate for the quarter offset by the trend of lower transaction prices we've discussed on prior calls. Our provision for bad debt was 8% of owned sales, reflecting refinements in static pool forecast models and

underwriting strategies. The refinement to our static pool forecast model benefited our Q4 provision by approximately $4 million. Going forward, we anticipate the rate should trend between 11% and 13%.

For the full year, contract sales were flat versus our revised guidance of flat to down 3%. Fee-for-service mix for the quarter was 52% versus 56% last year--within our 48% to 54% guidance for the full year. With the introduction of our new projects this year, we anticipate selling a higher proportion of owned inventory and expect to see fee-for-service mix between 47% and 53% of our contract sales in 2020.

Turning to real estate expenses, product costs were 26.4% in Q4 and finished the year at 23.7%. As we discussed on our last call, 2019 product cost benefited from a larger-than-normal cumulative product cost adjustment in Q3. This fact, coupled with the introduction of additional inventory in higher product cost regions like New York and Hawaii, will drive our overall costs of product to a range of 27% to 30% going forward.

SMG&A was 38.1% of sales and favorable by 81 basis points as a result of the improvement in close rate for the quarter that drove some operating leverage. For the year, SMG&A was 39.8% of contract sales, up 28 basis points versus 2018. Our Q4 real estate margin was $86 million, up 10% versus last year. Margins of 31.7% were up 274 basis points. For the year, the real estate margin was $315 million with margins up 30.6%. While we do anticipate seeing leverage on SMG&A in 2020 owing to higher sales volumes, our higher cost of product will nevertheless drive overall real estate segment margin compression in 2020.

At our financing business, Q4 margin was $29 million with a margin percentage of 67.4% versus a margin of $27 million and a margin percentage of 65.9% last year. So, our credit trends remain stable, and our allowance for bad debt is expected to remain near current levels , due to underwriting changes implemented over the year coupled with anticipated increases and purchases of our new projects in Hawaii by Japanese buyers that generally carry stronger credit profiles.

Looking at the portfolio balance, gross receivables stood at just over $1.3 billion. Our average down payment year-to-date is 12.4%, and our average interest income rate increased to 12.5% from 12.3% last year.

Turning to our resort and club business, NOG was 5.5% for the quarter and the year, which drove an 8.9% increase in revenue to $61 million. Both club and resort revenues contributed to the gain, and we once again reached a new high for revenue per member of $587.

Margin for Q4 was up 17% to $49 million with a margin percentage of 80.3%. This quarter capped off a year of strong results for club and resort with revenues up 11.1% to $191 million, margins of $145 million, and margin percentage increase of 324 basis points to 75.9%.

Rental and ancillary revenues in the fourth quarter were flat at $54 million, with an increase in rental revenue offsetting the decline in ancillary revenues. The lower supply of rental rooms at the Quin during the transition to a timeshare property will continue to be a driving growth until we lap the conversion towards the end of 2020.

Rental and ancillary expenses were $1 million higher at $39 million, owing to larger subsidy requirements for newly opened properties. Our margin was $15 million with margin percentage coming at 27.8%. As we detailed in our last call, the transition of the Quin to timeshare property from a rental property would be a drag on our segment margins in the coming year and we anticipate a slightly higher level of margin compression in the rental and ancillary segment in 2020 versus what we saw in

2019.

Bridging the gap between segment adjusted EBITDA and total adjusted EBITDA, fourth quarter G&A decreased $5 million, driven by the aforementioned changes to certain employee benefits as well as the result of cost efficiency initiatives implemented this year. License fees were up $1 million, and EBITDA from JVs was flat.

Our tax rate in Q4 was 2.2% as a result of an accounting methods review recently approved by the IRS, which resulted in a benefit of $18 million being recorded in the fourth quarter. This was one-time benefit, and going forward our tax rate will revert to a more normalized range of 27% to 29%.

At end of Q4, our net leverage stood at 1.7 times versus our target range of 1.5 to 2 times. Looking at our liquidity position, we ended the year with $67 million of unrestricted cash, $479 million of capacity on the revolver, and $450 million of capacity in the warehouse.

On the debt front, we had corporate debt net of deferred financing cost of $828 million with a nonrecourse debt balance of $747 million. Owing to inventory spending for new properties, our Q4 adjusted free cash flow was a decline of $71 million, compared to a decline of $25 million last year. Adjusted free cash flow for the full year was $71 million.

In Q4 2019, we did not complete any share repurchases. Since the program's origination in November of 2018, we have repurchased $355 million worth of shares at an average price of $29.90, and $283 million of this amount was repurchased in 2019.

For 2020, we are guiding to adjusted EBITDA of $455 million to $475 million with contract sales of plus 3% to 7%. Mark mentioned earlier, given the uncertainties associated with the coronavirus at this time, our guidance does not include the impact from the virus. But as a framework, each 5% impact to sales to our Japanese customers would be a 1-point impact to our contract sales growth rates and roughly $5 million to $6 million to EBITDA.

Walking through the additional items in our guidance, adjusted free cash flow is expected to be in the range of $50 million to $110 million. Net income is expected to be $253 million to $268 million, or $2.91 to $3.08 on a per share basis. Both of these are excluding all deferral recognition activity, and our guidance assumes no further share repurchases based on 87 million shares outstanding.

Similar to our last call, before we turn to Q&A, I'd like to remind you that we do not comment on market speculation and will not be addressing rumors today. We will now turn the call over to the operator and look forward to your questions. Operator?

QUESTIONS AND ANSWERS

Operator
Thank you. At this time, we will be conducting a question-and-answer session. As a reminder, if you would like to ask a question, please press star, 1 on your telephone keypad. For participants using speakerphone equipment, it may be necessary to pick up your handset before pressing the star key. The confirmation tone will indicate your line is in the question queue. We ask that you please limit yourself to one question and one follow-up to allow the opportunity for everyone to ask questions. You may then reenter the queue. One moment please while we poll for questions.

The first question come from the line of Brandt Montour of JPMorgan. Please proceed with your question.

Mark Wang
Morning, Brandt.

Operator
Brandt, could you check if your phone is on mute please?

Brandt Montour
I'm here. Can you hear me?

Mark Wang
We can.

Brandt Montour
Sorry about that, everyone. Good morning. So, Mark, just qualitatively I was hoping you could maybe just give us a little bit of color on sort of the behavior of the Japanese consumer at this point in time, as much as you can, I guess tell us in terms of future packages, activity with regards to new bookings, and cancellations, and any other color you can give.

Mark Wang
Sure. So, I can tell you, since the news broke early this year, we have had very minimal impact, and I was checking as late as this morning. We've seen very few cancellations. As far as arrivals go, owner's arrivals we have seen a bit of impact on our tour flow in Japan. That was probably a little earlier on after the news hit, but it's now picked up. So, right now the behavior is good and so again, it's early on, and things can move around and change swiftly, but right now, we're feeling like everything is fine, but we keep hearing new news off every day.

Brandt Montour
Thank you for that. Then, I'm just kind of curious on tour growth in the quarter. Obviously, a solid number, but it still makes the year-over-year growth in tours over the last couple of years. Just curious if anything is going there. I know a lot of that is kind of baked in several months in advance.

Mark Wang
I think, again, tour flow was solid for the year and for the quarter. It came down a little bit off of our pace for the year but a lot of that was really driven by some internal initiatives that we had around tightening up some of the qualifications.

All in all, I thought it was a good quarter. We're still at that particular point, we're still waiting for some inventory to get into the system, but I think right now if you look at where our packages are starting the year we're up 14% our package pipeline, and we have well over 400,000 packages sitting in our pipeline, so we're in a good position as we start off the year.

Brandt Montour
Great. Thanks, everyone. I'll just back in the queue.

Operator
The next question comes from the line of Patrick Scholes of SunTrust Robinson, Humphrey. Please proceed with your question.

Patrick Scholes
Good morning, everyone. A question for you on the share repurchase authorization. It looks like the

prior one expired I believe back in November. Is there any sense of urgency to get a new authorization?

Dan Mathewes
Hi, Patrick, it's Dan. So far it's going well today. With regards to share repurchases, it hasn't actually expired. We still have about $45 million available. So, we simply did not repurchase any shares in the fourth quarter of 2019, and as we've discussed before, when we look at capital allocation, our number-one commitment was investing in inventory and we clearly did that starting in 2018, and we're still in the process of realizing all of those commitments.

Number two was returning capital to shareholders. As you can imagine, there's a number of factors that come into play, when we make those decisions. We did not repurchase any shares in Q4, but it remains the number-two use of capital in our mindset, and given where inventory is today is the number-one use, and we'll go back into the market when it's appropriate.

Patrick Scholes
Okay. So, the related follow-up, have you repurchased any shares this quarter? It doesn't sound like you have, but curious if you have and if not, are you blacked out from doing so this quarter?

Dan Mathewes
We have not and we are not going to be discussing anything with regards to our blackout such as stock repurchases.

Patrick Scholes
Understood. Okay, thank you.

Operator
Our next question comes from the line of Jared Shojaian of Wolfe Research. Please proceed with your question.

Jared Shojaian
Good morning, everyone. Thanks for taking my question. I appreciate the commentary on the Japanese space. Maybe if I can approach this a little bit differently, I think about 20% of your owners are from Japan. Can you give us a sense as to what percentage of your EBITDA that represents. I guess realizing that some of the earnings contribution is from maintenance fees and financing and things that probably wouldn't really be affected by corona virus anyway? Then, if you could just help us understand what percent of your EBITDA is non-U.S., non-Japan. Thank you.

Mark Wang
Yes, so you're correct that 20% of our sales are derived out of Japan. So, we talked about, half of that actually comes from sales in Japan and half of it occurs in Hawaii for those visitors coming in. So, at the end of the day, for instance, if for some reason, the Japanese reduce travel to Hawaii and they decided they didn't want to do some of long-haul trips, we still have the ability to sell them in Japan, because we have approximately—we have 12 sales centers over there.

As far as the percentage of EBITDA goes, I don't know Dan if we have the exact percentage on that.

Dan Mathewes
I mean, look, just to take a step back, in our prepared remarks, we did comment on what the potential impact would be and I just want to make sure that we clarify that statement to the nth degree. So, if there was a 5% impact to our Japanese consumer base, it will translate into a 1% impact to overall

contract sales and then translate further down the line to EBITDA roughly $5-ish million.

Now, that is clearly not an ongoing scenario. If there was a scenario where things were to be persistent, we would obviously make more dramatic measures with regards to cost and all items related to the Japanese base. So, that's meant to be just an indicator of the kind of short-term impact.

From an overall perspective, to Mark's earlier point, Japan does represent roughly 20% of our sales. And from an EBITDA perspective, it would be slightly less than that just because they're focused on higher cost of product. Business as well as sales and marketing and G&A for Japan is also slightly higher than average.

Mark Wang
I'd just add to that, you know again, it's early days. Still uncertain how this is all going to play out, but we've faced these kinds of challenges before. I can tell you from my past experience and in some of that past experience here with Hilton Grand Vacations, you know, really due to the prepaid nature of our product and divested interests that our owners have to their properties, that historically, in these kinds of events, we've bounced back very fast in 9/11, we met our objections in that year and the following year.

If you look back at SARS, we had a similar disruption with our Japanese customer, but ultimately we didn't see any meaningful impact on our contract sales. It only affected us for a couple of months.

Another example that I watched firsthand was Hurricane Iniki on Kauai, and this is really kind of an example for what I think the whole sector will experience. Back in '92, that closed the entire island to all the visitors. And when the island reopened, the first visitors to return were timeshare owners, and it a was well-documented event that made timeshare very popular with the local communities and officials as it helped kick to start the economy back.

So, again, I think, it's early on. I think as far as our business goes, we're very well-positioned. We've spent now a decade selling to 50% new owners. So, we have a very healthy base of owners that are upgrading at record levels right now. We have a lot of embedded significant recurring fees and predictable revenue. I mentioned earlier, our pipeline is really strong. So, if for some reason there's some delays in that pipeline, we just push those customers out, so they're committed to traveling at some point. So, we feel really good that should this disruption last for a longer period of time, regardless, we'll be able to bounce back quickly.

Dan Mathewes
The only thing I would add is just an additional data point. Through the end of February, the impact that we've seen or what we can see today and keep in mind, while the U.S. has been hypersensitive to this over the last 14 days, and clearly this has been top-of-mind issue for Asia for in excess of two or three months, and I'm sure it will continue. But through the end of February, the impact from a contract sales perspective is a couple of million dollars at this point.

Jared Shojaian
Great. Thank you for all of that color. Then, I guess as we look at the guidance for 2020, it looks like economic EBITDA you're expecting to grow kind of at a low single-digit pace, I guess below the contract sales growth, below some of the growth you had in 2019, despite all the challenges in the year. Can you talk about what may be driving that to be a little bit lower than those factors?

Then you had mentioned, you'll be at a strong rate of growth on contract sales by the end of the year, a

strong run rate, I think was the terminology you used. Can you help us understand what that means? I mean, are you thinking by the end of this year, you could be back to, call it that double-digit pace you were at a couple years ago, and obviously this is entirely before coronavirus. Maybe you can just help me understand how you're thinking about both of those pieces?

Dan Mathewes
I'll talk briefly about the EBITDA growth, and I'll turn it back over to Mark with some additional color. The one thing I do want to point out, and I think we highlighted in our prepared remarks, but just to be clear, in Q4 we did have some items that are unique to 2019 that will not be carried forward. So, in that $453 million of EBITDA in 2019, roughly it's slightly north of $8 million of items that we really got a bump from in Q4. One was a change in certain employee benefits; that was about $4 million, impact to G&A, and also the segment levels. And then there was also a $4 million benefit from refinement of our static pool models.

So, when you take that step back, you're looking at a base EBITDA that's closer $445 million, so that for $445 million growing to the midpoint of the range is just shy of 5% which I think is just shy of 5% of the midpoint in the range—or it's consistent with the midpoint of the range with the contract sales growth. From an overall continuation of the growth, I'll turn it back over to Mark to add any color.

Mark Wang
Jared, you're right with look, we're excited. We're returning back to growth in 2020. We have a number of new projects, we talked about Cabo and Maui. We're not going to be opening onsite on those properties this year, but we'll be able to start selling the inventory. We expect sales are going to ramp throughout the years as inventory comes online.

Just to give you kind of a sense on timing, and maybe it'll be helpful as we think about the sales evolution of a typical project, it can take a full year for property to become available across our entire sales network. So, for instance, if we get a project approved for sales, typically it's available and about 20% of our network. You get about six months out; it runs out to about 50% as we get registrations in the various jurisdictions; and then a year out we're 100% available out there.

So, as we look back, when we started '19, and if you look at kind of the inventory as inventory on a shelf, we're at an all-time low of inventory on the shelf. Now, as we look forward into 2020, we're restocking our inventory on those shelves. So, as we get out through the year, the inventory becomes more plentiful. It'll help us meet a number of upgrade opportunities with our owners, and it will help us also meet some of the new buyer opportunities.

So, excited about where we're at. We've spent a good part of two years getting this inventory prepared, and we're excited that it's finally coming about. As far as getting back to double-digit growth, I think you can expect it will be nearing that amount as we move into '21.

Jared Shojaian
Okay. Thank you very much.

Operator
Our next question come from the line of David Katz with Jeffries. Please proceed with your question.

David Katz
Hi. Good morning, everyone. It is still morning. I wanted to sort of take a different tact here and avoid asking more about the near-term virus impact, because there is, as you point out, a refocus on growth. I've thought of HGV in terms of the locations, where it could be over time, such as Caribbean or Morris

Caye, etc. How should we think about the longer-term opportunities and how long we might have to wait before we'd see you getting into a little more geographic distribution?

Mark Wang
Well, we have been expanding substantially from a geographic standpoint. When you think about Cabo and Maui, those are new markets. We moved into Charleston; we just started selling that. We opened up in Chicago. So, we have been expanding, and we continue to look for new opportunities.

We're looking at some new product forms as well as that, and with those new product forms, we think there's an opportunity to really prop up a mid-tier opportunity, which we think will broaden our base of customers that we can address today. So, there's been a lot of expansion, and we continue to look at new opportunities.

We also, I forgot in my list, we did open a new property in the Caribbean last year in Barbados. So, that's the first time we've been in the Caribbean. Then, if you look international, we've got a new project under construction in Okinawa. That's a just-in-time deal that Mori Trust is building on our behalf. So, we're excited about our expansion and the opportunities in front of us.

David Katz
Right. In terms of how those growth opportunities should roll, should we think of those more as capital-light model, or should we expect them to consume capital, or it really depends?

Mark Wang
You're going to see, as we think about some of these new opportunities, we're going to be extremely capital efficient. So, we have a great mix of fee-for-service. We're the only ones that have really, I feel, perfected a fee-for-service model that we can deal with multiple developers out there at scale. This year we're still looking at 47% to 53% of our mix to be fee-for-service. We expected to drop around 40% to just a little below that in '21, but you can expect is we look at some of these mid-tier products that we would probably be looking at a trust format and we'd be looking at one of our partners to help us stand that up.

David Katz
Got it. Thank you very much.

Operator
As a reminder, if you would like to ask a question, please press star, 1 on your telephone keypad. One moment, please, while we poll for more questions. There are no further questions at this time.

Before we end, I would like to turn the call back over to Mr. Mark Wang for any closing remarks. Mr. Wang?

CONCLUSION

Mark Wang
Alright. Well, thanks everyone for joining us this morning. We look forward to speaking with you over the next couple of weeks and updating you on our next call. Thank you.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.