

Hilton Grand Vacations

Investor Day

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PRESENTATION

Robert LaFleur

Good morning everyone and welcome to the Hilton Grand Vacations Investor Day. For those of you who don't know me, I'm Bob LaFleur, I head up Investor Relations here. So on behalf of the entire team, welcome and thank you for coming out on a brisk December morning. As you can probably imagine, most of us from HGV are Florida-based so it's always a bit of a shock this time of year to come north. For those of you who joined us earlier, I hope you enjoyed seeing our property and sales center upstairs. While I'm a Florida transplant now, I did live in and around New York for about 25 years and even a jaded old New Yorker like me is still pretty impressed by that view up there, I have to admit.

So, before we do get started, I have some housekeeping items in case you haven't figured it out yet. There's Wi-Fi in the room, the passwords on the table, tents at your seats. We're also Webcasting this event live and simulcasting the slides on our Investor Relations Website and a transcript and the presentation will be posted on the Website immediately following the event today. We also issued a press release this morning and we'll file an 8-K later today with the SEC.

This afternoon we've got a plated lunch next door. Each table will be hosted by an HGV executive. You'll be able to choose where you sit on your own. We're not going to assign seats. So it is on a first come, first serve basis and I do have to apologize in advance for that because you're all not going to be able to have lunch with the IR guy.

We'll post a slide up here at the break telling you who is sitting where so you'll be able to figure out where you want to sit right before you head out to lunch. So with that out of the way. I'm sure you've all been waiting for this; it's Safe Harbor Statement time. So, we would like to remind you, today, that our discussion will include forward-looking statements. Actual results could differ materially from those indicated by these forward-looking statements and the forward-looking statements we make today are effective only as of today. We undertake no obligation to publically update or revise these statements and for our discussion of some of the factors that could cause actual results to differ, please see the risk factor section of our previously filed 10-K and 10-Q.

In addition, we'll refer to certain non-GAAP measures in our presentation today. You can find definitions and components of such non-GAAP measures as well as reconciliations of GAAP and non-GAAP financial measures discussed in the back of the presentation we'll file and on our Website at investors.HGV.com. We have a full day today so I would like to go ahead and welcome Mark Wang, our President and CEO to give some opening remarks and a bit more detail on today's agenda.

Mark Wang

All right, thank you Bob. Anyways, it's great to see all of you. It's been a couple of years and I really appreciate you guys coming out to learn more about HGV. It's been a couple of really exciting years for us since we spun and we thought today was the right time to take you deeper into our business and be very focused in a number of areas in our business that we think are important and things that we've heard from you as investors as feedback and we have a great business and we have a great strategy and we're confident in our ability to deliver on the objectives that we've laid out over the last couple of years and after today I hope you guys have a better appreciation of why we're in a really good position regardless of where we are in the

economic cycle to continue to perform and before we go too far, I wanted to show you just a quick video.

(Video Presentation)

Mark Wang

I'm really proud of all of the work our teams do every day putting people on vacations. Great family vacation really transcends time. When I look back some of the best memories I have of my life are those vacations that I took with my family and so before we get too far into the morning, let me take a moment to introduce some of the leaders who are going to help me today, take me through today's presentation.

All of them played a very important role in our company and have been instrumental in our growth and performance. Sherri Silver, our Chief Marketing Officer is going to walk you through our customer demand strategy. You'll hear from Stan Soroka, our Chief Customer Officer on how we'll deliver on our promise on Great Vacations. Erin Day, our VP of Strategy and Finance will take you through our inventory strategy. And Dan Mathewes, our new CFO, will join Bob and myself to talk about our capital allocation strategy. And Allen Kingsick, our Chief Accounting Officer is going to provide guidance for 2019 and beyond. Also joining us in the room today, but not presenting, are Gordon Gurnik, our new COO, Barbara Hollkamp, our Chief Human Resource Officer, Dennis DeLorenzo, our Chief Sales Officer and Charles Corbin, our General Counsel and Head of Development. And all of those that aren't speaking today, you'll have an opportunity at lunch to meet with them if you'd like.

All right, to set the stage, I thought I would share some of my reflections on the overall industry and how the sector has evolved. Personally, I've had a single focus over the last 30 years and that's been building vacation ownership companies. I'm not a hotelier, I'm not a developer who converted over. So let me share some of my perspectives. First, it looks a lot different than it did when I started. When I began the product was simple, it was a single week and a single resort. And if the industry started today, you'd call it innovative, right? With the likes of car sharing and home sharing being all the rage and -- but in reality, the concept became popular because it met consumers' needs. It provided people the ability to invest in vacations as opposed to buying their vacations every year.

It gave families more than just a room. It gave them a vacation unit with space that allowed them to travel with multi-generational families in a higher quality unit than they otherwise could afford. I always looked at this concept as a preservation of people's vacation with an appropriate price point and it was something entirely new in the market and it was more than just another vacation. It represented the democratization of the vacation home. It was accessible and convenient for many, not just for the well off.

The way the industry sells its packages and vacations is also very innovative. Unlike consumer products, timeshare uses an active versus a passive approach to introduce and sell our product. We go out and we create the demand for first-time buyers by introducing our product and its benefits directly to the consumer through marketing campaigns and an exceptional face-to-face selling model. This active approach has made the industry more resilient than most.

We're all adapting to this new digital world and you're going to hear later from Sherri and Stan on how we're progressing in the digital process but no matter how far-reaching technologies, we're fundamentally in the vacation and experience business and it's about human connection. But the biggest breakthrough really came in the second half of the 80's when the pairing of

major hospitality brands and timeshare operators came together. Today, almost every U.S. hospitality company has put their brands on a timeshare company and they did this because they saw the benefits of the business model and importantly they saw the value of the loyalty that each new owner brought to their brands.

For example at Hilton, Hilton discovered early on that for each new customer that HGV acquired, those owners paid stays in the Hilton network went up 35%. And the addition to the hospitality brands did a lot of great things for the industry. First and foremost, the brand equity helped establish credibility of the sector and it built much better trust with the consumers out there. When I began, there were some strong operators out there. But there were some that didn't hold up the right values and this hurt the industries perception. But when the major brands entered the picture, along with renewed focus on putting the consumer first and operating in principled manner, it brought a level of professionalism and trust along with higher quality product and higher quality customers. And it's this trust really that the large hotel companies like Hilton brought to the table that made vacation ownership an attractive option for millions of consumers around the world.

I've been in this space for 35 years and I think this is the most exciting time to be in our business. We're now an established player in the travel industry; with the U.S. alone approaching \$10 billion in contract sales. If you look more broadly at the leisure sector, travel today is more important than ever for consumers of all ages and our product is perfectly aligned to this trend. As we're providing great vacations every single year.

Our goal has been to show consumers the value of paying in advance for a lifetime subscription to a branded vacation in a variety of places with tremendous flexibility. The trend is benefiting the entire industry and it plays out when you look at the data. Even compared to the fastest growing segments of travel, timeshare's outpacing nearly all of them. And I don't expect that this long-term trend is going to change anytime soon. And in our case, as you're going to see later, we think our business is uniquely resilient regardless of where we are in the cycle.

And the good news, even with the growth that we've had over the last couple of years, the industry is growing off a relatively small base. Penetration in the U.S. is only 7% and when you limit it to just branded timeshare companies, the penetration is less than 2%.

So, given the low penetration combined with the rising spend on leisure travel, we see significant growth in front of us. One area that has evolved over the years has been our product and you've had a chance this morning, some of you, to view some of our product but our teams take pride in how we continue to refine our offerings. Every version continues to improve, we upgrade the designs, we're upgrading the materials we're using and when you look at these offerings, you know, our design -- they're attractive. It's modern. It's really comparable to some of the best hospitality product regardless of the brand that's out there. They're all four- and five-star quality. And it's a big reason why we continue to hold the highest quality assurance scores of all of 14 Hilton brands out there. We continue to always be number one in QA scores.

Importantly, it's resonating with both our new and existing customers. I think I'm going to be doing this a lot today. You're going to get a lot of me today too so bear with me. But, every project we launch creates excitement in the market and I call this the inventory effect where we draw interest from our customers, our existing and new customers, when we launch new projects in new markets and existing markets. So, as I mentioned earlier, we're going to focus on a few really important topics and we're going to provide a greater level of detail than we ever have in the past and we've broken the day down into four areas. First, we're going to take you

deeper into our net owner growth strategy, next we're going to walk you through our capital efficient sourcing model and then we're going to show you why we're more resilient and prepared to growth through multiple cycles. And after lunch we're going to discuss our capital allocation priorities as well as provide forward guidance.

The key things I want you to take away from today are, number one, we've got a proven net owner growth strategy. We differentiated our tour demand model. That we're mainly resilient through multiple cycles and continue to grow, and you'll leave with a better understanding of how our capital allocation strategy will drive shareholder value.

So, in our first investor day we introduced a new metric to the market; net owner growth. And when I say introduce it, I hadn't heard any of the analysts, I hadn't hear of any of our competitors talk about this metric. But this metric is an internal metric that we've been fixated on for years and we believe it's the most important operating metric in determining our long-term health of the business. It's a simple concept, all right, but it's not easy to execute. However, it provides foundations for our future earnings and we know for a fact that over half of our customers' lifetime value and the highest margin of that value occurs after their first purchase. We also know from years of data that positive NOG embeds highly predictable future earnings into the business.

And we're realizing this embedded value more quickly than we ever have in the past with 30% of our owners upgrading within three years of their initial purchase. We also know that when we monetize the embedded value from our owners, it's important that we continue to replenish the value by adding new owners. All right, just as a reminder, we generate our value through four lines of business. All of which have very strong margins; 32% margins in our real estate and rental lines and over 70% margins in our finance and club management business.

Each segment is really important for us but three of them contribute to what we call embedded value of the business. This value is either contractual or it's highly predictable based on the data that we have. We generated embedded value from customers in multiple ways. The first way is when our owners upgrade or make an additional purchase and we've been tracking this for a long time. We've been tracking it for 25 years and it's extremely consistent when you go to look at the data. Our data shows that for every dollar a consumer spends on real estate with us, they're going to spend another \$1.10 over their lifetime.

Secondly, we generate value from our credit we extend to initial purchases and subsequent sales. Approximately 65% of our customers take our credit and we typically write the credit with a 10-year note, at 12% rate. So again, a source of contractual value over the long-term. And finally, all of our owners become members of our club and HOAs and the fees and dues they pay are also contractual as they're tied to the ownership. You cannot decouple those. To be an owner, you must pay those dues and fees.

All right, so this is some information that we haven't shared in the past. This slide represents the embedded value of our owner base and in this case it was calculated at the end of 2017. So it's a point in time. So what does this mean? We define embedded value as the cumulative profit margin we'll generate from our owner base over a ten-year period. So another way to think about this, if we took our existing owner base at the end of 2017, which was 288,000, and we did nothing, this is the profit margin we'd expect to generate over that ten-year period. To be clear, this does not assume that we make any new sales to any new customers. It excludes all rental and also we don't factor in any price or fee increases into any of these numbers.

And we also assume normalized rates of default and attrition into the model. So it's a conservative estimate of embedded value of the business. We break it down, you can see here we've got \$900 million in financing, \$1.4 billion in our real estate and these are upgrades or add-on sales, and another billion dollars in our recurring club and management fees.

So let's talk about how this value is created. First of all, there's two ways to grow embedded value. The first is you grow the total number of owners. And the second is to increase the sales to those owners. And we've been unique because we've been able to do both at the same time. As it relates to adding owners, it's a simple concept, you want to grow the number of owners and you can see, we've done a good job here with a 14% CAGR over nearly two decades now.

Simple is probably not the right word because there's nothing simple about the consistency that we have here. It's really a testament to the great work our teams do across the business from marketing, sales, resort operations teams. So let me go into a little bit more detail around the second way we drive value because it's a little more complicated.

This number represents the average revenue we're achieving from existing owners for add-on-sales during any given year. So you can see in 2000, on average, each owner invested additionally with us; approximately \$500. In 2007, that number rose to approximately \$1500. And last year, we achieved over \$2400 per owner representing a 10% CAGR over the last two decades. Remember, when an owner upgrades, we're not only benefiting from the high margin additional sale but we also see increases in our reoccurring revenues from our club and our financing business.

So here you can see how we compare against our public company competitors. At \$2400, we're generating \$650 million in sales last year from our owners. From a comparative standpoint, we're yielding over 50% more per owner than our closest competitor. And on an absolute contract revenue basis, we generated more with 270,000 owners than our main competitor did with 400,000 owners.

So what's driving this? Well, it's great execution. I'd say the inventory effect I talked about before is stimulating a lot of our sales activity and I believe we have more owners in their prime upgrade years due to our positive NOG. So, the impact of new owners joining HGV has a really powerful long-term benefit to our company. If you go back to 2007, we estimated that the embedded value of our owner base has grown by more than three times. And this growth has been across every segment. To put it more simply, the value we've put into the business is the result of real discipline and focus on bringing in new customers, engaging our existing members and improving our product and processes. And today, we're going to demonstrate why this embedded value will grow in the future as we continue to execute on our strong NOG strategy.

So, a little bit going on, on this slide. So, it's probably pretty clear how our financing and our contractual club business embeds future value. But what you might ask is how do we have so much confidence in the rate of upgrade sales going forward? And the reason is we have a lot of data. This chart provides visibility into the upgrade trends and our teams have been tracking this behavior for more than two decades; really with the same vigilance that we track our loan portfolios. Each line represents the percentage of owners by their first purchase year that they made an incremental purchase.

This includes, for example, an owner moving from a studio to a two bedroom, after perhaps their family grew or it's those owners looking to add on more vacation time. We showed this level of detail today because it validates the upgrade behavior we assume when estimating our

embedded value. I think the takeaway becomes more clear when you look at groups of owners by purchase year, specifically you can see that a higher percentage of owners are upgrading and they're upgrading sooner. The top line represents owners who purchase between 2012 and 2017.

These owners are upgrading five times faster than owners who purchase in the mid-90's which is represented by the bottom line. And about 30% of our newest owners add more vacation time within three years of their first purchase and this makes sense because in the early 90's we're in two markets; we're in Orlando and we're in Vegas. Where are you going to upgrade to? There wasn't much opportunity to upgrade across the system because we had a very small system.

And you can also see from the timeframe in which these customers upgrade is that the cohorts tend to shorten as you move forward and we believe this is the direct result of our growing product offerings especially as we add new markets in exciting resorts. So, we found that more choices for our customers translates into growing sales and as we continue to grow and evolve our product, I expect that these trends will continue to move forward.

All right, so we talked about how we've grown embedded value but we haven't shared how we monetize that embedded value in parallel. For example, if you take a look at this chart, we expect to realize approximately \$400 million of the \$3.3 billion of the total margin we built up in the business over time. At the same time, the new owners we're bringing in this year add approximately \$600 million of future embedded value which we'll harvest going forward.

And this is the real power of NOG. It's a compounding factor. And as we continue to add net new owners, the compounding factor grows. And our ability to realize that value makes our business much more predictable and we're able to monetize this margin in the near-term and throughout the life of our owner. All right, to illustrate the value, I'm going to walk you through three scenarios. The first is our strategy; positive net owner growth with a balance, a mix of sales between new and existing owners. The second scenario is no owner growth but still a balance of sales. And the third scenario we use, no NOG with 70% sales to existing owners. So this illustrates the embedded value change over time based on these three scenarios. With our scenario, the embedded value continues to grow over time. With the two other scenarios, embedded value declines over time. Essentially without positive NOG, the value of your owner base depletes at a faster rate than it's replenished. And, again, we're assuming everything is flat without increases in prices or dues here. Here you can see the benefit of our strategy and our high-margin club and resort business increasing the size of the owner base drives high margin earnings. With flat NOG, growth can only come from escalation in fees and dues.

There's one benefit though to more owner sales in Scenario 3 and that is with the cost associated with generating a new owner being higher than selling to existing owner, it provides higher real estate margins for the business. So there is one benefit. But our view is over-indexing on sales to owners is unsustainable over time because at a certain point the risk of overselling the owner base and exhausting their future upgrades is there. We prefer to grow the supply of our owners to ensure sustainability.

So, how is this strategy translated into the financial performance? I think clearly there's a link between NOG and our revenue growth. There's other variables, we know that, but I don't think any is as important and this strategy has been a major differentiator for us versus our peers as you can see here. And while it's great that the top-line has grown well, our strategy found its way to the bottom line and since 2011, adjusted EBITDA has grown at a double digit CAGR.

And even with leading industry growth, we've been able to maintain the highest margins among our direct peers. I think it's especially impressive when you consider our higher mix of new owners. All right, as you see, NOG is the most important operational metric to our business. So, how do we ensure that we continue to drive positive NOG in the future? We accomplish this through what we call our NOG creation cycle and it all starts with tours. This is a marketing-driven industry. It all starts with tours. Tours drive new owners. So, on that note, I'm going to ask Sherri Silver to walk you through how we look at generating customers. I brought Sherri in a year ago to evolve and lead our marketing organization and, in fact, a lot of you guys have asked me, when do we get to talk to Sherri? So today you get to talk to Sherri.

But Sherri came to us from outside the industry where she held leadership roles in marketing, innovation, customer experience for three different Fortune 500 companies. You know, we have an incredibly strong marketing team already and Sherri brings with her strong leadership and a fresh external perspective to complement our timeshare expertise. Her skillsets with data, digital, consumers, really helped round out our stellar team. So, Sherri, it's all yours.

Sherri Silver

Thanks Mark. Hi everyone, it's great to be here. I can't believe it's already been a year since I joined HGV and the timeshare industry. I spent my entire career before this in financial services in areas like banking and credit cards and auto insurance. As a result, many people have asked me how the categories compare. And I thought it might be interesting to share that with you now as I describe our marketing model. In my previous roles, the marketing challenge was always to steal share from competitors to get people to switch their buying intent or even better, switch their loyalty from a competitor and we got people to do that through lots of brand and product advertising and through price-based promotion; while most consumers don't know about, don't have and aren't shopping for a timeshare property. So our marketing model is very, very different. We incent people, many of whom want to be able to affordably travel more and better with discounted vacations or travel experiences in return for a 90 minute face-to-face meeting with us.

So not surprisingly, many consumers accept that offer and our sales professionals use that hour and a half of face-to-face selling time to probe needs and transparently explain the vacation ownership product of today and how it can help them achieve their lifetime travel-related aspirations.

This breakthrough, face-to-face product presentation, and by the way I'm going to refer to that sometimes as the tour, is an amazing opportunity that bankers and numerous other marketers would be envious of especially in today's frenetic digital environment.

As I become more engrained in the business, and experienced how consumers become aware of and purchase with us, I've become even more excited about the category and especially about HGV's potential within it.

As Mark said, tour demand generation, that is, incenting qualified consumers to hear our sales presentation, is the first step in our NOG creation cycle and we're solidly focused on leveraging all of the assets and capabilities available to us to drive performance at this top of the funnel. I believe we're differentially better than our peers in three ways; first, we have a strong mutually beneficial relationship with Hilton. They're a great brand, and in my opinion, the best brand to be affiliated with in this industry.

Importantly, our partnership with them is set up so that our interests are aligned. When we grow, they grow as a result of our variable agreement. Second, we have a diverse array of tour sourcing channels which help fill our sales tables and our tour pipeline giving us future tour predictability. And third, while we have many successful marketing channels and strategies today, we continue to have strong upside and we've been investing in the power of data and in the potential of both traditional and non-traditional channels such as digital to support our continued success.

I'll speak about each of these now in just a bit more detail. So our partnership with Hilton is one of our most important advantages and a major contributor of NOG growth. As I said, we've got that mutually beneficial agreement with them that aligns our interests and together we're continuously working to improve the productivity of our relationship. To that end, we've built a strong network within the Hilton franchise. A multitude of working groups that spend time learning from each other and testing and operationalizing new ideas.

HGV leaders meet regularly with Hilton leaders to discuss overall performance and eliminate obstacles. So I've led multiple partnership businesses in my career and I can say with confidence that ours with Hilton is set up for continued success based on those positive working relationships.

From a marketing perspective, our affiliation with Hilton gives us at least three critical things; first, trust, based on already established awareness and the credibility in the Hilton brand. In fact, Brand Finance, a U.K.-based consulting firm, recently announced that for the third year in a row Hilton was ranked the world's most valuable brand. Second, cost effective to consumers through Hilton channels and third, data to help us target and message effectively. This winning combination is especially powerful when as we do, partners work together to capture the full opportunity presented by it.

As I said, the Hilton brand is a strong one globally and the credibility that it provides us is significant. Our teams commonly survey consumers and owners to gain insights. In one of our surveys we asked owners about their drivers for considering and purchasing with us. "I trusted the brand", was a top three response both for why they considered purchasing and why they ultimately did purchase with us. Trust in the Hilton brand came across loud and clear as an asset to us.

A second important benefit of our Hilton relationship is the unique access it provides us to Hilton-receptive consumers. By access, I mean the ability for us to market to Hilton customers through HGV initiated channels, email as an example or phone, and also the ability for us to leverage Hilton's channels and assets. For example, the reservation centers or their hotels or their digital assets.

Access to these channels are available to us because of our partnership and because we're working closely with Hilton to reap the full benefit of them. As you may know, Hilton has a large and growing footprint. They have tremendous exposure and global reach with over 5500 locations in 106 countries.

They have about 80 million Hilton Honors members and that number continues to grow every day. In fact, Hilton's loyalty program is the fastest growing organic growth program among their direct peers. In 2019, Hilton expects to have 100 million Honors members. This is really great for us because the Honors member base is a valuable source of potential new leads and not surprisingly, Hilton Honors members are among our most receptive and highest-value leads.

Hilton is also considered a leader, a digital leader, within the hospitality industry. They have one of the highest rated hospitality apps and public sources say they have 250 million unique Web visits per year.

In addition to brand credibility and access to their channels and customers, Hilton also has useful consumer data that we can combine with our own and with third-party data to develop and continuously improve our own proprietary targeting models.

Effective access to, and use of data, helps us target the right consumer with the right offer which, as you know, improves outcomes and efficiency. So I would like to take a step back for a moment to explain a little bit more about how we get prospects to tour and about our tour pipeline. As I said, we motivate customers to tour by offering discounted travel-related incentives. But at a very high level, the way I think about it, we produce two types of tours; future tours and same-trip tours. Future tours are reservations that our prospects make now to come to our properties later. Sometime in the next 12 months.

An example of an offer that a prospect may accept, and prepay for, is three nights in Vegas for \$199 or five nights in Oahu for \$699. As I said earlier, when a prospect accepts that offer, they also agree that while they're there they'll spend time face-to-face with one of our sales executives. We have several marketing channels to help drive these advance tour bookings. Our Hilton Reservations Call Transfer has been a particularly valuable one for this and continues to contribute a large portion of these tours especially from Honors members. We also deploy marketing resources on the ground to produce same trip sales presentations. These marketers target consumers that are already near our sales centers. For example, they may already be on vacation at an HGV or Hilton property and beyond the benefit of getting them to tour quickly, guests are already staying at one of our properties are not surprisingly great prospects.

A good example, right here in New York is at the New York Hilton in Midtown. Our on-the-ground marketing team offers incentives for guests and owners to tour with us during their stay at the hotel. The sales center is right here so it's very easy for guests to get to, gives us another opportunity to reach potential owners that we may not have otherwise.

We expect to conduct about 30,000 tours overall in the next year in New York alone and about a third of those are expected to be sourced during the current visit. But as I said, we do book the vast majority of our tours in advance and I wanted to give you some further insight around this. You can see here that even as our overall new buyer tour volume has grown, in each of the past years about 70% of new buyer tours were booked in advance. We refer to this as our tour pipeline and having this growing pipeline is another part of the embedded value of our business. At any given point in time, we've already invested in and have strong line of site into a good portion of our next 12 months' tour flow.

So looking ahead, our pipeline for the next 12 months is already incredibly strong and, in fact, it's at our highest level ever. Overall, our strategy and strength is that we maintain a diverse arsenal of marketing tactics that deliver an increasing number of both advance and same-trip tours. As you can see on this chart, we've used our channels to drive consistently strong tour growth year-after-year. And as you've seen, we've been able to achieve this growth while maintaining the quality of our prospects.

So we've been growing towards a strong consistent rate but I would like to point out that we still have room to grow. If we think about our target market at a very high level, let's call them consumers age 25 to 74 with household incomes above \$75K. That's about 50 million U.S. households. And by the way, \$75K may seem a little bit low, and our average household income is much higher but we do effectively capture some high potential guests in this range. For example, think about a retired couple that may not have a high household income but they do have the requisite net worth. There are many ways to cut the data but the point really is that we're far from penetrated. Directionally, we've captured only 0.5% of the available U.S. market.

So moving forward, we'll thoughtfully continue to expand our flow especially as we grow inventory and sales centers, optimizing for both cost and conversion. As I just showed, we have low penetration even in established markets and there's considerable benefit by investing in these markets to further reach our target customers.

We'll continue to evolve in the way we collect and use data and in the ways that we communicate and market to potential and existing owners. As an example, we're working towards being able to differentially treat and prioritize high potential consumers during all stages of the marketing and sales process. This means that over time we'll get even better at optimizing our marketing spend both by enhancing our models and by expanding the things that we use them for.

We'll also test and expand into new ways to market to Hilton guests. We're exploring new channels and marketing strategies including digital ones to reach new customers. I'm confident that the combination of all three of these efforts will lead to continued strength for HGV in the future. So as I said, it's been a great year and I hope you can take away that we not only have a very successful marketing foundation to build from, but we have a great runway for continued success and improvement. With that said, I'll turn back over to Mark to walk us through the next part of the NOG value creation cycle.

Mark Wang

Okay Sherri. All right, well I hope you now have a better understanding of how we're driving demand at the top of the funnel. So let me talk about how we're yielding the stronger conversion that I talked about before and that was one of the charts that I showed you before but this one, too, as I mentioned earlier, you know, we have a more balanced mix of customers than most but even with our mix which is skewed more heavily toward new owners, we have industry-leading VPG's. And as a reminder, VPG is an acronym for volume per guest which is the average contract revenue we generate from each customer we tour.

And, for example, if our mix was more in line with the rest of our peers, with 35% sales to new customers, our effective VPG would actually be \$4200. So, how have we done this? Well, one area that's helped us achieve strong conversions has been the reshaping of our sales gallery experience. Our teams have worked side-by-side, our design teams have worked side-by-side with our sales leadership to really improve and evolve the physical space making it more modern and more inviting.

And as you can see, the spaces are welcoming and they're really designed to be like a fine hotel lobby and we've got private areas and it really allows our sales executives to connect with our customers. And we've also invested in sales technology driving a smarter sale. But this doesn't take away from the personal experience and I'm probably one of those people out there today that doesn't believe that human interaction will become extinct. I think we're going to

keep talking to each other and I do believe though, merging technology with face-to-face contact creates a better experience and a more dynamic conversation.

As Sherri mentioned, we have 90 minutes to explain our offerings to guests. It's a complicated product with numerous options. So, technology has really allowed us to better explain the value proposition and how our club membership is more efficient than ever. We sell multiple products out of different sales centers so here in New York for instance, we'll sell Myrtle Beach, we'll see Hilton Head. We started selling Barbados. So we need that technology really to bring those properties to life right in front of our customers.

Another differentiator for us has been the diversity of our owner base. 25% of our owners reside outside of the United States. And our investment in attracting Japanese customers has really paid off. We've been the leader for 20 years now and essentially have created the branded timeshare market in Japan which makes us confident that upcoming investments in our local inventory that we announced earlier in this year will allow us to further expand our business in that market. If you look at our owner base in the U.S., they're high quality, stable, 90% homeownership and importantly the average age has remained consistent over the last decade as millennials are our fastest-growing cohort.

One thing I want to point out on this slide though that's different from what you've seen in the past is the income level. Earlier this year, we launched an independent survey of our current owners. Previously we relied on third-party generic data to estimate the income. So, this new figure more accurately reflects the quality of our owners. Here you can see our Japanese owners are a great addition to the strong owners we have in the U.S. Today, 20% of our owners reside in Japan. They have similar demographics as our U.S. owners. Our Japanese customers have really aligned to our product offerings in Hawaii. In fact, we estimate that approximately 10% of all Japanese arrivals to Waikiki last year were HGV-related; it's amazing. 10% of the market share we've captured with our timeshare business over the last ten years. This really is a testament to our focus and dominance in that market.

All right, one of the outcomes of driving demand and creating new owners is the need to add inventory. So how do we select the new markets? First, we want to be in markets where our customers want to travel. So we're constantly talking to our owners to ensure we're meeting their vacation preferences. So if you look at this chart here on the left these are destinations our owners have said they would most likely travel to and across from each one of those, are projects that we've committed in order to meet their expectations.

We also focus on expanding our portfolio markets that have strong underlying travel trends. These top 8 strategic markets attracted more than 270 million travelers last year. This chart reflects the growth that I referenced on those eight markets. Not only do these markets have a huge number of tourists on an absolute basis, they're growing at a rate twice the national average and all of this has provided strong tailwinds for our tour generation.

Now I would like to invite Stan Soroka up, our Chief Customer Officer to the stage, to provide a better understanding of how we care for our customers. Stan's been in the hospitality industry for 35 years and is actually a second generation hospitality guy. He grew up and lived around hotels his whole life. Stan joined Hilton in 2005 and provided strong leadership in evolving the overall value proposition for our customers and his teams are a big reason we continue to achieve low attrition, the sometimes-overlooked driver in NOG. Stan?

Stan Soroka

Thank you Mark. As you heard, net owner growth is such a core part of our strategy and the NOG strategy allows us to do great things every year like invest in our business, the products and to help improve our value proposition for new owners. But NOG isn't just about adding new owners, it's about retaining our existing owners and we do this by keeping all our owners engaged and using and enjoying their investment in vacations and this only happens when the vacations are truly exceptional every year. I'll spend a few moments going through how we ensure high retention and satisfaction; before, during and after every vacation. Let's start with some basics of exactly what our club and resort management is and what it does for owners. To start, when a customer buys an HGV property, they automatically become an HGV club member and a homeowners association member.

To start, first let's talk about club. Club membership is really how our owners access their vacations. Everything from making a vacation to exchanging points, for example, Hilton Hotels. And even booking third-party vacation experiences. We have a great team of Club counselors who make this possible and are experienced in ensuring owners get a voice on the other end of the phone to help in the planning of those memorable vacations.

In fact, our team supports approximately 1 million annual transactions from our 300,000 plus global owners. Second, let's talk about homeowners association or HOA. You may live in condos, coops or homes. Our HOA is structured the same. Owners join the HOA from their home resort and then fund the maintenance of the property on an annual basis. Our role is to manage these resorts and ensure the owners see their spending come through in the look, feel, upkeep and execution when they arrive to the property.

While managing the club reservations and resorts is a big part of our day-to-day work, it's really important to keep in mind what this does for our owners. Club membership does more than just help an owner stay at the property every year. It unlocks the full range of options and flexibility the program provides. In fact, our owners can use their club membership for over 20,000 unique and exciting vacation experiences from cruises to spa. This includes stays at 5500 Hilton hotels and resorts around the world.

We know our owners really love and trust the Hilton brand, as Sherri mentioned earlier. This really fits the flexible way people want to travel and it means we give them more ways to engage with HGV and use their vacation investment. Even when they don't want to just spend time at the home resort, ultimately this means we engage our owners and ensure they have great vacations with our help and ultimately use their membership. Let's talk about the most visible aspects of the team's work; managing our strong and growing footprint of exceptional properties.

The great part for us is we've grown. New properties gives owners more choices. When I joined we had 34 properties. In the near future we'll have 60 properties committed including beach, ski, urban destinations and a few great international choices. This growth has been great for our owners. They're excited about adding new properties and we see it in inbound bookings in the interest for Barbados, Odawara, Japan, Cabo San Lucas.

Okay, now let's talk about how we earn revenues from club and resort business. I'm sure a few of you are interested in that today. At the highest level, there are two types of revenues, one is the revenue we actually earn and then second is the revenue we realize by the HOA's we talked about earlier.

This is an important distinction but ultimately we benefit from both. First let's talk about the revenue we earn from club. Very simply, we earn revenue when owners activate their membership and during the booking process. We also earn revenue when owners want to transfer or flex their points from one of the many options I talked about earlier. We also realize revenue in the form of management fees from HOA's to manage all of the resorts. The important thing to remember is that revenue is reoccurring, strong margins and cost plus, which is an important distinction from a hotel, which is based on revenue.

The revenue we don't realize, the maintenance fees is a very important part of the business too. These fees ensure the properties stay fresh and we can operate them effectively in the Hilton's high standards. While we don't recognize this revenue, we do benefit from a well-funded HOA. Particularly because these funds are there to ensure the properties are really exceptional. We are great stewards of the HOA's capital. When it comes to making sure the property's experience is great. Our entire team takes a lot of pride in over-delivering for guests on property. And the HOA revenue goes a long way towards ensuring we have funds to achieve this.

While we don't do this for external accolades, it's always nice to be recognized for the performance our teams do and they do a great job. In fact, all of the managed properties received outstanding QA scores last year; the highest in Hilton portfolio. As you know, Hilton has some of the most recognized brands in hospitality and so this is a big area of pride for us.

We also have some very strong four-diamond properties. Currently six, with four in the pipeline. Ultimately this means revenues for club and resort business end up going back to the owners in the form of consistency with great on-property experiences. One of the other pieces here is how our great on-property experiences helps in other ways. One of the things we've seen is a huge amount of guests checking properties online. Before they use their points, they want to check online. What it means for us? It's critical that great property experiences translate to the digital world. So our owners and prospective owners hear about great property reviews. This is one example which is recent, which shows how the in-person experience translates to the online. These are a few findings from a recent report by Review Pro, which used data from Cornell University. While there are a lot of great recognition of HGV in these findings, it highlighted us as the best overall online reputation in the upper upscale category.

In my view, this continues to show how what our teams do in person connecting and welcoming our guests, year after year can translate to positive benefits. Now we talked about what we deliver for owners, some of the accolades we have, I want to share a bit of detail in the unique model that helps make this happen. Coming from a hotel background, one of the most unique aspects of timeshare is maintenance fees which is funded by the homeowners association. This is very different from our traditional hotel operator who normally has to fight for capital. In fact, I used to do this all of the time as an area vice president for Hilton, gaining capital for renovation improvements was the hardest part of my role.

These decisions were mainly driven by ROI rather than keeping the promise of good customer feedback. The timeshare model works so well because the funding for normal capital investments is built into the maintenance fees as reserves. We use reserves for maintenance repairs, general property upkeep and these properties are on a regular refresh and recycle basis.

So everything from furniture to full refreshes of the property is covered in advance. This is just one of the many reasons why our properties are consistently rated the best in the Hilton

ecosystem. Because we're constantly investing in them. Last year we used \$42 million towards capital upkeep projects with the reserve balance of \$171 million. We continually renovate and we continually build these reserves to meet the needs of future plan renovations. All of this ultimately benefits our owners. They love the quality we deliver at the properties. It ensures consistency; so what they bought ten years ago is what they get today.

Let me show you a quick example of what this looks like at one of our properties, Grand Islander. The inventory we're selling and the owners are enjoying is amazing, really high quality; great enhancements. What our owners love; modern finishings, attractive esthetics which create a high level of value of quality and commitment to delivering every visit. In addition to investments in the physical properties, which is really important, we're also investing in other aspects of the experience. Our focus is making ownership easy to use; all aspects of vacation, a great experience.

So we're making investments to ensure we are meeting and interacting with the owners where, when and how they want. In today's world that means in person, by phone or online. We've seen great acceptance of this shift to digital bookings, transactions across the Website in mobile app over the last few years. 54% of club transactions last year were digital; a 10% improvement from the year before. We expect to continue to see this trend play out over the years, especially as we attract the younger generation.

Beyond digital enhancements we're always making the product easier to use offering educational sessions throughout the year, special member events and more to keep the owners engaged and involved. When we talk about engagements really throughout the entire ownership cycle, it's not just the transaction for us, it's keeping the owners excited and happy about being part of HGV.

Ultimately, there are a lot of points throughout the customer journey to engage but the goals are quite simple. Keep the owners using the product, experience our great hospitality and excited to come back year-after-year. We spent a lot of time on this but the ideal owner engages with us throughout the multiple stages of their life; ensuring our product is flexible to how and when they want it. We've been doing a lot to ensure owners spent more time with us as you heard and saw from Mark. So I'm so proud of the great work our entire team does. As mentioned at the start, I'm really excited about the vacation value we're able to deliver to the owners. And we focus everyday on ensuring they have a great experience; each and every time they interact with us. Ultimately our relationship with the owners is critical to the long-term success. I'm pleased to be able to be an important part of driving strong NOG year-after-year. Now I'll hand it back to Mark, who is going to wrap up this section with details on our inventory strategy.

Mark Wang

All right, thanks Stan. All right, clearly customer engagement is the most important thing we do. As stewards to the Hilton brand, we take this very, very seriously. And we spent the better part of this morning talking about NOG and how positive NOG embeds predictability in our future earnings. Sherri outlined how we drive demand at the top of the funnel. We discussed the importance of sourcing the right inventory to match that demand and Stan just spent time expanding on how we engage our customers on vacation. So, I hope you can see how passionate we are on this one simple but very important metric.

I was thinking about this the other day, I'm reading this book by the famous football coach and announcer John Madden. He may be more famous for his video game now but anyways, in the book, he described a coaching clinic he attended as a first-year coach. And the clinic was

hosted by the legendary Green Bay Packer coach, Vince Lombardi and Madden described Vince Lombardi spending eight hours diagramming one single play. He goes to this clinic, he thinks he's going to learn all about all of these different plays that Lombardi has and he gets there and he spends eight hours on one play.

A play that apparently was foundational for the success of the Green Bay Packers for all of their success over the years and I actually could sit up here and talk about NOG for eight hours. What do you think guys? Does that sound like a good idea? Just ask my team, they know, because I'm passionate about it. But don't worry, I'm not going to -- I'm going to spare you guys today on that. But, if you want to distill the success in the health of our business, really down to its essence, it would be -- if we're adding more customers then we're losing, we're increasing the value of our business.

Okay, I think we're all NOG'd out now. So we're going to move on. Now I want to talk about our inventory strategy. This morning I illustrated the growth of our business and specifically how we've been driving demand and now we want to provide a better understanding with how we source our inventory to meet that strong demand.

The continued growth of our new customers has created a need to expand inventory. We have a unique capital-efficient sourcing model that we use, utilize, with multiple structures out there. Essentially we look at our inventory structures in two ways; capital-efficient and traditional. So what does that mean? We can either use our balance sheet to lead the development or we work with partners on a capital-efficient manner.

In a vacuum really, one deal approach is not better than the other but the attributes to the market and the property itself tend to dictate the approach. And in a few minutes I'm going to have Erin come up and she's going to take you through the economics of these various deal types. One area that we've excelled at has been the utilization of fee-for-service model. Over 50% of our sales over the past few years have been on a fee-for-service basis.

If you compare that to our closest branded competitors within the industry today, one company does zero fee for service while the other company does approximately 6%. And since this is a differentiator for us, let me spend a few minutes to talk to you about our fee-for-service model.

First of all, it starts with a great roster of partners. The strength of our relationships have allowed us to grow during a period of time where we had limited access to capital. They not only put up their balance sheet for us, but they also became an extension of our deal sourcing. In fact, there are a number of deals out there today that we would not have been able to execute without their expertise and knowledge in the local markets.

So you can see included in this group are some of the most prominent real estate investors in the world and our relationships are strong as we've done multiple deals with each and we're not moving out of fee for service. There seems to be this belief that we're moving all capital-heavy and Erin's going to take you through why we're not doing that but you need to know. We're going to continue doing fee for service deals. It's an important part of the mix that we have available to us.

All right, earlier I talked about how we source markets so I'm not going to spend a lot of time on this part but some of the key attributes are we like markets that have year-round demand and while the industry has historically been resort focused, we've taken an active role in the urban markets, we were the first branded company to be in New York. Another attribute that comes to

play is we like to target markets that provide us the ability to continue to expand. We want to be able to expand. New York is a great example. There's ample inventory to keep expanding and that's important because you want to be -- you put big investments, you grow markets, you want to be able to keep expanding in that. Because it allows us to continue fueling that demand for owners and new customers.

From a quality standpoint, we look for upper upscale and in some cases luxury. It allows us to continue again, to fuel that demand from our owners and new customers. From an actual footprint standpoint, we're not just selling a room. We're selling an experience. So most of our units are two to five times larger than a typical hotel room which really appeals to that family and, as I said earlier, multi-generational travel.

From a unit count standpoint, we tend to source larger projects in proven core markets while in newer markets we risk adjust and we make smaller investments. All right, so I'm going to take you through the deals we've announced, a few of the deals we've announced this year, and I'm pretty confident that you'll see that we've remained very disciplined in our capital efficient approach. Really excited about Chicago, it's a new market for us located in a prime location in the heart of the city. This market attracts 50 million visitors a year and Hilton has 20, over 20 hotels in the market today which provides access to new sources of customers and those are those customers that Sherri was talking about that you were able to source while they're in the market.

We're able to structure this deal on a just-in-time basis. We're acquiring six floors over four years within the DoubleTree Magnificent Mile giving us the ability to enter a new market for under \$10 million the first year. That's capital efficient.

The Crane in Barbados, it's our first property in the Caribbean. A market our owners have been requesting for years. We've never had a property in the Caribbean. It's another example of a capital efficient deal as we structured it on a just-in-time basis. We're going to acquire the inventory over three different calendar years. From a brand standard perspective, you can see, this is a really high end timeshare resort already so it's not going to require any conversion investment.

This property was developed by a Canadian developer. He's been in Barbados for 30 years. He was slow selling and I think he finally got to a point in time in his life he said, I need to speed this up and us putting our brand and our engine on this thing, is going to really boost the sales and get him out of that project. But, anyways, we started selling Crane last month and the initial demand has been very strong.

Liberty Place in Charleston is another new great market for us and this is an interesting one. This is both a fee for service and an owned deal. We took an equity position in the development of the property, the real estate part of it, as a JV partner. We also signed a fee for service agreement providing our branding and sales and marketing services. We like the structure, it allows us to participate in part of the real estate and financing economics and our partners really like it because our interests are fully aligned. We finally made it into Cabo; 20 years we've been trying to get into Cabo. I'm not joking, 20 years. It's taken us that long. And this is not just any deal. We're converting 85 units in one of Hilton's finest resort properties in North America. And this market, it's a proven timeshare market. And like Chicago, another opportunity where we benefit from our Hilton relationship where we get to do a mixed use property. It also allowed us the ability to enter a new international market without taking construction risk. Construction risk in Mexico and in new markets, the same as the way we structured our deal in Japan, we're not

taking the construction risk, we're letting somebody else that's an expert down there in those markets take that risk.

The Quin in New York, just up the street on 57th Street, a really nice boutique hotel in a prime location, probably a number of you walk by it on the way to work or been by it before. Great location, we'll start converting it next year. It's another good example of where we're de-risking by converting an existing property in a proven and strategic core market for us.

Waikiki, this is the only land deal we announced this year. It's a great location just blocks from the heart of Waikiki Beach. The great thing about this property is the acquisition of the land came fully entitled with approved design drawings, which is going to allow us to start construction next year.

Not only did we remove the risk associated with getting the entitlements, it allowed us to pull construction and sales up many years. To put this in perspective, the last property we opened in Waikiki, and that was actually built by Blackstone, but we started the entitlement process on that, it took us eight years before we could get into sales. It took us ten years before the property opened. That's how long these processes can take. But with this property, the market is softening for high end residential resort condos. The developers saw, I don't know that we want to take the risk, but for us it's not much of a risk when you think about how long we've been established in this market; we'll do over a billion dollars since 2015 in Waikiki inventory.

We're moving through inventory so fast in that market. Our biggest challenge is, where are we going to get the next project. The good thing is it gives me the opportunity to fly to Hawaii a lot to go look for them. As you know, I spent a few years over there and still have a home and my son lives over there but a great market for us and so hopefully you got a better understanding of the discipline that we've applied to our investments this year.

All right, now I want to invite Erin Day up to the stage. Erin is our Vice President of Strategic Planning and Corporate Finance. I asked her to share the economics of the various deal structures that I just alluded to. She's also going to walk you through our inventory strategy and highlight the projected EBITDA growth profiles. Erin has spent the last 12 years in the timeshare industry; seven of those years with HGV. She's been a tremendous leader and she and her team, they're critical to our overall long-term strategic planning.

Erin?

Erin Day

Thank you Mark and good morning everybody. So we've gotten a lot of question recently about the return profiles of our different inventory sourcing strategies. So I thought it would be helpful today to lay out three illustrative examples to give you guys a better feel for the key characteristics of each of our inventory sourcing models. I'm going to walk you through a developed, a just-in-time and a fee for service deal; all of these deals have been underwritten as a \$200 million contract sales project. It's important to remember that not all of the deals that come into our pipeline are available in all of these structures and that there is no one typical deal. While each of our deals are unique we invest in projects where our returns fall within a targeted range based on inventory type.

And we always look at our projects in two ways; on an individual performance basis and how it will affect the portfolio as a whole. And the most important part is always thinking about what the demand will be from both our new and existing customers. When we analyze the deal we

focus on key metrics such as adjusted EBITDA, cumulative cash flow and return. Now I'm going to walk you through each of our transaction types across those metrics.

Starting with our developed deals; these deals are what you typically think of as traditional timeshare development and it's still the most utilized inventory source in the industry today. The deals benefit from producing strong adjusted EBITDA as we earn revenues across every business line, real estate, management, club rentals and financing.

If you take a look at the chart on the left, our adjusted EBITDA growth is a smooth trajectory as we cost off the inventory expense over the life of the project, aligning revenues and expenses. Investment is weighted more upfront in these deals but they generate strong cumulative cash on the backend. Due to the upfront investment, these deals produce a delayed cash flow benefit typically generating positive cumulative cash in years 5 and beyond.

In the \$200 million contract sales project, we're investing approximately \$60 million in the project and after recouping our investment we earn roughly \$57 million in after-tax cash dollars. We target returns on these projects of 15%-plus and these deals produce both strong revenue growth and they generate the highest cumulative cash out of all of our deal types.

Just in time deals are owned inventory but they're more capital efficient. We earn the same revenue streams that we do on a developed deal but the inventory is bought in smaller phases and there is typically a higher cost to acquire.

This drives slightly lower adjusted EBITDA and cash flow however, these deals minimize the upfront cash outlay as timing on sales and investment is more closely aligned. Overall cash generated averages around \$50 million off a \$70 million investment and while there is less cash generated in these deals, returns are stronger than those of a developed deal ranging in the high teens upwards to 30%. These deals are both capital efficient and produce strong total cash flow.

Fee-for-service is where we've really been innovators in the industry. This is where we sell on behalf of our third-party developers and this structure minimizes both our capital and operating risk. Fee-for-service deals require the least amount of upfront capital investment and they help drive near-term cash. They generate lower total project cash compared to developed and just-in-time as we're sharing our returns with our partners. We generate revenues on commission and brand fees which average around 60% points of each dollar. We also earn fees on our club and our management business as new owners join our system. However, our partners do retain the financing portfolio.

Overall, investment is minimal but cash generated is the lowest out of all of our deal types averaging around \$26 million in this example but these deals do have the highest return in our portfolio. This inventory type is great to mix in not only in times where we're capital constrained but as a lever that will allow us to maximize our near-term cash generation depending on our growth trajectory going forward.

As a reminder, these examples are a view of a single project and are meant to be illustrative. The current business is a culmination of all of the deals that we've done in the past which have been layered in over time. And when we look at deals, we focus on adding deals based on how they will support the growth of the business and how they will impact our overall return profile.

So I've just walked you guys through the project-specific analysis and as you see, there's a tradeoff in the deals between EBITDA and maximizing return. From a portfolio perspective we take a blended approach to EBITDA and return on invested capital. As each deal type adds value to the overall enterprise, we are always evaluating our project mix in order to optimize our growth and we target a 25% return on invested capital at the midpoint. Our focus is on maximizing EBITDA within this targeted return range.

Now let's take a look at our pipeline going forward. We've always been focused on being a capital efficient company and we're going to continue to that strategy going forward. Over the next couple of years we're going to change our mix on a year-to-year basis and a large portion of the business is going to continue to be fee-for-service and while we move forward and optimize our mix from fee to just-in-time to drive growth, over 50% of our investments will remain capital efficient. This mix will support an improved growth trajectory while maintaining our efficiency goals.

So how does our pipeline and mix impact our bottom line in cash? This slide illustrates two scenarios; our 2016 Investor Day scenario which is what we showed you two years ago when we were with Hilton and 2018 outlook; that's represented by the orange line.

The 2018 outlook optimizes our mix of fee, owned and just-in-time projects which drives higher deal flow and sales supporting a higher adjusted EBITDA trajectory and we've been very disciplined around our investments that drive this deal flow. While we are invested in more owned inventory, these owned deals are capital efficient with strong returns so you won't see our ROIC change materially as we continue to grow the business going forward.

Our forward mix will support higher adjusted EBITDA growth while maintaining ROIC. What's unique to HGV is that we have a wide variety of inventory sourcing models. This provides us the flexibility to meet our strategic objectives of driving strong net owner growth while efficiently using our capital to support that growth. Our increased EBITDA is supported by our inventory spend going forward. As you heard from Mark earlier, we are very confident that the inventory that we've invested in is in the right markets and where our customers want to be. This spend aligns to our development priorities of investing in high demand existing markets as well as adding new locations.

We continue to add inventory in places like Hawaii and Myrtle Beach where demand has been historically high. We're investing in Japan. Sesoko is set to open in 2021 and we're also opening properties in new locations such as Chicago and Barbados which attracts customers we've never had before.

The majority of our inventory spend going forward is committed to strategic projects that we've already announced and we'll be opening over the next four years. We're diversified on where we're making our investments and we've invested in quality product and have a well-defined inventory capital plan. These investments will benefit both owners as well as shareholders. Our inventory spend will drive strong growth well above our 2016 outlook.

Our current outlook will lead to higher adjusted EBITDA and increase adjusted free cash flow by years 2022 and 2023. Let me walk you guys through the detail. Our model coming out of the spin projected total adjusted EBITDA of \$500 [million] to \$575 million on average by years 2022 and 2023. As we've optimized our mix and invested in additional strategic inventory, we will see adjusted EBITDA benefit in 2019 with continued ramp through 2022 and 2023; delivering

double-digit adjusted EBITDA growth over the next four to five years. So we expect to increase total adjusted EBITDA by \$175 million to a range of \$675 [million] to \$750 million.

Shifting over to a cash view, our adjusted free cash flow profile will increase as our yield continues to build and we see the benefits from the investments flowing through our numbers. As we approach years four and five in our model, our free cash flow conversion increases as we yield off a higher receivable balance and our level of inventory spend is stabilized. We expect our adjusted free cash flow to increase by \$150 million annually over our prior plan and be in the range of \$425 [million] to \$500 million on average by years 2022 and 2023. And we expect our new trajectory to continue in the future, as you saw earlier from the individual project return profiles, both cash and EBITDA continue to grow beyond the fourth and fifth year. We are staying diligent with our returns on capital as we're driving growth and we're resetting our business to a higher base. This will benefit both shareholders on a go-forward basis.

Now I'll hand it back over to Mark to wrap up the inventory strategy section.

Mark Wang

All right, thank you Erin, great job. So, I hope this last section provided more clarity on our inventory strategy and why we're making the investments that we are. Again, our ability to innovate to this diverse sourcing model has been a strong catalyst that has supported our growth and as Erin mentioned, the value in returns we're realizing today are the result of the smart moves and the investments that we made years ago. Today's investments will allow us to continue our growth. And as she illustrated, help reset us to a much bigger business than we were. All right, I'm going to transition to -- oh, by the way, this is our Ocean Tower Property that we received from Hilton on the spin. We've had a great first year in this property. As you can see, it's amazing, amazing resort right on the ocean on the Big Island.

I'm going to transition to a topic that seems to be top-of-mind these days. A lot of people are focused on the next downturn or pullback or recession or whatever you call it.

While we're not seeing that in our business today, I believe we're really well positioned to endure tough times and continue to grow. And, to help put this in perspective, I'm going to walk you through a short case study on how we performed versus the rest of the market, following the financial crisis. And, then I'm going to take you through why I think we're even better positioned today than we were back then.

We went through the financial crisis and its recovery and continued to grow. So, while we moved back 3 percent in contract sales in '09, it could have been much worse. We saw the entire sector pull back 35 percent, and while the overall industry was recovering, we snapped back in 2010, and then we nearly tripled our market share during the recovery period.

In retrospect, I think the big difference was we came in to the crisis in better shape. We had strong margins across all four lines of our business, which allowed us to stay focused on our long term strategy of building embedded value.

And, while most of the industry was pulling back on sourcing new customers to preserve margins, we actually accelerated our focus on driving new customers, as we knew the long term benefit and the momentum would play out better for us over the long term.

Here's another view that tracks our performance versus the market. The overall industry experience of pull back followed by a good recovery. I'd point to a few things that magnified the pull back.

A few of our competitors, I think strayed away from the core use product of weekly intervals, and they moved into the high end fractional business, which to me, is really a real estate investment. And, to this day, that fractional market has never recovered.

The other area that I'd point to was the amount of subprime lending that was occurring within the industry, and that was mainly the non-branded players. But at the end of the day, it put a lot of people out of business, because they could not get financing.

But, the positive thing is I look across the industry today as I think these lessons have been learned, and I expect the entire industry will fare much better during the next downturn.

Our ongoing focus on executing our strategy allowed us to capture, as you can see in this slide, 20 percent of the entire growth of the timeshare market, since when? 2009, 20 percent. Put this in context. This is almost four times our share of the market since '09.

One of the things that I believe in is that it's impossible to have superior performance unless you're doing something different. We took a look back and we compared how we reacted versus our competitors, and really there were a few key differentiators. I'm not going to go through all of these. It's available in the presentation. You can go back and take a look at it.

But, we continue to focus on growing our base of owners, and we've talked a lot about that this morning. We invested in inventory, which provided the supply to support our sales growth. And, while others were cutting revenue-producing operations, we were effectively managing costs without sacrificing our growth.

But, I think the key driver over the years has been our ability to grow tour flow, and I talked about it earlier before Sherri came up. This business is about growing tour flow.

And, we've also been able to maintain very strong conversions. Our conversion rate has remained consistent regardless of where we are in the cycle. The conversion rate is listed up on top. It's tour flow down below, the vertical bars. But, across, there's our conversion rate.

You can see from the horizontal line of this chart, over the last 17 years, our conversion rate has only fluctuated four points. And, again, our ability to create tour demand has consistently grown over the years.

I've said this--I don't know if I've said this--I know I've said it with investors behind closed doors. But, I'd say in the best of times, the focus and energy that we apply to attract the right customer, it really benefits us in those times that are difficult, and it's this demand strategy that makes us and the whole entire industry more resilient. Regardless of the cycle, we have more control over the outcome.

I'd like to spend a few minutes around inventory investment and the difference between, in this case, time share and the broader lodging and gaming sector. We understand why we're categorized with hotels and cruise lines and casinos, but there are some important differences of how our business would operate and create value in a downturn.

So, specifically I want to walk through how I see our model comparing to traditional lodging. There's similarities, but they become pretty limited once you start dissecting it. On the similarity side, in our case, we carry a major hospitality brand. In fact, there's only two upper upscale branding companies in our sector, and we're one of them.

The other similarity is in both cases, of course we provide resort amenities and we provide guest services. So, those are similarities that are common to both.

On the difference side, though, we're not as exposed to the market value of real estate over the long term, as we have more control over the demand creation, and during a downturn, the risk associated with lodging, it's not present in timeshare.

While you'll see reductions in pricing and lodging, we control price and have historically not discounted our interval sales prices. Essentially, there's low price elasticity in our business. If we don't sell the interval today, there's a good chance we're going to sell it tomorrow. And, unlike lodging, if they don't rent the room tonight, that night's gone forever.

So, we also have very limited exposure to capital refurbishments, as Stan illustrated, as our interval owners fund refurbishment. And, importantly, our model is leisure focused, so we have limited exposure to business travel environment, and that's a big one.

All right, with that backdrop, let's take a look at our inventory spend over the last decade. Prior to this year, our peak investment in inventory occurred in '07 and '08, where we invested just over \$800 million in those two years. We were fortunate that Hilton had invested into our business at that period of time, as it provided us access to new product to match the demand.

To put this in perspective, based on our current size, we would have to invest \$2 billion to get near the level of inventory we had going into the financial crisis, because back then, it was 100 percent developed. And, since we've evolved our inventory sourcing model, the level of investment required is much lower now because we can leverage our fee for service model to make up the difference.

If you'd go back to that slide. I'm just glad Blackstone didn't acquire us in 2005. We wouldn't have had that inventory. But, those were already baked. We were already going vertical. They couldn't stop it.

But, I don't think they would have stopped it. In retrospect now, I think they're very pleased with how that investment went and how we played a part of that.

So, what happened to these investments in '07 and '08? The \$800 million was used to fund four ground-up construction projects. So, unlike today where we're buying and converting and doing just-in-time, we were building. Everything was being built vertical.

These four projects, one in Waikiki, a project on the Big Island of Hawaii, a tower in Orlando, and a property on West 57th Street, the first purpose-built timeshare project in New York.

We underwrote all of these projects to sell out in approximately five years, and every one of them sold out more quickly than we expected. Including pre-sales, each property was 80 percent sold out within two to three years.

So, you would have thought, you're going into the worst financial crisis, we have made all this investment, how's this real estate investment going to play out? It played out very well for us, for all the reasons we talked about earlier.

Many of you know, and I mentioned this earlier, I started my career with HGV in Hawaii, and I know that market really well. During 2009, arrivals to the island dropped 5 percent. It wasn't the end of the world. In my view, people that were traveling to Hawaii during the worst recession in our generation, they're pretty likely they're going to return to Hawaii again, right?

Ultimately, the customers we focus on don't take on the general characteristics of the U.S. population. At \$150,000 household income, they typically have more discretionary income and they fare better in downturns.

Again, we're selling an investment in future vacations. We're not selling real estate. We're not selling a real estate investment, which is a big difference from a consumer mindset standpoint. When that purchase decision is based on, "I'm investing in real estate in the middle of a financial crisis, or in the recovery of a financial crisis," versus, "We go through these recessions, I'm going to continue vacationing." That's a different mindset.

All right, though we remain in, I think, a strong market today, though every time I turn on the TV, it doesn't feel like that, but when we do experience the next pull back, we believe we're better positioned today than we were in 2008.

As Sherri illustrated earlier, we continue to drive strong tour packages through the Hilton channels. We have three times more packages sitting in our pipeline than we did in 2008. So, we've got a pretty good visibility of a good part of next year, sitting here today.

Our pool of addressable customers continue to expand as Hilton's footprint of loyalty customers expand. We now have 78 million members to reach compared to 23 million ten years ago. And, our owner base remains fresh. We've talked about that. You saw how we're yielding better than everybody with our owners, and they're fresh and we have more upgrade potential than we did in 2008. And, our financing book continues to be in good shape.

So, all in all, I feel very confident that we're set up well today. And, as you can see here, we've got great visibility into a large percentage of our earnings. If you look at the two bottom bars, this shows that we've got 70 percent of our EBITDA, I think, locked in. And, this will continue to scale as long as we're disciplined and focused around adding new customers.

Well, we're going to be a little early for lunch, guys, but that's never a bad thing. You guys-- they're ready? All right.

Well anyway, just to wrap up real quick, I hope this morning provided you a better insight into our business and our strategy. We're confident in the future for HGV regardless of any temporary shift in the market. Much of what we do is momentum driven, and we believe we have the momentum, discipline, and focus to continue our growth.

And, with that, I'm going to ask Bob to come up for a minute. I think he has some lunch instructions.

Robert LaFleur

Okay, as I said earlier, we've got folks assigned to tables next door, in the room where you had breakfast. Again, first come, first serve. And, we'll convene back here around 12:15/12:30 for the afternoon session.

And, just a reminder, the full slide deck will be available on our website at the end of the proceedings today. So, if you didn't copy down everything precisely on your little tiny notepads we provided you there, we will have it available for you around 2/2:30 this afternoon.

The tables will have numbers and the name of the folks who are the hosts of the table over there, so that should help you out. So, we'll see you here in a little over an hour. Thank you.

[Lunch]

Mark Wang

So anyway, I hope everybody had a good lunch and had opportunity to spend some time with management. They all came back to me and said, "Oh my God, I could barely eat," so I know there was a good dialogue going on.

Anyway, the leaders you met today, these are the leaders that have led our strategy and growth over the years, and they're the ones that are out there every single day making it happen. I'm the fortunate one. I get to come out and talk to you about this great story.

But anyway, but as we think about our leadership, I'm really pleased with the addition of two new senior leaders, who I believe are going to add a lot of value to an already talented and experienced bench that we have.

A couple weeks ago, I announced our new COO, Gordon Gurnik. I've known Gordon for over 20 years, and he's one of the most highly respected leaders in this industry, and he's going to bring to us a different perspective, as he's led a massive exchange company for years, the leading exchange company in the industry. Gordon is a very, very talented leader. Culturally, he's going to be a great fit, because I've known him for all those years.

And, some of you might be asking, "Well, what took you so long?" Mike Brown left to lead Wyndham and Mike's doing a great job for Wyndham D. Well, with the COO, it's a difficult role to fill, because you need to find somebody who has experience, experience in the space. It's not as, what I would say, as portable as a CFO.

But anyway, Gordon's going to lead our operations, as well as help us evolve and innovate into the future. So, very, very excited about having Gordon on the team.

The other big announcement was the announcement of our CFO, and we talked about just-in-time inventory. Well, we now have a just-in-time CFO. So, I've asked Dan to come up here and spend the next couple hours with you on our capital allocation strategy. No, I wouldn't do that to him, five days into the job.

But, anyway, we're very pleased, though, that Dan has joined the company. We did extensive research and search. I interviewed 11 CFO candidates, and Dan rose to the top. And, he rose to the top based on, number one, his experience. He has checked every single box to making it

to what is now going to be his first time as a public company CFO. Every single box he checked on the way up.

And, importantly, what I liked about Dan is Dan also brought great strength around the operational side of the business. Meaning, he's somebody that can go in and work across the organization, work with our leadership to better understand the operations. And, as you know, this business, it's a bit complex. It's got a lot of moving pieces, and you need somebody very smart and also experienced on the operation side that can roll up their sleeves and get in there.

But, importantly, I also felt that Dan was going to be a great fit for our HGV culture. On that note, I'm going to have Dan come up and just share a bit about his background, and then we're going to get back up here and talk about our capital allocation discussion. All right, Dan?

Dan Mathewes

Great, thanks, Mark, and thanks, everybody for taking so much of your time this afternoon to join us. The interest and the focus is definitely appreciated.

As Mark mentioned, I've only been here five days, so you're not going to hear a lot from me this afternoon. And, I am standing right in the way of the next part of the presentation, which is almost, probably second only to our guests and our owners having an amazing experience at the properties, critical to shareholder value growth.

So, with that, I thought it would be worthwhile if I'd just give you a little bit of background about myself. I started out as a true accountant. I started with Price Waterhouse. It quickly became Price Waterhouse Coopers, and that's where I got bit by the hospitality bug.

So, I've been in the hospitality industry for almost 20 years. When I was at PwC, a client of mine was Royal Caribbean International and about four years into the engagement, I took an odd turn of events. I switched from auditor/accountant to run their investor relations program.

Stepped in at a very opportune time. It was January of 2003. I don't know if anybody remembers, but the build up to the Iraq War and the hospitality business was not ideal. So, as soon as I joined, we saw about a 30 percent drop in the stock price, which was a lot of fun, especially since we were the levered player in the industry.

At the time, it was just Carnival and Royal Caribbean. Royal Caribbean was about five and a half times levered at the time.

So, I got to experience, from a levered player perspective, that pressure on the stock, the focus on your balance sheet, etc. and I was also fortunate enough to be at the company, where we rode the stock from about \$12 to \$54. So, I saw both sides of the coin there.

I was at Royal Caribbean for about three years. Subsequent to that, I moved over into Norwegian Cruise Line, where I picked up corporate and capital finance as well. Retained investor relations. We were public with debt at time.

We were also wholly owned by Genting. So, I worked with Genting and the balance of the team to help bring Apollo into Norwegian in 2008, where they made their second largest investment at the time.

From Norwegian, I actually moved over to Kerzner International, and for those of you who are not familiar with Kerzner, Kerzner was the owner, operator and developer of large destination resorts, casinos, and small boutique hotels, specifically the Atlantis resort in the Bahamas, the Atlantis resort in Dubai, as well as ten one and only properties, everywhere from Cabo to the Maldives to South Africa. And, also, there was a 500 room casino about an hour southwest out of Casa Blanca.

So, all in, we had between 7,500 and 9,000 keys across the globe. We also, in 2006, prior to me getting there, there was an MBO. So, when I joined a real estate-focused entity, we were also 13 and a half times levered.

So, from 2008 through the end of my tenure, in 2014, there was a lot of restructurings that were done, both at the property level. So, to Mark's point, I'm very familiar with operating at the property level, as well as refinancing a corporate entity.

From Kerzner, I jumped back into the cruise industry. It was a very unique place. It was called The World, a very small entity. So, my title was actually CFO of The World, which is an amazing title. I still have some of the business cards lying around, just for mementos.

I was there very briefly, small entity. From there, I jumped back into hotels, with Virgin Hotels. Virgin Hotels was 100 percent owned by Richard Branson, a big focus on an HMA strategy from a growth perspective. When I joined, they had one hotel that was open, so truly a startup.

I'm talking about Virgin Hotels Chicago. We had ten entities in the pipeline, and before I left--actually earlier this year, we acquired the Hard Rock in Las Vegas. So, I think there's a lot of work to be done with that property, but I think ultimately, that proved to be very successful for them.

My last day with Virgin was last Tuesday. My first day with HGV was Wednesday. So, I am truly five days in, with very limited turnover. But, I'm very excited to be here. I think everything you've seen in the presentation today just underscores the strength of the industry and in particular, HGV.

So, I think there's a great growth opportunity here and I also love where we've positioned the balance sheet and the focus on capital efficiency. I think there's a lot of opportunities there, and I think the team has done a really good job of setting that up.

I'll be definitely digging into that over my tenure, especially over the coming weeks. But, for now, I won't stand in the way of further discussion on capital allocation, and I'll turn it back over to Mark. Thank you very much.

Mark Wang

All right, thank you, Dan. Okay Dan, let's make sure of one thing, I don't want the stock going

down to 13, but going up to 54 is okay. We'll do it--let's just move it up. Let's don't let it move down.

Anyway, so again, great to have Dan on board and it's great to have Gordon on board. I feel like over the last, I don't know what period of time, I've been the CEO, CFO, and COO, and my golf game has gone to hell. Oops, I shouldn't say that on air.

But, anyway, we've--when we spun from Hilton, the main rationale was to position ourselves to create long term value for our shareholders and by accessing our own dedicated capital and our balance sheet. It also gave us the ability to respond more quickly to market opportunities and to execute on our growth strategy.

And, I think things have played out better than we anticipated, as we saw more opportunities than we expected and the team were able to execute on these deals more quickly. So, that's probably been the biggest surprise, is how fast we've been able to move.

And, as we enter the next phase, we'll start realizing the benefits of these investments. And, we should start seeing meaningful acceleration in our earnings and our free cash flow, which is a great segue into our next topic, which is capital allocation.

Fundamentally, we're a use of proceeds company, with a bias towards deploying capital to generate attractive returns. So, first and foremost, as we've talked about, we believe organic growth will remain HGV's primary catalyst for creating long term value for our shareholders. And, to support that organic growth, we're going to continue to put capital back into the business, as Erin illustrated earlier today.

As we got through this initial investment cycle, with this extra liquidity provided by our new credit facility, which we just announced last week--thank you, Annie. Anyway, this new credit facility will position us to allocate capital towards additional priorities, like strategic M&A and return to shareholders, without sacrificing the financial flexibility or overstressing our balance sheet.

And, so other uses like de-leveraging or building up cash in our balance sheet, or paying dividends, are not a priority for us at this time. To be clear, we see capital allocation as really being dynamic. It's a dynamic process that evolves over time as our business and as the market conditions evolve.

So, one thing that won't change, though, is our focus, and most importantly we're going to remain very disciplined in our approach.

With that, I'm going to ask Bob to come up and walk you through some of the details around our priorities and some specifics around our new share purchase buyback program.

Robert LaFleur

Great, thanks, Mark.

Mark Wang

Thanks, Bob.

Robert LaFleur

Great, so I'll start off by looking at the three main areas of capital allocation we've got up here going forward and how we intend to manage the balance sheet around these priorities. The first area, as Mark mentioned, was organic growth.

We spent considerable time this morning demonstrating the value of NOG. We showed how important adding inventory is to the NOG equation, because inventory satisfied demand and it creates its own level of demand.

So, because of this, we're going to keep investing in the business as long as the returns we can generate on these investments exceed the alternatives. As long as that remains the case, investing in organic growth is going to be core to our strategy.

The second area is M&A, as Mark mentioned. Similar to the first area, this, too, is about growth. We're continuing to monitor the M&A space very closely, and we look for opportunities that will bring us incremental growth and compelling returns.

To be clear, we don't need M&A to fill any strategic or competitive holes in the business, but we intend to be very opportunistic in this area and see M&A as complementary to our investments in organic growth.

The third area is, of course, share repurchases. The first two areas are about growing the business. This is about magnifying the impact of that growth. Given the investments we've made, and will continue to make in the future, we expect consistent improvement in our profitability and cash flow.

We've said before, when we spun from Hilton, we gave ourselves 24 months to focus on investing in the business and ramping up. Once we got through that initial phase, we knew the business would have scale, would have the balance sheet, and would have the cash flow that would give us much greater flexibility when it came to capital allocation.

So, today, a lot more so than a year or two ago, we're in much better shape to allocate capital to share repurchases. So, to this end, the board last week, as I'm sure you all saw, announced our inaugural \$200 million buyback program.

While intention is one thing, clearly ability is another. So, the recent upsizing of our credit facility to \$1 billion gives us sufficient liquidity to take advantage of the new buyback program and the flexibility to maintain our growth initiatives.

In addition to giving us significantly more capacity, the new line also gives us more flexibility from a covenants perspective.

To intention and ability, we'll also add willingness. So, given the strong operating outlook that we have and our improved liquidity, we intend to be more proactive with our balance sheet and actively target one and a half to two turns of leverage on a sustained basis to support the business and enhance shareholder returns.

Management and the board believes it's prudent to maintain a flexible balance sheet given the heightened levels of uncertainty about the economy right now. While we're very confident about the sustainability of our business in a downturn, we believe a strong balance sheet protects us from capital market disruptions, but it also preserves our ability to be opportunistic on the asset or the M&A front should any displacement occur in the downturn that creates opportunities.

So, let's step back for a second to one of the topics on a prior slide, M&A. We're often asked about how we see the current M&A environment, and all I can say is we're continually evaluating the opportunities that are out there, and we will consider a transaction that's good from a strategic or a financial fit basis, and also from a returns basis.

So, back to the share repurchase program and the details of it. As we noted last week, our board authorized our first stock repurchase program, and under that program, we can buy back up to \$200 million worth of shares of common stock in open market, block trade, and other transactions. Now, that we'll get past Investor Day here, we'll be able to launch the program later this week.

But, as we said earlier, given the continued strength we see in the business, coupled with the flexibility of the new credit facility, we're very comfortable adding this buyback program to our capital allocation strategy.

We'll continue to be opportunistic in our approach, balancing ongoing investments in the long term growth of the business with near term returns of capital to shareholders.

To recap, we'll make prudent use of the balance sheet and maintain a conservative leverage profile of one and a half to two turns, absent a substantial and compelling M&A opportunity. It's also worth noting that we see this initial authorization as just a first step and an ongoing program that will evolve over time as circumstances warrant.

So, let's look a few years out when the benefit of this current investment cycle began to fully materialize. We hope this gives you a sense of the future capital allocation capacity that we see in the business today.

So, we'll start here with the average year 2022 and 2023 cash flow that Erin showed us in her presentation a little bit earlier. This shows \$425 to \$500 million, and that's how much adjusted cash flow we can expect to generate, on average, per year following the current--the end of this current investment cycle.

Again, this is adjusted free cash flow, which is after a normal inventory spend, maintenance capex, and net securitization activity. So, our starting point is that \$425 [million] to \$500 million. At that point in time, adjusted EBITDA should be growing by approximately \$135 [million] to \$140 million a year. So, if we assume that we're at our targeted leverage at that point, and we add one and a half to two turns, we can maintain that leverage and raise an additional \$200 [million] to \$275 million of additional cash each year by matching incremental borrowing to EBITDA growth.

Combining the adjusted free cash flow with this additional cash from the incremental borrowing gives us \$625 [million] to \$775 million of discretionary funds. We can use these funds to make incremental growth investments, fund M&A, return capital to shareholders, or the most likely scenario, some combination of those three items.

We'll be disciplined and focused on maximizing long term shareholder value.

While this example is several years down the road, the concept behind the math works next year and every year thereafter. So, we hope that when you run the math, you'll be able to see how the pool of available capital that we'll have available for reinvesting in the business and returning capital to shareholders grows over time and is very attractive.

One last thing before I turn things over to Allen, I want to take a minute to reiterate our 2018 guidance. Currently, we expect to meet or exceeded all our guidance ranges for the year, including adjusted EBITDA of \$494 million to \$504 million on a GAAP basis, or for those of you who prefer the percentage of completion accounting view, we're looking at \$427 million to \$437 million, assuming that \$67 million of prior year recognitions that we've been talking about all year long.

Adjusted free cash flow is expected to be slightly negative for the year, given our elevated inventory investment. The good news is we're expecting positive adjusted free cash flow next year, which Allen will detail in just a minute.

So, with that, let me introduce our Chief Accounting Officer, Allen Klingsick. Allen?

Allen Klingsick

Thank you, Bob. Thanks, everybody, for spending the time with us today. Now, that Bob's took us through where we see 2018 winding up, we wanted to quickly take you through some key metric and business line trends over the past few years.

So, first, let's look at tours. As Sherri pointed out earlier today, we're consistently tracking around an 8 to 9 percent CAGR of tour growth, a significant component in our equation for strong NOG.

Speaking of NOG, we've surpassed the 300,000 club member mark this year, representing a consistent growth of 7 to 8 percent. Contract sales should top 1.4 billion, and this represents a 12 percent consistent CAGR. This has been partially driven by the new assets we received from Hilton during the spinoff.

Now, let's take a quick look at our four business line trends. Real estate revenues have seen double digit growth since 2014, and we've boosted our margins from the high 20s to the low 30s. Financing has been a steady grower with a 7 percent CAGR on the top line.

But, looking towards financing margins, as you all know, we've been leveraging the ABS markets more frequently in the past few years in order to fund the growth initiatives we've discussed through the day, resulting in the slight contraction of margins you've seen in the recent years.

Moving on to resort and club and our rental and ancillary business trends. We continue to see strong double digit top and bottom line growth in our resort and club business, as Stan discussed earlier today. This is driven by consistent net owner growth, new resort openings, and 70 percent plus margins.

Rental and ancillary has also seen strong bottom and top line growth, but you'll notice a significant margin expansion this year in 2018. And, this is primarily driven by the acquisition of the Quin Hotel down the street. We're operating that as a hotel until it's registered for timeshare next year. Subsequently, we expect margins to contract back to historical normal levels.

Now, rolling this all up into the enterprise level trends, we see strong double digit growth in revenue since 2014 and consistent revenue growth coming in for '18 at the same trajectory.

Adjusted EBITDA is expected, again, as Bob just stated, between \$427 million and \$437 million, which is stronger growth than previous years. Again, this CAGR isn't apples to apples because prior to '17, we didn't have a full load of public company expenses.

So, now, what you've all been waiting for, a discussion of accounting standards and revenue recognition methodologies.

As you're all aware of by now, we adopted Accounting Standards Codification 606, or ASC 606, as required by all public companies in '18. The adoption of 606 created significant changes in our financial reporting this year and we truly appreciate your patience throughout this implementation.

The most significant impact of 606 to us is our accounting for sale the projects while they're under construction. Previously, we recognized revenue and direct expenses of sales of projects under construction ratably over that construction period, using the percentage of completion method. This is illustrated for 2018 in the top table of the slide.

Now, ASC 606 requires us to defer 100 percent of all revenues and direct expenses related to sales of projects under construction until that construction is complete. We then recognize all the deferred revenues and direct expenses in the quarter the construction was completed.

This creates significant volatility and a huge disconnect between our reported results and how we manage our business. And, this is illustrated in the second table for how our results in 2018 look under ASC 606.

This year, during a transition year, we were required to report under ASC 606 and 605. So, therefore we guided under 605 and you all are well aware of that.

While we're required to do that during the transition year to maintain comparability, we won't be allowed to do that going forward and we won't be doing that in '19. So, say goodbye to percentage of completion completely for a timeshare perspective.

Again, we fully understand and recognize the challenge ASC 606 creates for evaluating our business due to significant construction related to deferral and recognition activity. Therefore, to provide additional clarity, we're going to start reporting detailed line item construction related

deferral and recognition activity as supplemental information to consider when analyzing our results, as illustrated in the third table.

We believe that incorporating this information with our reported results under ASC 606 will give you a view of the business that is better aligned to the way we operate and evaluate our performance on a day to day basis.

To be very clear, we will continue to report and guide our results only under U.S. GAAP, but we will provide this supplemental historical and results and guidance of construction related deferral and recognition activity.

Now to reiterate, the two tables at the bottom of the slide will provide an illustration of our 2018 adjusted EBITDA under ASC 606 and the supplemental construction deferral and recognition information in the format that it will be provided going forward.

And, to wrap up the topic, I just want to reiterate a couple of things. Our real estate business line is the only business line impacted materially by 606. Financing, resort, and club and rental and ancillary were not materially affected.

Also, as you all know, ASC 606 has no impact on cash flow. Cash flow's the same under 606 as all previous accounting.

Again, we hope this supplemental information will be useful--will be a useful tool to you as you evaluate our business going forward.

So, with that in mind, I'd like to now go over our initial 2019 guidance.

As mentioned by Mark and others, we're closing out 2018 with great momentum and we see that carrying into '19. We expect to generate 2019 net income of \$260 [million] to \$275 million with EPS coming in at \$268 to \$284 a share. Adjusted EBITDA is expected to be \$450 [million] to \$470 million, and adjusted free cash flow is expected to be positive with \$60 [million] to \$120 million.

Now, as a reminder, this guidance should be compared to the ASC 606 adjusted EBITDA and supplemental information discussed on the previous slide to ensure appropriate year over year comparability. Other key drivers for the year, 9 to 11 percent contract sales growth, with fee for service contract sales coming in at about 48 to 54 percent of the mix.

As I just mentioned, this is GAAP guidance with supplemental information on construction related deferral activity. As you'll notice at the bottom of the slide, we do not expect any full year impact from deferral activity in '19. However, we do expect construction related deferral and recognition impacts throughout the quarters of '19.

While we don't provide quarterly guidance, we will plan to provide updated information quarterly, surrounding the pace of sales of projects under construction, as well as updates to our estimated periods of completion.

Now, looking out over the longer term, we want to provide the following three year growth targets. We expect contract sales to reach \$1.9 [billion] to 2 billion by 2021, reflecting a CAGR of 9 to 12 percent. We're expecting similar growth from adjusted EBITDA, which brings us to \$560 [million] to \$590 million by 2021. No impacts from construction related deferral or recognition activity is anticipated or contemplated in these numbers.

EPS, which does not reflect the impact of any potential share repurchases, is forecasted to grow by 11 to 13 percent annually, and reach \$3.40 to \$3.50 a share by 2021. Adjusted free cash flow, which as a reminder is after all inventory spending, capex, and net nonrecourse debt activity, is estimated at \$250 [million] to \$300 million by 2021.

This would be cash that's available for additional investments, M&A, and/or return to shareholders before any other incremental borrowings.

Now, for my last couple of slides, I'll turn to our balance sheet, including the new credit facility that we announced last week. Our balance sheet today is in excellent shape and our credit facility gives us significantly more flexibility, as Bob just discussed.

The facility is up to \$1 billion from a previous \$400 million. It consists of an \$800 million revolver and a \$200 million term loan. Previously, the \$400 million facility was a \$200 million revolver and \$200 million term loan.

Now, we have significant pro forma liquidity with the new facility, considering \$145 million of unrestricted cash and \$745 million of undrawn capacity on the new revolver.

Our leverage ratio at the end of the third quarter was 1.3 times, or .9 times on a net basis. And, as Bob just stated, we're comfortable with leveraging up to 1.5 to 2 times on a net basis for the right transaction.

Now, looking more closely at our debt profile, we have a nice staggered maturity with no maturities until 2023 and a weighted average term of 5 and a half years. Our fully pre-payable floating rate term loan and outstanding revolver is approximately 46 percent of outstanding debt, while our bonds, or the fixed rate bonds, are 54 percent. The credit facility is secured. Our bonds are callable in 2021. Our weighted average cost of debt is 5.1 percent.

That's all I have for today, everybody. So, thank you very much and let me turn things back to Mark.

Mark Wang

Good job, Allen. All right, well thanks, Allen. I think it's time for Q&A. I think we covered a lot today. So, I'm going to ask our leaders to join me up on stage and give us a few minutes to get set up up here. Thanks.

QUESTION AND ANSWER

Mark Wang

All right, I guess we're ready. We've got a couple mics, so first question?

Steven Grambling

Thanks. So, my questions are--

Mark Wang

--Sorry, Steve, could you identify yourself and your firm for the--

Steven Graham

Yeah, Steven Grambling by Goldman Sachs. It seems like one of the more incremental things was the incremental investment inventory, and you laid out some of the math around the returns. What would make you scale back in inventory investment? What is the equivalent cost of other investments that you're thinking about, whether it's buyback or otherwise, and how would you think about maybe reallocating those priorities?

Mark Wang

Yeah, look, I think first, we're a growth company and we have--we've been really clear that our first priority for our capital is to continue growing the business. The good thing, though, is we're now in a position, especially with our new credit facility, the way our balance sheet is set up, that we have the ability to now expand on our capital allocation. And, we just announced the share buyback and we're going to have meaningful cash flow going forward that's going to allow us to even expand on that even more and provide meaningful share purchase going forward.

M&A, I'd have to say, is probably just a bit more limited in this space. Those who follow the space understand it's hard to get the right match. But, that being said, we are absolutely looking at everything out there and we feel that what's more realistic is probably some smaller regional M&As where we can really match the quality of the product and the customer to our brand standard.

Steven Grambling

And, I guess a couple of follow ups. One would be what do you view as kind of the right leverage ratio, long term for the business, and what's the maximum? And, maybe you had it in there, but leverage that you'd be able to take on to do a potential deal.

Mark Wang

Yeah, no, good question. Well, I think as we indicated, we think one and a half to two turns right now, based on what we're seeing in the market, is the right level today. If there was a strategic opportunity that was bigger than a regional M&A deal, I think we'd be comfortable going up to three times leverage.

Patrick Scholes

Patrick Scholes--excuse me, Patrick Scholes from SunTrust Robinson Humphrey. Several questions for you. First off and follow up, have you acted on that share repurchase authorization as of yet?

Mark Wang

We haven't. We've been locked out of the market, but I think that lockout ends tomorrow, or sometime this week. But, we haven't acted yet, but it's approved.

Patrick Scholes

Okay. Two more questions. Certainly, you've laid out some impressive statistics about Japanese guests visiting Hawaii. I'm wondering, I did note that you had a Japan--a Japanese project up there, but what are your thoughts about development in other Asia Pacific markets that would be target towards your Japanese customers?

Mark Wang

No, that's a good question. I think obviously, we've shown that our product resonates in other markets and--but it takes an investment and it takes time to build an investment. We've done a lot of research in China and we're also looking at Korea. We've got a small operation in Korea. We think both of those markets will serve us well as a source market, meaning a customer source market.

As far as product goes, we're less interested today of putting product in China, but looking at some opportunities in Southeast Asia to provide the inventory to match the sourcing coming out of China.

And, then with the Korean market, the Koreans have--today, have been buying strictly into Hawaii. We think Okinawa is going to be a very interesting offering for our Korean market. Okinawa right now, if you look at the makeup of the visitors there, it's approximately 25 percent international customers. So, we think the Korean market is potentially another good market for us.

Patrick Scholes

Okay, thank you. And, then my last question has to do with the asset back securitization market. Certainly, in the past, we've seen this market freeze up and investors always fear it's a risk that the company really doesn't have much control over.

What would happen, let's say hypothetically tomorrow, that instead of buyers of those securitizations wanting 300 basis points of a return that they wanted, suddenly 1,000 basis points, how are you prepared if something like that should happen and as I say, should happen again?

Mark Wang

Yeah, I don't know if whoever wants to take that question.

Erin Day

Yeah, Patrick. So, I think that we have a pretty healthy spread in our yield right now, so we have a good access spread. So, if rates were to go up, I think the business can absorb it fully going forward. We wouldn't expect it to be something that would be a long term effect, so we think we can absorb it fully going forward.

And, then also we also have the ability to potentially move our rates for our consumers. We've found that they are relatively agnostic. If you're getting a loan at 11 to 13 percent, if you up it a point or two, we think we can absorb it through that.

Mark Wang

Yeah, and also probably add that with our new capacity, our new capacity we have, part of that new capacity does provide opportunity for us to access that--our facility to fund that for a relatively short period of time. Again, we generate a lot of cash in our business today. So, while the securitization market is healthy today and we like it, the spreads are very strong and we're going to continue accessing that market, we don't feel like we're in a position of risk should that market shut down.

Brandt Montour

Great, thanks. Brandt Montour from JP Morgan. So, just on that topic on consumer credit quality, you recently raised your loan loss provision partly because of mixed issues and partly just kind of preemptive defensiveness. I was just wondering how defensive are you right now kind of comparing back to years like '08 or if you were going to go into a recession next year, how do you think that that consumer portfolio would perform?

Mark Wang

Yeah, I don't know, Allen if you want to take that.

Allen Klingsick

Sure. So, as kind of alluded to in our Q3 call, looking back to the first part of your question, where we were in '08 and I think we showed a little bit today, we were trending around default around 5 percent, and we maxed out at 6.5

And, with regards to where the provision stands today, from a defensive standpoint, we're not really taking any extra reserves. We are taking on different measures to ensure that we have contracts with more money down, so more skin in the game, which will drive--we know that behavior drives lower defaults, as well as the shift of some of our Japanese, or our higher FICO, our more stable customers into--back into our book from the fee for service custom--from the fee for service projects.

So, all in all, we feel like we have definitely not seen any third party impacts as we have discussed in the past as some of our competitors have. And, we feel that the book is very stable and in a very healthy position right now.

Robert LaFleur

And, our average FICO scores are much higher than they were back in those days.

Allen Klingsick

And--exactly.

Brandt Montour

Great, thank you. And, then you gave some great context on your fee mix expectations for each kind of year going out. I was just curious as to what the assumptions are around those numbers in the out years, considering as you've talked about, Mark, fee deals are a counter cyclical kind of phenomenon.

So, is there any--is that just assuming what you have right now in the pipeline, and you kind of ride that out, or is there other assumptions in there?

Mark Wang

Yeah, look, I think what we showed you today is how we've modeled it and how we've mixed in the announcements of the new properties this year. I'd argue that it isn't counter cyclical and that this model, I think, is--works well in good times and bad times. I think there's going to be more opportunities in bad times, but we're not moving or shifting our mix because there is not adequate amount of fee deals out there. We are strategically moving this mix because we want to accelerate our growth.

And, also, it gives us, quite frankly, we're in a better position to control the pricing of these deals, because one opportunity we have is taking some of the owned deals we've talked about and converting those into joint ventures. But, that is a decision we can make.

Back in '09 and '10, when we were looking to bridge inventory with little access to capital, we were pretty much having to take the rate that was set by the other party, because they had access to the capital.

So, we've now put ourselves in the position that I like, where we can control the dialogue and the conversation about how the fees are structured.

Jared Shojaian

Hey, everyone, Jared Shojaian from Wolfe Research. Just a question on the 2019 guidance, because part of the inventory spending has really been to accelerate the growth. And, as I look here, if I'm doing my math right, I think the guidance on EBITDA, if I take the midpoint, implies about 6 percent year over year growth, taking out the deferrals.

That's a little bit lower than, I think, what you had mentioned before on the 7 to 10 percent. And, you're also showing the contract sales decelerating from around 11 percent this year to you're guiding 9 to 11 for next year when you do have more inventory coming on.

So, maybe you can just help me frame how much of that is just, it's early and you're taking somewhat of a conservative approach versus maybe unique factors that I might not be appreciating?

Mark Wang

Yeah, well I'll answer just one part of it and then as far as the year over year, Allen or Erin, I don't know if you have that. But, one part of that is the investments that we're making, most of those investments for '19 don't really start materializing until the end of '19.

For instance, Quin ... Cabo doesn't even materialize until early '20. Charleston will start picking up the third--the middle of the third quarter next year. So, a lot of the investments we've talked about are more guided toward the end of the year.

As far as year over year--

Mark Wang

The growth, you go ahead, Bob.

Robert LaFleur

Yeah, so can't really compare the 606 guidance to the 605 guidance, which is probably what you're doing to get to that. So, what you need to do to get the apples to apples is the new deferral numbers that Allen provided in his slides, and the slides should actually be up on our website by now, because I told them to post them on my way up to the stage.

If you took that, which is the total deferrals, not the POC deferrals, and were to adjust the 2018 EBITDA by that, and then compare that to the '19 guidance, you'll come up with probably some slightly different growth rates that'll be more consistent with what you're looking for.

Jared Shojaian

So, just to confirm them, the guidance that you'd given for this year was midpoint 499 of EBITDA and you cited the 67 million of deferrals previously. That's not the right way to look at it--

Robert LaFleur

That would be the 605 guidance, which is after this year goes away.

Allen Klingsick

So, it's the deferral impact that's at the bottom of that slide. That's the adjustment to the 2018 numbers.

Jared Shojaian

Okay, and just a separate question on the inventory spending, 2021, you gave us new information on about \$400 million of spending. And, I think Mark, you talked about how that's probably more of a normalized rate going forward to look at. So, maybe you can help me understand, what does your cost of VOI sales look like as you get into 2022? Is your inventory spending at that point more in line with what your cost of goods sold would look like? Maybe a little bit higher, and that's the right way to think about it going forward?

Mark Wang

Yeah, I think--and I'm not sure I quite understand all of your question there, and I may pass that on to somebody who may understand the complete question on that. But, what I'd say is that what we've done today and what we've illustrated today and how we've executed today, is kind of a one-time reset into the business to set the business up for higher earnings and higher free cash flow going forward.

So, once you get out into the outer years, as Erin illustrated in her presentation, you get out in that \$375 to \$400 amount in the outer years, that's more in line with our investment going forward.

Now, as far as the cost--

Robert LaFleur

--Yeah, that--I know what you're trying to get at. You're trying to get at replacement sort of inventory spend, and it won't quite be at product costs at that time, but they'll be converging quite significantly at that time.

Jared Shojaian

Okay, so then \$400 million, we might even see that come down as we get into 2022 and 2023, as you start to converge the product costs? Is that--

Robert LaFleur

Well, at the same time, sales are going to be ramping up pretty dramatically. So, your costs of product will be going up every year. So, what that inflection point it, it's hard to say precisely. On a relative basis, it's not likely to be as significant as the next couple of years are going to be.

Cameron McKnight

Thanks very much. Cameron McKnight from Credit Suisse. Question for Mark or maybe Erin. Just in terms of thinking about inventory, how do you split inventory spend between growth and maintenance? The past five years, fee for service and develop, you added what, \$250 [million] to \$300 million per item of new product. You're spending \$500 million this year and then in the out years, you've targeted \$375 [million] to \$400 [million]. So, could you help us split that between what spending that the business is going to grow off and what spending that is purely maintenance?

Mark Wang

Go ahead.

Erin Day

Hi, Cameron. So, if you want to look at it for starting in this year, and I'm going to give you an average because it fluctuates a little bit year over year over the next three years. You can take about, our inventory spend and save, about 10 percent of it would be for buyback inventory on the open market. Then you can take the other remaining amount, and it's roughly 50/50 split. Each year is a little different between maintenance and growth capex.

However, it's important to think about it, when you think about the growth capex or our new deals that are adding new distribution, those deals support new incremental tour adds. But, we also cross sell out of all of our distributions. So, they also support sequel inventory. So, while it is 50/50, it's not an exact science that you can pinpoint. But, roughly 10 percent goes to buyback and then it's split 50/50 from new distribution and existing sequel markets.

Cameron McKnight

Perfect, thanks. And, then in terms of the 25 percent fee for service mix, why 25 percent versus 30, 40, 45?

Mark Wang

Yeah, that number is not set in stone and it could shift as we move forward. I don't think we're going to take it below 25. As I said before, we like the mix. It gives us the ability to pivot should

there be a market condition that says, "Look, let's use somebody else's balance sheet, there's some great opportunities that third parties are coming to us with."

So, there is no magic number, and we're going to be flexible. We're going to be flexible, and I think what we've outlined today is the initial move to reset the business, but that--we may not get to 25. It may get to 35 because we announce a couple other fee deals that we weren't thinking about as we spoke to you today.

Robert LaFleur

And, as we demonstrated in Erin's presentation, we were able to remix the business to significantly accelerate the trajectory of EBITDA growth with no impact to return on invested capital. So, that's what we're aiming for.

Alex Silver

Hi, Alex Silver, P2 Capital. Thank you for all the color today. I have a very specific question and it's on the back of this gentleman over here, because I think there's some confusion in the room, and my guess is the market, about your guidance.

The midpoint of your guidance for EBITDA is \$460 million of EBITDA. Can you explain what deferral you are, because that's both below consensus and also if you look year over year, you'd have to be looking at the 605 guidance to get anywhere in that range? So, we're trying to understand when you say a deferral number, there's no deferral number on that page and on the previous page, because the slides were just posted. It isn't. So, clarification around guidance for growth rates would be great, EBITDA specific.

Robert LaFleur

Sure, so--yeah, specifically. If you look at--when you get a chance to access the slides, if you go back to Allen's slides, which you probably have right there, if you look at the full year deferral, which is in that third slide there, and you net out those numbers, that probably comes up to 79. So, that is the contribution to 2018 results from all recognitions.

Allen Klingsick

So, we have sales of VOIs that happened previously to 2018 that were recognized in '18. That was pretty much what should have been, if you pull those out, then you get a normalized economic view of our growth year over year.

Alex Silver

And, then we compare the guidance for '19 to that number, which is net of the deferrals?

Allen Klingsick

Yes.

Robert LaFleur

And, the 67 is the percentage of completion deferrals, which is, given the vagaries of percentage and completion accounting, because it's a slightly different number.

Unknown

--Which for '19 should just be put it out of your mind... to pasture.

Unknown

It's past. We're in 606 to 606 now, and it's just the complete pure impact of 100 percent deferrals and 100 percent recognitions, nothing from a percentage of completion basis.

Robert LaFleur

Does that clear it up, Alex?

Alex Silver

Yes, that clarifies it for me.

David Katz

Thank you, David Katz, Jefferies. We frequently get a lot of questions about the secondary market in timeshare, and I recognize I ask the question a fair amount. But, seemingly the secondary market for timeshares and what people do with them once they've sort of reached the end of their utility with them, has sort of remained in its formative stages in the industry.

What's your perspective on how you'd like to see that evolve and what programs are you working on within your business to deal with that issue?

Mark Wang

Yeah no, good question. First, I think you have to take anything Legacy non-branded and you just can't look back. It happened. And, the evolution of the industry where you had very small regional, or just one off developers, selling the product and the value proposition was the use of that product connected with the exchange companies, and then once the product was sold out, the developer went down the road. And, the HOA basically supported those properties going forward and they continue today to support those properties going forward.

That is Legacy stuff that's really going to be, I think, pretty much impossible to fix. And, it will-- the market will fix it someday. Some way, we'll figure out how to come in and buy out the association and reposition the product or repurpose the land underneath it.

I think as we go forward and you look at companies like ourselves, a branded timeshare company, hospitality-branded timeshare company, we have a responsibility to our members to ensure ways for them to exit at the right time.

And, so what we've done is we haven't gone out and branded it. I know there are a number of our competitors that have branded their program. But, we have consistently, over the last decade, been buying back inventory from our existing owners and we've been doing that strategically because number one, it's a great source of inventory. It's as just-in-time as you can get it.

Number two, we're helping people out, because when you have a customer that's been with you for 10, 15, 20 years, there's all kinds of life changes that occur. Divorce and unfortunately illness are the top two, or a change in their financial situation.

So, for us, what we're doing is we are actively focused on number one, understanding who's using the product from a behavioral standpoint. We are focused--we are tracking the behavior, and if we see a customer that's not using the product, Stan and his team are out engaging that customer, trying to figure out what's going on. Why aren't you using the product? Because we know at the end of the day, if they're not using it, it's going to be a bad outcome at some point. So, that's number one. So, we're trying to be preventative.

Number two, we have to put money aside to work with these owners to get out of it. So, we need to be strategic about it because we don't want to turn a blind eye to this, because if we're strategic, we can start taking that pressure out of this system from an attrition standpoint every year and not wait for it to build up, and then suddenly you have this landslide of people trying to get out. And, that's what created the third party exit companies.

When there was a buildup of suddenly owners who had ownership and they couldn't figure out how to exit, and suddenly that created that market out there. As Allen alluded to earlier, it's not impacting us today and actually, it's been a good case study for us to watch, so we're aware of what potentially could happen. And, so we have to be very strategic and get out in front of it.

So, I don't know if that helps answer your question.

David Katz

It was very helpful, but if I can just follow up and be a bit more pointed or specific about it. I understand the challenges and implications around you being clear with a customer who is buying a timeshare of what their specific exit plans are. But, how informed are customers about what their options are at the moment that they buy it? What are those interactions between--is it a function of them approaching you at some point in time and saying, "Here are my circumstances, I'd like out, what are my options?"

How does that--how do those interactions work?

Mark Wang

Well, quite frankly, that's really--it doesn't become part of the dialogue upfront, because people are engaged and they're excited about buying into our program. That being said, we're also very restricted from a legal standpoint on being able to even talk about any type of exit into the system, because suddenly, that becomes an investment, and we're not registered as an SEC security when we sell timeshare.

We're selling a real estate interest, and we cannot represent any type of resale value or we can't guarantee anybody at point of sale. To do that, we would have to restructure our offering into some type of security.

David Katz

Thank you very much.

Brian Dobson

Brian Dobson from Nomura. So, quick question, do you think that anything needs to change

about either your product or your marketing now that you're targeting millennials who are aging into your core demographic?

Mark Wang

Yeah, I don't know. Stan, if you want to take that.

Stan Soroka

Well, I think in my presentation, we are spending a lot of time on the mobile experience. We're trying to carry that through their journey, so that can be a tool in which they can communicate to us in a text environment so that we're rapid in our response. I think that's really the next level, as well as some technology in the rooms, which we're looking at Hilton's Connected Room, as well as we've launched an Ocean Tower, an Inspire Room, which does digital as well.

I think the owners are expecting more immediacy to their contact, so we're really driving on call retention and the quickness of that, and then being out there with them into the markets. Educational, which I mentioned, is really taken from 40 that we had a year ago, is now 500 at each of these events. I think people are dynamically looking at more response through digital.

And the digital online, by the way, that Review Pro that I mentioned, that's millennials and younger generation, that is really apt into reviews online, and so that really is a testament to the energy and I think that's what we have to stay with.

Mark Wang

Yeah, I don't know if you really caught the essence of Stan's--that slide on that online review, which was done by Review Pro, supported by Cornell University. There were 150 million online reviews that went into the ranking, and Hilton Grand Vacations came out number one, exceeding all in the upper upscale brand, which is a, I think, a testament to what Stan's teams are doing at the property level, but also what our social media teams are doing behind the scenes, connecting with our customers. This is really, really important stuff for us.

I would also add on to what Stan is saying, is that I think there's going to be opportunity for us to evolve into some short term product. It's a bit of an accounting challenge, but I think when you get to a certain scale, suddenly you can start weaving that in because you do have some recognition issues when you're not giving them a deed in perpetuity. You basically have--

Allen Klingsick

--A club membership.

Mark Wang

Yeah, you've got a club membership. But, I think there's opportunities there. The other opportunity I know Stan is working on with his team with a big initiative is how can we use our HGV points and currency and make that currency more flexible by matching it with other currencies, like credit card currencies or cash plus points and things like that that provide more value to what we're doing, which I think creates a more dynamic product out there.

Brian Dobson

Great, and then as a follow up to that, I think we have a pretty good idea of how you generate

leads and tour flow in the United States, but could you walk us through a little bit about the 20 percent of your business that comes from Japan and how you capture those consumers?

Mark Wang

Yeah, Sherri, do you want to cover that or do you want me to cover that?

Sherri Silver

Yeah, sure I'm happy to. Yeah, so Japanese consumers, we capture in two main ways. One of them is on the ground in Hawaii. We talked about our on the ground marketing, capturing people while they're on vacation. So, if you can picture Japanese consumers who are in Waikiki and we might capture them there and get them to tour onsite.

Unknown

--We don't actually use a net or anything. We're engaging with them.

Robert LaFleur

It's more of a snare.

Sherri Silver

So, we would engage with them, and they might tour in Hawaii. We might also engage with Japanese consumers in Japan, and we've got, is it nine--I think nine sales centers in Japan, and we've got 50 permanent marketing areas where we engage with Japanese consumers and work with them to arrange tours in Japan as well with--

Brian Dobson

--So, are those in tourist locations?

Sherri Silver

Yeah, they might be in the airports as an example, right.

Mark Wang

Airports have been--if you want to capture somebody that likes to travel, why not be at the airport? I think we're in eight airports in Japan today. That's been a really successful program for us.

The footprint of Hilton properties is not nearly as extensive as it is here in the U.S., though the reputation of the brand, it's the number one recognized international hospitality brand in Japan. So, it goes back to the early '60s when Conrad Hilton opened the first Hilton in Japan.

But, as Sherri said, we've got a lot of different ways that we're connecting with customers over there and the brand resonates. The Hawaii connection includes, our timeshare facility is in the same campus as 3,000 hotel rooms. So, Hilton Hawaiian Village gets around 17,000 arrivals every month. It's like running a small city. So, it's pretty extensive.

But, no, it's a great part of our business. We've got really--we've got a great team, approximately 600 team members in Japan, and Stan's got about 50 club services over there.

Stan Soroka

We have good partnerships with JAL, leadership--

Mark Wang

--Yeah, we've got partnerships with duty free shoppers.

Stan Soroka

That's right.

Mark Wang

Next?

Mark Wang

Okay, all right, well thank you, guys. Again, we really appreciate you spending the time. Thank you very much.

CONCLUSION