Hilton Grand Vacations

Q4 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mark Melnyk – *Vice President of Investor Relations*

Mark Wang – *President and Chief Executive Officer*

Daniel Mathewes – *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to Hilton Grand Vacations Third Quarter 2020 Earnings conference call. A telephone replay will be available for seven days following the call. The dial-in number is 844-512-2921 and the pin number 13714031.

At this time, all participants have been placed in a listen-only mode. The floor will be open for your questions following the presentation. If you would like to ask a question, please press star-one on your touchtone phone to enter the queue. If at any point your question has been answered, you may remove yourself from the queue by pressing star-two. If you require operator assistance, please press star-zero. If you're using a speakerphone, please lift your handset to allow the signal to reach our equipment. Please limit yourself to one question and one follow-up question to allow the opportunity for everyone to ask questions. You may then reenter the queue to ask additional questions.

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

Mark Melnyk
Thank you, operator, and welcome to the Hilton Grand Vacations' fourth quarter 2020 earnings call. Before we get started, please note that we've prepared slides that are available to download from a link on our webcast and also on the main page of our website at investors.hgv.com. We may refer to these slides during the course of our call or question-and-answer session.

As a reminder, our discussion this morning will include forward-looking statements. Actual results could differ materially from those indicated by those forward-looking statements, and these statements are effective only as of today. We undertake no obligation to publicly update or revise these statements. For a discussion of some of the factors that could cause actual results to differ please see the Risk Factors section of our 10-K, which we expect to file after the conclusion of this call, and in any other applicable SEC filings.

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

As a reminder, our quarter results for both periods in 2020 and 2019 reflect accounting rules under ASC 606, which we adopted in 2018. Under ASC 606, we're required to defer certain revenues and expenses related to sales made in the period when a project is under construction and then hold off on recognizing those revenues and expenses until the period when construction is completed.

To help you make more meaningful period-to-period comparisons, you can find details of current and historical deferrals and recognitions in Table T-1 of our earnings release. For ease of comparability and a simplified discussion today, our comments on adjusted EBITDA and our Real Estate results for further results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. Finally, unless otherwise noted, results discussed today refer to fourth quarter 2020 and all comparisons are accordingly against the fourth quarter of 2019.

In a moment, Mark Wang, our President and Chief Executive Officer, will provide highlights from the

quarter in addition to an update of our current operations and company strategy. After Mark's comments, our Chief Financial Officer, Dan Mathewes, will go through the financial details for the quarter. Mark and Dan will then make themselves available for your questions.

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

Mark Wang
Good morning, everyone. Today, I'm pleased to share that our fourth quarter results improved sequentially for the second consecutive quarter. And I'm incredibly proud of the way our team members responded to create a safe environment for our owners and guests and protect the health of our business throughout 2020.

Over the past year, we took decisive action to strengthen our balance sheet and position HGV for the future. We controlled our costs and increased our financial flexibility to achieve positive adjusted free cash flow for the year. And our efforts highlighted the strong execution of our team and the value proposition of HGV ownership, resulting in higher closing rates, positive net owner growth and strong member retention.

Various markets again saw differing levels of impact from the COVID spike. But there are some clear positive indicators that leave us optimistic that we're moving in the right direction. Our owners and guests are better informed about what to expect from their travel experience and protocols have become more standardized and consistent. The rollout of vaccines should be a positive for sentiment as they become more widely available over time. Taken together, these developments make me optimistic that we're on the path to recovery, though our view remains that the improvements will be more second-half weighted.

Now let me take a few minutes to talk about what we're seeing in our different markets and customer segments. Overall, contract sales were 36% of prior year's levels versus 32% last quarter. In markets where we were open for the full quarter, we recovered to 50% of the level that we saw in 2019. Our tour flow in those markets also grew sequentially in Q4 with strong performance in October, although we saw trends slow in November and December due to the COVID pickup. This late-quarter slowdown wasn't caused by an increase in cancellation but rather was due to lower intra-quarter bookings than we typically see at this time of year.

The impacts continue to vary by market. In California, for instance, a new stay-at-home order that moved to a full lockdown in December impacted our occupancy and tour flow. But in Orlando we saw occupancy rates increased sequentially in every month of the quarter, and December produced its highest tour volumes since the pandemic began back in March.

Overall, occupancy levels for Q4 neared 50% and on a year-over-year basis were down slightly less than what we saw in the third quarter.

VPG in open markets was up 21% versus last year to nearly $4,300, driven by stronger close rates. So, those who did come to our sales centers actually showed a higher propensity to purchase than what we saw in Q3. Additionally, our close rates on vacation package sales for future tours was also up year-over-year in each month of the quarter, meaning that we're yielding our Hilton leads more effectively to build a pipeline for future tours. We're optimistic that the positive trends of more vacation packages, improving occupancy, lower cancellations and improved close rates should lead to better realization of contract sales, which ultimately, should support continued sequential growth as we move through this year.

Japan had another strong quarter and has recovered to 80% of 2019's levels. Our network of offsite sales centers has been key to maintaining interaction with our owners and new buyers. We also launched sales of our newest project in Okinawa during the quarter. This is a capital efficient just-in-time project that we're pre-selling today that won't make any payments on until we take delivery of the first phase when we open for occupancy later this year. Okinawa was a top leisure destination for Japanese and surrounding regions. And we believe it will allow HGV to further penetrate this robust regional leisure market. We're excited about the project and we think it will be an attractive vacation options for both owners and new buyers alike. While a recovery has been strong in Japan, the government has recently elevated its state of emergency lockdown protocols through March. We believe that the government will aggressively work to manage the spread of the pandemic as they seek to host the Olympics this summer, which could be a headwind to further recovery in the region in the short-term.

In Hawaii, we reopen our resorts and sales centers in mid-December and saw initial occupancy levels ahead of what we had seen in the mainland this past summer. And our forward bookings show improvements in projected occupancy levels as we enter the summer months, which we expect to continue as airlift to the islands improve. Hawaii products still made up nearly a third of the inventory sold during the quarter without any material contribution from our onsite sales centers. So clearly, people are excited to return to the Islands and they continue to purchase Hawaii inventory from our other markets. Domestic inbound visitation to Hawaii has improved since the state reopened in mid-October. However, strict return protocols by the Japanese government have continued to limit the number of Japanese tourists visiting the Island. So, with fewer Japanese arrivals anticipated in the first half of the year, our Hawaii onsite sales center performance will be led by US guests. We continue to expect that we'll ramp back up in Hawaii over the next several quarters, setting this up for a stronger second half and a solid run rate exiting this year.

Moving to our customer segments, we saw sequential improvements from both owners and new buyers during the quarter. Close rates drove an improvement in VPG in each month of the quarter with a particularly strong December. We believe the value proposition of timeshare is resonating now more than ever. Our owners have always appreciated the extra space, full kitchen and room laundry, and a sense of safety provided by the Enhanced Care initiatives that gives them a second-home feel during their stay. But we've also seen an increased appreciation of these unique timeshare attributes from new buyers. In fact, our new buyer close rate was the strongest we've seen in well over a decade, and that trend has continued through January. So, I'm particularly proud of our teams who did such a great job and execution this quarter and remain focused on growing our NOG, which was up just under 1%.

Our Financing business was relatively steady this quarter and should return to growth as sales trends normalize and we add more receivables back into the portfolio.

Our Club business didn't see the typical seasonal pickups in revenue this quarter, as we allowed our owners to preserve the value of their club points into 2021 and no additional cost. That said, our strong cost controls offset this impact and drove a solid improvement in margins during the quarter. These businesses have been a stable source of recurring income throughout 2020, producing solid EBIT and cash flow to demonstrate the resilience during this otherwise challenging period.

Turning to our strategic priorities, we took further steps in Q4 to streamline and protect our business and our owners. We secured additional financial flexibility in our credit facility, as Dan will speak to. And we now have 35 months of available liquidity. We took a number of proactive steps over the course of this year to provide flexibility for our owners to push their points of vacation usage forward and ensure no loss in value, which has been well-received by our members. To that end, we're really pleased that through January, we collected $418 million of annual dues and management fees versus $450 million

last year before COVID took hold. We think that's a testament to the actions we've taken throughout the pandemic to protect our owners' safety and the value of their ownership. And it also underscores the quality of our owner base and their commitment to the HGV brand.

So, when you look at what's happening now versus six months ago, it feels like there's some light at the end of the tunnel. We've seen more consistent positive signs in our business, close rate gains, strong new buyer trends, a continued decline in cancellation rates, summer bookings. We've restarted our operations in Hawaii, and we're positioning ourselves for return to growth by opening four new markets: Maui, Cabo, Okinawa and a fee-for-service property in Charleston. While there's still a ways to go, we remain cautiously optimistic that the recovery is in sight.

We've all been shouldering the burden of this disruption for a long time now. Some of us more than others like our frontline workers. And it's caused people to examine the things in life that they really appreciate and miss. And I truly believe that travel is one of the top things people are missing. We believe there's strong pent up demand for leisure travel that will begin to materialize in earnest in the latter half of the year. And our priorities in 2021 will be focused on ramping Hawaii in our new locations along with opening our remaining markets in New York and Chicago.

Before I turn it over to Dan, I'd like to thank our teams who work every day with our customers in our resorts and sales centers around the globe as we bring memorable vacation experiences to our owners and guests.

With that, Dan will walk you through the financial details. Dan?

Dan Mathewes
Thank you, Mark, and good morning everyone. As Melnyk mentioned in his introduction to our call, our results for the quarter included $21 million in sales deferrals impacting the reported revenue and net deferrals of $11 million impacting both adjusted EBITDA and net income.

All references to consolidated net income, adjusted EBITDA and Real Estate segment results on this call for current and prior periods will exclude the impact of deferrals and recognitions. A complete accounting of our historical deferral and recognition activity can be found in Excel format on the financial reporting section of our Investor Relations website.

Let's review the results for the quarter. Total fourth quarter revenue was $233 million, up 5% sequentially from the third quarter. We saw sequential improvement in our Real Estate, Club and Resort Management, and rental and ancillary segment revenues, partially offset by lower financing revenue due to a smaller receivable portfolio balance.

Q4 reported adjusted EBITDA was $35 million, reflecting sequential top-line improvement coupled with the benefits of our ongoing cost-savings efforts. As we noted in our press release, however, there was also a $3 million in COVID benefit in the quarter related to employee retention credits, granted under the CARES Act that was included in the adjusted EBITDA. Removing this benefit would put your comparable adjusted EBITDA for the quarter at $32 million.

Despite the solid progress on revenue and EBITDA during the quarter, net income was a loss of $143 million due to a $209 million non-cash impairment charge on the unused land that we took during the fourth quarter. Let me take a moment to go into a little bit more detail on the write-down. As part of our efforts to streamline our business, we looked at several unused plots of land that have been on our books for a number of years. These plots are adjacent to existing HGV developments and were

originally acquired as part of the master planning process for the associated projects. As we explored our pipeline and development plans during our strategic review process, we determined that we would not use these parcels for development and have never included them in our pipeline of future opportunity. Therefore, we've elected to put the land parcels up for sale. While we can't be sure we will ultimately be able to monetize these unused assets, the act of beginning the sale process and associated price discovery triggered the revaluation of the carrying value on our books. Again, it's important to note there is no cash impact associated with the impairments and that their sale has no impact on our current or future development plans.

Within Real Estate, Q4 contract sales were $132 million or 36% prior year. As Mark mentioned, we started operations at all of our Hawaii properties in mid-December. Given the timing of their opening, our on-site sale operations in Hawaii were not material contributor to the quarter, but we expect that they will begin to ramp up this quarter and through the first half of this year as travel to the Islands recovers. We expect to open our final two regions, New York and Chicago, in the first half of this year.

Our tour flow in the fourth quarter was up 13% sequentially and our VPG was up 3% sequentially. Owners continue to show signs of faster recovery than new buyers, and our mix of contract sales to owners remained at approximately two-thirds of the total. We started the quarter off with strong tour flow in October, although we did see trends decelerate as we move through the quarter and saw additional lockdowns associated with the recent COVID spike. While we did not see a pickup in booking cancellation activity, we nevertheless saw tour flows decelerate as we moved through the quarter. Offsetting this, however, our VPG improved each month driven by strengthening close rates in both owners and new buyers and marked by a particularly strong December. So, we're continuing to do an excellent job closing on the tours that are coming into our sales centers. I'll reiterate that we do anticipate that our VPGs will continue to slowly decelerate as our close rate begins to normalize, but will remain elevated versus historical levels due to a higher mix of owner tours than we've seen historically.

Our fee-for-service mix for the quarter was 45%. On the consumer lending side, our provision for bad debt was $18 million and overall allowance on the balance sheet was $211 million or 17.8% of gross financing receivables. Real estate SMG&A was $70 million for the quarter and real estate income was a loss of $1 million.

In our Financing business, fourth quarter segment profit was $24 million with a margin of 63.2% versus a profit of $29 million and a margin of 67.4% last year. Profit was lower based on declining receivables balance versus last year limiting portfolio income along with higher interest expense associated with the securitization completed in Q2. Our gross receivables balance was $1.2 billion. Our average cash down payment year-to-date is 11.3%. And our portfolio average interest rate increased to 12.6% from 12.5% last year.

Over the past three months, we've seen improvement in our delinquency rate to 3% of our receivables portfolio versus 2.5% at the end of 2019, continuing the trend of sequential improvement. Our annualized default rate was 6.3% versus 5.1% at the end of 2019. We still believe we are adequately reserved at this time and we'll continue to monitor our portfolio trends closely.

Turning to our Resort and Club business, NOG for the 12 trailing months was positive at 0.7%. And our member base was nearly 328,000. Revenue of $44 million was down 27.9% from the prior year, driven by lower member transaction activity, as well as a waiver of fees associated with members banking their points into 2021. Segment profit for Q4 was $35 million with margins of 80% versus a profit of $49 million and margins of 80% last year.

Rental and ancillary revenues were $20 million and expenses were $22 million for a segment loss of $2 million, which was an improvement from the $4 million loss we showed in the third quarter. Our rental expenses in the fourth quarter were down $2 million sequentially and ran counter to the normal seasonal increase we see in these expenses in Q4. This was largely due to our cost reduction initiatives along with the reduced developer maintenance fees on the unsold units we're carrying as a result of the temporary suspension of operations during the year. It's important to note that this credit was an unusual item, and in the first quarter those maintenance fees will revert to normal expenses. Since we're still in a lower seasonal rental environment and are still seeing the impacts of COVID, the normalization of this expense will cause our rental and ancillary segment loss to be sequentially higher in Q1. As we move through the year and see improvements in rental revenue and increased sales, of new units, however, we expect to return to a profit in this segment.

Bridging the gap between segment adjusted EBITDA and total adjusted EBITDA, fourth quarter corporate G&A was $19 million, down $5 million or 21% versus the prior year, reflecting the benefits of our cost-saving programs, license fees were $12 million.

Our adjusted free cash flow in the quarter was a net use of $88 million, which included inventory spending of $47 million. For the year, our adjusted free cash flow was $68 million after inventory spend of $155 million compared to an inventory budget entering this year of approximately $400 million.

As of December 31, our liquidity position consisted of $428 million of unrestricted cash, $139 million of availability under our revolving credit facility, and [ph] $415 million (22:32) of capacity in the warehouse. We currently have $135.7 million in timeshare receivables available for collateralization. On the debt front, we have corporate debt of $1.2 billion and nonrecourse debt balance of $766 million.

Turning to our credit metrics, at the end of Q4, our net leverage and first lien net leverage for covenant compliance purposes stood at 3.4 times and 1.96 times, respectively. Our interest coverage ratio, for covenant compliant purposes, at the end of the quarter was 5.13 times.

As a part of our efforts to maintain the maximum flexibility during the pandemic, we amended our credit facility in December. The amendment provides a temporary waiver of our leverage covenants in each of the first three quarters of 2021, which we can choose to opt out of at any period. Remaining in the waiver subjects us to quarterly liquidity test that sit well below our current liquidity levels and offset modestly raises the interest rate spreads on the credit facility during that period. Given that we've already aimed to maintain a higher level of liquidity during the ongoing pandemic, we saw this is a lost cost way to provide ourselves with the option of additional financial flexibility.

Given the ongoing local market volatility and associated travel restrictions, we've opted not to provide formal annual guidance for 2021 at this point in time. But as the market restrictions ease and trends begin to normalize, we hope to be in a better position to provide more detailed top line and EBITDA guidance. We do expect to continue to see measured sequential growth each quarter as we've progressed through the year. With respect to the first quarter, however, the continued effects of COVID along with the normalization of our development maintenance fee expenses means that our Q1 EBITDA will likely be flat to slightly lower than what we produced in Q4. For the year, we expect to spend approximately $250 million on inventory and we also anticipate returning to a more normal third quarter timing of our annual securitization.

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

QUESTIONS AND ANSWERS

Operator
Thank you. Again, if you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you would like to remove your question from the queue. And for participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

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

Patrick Scholes
Hi. Good morning. Couple of questions for you. Right at the end there you noted that 4Q – I mean, 1Q will be slightly lower or flat to slightly lower. Can you just rattle off again the reasons why that may be occurring?

Mark Wang
Yeah Sure, Patrick. This is Mark. Yeah. I think quarter one really has some of the same challenges that we were faced in in Q4 with the restrictions in COVID. A couple of months in despite Q1 being seasonally lower from a travel standpoint in Q4 and the elevated restrictions in Japan that we talked about, Q1 is really looking very similar to slightly ahead of last quarter. And I think what's important to note though is that we're seeing significant improvements in forward bookings for the next three quarters. Our net reservations are up 100% in January and February versus November and December. And on an absolute basis, net reservations in January and February are almost on par with what we saw in 2019. I think we're at 90% of what we saw in 2019.

So, that's really positive buyer behavior as we started off this year, it continues to be very strong with strong closing percentages in VPGs, we saw in Q4 for both owners and new buyers. I think as we mentioned in prepared remarks, our owners are paying, which I think is a great indicator that they're going to continue traveling. And also we're starting to see some really good improvement in activations for new buyer packages going forward as our owners have recovered quicker than our new buyers. So, all in all, some of the same challenges we saw in Q4 with COVID and the restrictions. It's just going to be bumpy right now. But the positive signs is all the forward metrics look very, very strong going forward.

Dan Mathewes
And, Patrick, hi, it's Dan. Just to add to that point. I think I had some of this in my commentary, but from a rental perspective, we did benefit on the cost side just from suspended operations. So, Q4 had lower development maintenance fees as well. So, some of those are going to kick back in as properties open back up. So, there's a little cost pressure on that front. And then on the Financing side, just keep in mind, we're still ramping back sales. So, the portfolio is still in the process of building. But until we get to more normalized levels, you have that balance still decelerating rather than accelerating, and that puts pressure just from high-fixed cost business on the interest income that's coming across.

Patrick Scholes
Great. Thank you, Mark. You actually answered my second question. I was going to ask you about airline and hotel bookings over, let's say, the last two or three weeks for Hawaii. Certainly, I've seen in my – public data I've seen a very noticeable uptick. And that it sounds like you have to – at least the last several weeks. I'm going to shift gears then. You had an impairment expense of $209 million for unused parcels of excess land. Could you just tell us where those are? Thank you

Dan Mathewes

Yeah. No. Absolutely. So, Patrick, there are really three pieces of land, one in Orlando, one in Las Vegas and one on the big island of Hawaii. And I think what's important to know that these tranches of land have been on our books since pre-2008. So, they've been on there for an excess of a decade. And since we've gone – since we spun from Hilton back in 2017, they – these tranches of land, although they're developable, they've never been in our pipeline. So, the combination of them being there, the impact that COVID had on our sales, allowed us to take a step back and look at what's the best use for this land. So, we're investigating a sale of those properties. We'll see if we actually realize the sale because we're not, by any stretch of the imagination, trying to do anything from a firesale-type perspective. We still want to maximize value here. But just entering that progress or that process, excuse me, led to the impairment charge that you saw. And so, it's really an impairment of land and some embedded infrastructure, but that's your $209 million between those three pieces. And it's effectively evenly split. Hawaii is slightly less, but its order of magnitude there, they're very similar.

Mark Wang
Patrick, just a little bit more color on that. As Dan said, these were pieces of land that were part of that master plan, and they were all pre-financial crisis. But post-financial crisis, there were a number of opportunities that came about that were much more capital efficient for us in Vegas. We picked up 1,200 rooms that was part of a foreclosure that Centerbridge picked up, so we did a fee-for-service deal. Orlando, we ended up working with Goldman on a condo hotel that they took back. And then, when we spun from Hilton, Hilton provided us the Ocean Tower, which was a built – 600-room built hotel that all we had to do is convert. So, at the end of the day, we just ended up with better capital strategies – more efficient capital strategies to execute in those markets.

Dan Mathewes
And, Patrick, just a quick clarification. I think I said it backwards. Those impairments, they ranged from parcel to parcel between $60 million and $80 million. Hawaii was actually the largest with Las Vegas being the smallest. Just to give you..

Patrick Scholes
Okay. And that's non-EBITDA producing land, correct, that you could see a...

Dan Mathewes
That's correct.

Patrick Scholes
Cash and fees and they take away an EBITDA. Okay. Thank you.

Dan Mathewes
Thank you.

Operator
The next question is from the line of Ben Chaiken with Credit Suisse. Please proceed with your questions.

Benjamin Nicolas Chaiken
Hey. How's it going? Thanks for taking my questions. I think Waikiki has paused right now. Not to get ahead of ourselves, but just curious on your thought process concerning the decision to restart that property if ever. I guess I asked, because it seems like Hawaii in particular is likely or hopefully has some outsized pent up demand not only because it's a great destination, but also because some of the more stringent travel restrictions felt there. Just curious how you think about that development.

Mark Wang
Yes. So – yeah, we paused that development in Waikiki. Number one, because with the slowdown in activity due to COVID, we had plenty of inventory that would allow us to continue meeting the demands for that market. So at this point, it's a pause. We haven't made a decision of whether we're going to do – when we're going to restart. But I can tell you that we're very bullish on Hawaii. We think that the market is coming back particularly looking strong in the back half of the year. We've got some really good assets in that market, so. And then I think on top of that, the addition of Sesoko, or Okinawa property allows us to move some of that demand over to that property from the Japanese that have been buying Hawaii over the years. So we're in a good position right now. And we'll – we start to make some decisions from a timing standpoint when we need to bring that property back online.

Benjamin Nicolas Chaiken
Got you. That's helpful. I appreciate it. And then I think a few months ago, we talked about some potential opportunity to efficiently acquire from hotels who may have a different view of corporate of convention moving forward. I think maybe you are referencing 2008, 2009 and basically surmising that a similar event could occur. I'm just curious how – any conversations have gone there and if that view still holds?

Mark Wang
Look, we – as we've talked about in the past, we've benefited significantly on the back half of the financial crisis, and it allowed us to really develop our fee-for-service and are just-in-time JV programs. And we're always looking for investments and looking for investments that have the highest and best use. Clearly, there's going to be some opportunities. We've had a lot of conversations. But at this point, we're in a really good position from an inventory standpoint. We feel really good where we sit today. We've got four new markets that we're opening this year which is a record for us. So, we're in a good place. I think, over time, we'll continue to evaluate the opportunities out there. But as you know, these opportunities take some time to kind of make their way through the process. But opportunities around rightsizing hotels going forward could be a really good place and space for us. But at this point, we don't have anything that we're prepared to talk about.

Benjamin Nicolas Chaiken
Got it.

Dan Mathewes
And, Ben, just to add a little bit of color to that, I definitely agree with Mark. But when you take a step back and you look at our inventory pipeline, obviously, we have some large capital commitments over the next couple of years. For 2021, it's a little bit north of $225 million in just firm commitments. It starts to ratchet down. 2022, it's about $115 million and then it drops to $60 million to $40 million in the next two years. So what I would say is, just to echo Mark's comments, if there are opportunities with existing hotels, it would not be – unless there's obviously dramatic increases in demand, it would not be something that would be incremental to what we'd be spending on inventory in the next few years. It would be more of a substitution that makes sense and ultimately benefits us from a cash flow basis.

Benjamin Nicolas Chaiken
Got you. Totally makes sense. I appreciate it. Thank you.

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

David Katz
Hi. Good morning, gentlemen. I just wanted to maybe go in another direction with respect of allocating

capital, talk about more operating avenues such as digital investments and other kinds of ways that over the long term you might be able to drive some efficiencies and margin growth that way. What thoughts do you have to that end?

Mark Wang
Yeah. No. David, Mark. Look, digital is – we've been investing in digital really over the last four or five years, and we're incorporating digital channels and engagements across many parts of our business. And when you look at some of the things we're doing today, we continue to use our digital channels to promote our vacation package offerings. And we're heavily aligned with Hilton as they continue to build out their digital capabilities. And while it's still small, it's an increasing percentage of the tours that we're looking at and performance, it continues to improve; it's a low-cost channel for us. So, obviously, that's important. And that from a sales standpoint, our sales teams increasingly are interacting virtually with our owners in a more meaningful way. For example, with owners who can't travel or cancel, or who for some reason, don't want to take a physical tour, we've added digital presentations and we have a more centralized digital sales group, adding remote sales executives that are allowing us to do a really good job around reaching those customers. So all of these things are important for us especially as we go forward and well, again, still make up a small percentage of what we're doing. They make up a growing percentage of what we're doing. And we expect over time, they will be more a meaningful source of revenue for us at high margin.

David Katz
Got it. And if I can just follow-up, I know that there's been quite a bit of discussion and we've heard from peers and lots of other leisure-endeavored companies. And it would seem that the obvious takeaway is that there's just so much pent-up demand for leisure activities and travel in the back half of the year. Is there – well, talk me off the ledge, right, what's the – is there some unobvious counter argument to any of that or is this just going to be a back half of the year to remember in a positive way as much as the past year or so has been negative? What do we miss – is there anything we're missing or we should be mindful of?

Mark Wang
Well, I don't think any of us know for 100% how the pandemic is going to finally play out. But it sure does feel like the vaccine has become the stimulus here. And as we see the vaccine continue to roll out in a more broader manner, we believe that there are significant pent-up demand. We are seeing in our numbers – I just..

David Katz
Yeah.

Mark Wang
...in answering Patrick's question. The last 60 days, our reservations have gone up 100% compared to November and December, right. So we've seen significant uplift. And if you kind of look at the full year, when you get to the fourth quarter, we're bumping up against historical highs. So the trends are really, really promising and the fact that we have made an investment back into our owners last year and allowed in to carry their points over to ensure they didn't lose anything in their value proposition, that is – that's going to play out well because we've got more owners with more products to use than we've ever had in the system. And then I think when you look at within leisure, time shareowners, I believe, are going to be one of the first ones to break out based on their high propensity to travel. I know we've shared this data before, but our owners on average travel 26 days a year for leisure, right. They've made that upfront investment in prepaying their vacations. As we said in our prepared remarks, we've collected more of our annual dues this year than we did last year. And I think with our brand, our

customers are really confident that we're going to provide a safe environment for them to enjoy themselves when they go out. And so, look, I think on a more macro level, while people have been – felt the brunt of this pandemic, we've also heard many consumers in a really great place with historic levels of savings. So I think all of this when you take all of that and then you take our direct-to-consumer model that allows us to leverage this relationship with Hilton, we feel pretty darn good that this is going to play out very well as we get to the back half of this year into 2022.

David Katz
Okay. Sounds good. Good luck. Thank you very much.

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

Brandt Montour
Good morning, everyone. Thanks for taking my questions. Actually, I want to follow-up on that discussion and that's helpful positive data, Mark, on the bookings into the fourth quarter. I'm just curious, the lead time with respect to the package sales pipeline and anything else that specific to timeshare that maybe would be an impediment to getting to something close to what you might call normal that early on. Is there anything else or is that anything else that we should be thinking about that sort of just takes a little bit longer that will – before you can get back to normal tour rates?

Mark Wang
Yeah, no, that's a good question. So, what I would say, Brandt, is that clearly we're seeing our owners return and recover quicker. So, we're seeing a really good response towards the back half of the year for owners. Where there is some lag for us is not rental, rental is also performing very well. And I think it has something to do with the fact that the HGV brand within the Hilton system has become known as a product that has multiple bedrooms, kitchens, and provides a really good space. Where the real lagger is right now is our new buyer customers. It doesn't have anything to do with our pipeline. Our pipeline is built really well and we've never turned it off. And so, it's fresh, we continue to activate it. But the activation levels right now are 50% of where they were. But if you look back in December at our activations compared to February, activations have improved 30%. So we're seeing a trend in new buyer activation move forward, but they're still lagging behind both our owners and renters.

Brandt Montour
Okay. That's helpful. Thanks for that. And then I wanted to maybe dig into this – your existing inventory, as well as the inventory that's unfinished that you guys mentioned in your release. You have $4 billion of contract sales for finished inventory of $6 billion of contract sales worth of unfinished inventory in the pipeline. And you talked about your capital commitments and they're decelerating in terms of what's firm. I guess the question is just reconciling those two numbers, how much do you need to spend on an annual basis to fulfill that $6 billion and how long would it take? I'm not trying to squeeze a longer term CapEx guidance out of you guys. I just want to sort of understand, it's a very large number, and I want to understand how much capital in your part it would take to bring that to fruition.

Mark Wang
Yeah. No. I completely understand. And it really varies by project. Because some of the project, as you can imagine, are multi, multi-year, and Maui is a great example of that, right. So, Maui Bay Village, it's a series of lowrise buildings, which we can – which we have and which we can continue to spend in a very moderate sequential way to make sure that we match demand with actual cash outflows, right. That particular project spans well beyond 20, 25 years. And then you have projects that are firm commitments like the Central or Sesoko. And those projects, from a contractual basis, are spent over

the next few years. When you take a step back and you look at the projects that we have, being built right now, and the remaining amount of spend, which goes through above and beyond even 2024, you're talking about a remaining spend of close to $1 billion across all those project. Now that includes projects like Ka Haku which are not contractual and Ka Haku, in upon itself is north of $225 million; it's between $225 million and $240 million at this point. That is obviously paused. But that also include contractual obligations such as Sesoko and the Central in New York. So all meaningful projects and it's very multiyear. If you look from a normalized inventory spend assuming we get back to a normalized level, you're talking about inventory spend that's probably going to be in the range of $200 million to $250 million, probably ebbs and flows a little bit higher, a little bit lower given on the year. But that's probably your steady state, if you will. Again, assuming that we get back to 2019 levels; if we don't, obviously, we'll make the appropriate action.

Brandt Montour
Very helpful. Thanks, guys.

Operator
Our next question is from the line of Stephen Grambling with Goldman Sachs. Please proceed with your questions.

Stephen Grambling
Hey. Good morning.

Mark Wang
Good morning.

Stephen Grambling
One of the things, I guess, we keep hearing from folks across the leisure space is also that this easing up of the promotional environment whether that's in the regional casinos or amusement parks. As you think about timeshare, I guess, how much do you usually spend on marketing that isn't directly tied to a tour? And separately as you look at the promotions that you were offering specific to a tour, how has your pricing behavior in the overall promotional environment evolved over the past few months?

Mark Wang
Yeah. Stephen, Mark, I don't know that we spent a lot that's not related to a tour. I mean, if you think about our rental, it's really promoted through hilton.com, right? We do some out OTA. So, I guess, you would say we've got some OTA costs. But the majority – well, over the majority of our rental is really driven through – our activities through hilton.com, which is another big benefit of the license agreement that we have with Hilton. As far as promotional for tour flow, we really haven't done anything outside of the ordinary from a standpoint of attracting both our owners and new customers. Now, we're doing some promotions with our owners around discounting some points for certain times of the year to drive some demand. But with that in itself is not a cash outlay. So – yeah, so I'd say that very – I guess very little at this point.

Dan Mathewes
And Stephen, I think the only thing I'd add to that is from a promotional standpoint, we do – when you take a step back and look at the timeshare inventory we have, it's very durable, right. If we don't sell it today, we believe we're going to sell it tomorrow. So there's not a ton of discounting going on. But it's not unusual for us to run promotions to either drive owners to a low cost of product inventory or for various different reasons. As you know, we do have some property in Vegas that Trump is associated with. So, as you can imagine recently, that's had more promotions than it probably did five years ago. But those are normal course in business and nothing out of the ordinary in recent months or even

during the past year to be perfectly honest with you...

Mark Wang
Yeah. And Stephen, I think unlike pure logic, we're not impacted by the price down. So we're not discounting to create demand around selling our intervals. Our business model has always had some type of subsidy for vacations for those who want to experience one of our properties. So, the base demand for owners really serves and allows us to yield with a smaller rental room count. So, we really haven't had to take a lot of discounting to even move our rental.

Stephen Grambling
And then on the – some of the new product that is hitting the market, I guess what's the underlying assumption around how long it will take to sell those through and what are the initial sales tell you could transpire relative to that assumption or is it maybe it's too early?

Mark Wang
Yeah. Look, first of all, I'd say we're in a really good place with inventory and that's something I couldn't have said a few years ago. And the good thing is we've got really good assets and proven markets. And so and as Dan alluded to, a significant portion of those are just in time deal, so they are capital efficient. And we've gotten a lot done in the last three years and we've now begun to sell those – that inventory. And importantly, we're opening up sales centers with them. So sales right now, the initial sales from Maui, for Okinawa, for Cabo have all been really well received. And so we're really excited about that. The slowing during the pandemic has obviously impacted overall sales and overall initial sales. But we continue to believe that we've got the right product in the right markets and very, very pleased with where we sit today versus a couple of years ago.

Dan Mathewes
Yeah. And, Stephen, just to tag on to that, when it comes to the new projects, to Mark's point, we're very pleased with how those sales kicked off. Clearly, it's not the environment we expected to be in when those kicked off. So underlying returns while we – it's directionally in the right direction, it's still a little early to tell. It's going to be driven like everything else on how the recovery plays out.

Stephen Grambling
Awesome. Thanks so much. I'll jump in the queue.

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

Mark Wang
All right. Well, thanks, everyone, for joining us this morning. And a special thanks for all of our team members for their hard work and dedication to providing our guests with safe and memorable experiences when they're traveling with us. We look forward to speaking with you over the coming weeks and updating you on our next call. Have a great day.