Hilton Grand Vacations Inc.

Q3 2021 Earnings Call

Thursday, November 9, 2021, 11:00 A.M. Eastern

CORPORATE PARTICIPANTS

Mark Melnyk – *Vice President of Investor Relations*

Mark Wang – *President and Chief Executive Officer*

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

PRESENTATION

Operator
Good morning, and welcome to the Hilton Grand Vacations Third Quarter 2021 Earnings Conference Call.

A telephone replay will be available for seven days following the call. The dial in number is 844-512-2921 and enter PIN 13714035#.

At this time, all participants have been placed on a listen-only mode and the floor will be open for questions following the presentation.

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 Third Quarter 2021 Earnings Call.

Before we get started, please note that we have 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 these forward-looking statements. These statements are effective only as of today. We undertake no obligation to publicly update or revise these statements. For a discussion of some of the factors that could cause actual results to differ, please see the risk factors section of our 10-Q, 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 press release and on our website investors.hgv.com. As a reminder, our reported results for both periods in 2021 and 2020 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 the construction is completed. To help you make more meaningful period to period comparisons, you can find details of our current and historical deferrals and recognitions in table T-1 of our earnings release. For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA and the real estate results (inaudible) results, excluding the net impact of construction related deferrals and recognitions for all reporting periods. A complete accounting of our historical deferral and recognition activity can be found in Excel format on the financial reporting section of our Investor Relations website.

Finally, unless otherwise noted, results discussed today refer to third quarter 2021 and all comparisons are accordingly against third quarter of 2020. 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 of the Company's 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
Morning everyone. I'm excited to share our results with you today, which reflect two months of ownership of Diamond Resorts.

I'd like to start by saying how proud I am of the combined HGV team. Not only did they come together to close a mid-quarter acquisition and get ready for the earnings results today, but they also maintained their focus on the business and execution, producing strong EBITDA in line with 2019's levels, with record margins.

To further put this into context, I'm even more impressed that we generated these accomplishments despite the Delta variant wave that started to take hold shortly after we closed the transaction. We've experienced several different COVID spikes over the past 18 months, and with each one we've seen an uptick in cancelations early on, coinciding with an increase in media coverage. But we've noticed that with each successive wave the impact to our business has lessened, and our trends have normalized more quickly. The Delta wave fit into this pattern as well, with the impact largely confined to the month of August. As infection rates dropped, we saw a rebound in trends, which continued through October.

Before we get into the details for the quarter, I'm happy to report that the Diamond integration is moving full steam ahead and according to plan. As you know, we officially closed our acquisition in early August. Since the transaction closed, I've been on the road visiting our properties, holding town halls, and interacting with our team members. I can say there's a tangible level of excitement across the organization right now. Our new team members have embraced the culture at HGV, and our Legacy HGV team members have enthusiastically welcomed them, creating a positive environment to exchange ideas and promote best practices that sets the foundation for the future of HGV.

At this early stage of integration, we've been intensely focused on the cost side of the equation – getting the human and capital infrastructure set, and extracting synergies to rebase the cost structure. We've made great progress on our cost savings initiatives and are already tracking at over half of the target run rate that we set out at the transaction's announcement. Dan will get into more detail here, but it just underscores our dedication to being the most efficient operator in the industry. We'll continue focusing on this cost rationalization for the next several months as we finalize our plans for rebranding phases of the integration, which we'll begin to execute on next year. These initiatives will be the key to unlocking the revenue synergies that will maximize the potential of the combined company.

There are three main components of the revenue synergy plan. The first is rebranding our sales centers, which will allow us to sell all of our brands throughout our network of sales centers. This entails installing sales training, technology, and compliance in the Diamond sales centers, as well as upgrading the physical layout to meet the HGV standards. We anticipate that these rebrands will proceed rapidly, and that we'll be able to have nearly all of our sales centers rebranded by the end of '22. This will significantly expand our distribution network, nearly tripling the number of sales centers and giving us the opportunity to engage with new buyers at locations across the U.S., Mexico, and Canada. The sales center rebrand will also coincide with the launch of our new membership program, which we'll announce to our members in early next year.

The third element of our revenue strategy is rebranding Diamond's resorts, which will ensure that all of our properties provide a consistent, high-quality experience. The rebranded resorts will be introduced into our system in several waves over the next few years as they're completed. We'll come out of the gate strong, with approximately 15 to 20 of Diamond's properties being ready to add to the HGV system in the next year alone. Importantly, nearly all of this first group will be in new markets for HGV, and I think our owners will be really surprised by how quickly the number of vacation options will grow. We know that's what resonates with them. In fact, a recent survey we conducted with owners and prospects, showed that our expanded portfolio was cited as the number one most appealing characteristic of the HGV and Diamond combo, followed closely behind by the benefits of the Hilton Honors program.

While we won't begin the rebrand in earnest until next year, we're already hard at work adopting some of the programs we believe will be successful with our HGV owner base as well. For instance, we've renamed Diamond's annual LPGA event to the Hilton Grand Vacations Tournament of Champions, which we'll host here in Orlando. This high-profile event will not only give us enhanced brand exposure but will also provide the first opportunity for HGV members to participate in our Events of a Lifetime program. Overall, I'm very pleased with how the integration is proceeding, which has contributed to another solid set of results.

Let's talk through the details of the quarter. To make the trends easier to understand, from here out I'm going to refer to trends for a full three calendar months of both Legacy HGV and Diamond, even though we didn't own Diamond's business in the month of July. We've also provided some very detailed slides on our website with historical Diamond information for your reference, which includes full calendar third quarter segment results.

Our contract sales for the quarter continued to show improvement in their recovery pace against our prior peak. Legacy HGV sales of $290 million were 81% of '19's levels, 10 points ahead of where we were in the second quarter's pace, and Diamond was also strong at 88% of their '19's levels.

After a strong July, we did experience a Delta-related pullback in August, but by September sales had rebounded and continued to improve through October. In fact, our Legacy HGV business just finished October at 94% of '19's sales levels. Since the end of September, we've also seen weekly improvements in our forward on-the-book occupancy rates at both Legacy HGV and Diamond. As we look out at the rest of the year, our room nights on-the-books are up 3% against '19's pace, with a solid mid-single-digit improvement in December, and our cancellation rates have declined to levels below what we saw in June.

Breaking down our contract sales components, tour flow pace versus 2019 improved each month of the quarter and was supported by steady new buyer trends at both Legacy HGV and Diamond, even during the month of August. We saw VPG outperformance due to elevated close rates, along with another strong quarter in average price growth that was driven by sales of our new resort offerings in Maui, Sesoko, Charleston, and Cabo. The high flowthrough of improved VPG, along with our cost efforts, underpinned a great EBITDA result. At our Legacy HGV business, we had another quarter of impressive EBITDA margin performance, which were the highest in the Company's history at 27%. Our focus on efficiency produced EBITDA that was on par with the third quarter of 2019. Diamond also had a strong EBITDA performance for the calendar third quarter, with margins well ahead of their '19 levels.

Looking at our geographic performance, we had encouraging results in the mainland, both at Legacy HGV and Diamond. Our regional resorts across the system outperformed as they have

throughout the pandemic, and we saw a material contract sales benefit this quarter from both the addition of Diamond's regional portfolio, as well as the contribution from our recently opened property in Charleston. Looking at our largest markets, Orlando was a standout this quarter and improved across multiple metrics for both Legacy HGV and Diamond. Not only did tour flow recovery pace improve in both August and September, but VPG did as well, which drove contract sales gains against 2019 at both entities in the month of September.

One other mainland market I'd like to highlight this quarter was New York. Results for the third quarter were also impressive, particularly relative to where we were a quarter ago. Our tours tripled sequentially, and we saw increased VPG that drove a substantial improvement in our contract sales recovery pace in each month of the quarter. The net result was that in Q3 we generated contract sales that were two thirds of '19's levels on only one third of tour flow, so a really good job by the teams there.

Turning to Hawaii, we had success with our ability to drive visitation with our domestic guests. Our Legacy HGV domestic tour flow finished the quarter above 80% of '19's levels, which is a full 20 points ahead of where we tracked in Q2. With solid VPGs we generated record contract sales to domestic guests at 122% of 2019's levels. The appetite to visit Hawaii is stronger than ever with our domestic guests, and we'll continue to benefit from their increased visitations while we await the return of our Japanese travelers.

To give you an update on Japan, we're still awaiting the removal of international travel testing and quarantine requirements by the national government that would encourage a return to Hawaii by the Japanese. Our current assumption is that we're unlikely to see the return of these travelers to the islands in time for the holidays. Given that Diamond doesn't have a Japanese business, we're now much less levered to these policy changes than we were at Legacy HGV. But we're dedicated to remaining the leader in this market, and we're convinced that the demand to return to Hawaii will be strong once the restrictions are lifted.

On a positive note, trends at our local Japanese sales centers have been very stable from a tour flow, VPG, and contract sales perspective, despite a prolonged countrywide lockdown. These restrictions have recently been relaxed as Japan has had success with their nationwide vaccination campaign and has had very low infections. Allowing people to travel more freely within Japan should help to support our local Japanese sales, and it also aligns well with the October 5th opening of our new project on the island of Okinawa.

When I look across the different geographic regions of our business, there are some real bright spots. I'm really encouraged by the stability we had across our mainland portfolio and believe that we're already seeing some of the benefits of the increased portfolio diversification that Diamond brings. Importantly, we've seen some progress in both Hawaii and Japan.

From a customer segmentation standpoint, our new buyer trends impressed again, both at HGV and Diamond. After strong growth in July, our new buyer tour flow recovery pace held those gains through both August and September. This is a really positive result, as new buyers are generally a good indicator of overall travel sentiment, along with being a key to our long-term value creation in our business.

Driving net owner growth will remain a focus for the combined entity. Our Legacy HGV NOG has continued to improve as sales have recovered and was 1.2% as of September. While we're not ready to apply the NOG concept to Diamond yet since it's a 12 trailing month metric, we're off to a solid start with nearly 2,500 net new members added during the calendar third quarter.

Our Legacy HGV new buyer VPG improved sequentially and year-over-year against difficult comparisons and is 15% greater than the same period in 2019. This was driven entirely by improved close rate, which was up sequentially and year-over-year in the third quarter and is 240 basis points ahead of our close rates in 2019.

The addition of new buyers to our system is also a key driver of our other business segments, which now represent half of the EBITDA of the combined company. Increased revenue per member, combined with expense controls at our club and resort management business enabled us to surpass our 2019 profit levels, with margins 200 basis points ahead of where they were at that time. With the addition of Diamond's substantially larger management business due to larger system size, this will further bolster our cash flow from this recurring fee stream.

Finally, our rental business surpassed '19's revenue levels by nearly 20% at both Legacy HGV and Diamond, owing to increased demand across the system and robust rental activity in higher dollar markets like Hawaii. When I look at our results in the context of both a transformative integration process and the pandemic, I'm proud of how well the team has come together and maintained their focus to drive the business forward. We saw trend improvements across multiple geographies and witnessed some initial benefits of our increased diversification and scale. We drove tour flow and generated net owner growth. We did it efficiently to improve our flowthrough to EBITDA.

To wrap up, I'm very pleased with our results this quarter and our first few months as a combined entity. Our integration is progressing well and according to plan. We've come out of the blocks strong on our cost synergy efforts and we're hard at work prepping for our rebranding launch and integration of our sales operation in early '22. The team is energized, the travel backdrop continues to improve by the day, and we're seeing momentum return to the business that sets us up really well as we head into the next year.

I'll now turn the call over to Dan to take 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 reported results for this quarter included deferred revenue and expense recognitions, which you haven't seen since the 2018 opening of our Ocean Tower project. This quarter had a revenue recognition of $241 million from the openings of our Maui, phase two of Ocean Tower, Sesoko, and Central projects. Netting out the associated recognition of related direct expenses for those sales boosted GAAP Adjusted EBITDA and net income by $133 million for the quarter.

Recall that the mechanics of ASC 606 require that pre-sales and associated direct expenses of projects under construction are deferred until you receive your certificate of occupancy for the project. At which time, GAAP treatment is that you recognize those deferred revenues and expenses all at once. In Q3 this results in our GAAP revenue, expenses, Adjusted EBITDA, and net income being higher than the same stats on an economic basis, which is the metric that we use to manage the business since it more closely matches actual cash flows, and which as always, I'll refer to exclusively in my prepared remarks. Important to note that deferrals and recognitions in the quarter only affect our Legacy HGV results, and do not impact Diamond's results at all.

I'd also reiterate that you should download the slides we've provided on our website this morning laying out historical segment financial information for Diamond Resorts. These financials have been remapped to conform with our business line detail and will provide you with a much clearer view of Diamond's historical performance than what was available with the first and second quarter Dakota Holdings financials filed earlier this year. Ultimately, these data points should provide you with a great base for financial modeling.

In my prepared remarks on the quarter, I'll refer to both our reported Q3 results, including our 59 days of Diamond ownership, along with trends for Diamond's full calendar third quarter that you'll find in the slides. In order to prevent confusion, I'll be clear which Diamond numbers I'm referring to.

With that out of the way, let's review the results for the quarter. Total revenue in the quarter was $687 million, excluding the aforementioned recognitions. Diamond contributed $245 million of revenue during the roughly two months of ownership. At Legacy HGV we again saw sequential improvements in all of our business lines, with a 25% sequential improvement in our real estate revenue. Q3 reported Adjusted EBITDA was $207 million, of which Diamond contributed $89 million. As Mark mentioned, our HGV standalone economic EBITDA was $118 million for the quarter, which matched our Q3 2019 EBITDA. EBITDA margins in the quarter were 30%. This included record EBITDA margins of 27% at our Legacy HGV business. Diamond also generated record EBITDA margins of 36% during our two months of ownership, aided by strong operational performance, along with our success in achieving material cost synergies during the quarter.

Looking at those synergies, we've made great progress and have achieved a run rate savings of $70 million, more than halfway to our goal of achieving at least $125 million of savings within 24 months of acquisition close.

I'd like to pause here to highlight a few things about our cost synergies. First, recall that the $125 million plus that we laid out was based off the 2019 cost structure of the combined entity, which is important to remember as you model the synergy path. In addition, as you can see on our slides online, I'd note that we made material progress on our G&A initiatives out of the gate, which are largely related to headcount changes. I'd consider this to be a reflection of quicker timing than we had modeled in our initial thoughts around synergy capture, rather than a change in the size of the G&A bucket that we see at this time.

Turning to our segments, within real estate, total contract sales were $433 million, which includes $143 million contributed by Diamond during the two months of ownership. Legacy HGV contract sales of $290 were 81% of 2019 levels, demonstrating continued progress in returning to our prior peak contract sales levels. This result was driven by a strong improvement in our recovery pace in July, followed by a Delta-related pullback in August, and a recovery in September. Our mainland resorts performed admirably during the Delta wave, and largely held on to July's pace through the quarter owing to strong regional trends.

Our APAC region saw some pullback in September owing to the confluence of Delta's impact and the continued lack of Japanese visitation, although trends there have also rebounded in October driven by an improvement in domestic travel. In fact, for the month of October in Waikoloa, we finished 13% ahead of our contract sales in October of '19. If we were to look at Diamond's standalone calendar third quarter, their contract sales were $220 million, which was 88% of 2019 levels. Diamond also experienced a Delta-related slowing in August, although a

strong September rebound drove them back to a level nearly even with where they were in 2019.

Turning to VPG, Legacy HGV had VPGs of $4,320, up 3% year-over-year and up nearly 30% over 2019. Average transaction price played a major role in the VPG growth we saw this quarter, with sales of our new, higher-end projects in Maui, Sesoko, Cabo, and Charleston contributing to over 10% year-over-year growth in our ATP. We've continued to outperform on close rate, which was down only slightly on a sequential basis, driven in particular by strength in our new buyer close rates.

Owner sales were 71% of our contract sales for the quarter, owing to the addition of Diamond. For Legacy HGV, our owner sales mix in Q3 was steady at roughly two thirds of sales. Diamond has historically had a much higher skew toward owners, which were nearly 80% of contract sales for the quarter. But they also had success with new buyers in Q3, with consistently strong close rates driving new buyer contract sales growth over 2019 during the month of September.

Our fee-for-service mix for the quarter was 29%. Strong performance from our recently opened fee project in Charleston were offset strictly by mix, as Diamond does not have a fee business. Real estate sales and marketing expense, excluding recognitions, was $139 million for the quarter, or 32% of contract sales, which included $40 million of contribution from two months of Diamond. At Legacy HGV, sales and marketing expense of $99 million was 34% of contract sales, which is 400 basis points better than we were in 2019 due to cost reductions and a focus on efficiency as our business recovered. Diamond's cost structure reflected the benefits of both a focus on efficiency and our cost synergy recognition.

Real estate segment profit was $124 million, which included $48 million contribution from Diamond. This record segment profit reflected the addition of Diamond resorts and substantial progress against our cost synergy goals, along with a continued focus on efficiency across the combined organization.

In our financing business, third quarter segment profit was $34 million with margins of 64%, which included $10 million of contribution from Diamond. Margins reflect the addition of Diamond, along with some organizational expense allocations that we performed as we aligned Diamond's business with ours.

Looking at Legacy HGV's portfolio, our gross receivables balance was $1.2 billion. Our portfolio weighted average interest rate was 12.7%. Over the past three months we've seen continued sequential improvement in our Legacy HGV delinquency rate to 1.6% of our receivables portfolio versus 3% at the end of 2020. They remain lower than delinquency rates we experienced in 2018 and '19. Our annualized default rate was 5.7%, reflecting continued improvement versus Q2's rate of 6.4% and 6.3% at the end of 2020.

Turning to Diamond, I'd like to take a minute here to talk through some key characteristics of their portfolio, which reflects several acquisition-related considerations. It's easiest when thinking about Diamond to separate their portfolio into two pieces: the legacy acquired portfolio assets, and the go-forward portfolio that we'll construct under our ownership as we generate contract sales and create new receivables. On the first piece, note that when we acquired Diamond, we also acquired their existing $1.1 billion timeshare receivable portfolio. Like all assets in the acquisition, this portfolio was mark-to-market. As a result, the acquired portfolio will have a minimal impact to our P&L from a provision standpoint, although we'll still benefit in our financing business from the spread between the borrowing and the lending rates.

What's more important to understand is the characteristics of Diamond's portfolio on a go-forward basis, which we'll integrate into our underwriting and sales practices. Average FICO scores are a healthy 720. The financing propensity among Diamond customers is approximately 84%. These are 10-year loans and we're lending at approximately 15%. Consumer interest spread is similar across the companies owing to Diamond's legacy higher cost of funding in term ABS markets, but over time we expect to bring that cost of funds down as the portfolios are integrated. Regarding our related provisioning activity, our provision for bad debt was $50 million, and our overall allowance on the balance sheet was $248 million, or 19% of gross financing receivables. The provision at Legacy HGV was $27 million, or 16% of owned contract sales.

Although COVID infection trends are declining recently, we're maintaining vigilance around the roll off of various stimulus programs established over the past 18 months. We expect to see gradual improvement in our provision from Q3 levels, as trends continue to normalize over time. Diamond's provision was 16% for contract sales made in the 59 days of our ownership. This reflects only the provision related to the partial quarter of sales activity for Diamond in the period. As the portfolio of Diamond loans originated following the acquisition date ages, the impact of optimizing the static pool will begin to layer into the provision as well. Taking both of these pieces into consideration, we expect that the near- to medium-term will provision Diamond in the high teens. I'd note that this reflects a material improvement from the mid-20% provision that Diamond was taking back in 2019, and we also believe that under our ownership we'll be able to further improve upon this provision rate over time.

Turning to our resort and club business, our consolidated member count was 462,000, which includes 131,000 Diamond Club members. Looking at HGV's legacy business, our NOG accelerated to a positive 1.2%, and as Mark mentioned, Diamond also added nearly 2,500 net new members during the quarter. Revenue of $99 million was split roughly evenly between Legacy HGV and the inclusion of Diamond's two months. At Legacy HGV this reflects both the addition of new members, as well as increased revenue per member as travel activity improved during the quarter. At Diamond, their revenue contribution for the quarter reflects their materially larger resort management business, owing to the size of their network versus that of Legacy HGV. As you can see in the slides showing their calendar third quarter results, their resort management business has also been remarkably steady, underscoring the attractiveness of this recurring line of business. Our consolidated profit margin in our resort and club business, including two months of Diamond contributions were 74%, with Legacy HGV margins that were 200 basis points above their 2019 levels.

Rental and ancillary revenues were $112 million, including $52 million from Diamond. Both Legacy HGV and Diamond saw a solid uptick in business during the third quarter as travel trends continued to improve, and both businesses remain well ahead of their 2019 levels. Our segment margin of 25% reflects another sequential improvement at Legacy HGV to 38%, along with the addition of Diamond's business which registers a significantly lower margin. Recall that Diamond lacked a hotel partner and used more expensive OTA listing channels for their inventory, and they historically ran their rental business at a loss. As we rebrand properties, we expect that we can improve both the topline and expense structure at Diamond under our ownership by leveraging our relationship with Hilton, which should result in improved trends in this business over time.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, corporate G&A was $26 million, which was up $11 million from last year's shutdown influenced levels.

License fees were $24 million, and JV income was $1 million. We paid no licensing fees on the Diamond business as we haven't yet rebranded any resorts. That activity will kick off in the Spring of next year. But given the timing of the rebrands and the ramp of the license fee structure on Diamond resorts, we also currently anticipate that we'll pay a minimal amount of license fees in 2022.

Our adjusted free cash flow in the quarter was a negative $33 million, which included inventory spend of $119 million. This is before acquisition related expenses of $55 million. As you'd expect, there was significant acquisition related expenses and charges this quarter, including the discrete costs related to our cost synergy capture. I think this a great place to share with you our view of these costs and the role they'll play in enabling our synergy path to create material value in the business.

The first group of expenses are the acquisition related charges that I mentioned, including headcount and severance expenses, IT integration costs, and other typical merger-related items. These expenses are our focus right now, as we seek to create the asset base and expense structure necessary to support the growth path ahead. We expect to spend approximately $125 million on these one-time costs to enable over $125 million of recurring savings and should largely complete that spend within the same 24-month timeframe over which we anticipate recognizing our cost synergies. As I mentioned, we've already made significant progress on this front and are on a great path with our cost synergy realization, giving us a lot of confidence in our ability to realize the savings that we're targeting.

The second group of discrete costs are our rebranding expenses. As Mark mentioned in his remarks, we'll begin to spend on some of our sales center rebrands this quarter, but these expenditures will begin in earnest in the early part of next year as we start to rebrand Diamond's properties. We expect to spend approximately $200 million to $250 million on rebranding over the next several years and will have that effort completed by 2025. I'm happy to report that we received strong support from our HOAs to proceed with the rebranding plans, so our owners are excited as we begin the process.

We remain very confident in our goal of reaching 50% to 60% run rate adjusted free cash flow conversion of our economic EBITDA and we expect to ramp steadily to that level over the next several years. As of September 30th, our liquidity position consisted of $334 million of unrestricted cash and $499 million of availability under our revolving credit facility. We also have $629 million of capacity on our warehouse facilities. We currently have $180 million of securities that are currently available to be securitized, and another $149 million of securities that will become eligible as soon as they meet typical milestones, including receipt of first payment, deeding, and recording, etc. Our debt balance at the quarter end was comprised of corporate debt of $2.9 billion and a non-recourse debt balance of $1.3 million.

Turning to our credit metrics, at the end of Q3, the Company's total net leverage on a pro forma TTM basis was 4.2 times, not giving effect to anticipated synergies. Including anticipated synergies, our leverage is 3.6 times on a pro forma TTM basis.

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

Operator
Thank you. Ladies and gentlemen, at this time we will be conducing a question-and-answer session.

Our first question comes from the line of Stephen Grambling with Goldman Sachs. Please proceed with your question.

Stephen Grambling
Hi, good morning. I was hoping you could provide a little more color around the existing versus kind of new customer growth within each of the kind of legacy businesses. Any thoughts on how each of those customer bases are expected to trend as you think about the potential trajectory laid out in the proxy? Thanks.

Mark Wang
Good morning, Stephen. Yes, so look, I think first I'd say trends around new buyers are really encouraging. We saw sequential new buyer transactions were up 16% for Legacy HGV in Q3 versus Q2 and that's after doubling in Q2 versus Q1. We're seeing meaningful VPG levels, actually historical levels for us, and in Q3, over 40% of the transactions were to new buyers. All in all, transaction wise we've gotten back up not to where we were historically but it's moving definitely in the right direction, so we're seeing a lot of build up in new buyers coming through.

On the Diamond side, they had great execution from a really strong team, a team that we inherited. I think on a go-forward basis, we're seeing package sales now on par with 2019. Our expectations is that we'll at our next shared and continue to see new buyer tour activity improve and we'll continue to see strong trends in the leisure travel side. I believe over the long term, there's definitely upside in our VPG with new buyers from 2019, especially around some of the great work we've been doing and a great investment our team's been doing around data and AI. We've been improving overall tour quality and so—and what do I mean by that? Virtually every tour or every package holder and every owner that we have moving through our sales funnel is actually modeled based on expected VPG, and with this ranking from highest to lowest, we can prioritize our activations. Long term, I think we're going to continue to see improved VPGs for new buyers and that will also be the case with owners. Anyways, very encouraged with what we're seeing overall with new buyers.

Stephen Grambling
Great, and I guess one follow up there then just to make sure I'm clear. If we take that altogether, I guess is there any way that to ascertain how much of the VPG uplift we've seen has maybe been driven by changes in that existing versus new mix? Then also, how you think about the sustainability of VPGs going forward.

Mark Wang
Yes, so well anyways, obviously we're at historical levels right now for VPG. That's across the industry and a couple dynamics are really playing into that. Owners are coming back faster than new buyers, right. They have a much higher VPG—owners have a much higher VPG than new buyers. But as we progress and move into '22 and '23, we're going to continue to drive our focus around new owners as we always have. With that VPGs will moderate some. That being said, as I just mentioned, I think the tools and the modeling we're doing right now will have a long-term impact on having, moving up our overall VPGs on a historical level. Our belief that we'll continue to see VPGs probably about 10% to 15% higher on new buyers than we have historically seen in the past.

Stephen Grambling
Great and maybe one other quick one to follow up. Maybe I missed this in the opening remarks. But did you talk about what you would generally think of as being the timing for securitizations

kind of going forward from here as I know you're kind of rebuilding the financing receivables book? Thanks.

Dan Mathewes
Hi, Stephen. It's Dan. No, great question. When we take a step back and we look at this, we're going to be in the process of integrating the portfolios at some point. Initially, on the outset, what I would expect to see is an HGV ABS deal, followed by a Diamond deal, and perhaps a combined deal after that point. The trajectory or the timing of that is most likely the first one would be late Q1, early Q2. Then potentially depending on how everything falls out, either two more next year or one in Q3 with one rolling into early 2023, just from a trajectory standpoint.

Stephen Grambling
Great, thanks so much. I'll jump back in the queue.

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

Patrick Scholes
Hi, good morning, Mark and Dan.

Mark Wang
Good morning.

Patrick Scholes
A couple questions for you. Mark, high level question here. About 20 years ago, as I recall, Marriott Vacations had tried to go after more of the mass market customer with their Horizons brand. As I recall, it just didn't work out for them as it cannibalized their existing customers. Have you folks thought about how to avoid some of the pitfalls that Marriott Vacations did when that brand didn't work out for them and/or how your acquisition might be different from what they did or were trying to do? Thank you.

Mark Wang
Yes, Patrick, this is Mark. Yes, look, I've been around long enough to actually remember Marriott's launch of the Horizon brand. But look, I can't speak for Marriott Vacations and their experience on that, but I do think there is some fundamental differences between the approach we're taking versus what they were doing in regards to launching an entirely new brand. In our case, we're rebranding a business that has 92 properties and over 120,000 members. Then you've got another over 200 legacy owners there. We're expanding both our reach and our scale. We also have the power of the Hilton legacy name and the actual brand.

I guess going back to the rationale of why we're making this move, is we've grown HGV over time. We've been very successful in high dollar markets like New York, Hawaii, Japan, and we have really been developing and bringing on some really high-quality product across the U.S. and now in Japan. But if you look at Hilton. Hilton has grown a great deal over the past decade across really all segments of the market. But the real engine of their overall growth has been in the upscale side. Our rebranding of Diamond to Hilton Vacation Club, we believe is going to allow us to target that segment of the Hilton database that has grown the most over the last decade or so.

I think we're going to be better positioned to leverage our relationship with Hilton. We'll be able to improve the yield from their base of Hilton Honor members. Also, I think as we talked about in the rationale, we're adding reach. We're adding 20 new markets and this reach is really going to allow us to better penetrate in the new geographic markets. We're very confident in our ability to drive incremental demand with the introduction of this new complementary property portfolio and with really significant scale. I think just really two different dynamics when you compare it to what (inaudible) was trying to do with Horizon 20 years ago.

Patrick Scholes
Okay, thank you for some color on that.

My next question for Dan, I have my notes back in 2019. The Company's target net debt to EBITDA was 1.5 to 2 times. You're roughly at 4.2 times now. First question, is your long-term target still 1.5 to 2 times, and what are your thoughts—as you approach that level, what are your thoughts about various priorities of returning cash to shareholders? Thank you.

Dan Mathewes
Great question. I think there's a—we obviously got a lot of dynamics going on that some of our peer set do not. Obviously, we're right in the middle of an integration that has a large cash outlay just to meet the savings, the permanent savings that we anticipate building into the business, and obviously creating a lot of value. Then we also have the rebranding strategy that's going on that is also another $200 million to $250 million. We're cognizant of that use of cash.

To your point though, a few years ago our leverage targets were 1.5 to 2 times. You may recall during the pandemic when we amended our debt agreements, we actually took a step to permanently increase certain covenant requirements, just in general signaling that we would be more apt to have a higher leverage target. We haven't officially come out with anything, but it would be more in line with the peer set, so generally speaking we would look to increase that.

As we've proven in the past, we are not a hoarder of cash. We do things prudently and between 2018-19 and early 2020 we were buyers of our stock. We spent north of $300 million in share repurchases and we would expect from a capital allocation strategy, that that is a key component of our strategy still. Be it some form of return of capital to shareholders, share repurchases, and/or dividends which we have not done in the past, the latter of that is dividends. But as this year progresses and we see that leverage ratio improve, I would look to us to revisit that but just from a trajectory standpoint, that's probably back half of 2022. Just to put things into perspective when we would look to review that again. Lots to digest in the next couple of quarters, I guess is what I'm really trying to say on the rebranding front.

Patrick Scholes
Okay, fair enough. Thank you. I'm all set.

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

Brandt Montour
Hi, good morning, everyone. Thanks for taking my questions. Thanks for these slides. They're very helpful. I have a quick question on the rebranding strategy. I was hoping, Dan or Mark, you could flesh it out a little bit more for us in the '23 through '24 timeframe. Is the strategy to do it in

waves? Is there an opportunity within this plan to speed it up at all or is this sort of set? I guess what I'm trying to get at is I'm trying to figure out why '24 is the big year and '23 isn't the big year. But I don't want to undermine, obviously how heavy the lift is. Anything on that would be helpful. Then the last part of this question is just do you expect—how much of it should flowthrough Cap ex versus op ex or how should we think about that? Thanks.

Mark Wang
Yes, let me maybe, Brandt, I'll take the first part of that, and I'll let Dan talk about the where the flowthrough is going to happen. But look, I think we actually, I think have developed a really robust plan about rebranding the Diamond properties. We've always said that the rebranding of properties, as well as launching the new membership are really essential to driving our revenue. We're going to begin rebranding properties this fall to Hilton Vacation Club. The way we're looking at it, to really optimize the synergies we're going to prioritize the larger, higher quality properties and our expectation is we'll complete the first tranche in the first half of 2022. I think we've said in our prepared remarks, approximately 15 to 20 properties will be rebranded over.

I guess the benefit for the getting the whole entire portfolio rebranded over is going to be more around the synergies we're going to drive around rental. We'll want to push as fast and as hard as we can. But at the end of the day, when we launch our first set of properties, that really sets the stage for us to start selling our new membership, which is really going to be the, I think is going to drive the biggest benefit from a revenue standpoint. This new membership will, as we look at it is going to increase the overall consumer value proposition and is going to provide significantly more options as we've been talking about.

Anyways, I think we have a really good plan and I think that we'll start seeing the revenue benefits, the revenue synergies start to play out early part of next year and we'll continue to roll out really, past the point in time where we get the rebranding of the properties done.

Dan, I don't know if you want to talk about the flowthrough piece.

Dan Mathewes
Well yes, no, absolutely. When you look at that spend, I mean, we've talked about $125 million to get the cost synergies and then another $200 million to $250 million in rebranding costs. That's rebranding costs at the property level, as well as sales centers, as Mark alluded to earlier. That is predominantly cap ex and then when you look at the integration costs of the $125 million, some of that is capitalizable. IT is kind of split. It depends on how much work you do upfront and before you finalize plans. But the majority would be cap ex. What we will do on a go forward basis is make sure that we call that out for you, so you can get an appreciation on the split. But it's more cap ex than P&L, generally speaking.

Brandt Montour
Okay, my follow up, Mark, was the timing of revenue synergies linked to these phases of your plan, but you answered the question. That's it for me. Appreciate everything, guys. Thanks.

Mark Wang
Okay.

Operator
There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

Mark Wang
All right, well thank you, Operator. Before we go, I'd like to just say how honored we are to have been ranked twelfth on the *Newsweek* Top 100 Most Loved Workplaces list. It recognizes companies who put respect, caring, and appreciation of their employees at the center of their business model, and it reflects our commitment to creating a supportive culture where our team members can thrive. Their energy and passion shows in the exceptional vacation experiences we create for our owners and guests. I'd like to say thank you to all of our team members for their commitment to sustaining such an amazing culture. Have a great day. Thank you.

Operator
Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.