Hilton Grand Vacations Inc.

Q4 2021 Earnings Call

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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' Fourth 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 number 13726008. At this time, all participants have been placed in a listen-only mode. The floor will be open for your 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' fourth quarter 2021 earnings call.

Before we get started, please note that we 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 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 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 at investors.hgv.com.

As a reminder, our reported results for all periods reflect accounting rules under ASC 606 which we adopted in 2018. Under ASC 606, we're required to defer certain revenues and expenses related to sales made in the period when a project is under construction and then hold off on recognizing those revenues and expenses until the period when construction is completed. To help you make more meaningful period-to-period comparisons, you can find details of our current and historical deferrals and recognitions in Table T1 of our earnings release.

For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA and our real estate results refer to results, excluding the net impact of construction-related deferrals and recognitions for all reporting periods. A complete accounting of our historical deferral and recognition activity can be found in Excel format on the Financial Reporting section of our Investor Relations website. Finally, unless otherwise noted, results discussed today refer to fourth quarter 2021 and all comparisons are accordingly against the fourth 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 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. I'm happy to report our results for our first full quarter as a combined organization. We closed out 2021 on a solid note, fourth quarter EBITDA exceeded 2019's pro forma combined levels for the second quarter in a row, driven by strong margins, and our Q4 North America contract sales were nearly back to 2019's levels despite the emergence of the Omicron variant which showed up late in the quarter. But I'm proud to say that neither the Omicron nor any of the other challenges faced throughout the year prevented us from exceeding our expectations which is a testament to the flexibility and adaptability of our teams, the commitment of our owners, the power of our brand and the strength of our business model.

Looking ahead, 2022 is going to be a transformational year that will lay the groundwork for the long-term success of HGV. We're making great progress on the integration of Diamond Resorts. We held our first Leadership Summit as a combined company, where we laid out a common set of strategic goals to achieve our integration targets, while also ensuring our HGV culture is embraced across the Company. In January, we hosted our inaugural LPGA Tournament Champions event under the HGV brand which was our first major integrated event catering to both HGV and Diamond members. We're also encouraged by the strong forward demand indicators we're seeing of late which leaves us optimistic about the trends for this year, that gave us the confidence to establish a 2022 EBITDA goal that's ahead of our prior target, as we noted in this morning's release. At the same time, our focus on building a more efficient business over these past months has also given me confidence in the long-term health of the Company as well which is why we're also raising our target leverage ratio today.

Let me start with the update on the integration progress. We're moving with a sense of urgency towards the rebrand launch and I'm pleased with the progress we've made in such a short period of time. The dedicated integration teams are working extremely hard in coordination with our business teams, on our major costs and revenue initiatives and we remain on track with the timing we initially laid out.

If you recall, there were three key components to our revenue synergy plan: rebranding Diamond sales centers; launching our new HGV membership program; and converting the Diamond properties over to the Hilton Vacation Club brand. The sales centers upgrades and new membership launch will work in conjunction with one another to unlock the bulk of our revenue synergies. While the property renovations will ensure a high-quality and consistent experience for our members and also provide some rental revenue synergies over time, the rebrand of our sales centers will enable us to sell our new membership across our entire sales network. We've already upgraded the look and technology at a handful of Diamond's largest sales centers, with nearly a dozen sales center scheduled to be renovated by early April. We'll have nearly all of our sales centers rebranded by the end of the year.

To anyone that's been in a Diamond sales center before, I can tell you, these are night and day improvements to their prior experience. They feature more modern, comfortable and private layout, upgraded furnishings and enhanced technology, including our proprietary envision sales technology. I know our sales team members are blown away and I think our guests will also be very pleased with the changes.

Turning to the new membership program. We're making solid progress finalizing the program's benefits and, importantly, fortifying the technology necessary to service the combined member base across all of our functions, from marketing and sales to club and financing, ensuring a consistent experience. Our expectations is to officially launch sales of our new membership in early Q2 which is an incredible accomplishment given all the work involved. We know from our

owner research that having access to more vacation destinations through the enhanced membership was the number one most cited benefit of the transaction. Taken together, we expect to start seeing the benefits from the upgraded sales centers and the new membership program in the second half of this year. I'm confident that when combined with the power of the Hilton Grand Vacations brand and our sales process, we'll have the foundation for long-term success.

Regarding our property rebrands, we've already established IT connectivity at a number of Diamond's properties in anticipation of bringing the first set online in early Q2. While we know our owners are excited to experience these properties, we're also getting considerable interest from Hilton Honors members. We just began selling packages for the first five rebranded properties and we've already sold nearly 10,000 packages for arrivals starting in April. All told, we're on track to bring approximately 5,000 keys into the Hilton Vacation Club collection this year.

To put this into perspective, that represents a more than 40% increase in the number of keys available versus our legacy HGV resort portfolio. But most importantly, many of these properties will be in new markets for us in destinations like Virginia Beach, Williamsburg, Scottsdale, Gatlinburg, Lake Tahoe and the Island of Hawaii. In addition, as these properties are rebranded, they'll become eligible for bookings through the hilton.com reservation platform, providing broad access to the entire Hilton Honors member base which will enable us to capture rental synergies over time as these new branded properties are rented out at improved pricing with a more efficient cost structure.

There are a few other integration accomplishments I'd like to highlight. The most important of which relates to our team members. All of our legacy HGV and North American Diamond team members are now collaborating using a common set of technology tools which is critical to supporting the integration process. From an HR perspective, we've harmonized our benefits across the organization which is an important step to fully welcoming our Diamond team members into HGV. We've also continued to roll out our company-wide training suite, allowing our various team members to learn the HGV approach to the sales process and the high standards we have for serving our guests.

As I mentioned earlier, we also hit a major milestone in January when we kicked off the LPGA season with our first Hilton Grand Vacations Tournament of Champions here in Orlando. We hosted LPGA professionals, celebrity players and brand ambassadors for a week of exciting events in concerts with both HGV and Diamond members. We're very excited about our new partnership with the LPGA and aligned around their mission supporting women's golf and I don't think we could have found a better partner to work with. The tournament was a huge success and the amount of media coverage that we received was beyond our expectations. Our brand received major network television coverage over the four days of the tournament, and we had over 240 million social media impressions with a 98% positive mention score.

Our ticket sales were 3x higher than the previous record and we had over 140 sponsors for the event, generating sponsorship revenue that exceeded any prior Tournament of Champions. This was also the first major event that we've done with both groups of owners, and it gave us real-world evidence highlighting several key elements that made the Diamond deal so attractive to us. Specifically, applying the power of the Hilton Grand Vacation brand is incredibly attractive to both Diamond owners and salespeople alike. For HGV owners, the appeal of the experiential platform provides additional value to their membership.

On that note, throughout the tournament week, we hosted exclusive concerts for our members with artists including Sheryl Crow, the Goo Goo Dolls, LeAnn Rimes and Boyz II Men, along with additional events featuring our celebrity guests and ambassadors. Experiences like these are part of the Diamond's events of the lifetime platform which we've rebranded as HGV Ultimate Access. Ultimate Access will become a key feature of our sales and marketing program with more than 3,000 experiences already planned throughout the year, whether it's through concerts under HGV Live banner, private dining events with our members table or excursions and other events under HGV Present will continue to build upon the success of the program by incorporating feedback from our combined member base to achieve the offering relevant.

So, I'm incredibly pleased with how our integration is going. We've made a lot of progress over the past six months on our three main rebranding initiatives, and we expect to see the benefits of the revenue synergies ramp as we move through the year. We also did a lot of heavy lifting this quarter to integrate our workforce. But most importantly, after seeing the potential of the combined model and the strong demand for new markets, I'm even more confident in this transaction and am excited for what's to come.

Now, let's take a few minutes to look at this quarter's performance. Contract sales for the quarter were $521 million or 85% of 2019's pro forma combined sales, demonstrating continued progress in our return to normalized levels. Our North America business had Q4 sales over 91% of 2019's levels and legacy HGV North America contract sales fully recovered to 2019's levels. The speed of that recovery speaks to the level of commitment from our owners and the great execution by our teams throughout the year.

Our APAC business finished the fourth quarter with sales at 70% of 2019's levels, up about 5 points from Q3, despite the restrictive travel environment in Japan that remained in place during the fourth quarter. But a strong improvement in our local Japan tour flow, coupled with higher domestic travel to the island helped to drive the sequential sales improvement in the region. There is some recent positive news from Japan starting March 1 through today that the government will eliminate the quarantine requirements for international travel with COVID negative proof. Our expectation is that there will be a lag to get to a full recovery as airline capacity is restored to previous levels. We still don't expect to see material return on the Japanese to Hawaii until the second half of the year. In any case, this is very positive news as the Japanese have waited for two years to return to the islands.

As I mentioned in my opening remarks, we started to see some impact of the Omicron in December. While this variant seems to be fitting the pattern of prior waves, with a smaller impact of threat and quicker rebound, it also brought its own set of unique dynamics. From a consumer perspective, the milder severity of this strain meant that people were less hesitant to be out and traveling as evidenced by our strong occupancy of packaged sales in the quarter. But the rapid spread meant more of our team members were impacted and needing to quarantine, including some of our sales team members. This staffing disruption became more acute in January post-holiday period, creating some challenges with accommodating tour flow that weighed on our contract sales in the month. But I'm happy to say that we're past that peak of the wave and are back to previous staffing levels and have seen solid rebounds in our forward demand indicators. February's preliminary contract sales are nearly in line with 2019's level with Diamond actually pacing slightly ahead of 2019. Our daily net booking pace grew sequentially in Q4 despite the challenges and we're seeing even stronger booking pace year-to-date in 2022.

Turning to occupancy levels. Trends remained strong throughout the quarter at roughly 80%, in line with where we were in Q3. Orlando was again a standout with occupancy rates that met 2019's levels. We also saw strong performance out of our Southwestern California regional markets. There were some extreme weather events that suppressed travel in several of our regional markets, including devastating wildfires in Colorado and Utah and severe flooding and wind events that amplified the normal seasonality in the Carolinas and Tennessee. But, the resilience of our overall occupancy demonstrated the advantage of having a larger, more diversified portfolio since the acquisition.

VPG of nearly $4,300 was up sequentially and was supported by another strong gain in our average transaction price. We've seen great performance out of our new projects in Maui, Sesoko, Cabo in New York which is a real validation of the inventory investments that we've made over the past few years.

That VPG performance, coupled with our synergies and overall expense controls, generated another quarter of record EBITDA margins of over 30% along with strong adjusted free cash flow. I'd note that this is not just a result of finding synergies within Diamond, but rather it reflects the broader initiatives to drive efficiencies across the organization using the lessons we've learned operating through the pandemic.

Turning to customer segmentation, we saw sequential improvements in both owner and new buyer recovery pace, although our owner business is still leading the way. Our owner performance has been benefiting from the improved tour flow coupled with strong VPG gains that were supported by the increased average transaction price I just mentioned. Our new buyer contract sales also continued to show encouraging signs and have recovered to nearly 3/4 of their normalized levels.

For the quarter, those new buyer sales drove NOG of 1.6% along with the addition of 1,600 new members at DRI. As we look further into the year, we'll continue to invest in driving new buyer growth by activating packages from the substantial pipeline that we've built. Those membership gains fueled another strong quarter of Club and Resort business which finished the quarter with $113 million of segment profit and margins of over 76%. It's really encouraging to see such great trends in a recurring piece of our business that carries such impressive margins.

Turning to our financing segment. The resumption of growth in our receivables book led to sequential top line and profit growth which provides us with another stable source of recurring high-margin income. Finally, our rental division saw another quarter of impressive top line growth as travelers return and ADRs expanded.

To sum up, I'm really encouraged with how we closed out 2021 and with the momentum that we have carrying into 2022. We're continuing to make progress on our sales trends, and we drove another quarter of impressive EBITDA performance. Our integration plan is proceeding smoothly, and the key elements of our acquisition are playing out well. Whether it's the great success we had at the Tournament of Champions, the fast progress we're making on rebranding our sales centers and properties or our team members coming together quickly to cement the HGV culture, I'm more confident than ever in the future path we've laid out before you.

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. Before we start, note that our reported results for this quarter included $34 million of sales deferrals impacting reported GAAP revenue along with $17 million of deferred expenses, resulting in a net deferral impact to ASC 606 EBITDA of $17 million. During the fourth quarter, we started presales of the next phases of our Maui and Waikoloa projects which follows the successful opening of the initial phases of those resorts this past fall. As always, in my prepared remarks, I'll only refer to metrics excluding the impact of deferrals, which more accurately reflects the cash flow dynamics of our financial performance during the period.

One final note on the Diamond results before we get into the details, due to the change in the way Diamond accounted for contract sales during 2019, the fourth quarter of 2019 actually included an extra week of contract sales results. This makes contract sales comparisons against the fourth quarter and December 2019 challenging, particularly because the extra week was the seasonally strong final week of December. It's important to note that this change only affected the KPIs for contract sales and did not impact GAAP results, including net VOI sales, net income, EBITDA or cash flow. We are not adjusting any of the 2019 comparisons for this shift in either Mark's or my prepared remarks today. But to help you in your modeling efforts, the extra week of results in Q4 of 2019 contributed approximately 5,500 tours and roughly $20 million of total contract sales.

Let's review the results for the quarter. Total revenue in the fourth quarter was $872 million, excluding the aforementioned deferrals. I'm really encouraged that even with some of the late quarter challenges Mark mentioned, we came in at 97% of 2019 pro forma combined revenue. Q4 reported Adjusted EBITDA was $281 million. This is nearly 40% of our pro forma combined 2019 EBITDA. Like I said, that is on a base of revenue that is still slightly below that of a pro forma combined 2019, which is a pretty remarkable achievement.

We produced our contract sales in a more efficient way than expected this quarter, namely through a larger contribution from high flow-through VPG along with lower tours which carries marginal cost. But we also benefited from several items that we don't expect to recur in future periods.We estimate these were worth roughly $20 million in EBITDA for the quarter. One-time expense benefits notwithstanding, our teams maintained their dedication to efficiency and driving higher flow-through across the organization throughout the recovery which is reflected in our strong EBITDA margins. Even pulling out the entire $20 million benefit, EBITDA margins for the quarter would have been nearly 30%, over 700 basis points ahead of the pro forma combined margins in Q4 of 2019.

Regarding our synergies, as we discussed last quarter, we made faster-than-expected progress in reducing some of the duplicative costs between the organizations and pulled some savings forward into Q3. During the quarter, we made some additional progress against our target and finished the year with slightly higher run rate savings of $74 million versus $70 million last quarter and our goal of over $125 million plus.

Turning to our segments. Within Real Estate, total contract sales were $521 million or 85% of pro forma combined 2019 levels. Owners made up 74% of contract sales for the quarter. This was up from Q3, reflecting the inclusion of Diamond for the full quarter which has historically had a higher owner mix than HGV. As Mark mentioned, we're focused on driving NOG and monetizing our pipeline of packages to drive new buyer tour level. You'll see those investments early this year to build up our tour pipeline, particularly ahead of the upcoming launch of our new membership.

VPG of 4,300 was up sequentially from Q3 and nearly in line with last year's elevated level. We saw a substantial benefit to our average transaction price in the quarter from our new high-end projects with average price at legacy HGV up 18% versus the prior year.

As we move through 2022 and our mix normalizes, we continue to expect our VPG to decline towards historical levels. Although we currently believe that our higher mix of premium product, along with several years of annual price inflation means that it will settle nearly 10% to 15% ahead of 2019's pro forma VPG. Our cost of product was 18.4% of owned contract sales for the quarter which was flat with Q3. This reflects strong sales of our new higher-end HGV projects, offset by the addition of one extra month of Diamond which carries a much lower COP.

Real Estate segment profit was $155 million with record margins of 39%. In connection with our view on VPG normalization, we do anticipate that margins in 2022 will compress compared to 2021 but will remain at levels above 2019 levels. In our financing business, fourth quarter segment profit was $34 million with margins of 61%. With the return to contract sales growth, we expect to see linear progress in our portfolio interest income as our receivables book continues to build. Our combined gross receivable balance for the originated portfolio was $1.4 billion and our allowance for bad debt stood at $280 million. The balance on the acquired portfolio sat at $1 billion with an allowance at year-end of $482 million.

Our portfolio weighted average interest rate was 14.3%. At year-end, early-stage delinquencies were below 2019 and 2020 levels for both the legacy HGV and DRI portfolios and our annualized default rate for our originated portfolio was 4.9%. Delinquency trends remained at low levels and are materially favorable to pre-COVID levels. However, we would expect some normalization of credit trends as the government begins to withdraw stimulus programs and other accommodated policies like student loan deferments. Our provision in the fourth quarter was $44 million or 11% of contract sales. This is down sequentially from the 16% provision in the third quarter as well as below our medium target of high teens provision for the combined entity that we discussed on our Q3 call, reflecting continued positive performance of the loan portfolio. Looking forward, we still expect provisions to trend back towards the mid- to high teens.

In our Resort and Club business, our consolidated member count was 499,000 which includes 166,000 Diamond Club members. Looking at HGV's legacy business, NOG was 1.6% at the end of the fourth quarter. Diamond also added 1,600 net new members during the quarter. I'll note that Diamond member count is higher than the net adds would imply based on our prior member disclosure. I'll pause here to give some additional detail. Historically, Diamond had offered several limited-access membership plans to certain customers which carried lower annual fees but carried restrictions on the property portfolio available to those members. As these DRI owners were paying recurring annual subscription fees, we opted to classify them as members to align with HGV's definition. The products associated with these members are no longer being offered and we expect to upgrade many of those members into our new holistic club offerings. But this revised number count should help to explain some of the historical gap between HGV and DRI on a club revenue per member basis.

Club and Resort revenue was $144 million for the quarter. Now that we have a full quarter of DRI, you can see the material benefit of recurring management fees from their larger property portfolio. You can also see the opportunity ahead of us to grow their club management fee stream as we bring new members into the network. We generated $113 million of segment profit in the quarter with margins of 76% that are approaching the impressive levels we saw in both 2019 and 2020.

Rental and ancillary revenues were $144 million for the quarter, as rental revenues picked up with the resumption of travel, particularly in the month of October. Our segment profit was $28 million with margins of 19%. Margins were down sequentially, owing to higher developer maintenance fees at both HGV and DRI, along with higher OTA fees at Diamond. As we rebrand Diamond properties and put them into the Hilton Network, we expect to improve the margins at Diamond's rental business, although they will remain below legacy HGV margins due to higher developer maintenance fees that Diamond currently has.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, corporate G&A was $42 million, license fees were $23 million and JV income was $3 million. We paid no licensing fees on the Diamond business as we have yet to rebrand any of the resorts. Our adjusted free cash flow in the quarter was $189 million which includes inventory spending of $54 million and excludes acquisition-related costs of $28 million.

Turning to our outlook. As many of you know, the pro forma combined figures that we provided in the outlook section of our merger proxy to reflect what we underwrote for the business and that's what we believe represented a realistic estimate for the performance of the business going forward. We're very happy to have the confidence today to set our initial guidance for 2022, ahead of what we laid out in our proxy, with an EBITDA range of $915 million to $935 million versus our prior expectation of $910 million. We expect that for the year, the conversion of EBITDA to adjusted free cash flow will approach the low end of our long-term range of 50% to 60%. As always, this cash flow conversion will vary throughout the year based on growth and securitization activity.

You'll also notice in the release today that we raised our target leverage range to 2x to 3x from our prior stated range of 1.5x to 2x. This change takes into consideration several factors that give us confidence in our free cash flow outlook, thus enabling us to further optimize our financial leverage, namely the more efficient cost structure that we've built for the business through the pandemic, the recognition of the capital efficiency of Diamond's inventory model and the benefits to our capital markets activities as a result of our increased size.

Finally, with respect to Q1 2022, I'd note that the combination of the Omicron sales impact in January, the new buyer pipeline investments that I mentioned and the roll-off of some COVID-related benefits in certain markets in our rental segment will result in higher-than-normal expense increases from Q4 to Q1 than we typically see.

As of December 31, our liquidity position consisted of $432 million of unrestricted cash and $699 million of availability under our revolving credit facility. Our debt balance at quarter end was comprised of corporate debt of $2.9 billion and a nonrecourse debt balance of $1.3 billion. We also have $461 million of capacity in our warehouse facilities.

With respect to securitizations, markets remain constructive towards timeshare ABS and while spreads have widened on the back of potential rate hikes, demand for timeshare ABS remains very strong. We expect to be in the market spring of this year with a securitization of the Diamond stand-alone receivables portfolio, followed by an HGV stand-alone ABS deal and continue to make progress towards bringing a combined collateral ABS deal to the market.

Turning to our credit metrics. At the end of Q4, the Company's total net leverage on a pro forma TTM basis was 3.2x, not giving effect to anticipated synergies. Including anticipated synergies,

our leverage is 3x on a pro forma TTM basis, ahead of deleveraging targets that we referenced when announcing the deal.

Finally, a quick note on our interest expense to help your modeling. In an effort to insulate ourselves from the potential for rising interest rates, starting in the spring of 2020 and continuing into the fall of last year, we executed just over $500 million of pay fixed interest rate swaps to hedge our floating rate revolver and Term Loan B. We received hedge accounting treatment for these swaps. The value of these swaps was a $9 million gain as of January 31 and has fixed rates ranging from 32 basis points to 157 basis points.

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

QUESTIONS AND ANSWERS

Operator
Thank you. Our first question comes from Stephen Grambling with Goldman Sachs. Please proceed with your question.

Stephen Grambling
Thanks. Hey, everyone. I guess on the guidance of $915 million to $935 million versus the proxy, what are the biggest buckets bridging the gap? Just to be clear, does the existing guidance exclude specific one-time costs that you could potentially quantify for us? Maybe I missed it.

Dan Mathewes
Stephen, it's Dan. Thanks for the question. Look, I think—the first thing I'd say is it's great to be sitting here almost a year after we presented the proxy guidance - because if you take into consideration of what's happened over the past 12 months and you had the Delta surge, you had an Omicron surge, you've now the Ukraine war, there's obviously inflationary pressures, etc. – so to be sitting here with a clear line of sight on our cost synergies, as we noted, we're at the $74 million level out of the $125 million plus level. I think it positions us really well and it's from—just internally looking at this, we're very confident that we can hit that $915 million to $935 million and upping that from what we underwrote with all those variables not into consideration is obviously encouraging. It does exclude one-time items, just to avoid any confusion, one-time items associated with rebranding any costs associated with synergies, etc. Those are excluded from that guidance. What it does take into consideration, as you can imagine, is a myriad of assumptions, not unlike what we've been talking about before. VPGs have remained at elevated levels. I mean, I think you've heard us echo that over the past two to three quarters. What we're considering is that those elevated levels continue, again, near the end of the year. It's going to staying off to be in the range of 10% to 15% higher than 2019 levels. We also expect tours as we exit the year to be closer to 2019 levels.

Q1 will still trail most notably due to the fact that Japan still has some restrictions. Then when you look at the balance of the business lines, what we see happening is, as we've noted before, some compression in margins but still remaining ahead of 2019 levels, most notably in the Real Estate business line and the Rental business line. I would look for compression there from 2021 levels but again, to outpace 2019 levels. Then, as we've talked about, our synergies have really taken into consideration a lot of the overlap notably in the G&A field. If you were to look at the 2019 combined company, G&A was close to $180 million. We would look to that number to be closer to $135 million. But ultimately, we peaked up driven primarily off of our expectation on

where VPGs and our cost discipline will end up for the year. That's what's really driving that modest increase from the proxy guidance that you see there.

Ultimately, I think we're in a very solid position. There are certain unknowns there. Obviously, we're taking into consideration that Japan opens back up and we expect that to start to happen in Q2. If you go back a year, we expected that to open up earlier. There's some variability there but we've—I think you've seen we've been rather adept and disciplined to find a way to get to our bottom line, even if we have constraints. But we are reinvesting in our new buyers. That's what's really going to drive some of that VPG normalization. It's also going to be a clear cost impact on that, too, as we bring the new buyers back. I think that's a lot of data but hopefully, I rounded off your question.

Stephen Grambling
No, that's a good way to synthesize it. I mean, one other quick follow-up on that. Being at the low end of the free cash flow conversion, part of that is driven by those one-time costs. That would be in that free cash flow assumption.

Dan Mathewes
Our free cash flow—adjusted free cash flow assumption also excludes one-time costs as it has in the past.

Stephen Grambling
Okay. Then an unrelated follow-up, saw that conversions went down a bit on the Diamond side, it looks like, in the slide deck. Curious what's driving that. Perhaps if you could even share maybe where a new versus existing customer sales are now versus historically, both as we look at maybe HGV centers and the Diamond centers?

Mark Wang
Hey, Stephen, Mark, anyways, yes. Look, first, really pleased with how the integration is going and how the teams are coming together. I think as we noted in the prepared remarks, we had an extra week in Q4 in '19. It makes the comps a bit more challenging. We did also implement a lot of material changes during the quarter, especially around personnel integrations on the Diamond side. The teams have been digesting that, digesting management, staff changes, adopting HGV's processes and practices and all the general organizational changes that we rolled out. A lot going on, on the Diamond side as we reposition it. But we're continuing now to move through the rebranding and prepare for the launch of the new membership. I actually believe the teams have really embraced our new approach very well and have done a great job adjusting to those changes. We'll get the rebranding, the sales centers done over the course of the year. We'll have half a dozen of those ready as we launch the new sales—the new membership later. But important to note, Diamond sales have actually come all the way back to 2019 levels in February. We just closed off February. We did have some impact in January, both HGV and Diamond from Omicron. But those sales have bounced back.

Now as far as the mix for new buyers, the mix, as you know, Diamond historically ran a higher mix of owners to new buyers around 80-20 and we historically ran closer to 50-50. What we've seen through the pandemic is that our owners have come back a lot faster and they're just committed, right? They've demonstrated their commitment to our brand and our product. But we're really excited about the launch of new buyer package sales into new Diamond markets like Arizona and Virginia Beach, and as such, we sold over 10,000 packages here in the last couple of months to those new markets. But overall, our mix right now from a transaction standpoint sits at about 36% for new buyers for HGV and transaction-wise for Diamond is

running about 30%. Importantly, we've seen some really good VPG lift on new buyers across both legacy groups there. All in all, very pleased with the way it's going and especially with the bounce back we saw in February.

Dan Mathewes
Yes, Steve, just one thing to add to your earlier question on guidance. I think it would be remiss if I didn't just highlight, when you think about quarterly cadence and I did emphasize in my prepared remarks, I mentioned this a few minutes ago but the seasonality associated with Real Estate to a lesser degree, Rental, some of the onetime items—some of the onetime benefits that we've experienced falling off in Q1. That Q1 level of EBITDA will be the lowest point of the year, more in line what existing consensus is staying today just to avoid any confusion on how that cadence rolls out.

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

Operator
Thank you. Our next question comes from Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Good morning, everyone. A question on your capacity for share repurchases. Can you remind us if you still have an existing authorization out there?

Dan Mathewes
Great question. Our authorization, gosh, I want to say, it expired in 2020, if I'm not mistaken. I'll have to go back and check. Either way, we do not have an existing authorization in place. But I think what you see in our prepared remarks, in the earnings release, etc. and I think we actually have a slide on it on the investor presentation, our—the deleveraging associated with the Diamond acquisition is, I would say, ahead of schedule. On a synergized basis, we're 3x. Actual TTM is at 3.2x. We had committed to being under 3x within 24 months. Clearly, we're ahead of that pace. Just as—I know you'll probably recall this, Patrick but just from an evolution of our capital allocation, back post spend, we were starved for inventory. We made a large commitment for capital allocation towards new inventory and at the same time, during those first two years post spend, we were locked up from the spend from Hilton. The tax-free staff concerns about doing share repurchases.

As soon as that window opened up, we did take advantage of that—announced the share repurchase program in 2019, we purchased in excess of $300 million worth of shares. When you think about the capital allocation, clearly, we're going to be—we will always look at anything that's meaningful from an M&A perspective, anything that's opportunistic. But at the same time, we do have a heavy focus on potentially returning capital to shareholders, still being a 3.2x levered on an actual basis which is above the high end of our target that we just announced today. I'd look for us to revisit that in the back half of the year as we get back down. Keep in mind that previous target of 1.5x to 2x was really governed by the senior unsecured notes that we inherited as part of the spend.

We've structured the new capital structure to allow a lot more breathing room and for us to be flexible with our leverage that we can take into consideration avenues to return capital to shareholders even versus—via share buybacks as we've done in the past or potentially dividends which, of course, we haven't done today but we wouldn't have ruled out.

Mark Wang
Yes, Patrick, Mark. Just one other note on that. I think one of the things around the capital allocation, we're really pleased with the way we've evolved our inventory position. Not only do we have a broader range for consumer demand but with our increased scale, we now have a significantly enhanced ability to recapture inventory going forward. I think that puts us in a much better position and takes some of the lumpiness out of this.

Patrick Scholes
Okay. A follow-up question here. When you talk about your target net leverage range of 2x to 3x and then potentially reactivating the authorization for share repurchases in the back half of the year, should we be comparing that 2x to 3x target range to—or how do you think about it versus your talk in Page 4 in the press release about your pro forma net leverage would be at about 3.2x? Do you compare that 2x to 3x on your pro forma numbers which I guess includes a full year of Diamond or your actual results? What's the right way to compare it apples-to-apples?

Dan Mathewes
We would look at actual—it's actually a combination of the two, right? Because if you're on the right trajectory, it gives you a little bit of leeway, but we would focus on actual. As we mentioned at the end of the year, if you take into consideration anticipated synergies, we're 3x. But we would focus on actual because, obviously, we want to be prudent as we have been in the past with our balance sheet.

Patrick Scholes
But then, I guess, when you lap it in 3Q, it's going to be a moot point anyway. but until that time, focus on the actuals.

Dan Mathewes
Right.

Patrick Scholes
Okay. I—one other question here. Did you—I may have missed it, when you talk about your guidance for deferral adjusted EBITDA of $915 million to $935 million, I'm sorry, did you say what you expect those deferrals might be for the year? If so, how should we think about that like a quarter?

Dan Mathewes
We did not specifically disclose that. It's going to be associated with two primary projects, Sesoko in Japan and Maui Bay Villages, obviously, in Maui. The breakout by quarter, I'm sure we can talk offline about that as well in total. I just don't have the figures right in front of me.

Patrick Scholes
Okay. there will be some deferrals we just—okay, got it.

Dan Mathewes
Correct. There will be deferrals—sorry, Patrick, go ahead.

Patrick Scholes
I would say but it's sort of TBD based on the trajectory of sales, what that might be?

Dan Mathewes

Yes, it's all based on, obviously, mix. What's happened with those two projects is, I think we've talked about before. Phase 1 of those projects is open, it's ready for occupancy and we've already recognized the deferred revenue and deferred expenses associated with that. That all came through in Q3. Phase 2 has now started sales under both projects. That's—those are the big components driving the deferrals. They're not going to be the same level of deferrals as they have been, call it, back in 2019 just because we have less projects out there. There are maybe some deferrals associated with a subsequent phase of Ocean Tower we start to sell that, too but that's probably late in the year, best case.

Patrick Scholes
Okay. Okay, thank you. I'm all set.

Operator
Thank you. Our next question comes from Ben Chaiken with Crédit Suisse. Please proceed with your question.

Ben Chaiken
Hey, how is it going? On the revenue synergy side, can you talk about what, if any, is included in the '22 updated guidance you provided? Not sure if you care to quantify but maybe just anecdotally, what buckets? Like, for example, is this benefit from plugging Diamond into the Hilton rewards base or something else? Just curious how you think about it.

Mark Wang
Yes, Ben, it's Mark. Look, I think as far as what we updated in there, I don't know that we're going to—can be able to break that exactly down. I'll pass over to Dan if he has any comments on that. But I just—I think on the revenue synergy side, I'd like to say that, number one, I think we're progressing extremely well. Excited about what the opportunities are. I think we—as I said in the prepared remarks, we've got the rebranding of the sales center. We've got the launch of our new membership program which will occur here in early spring and the rebranding of the properties. Sales center upgrades are going to work in unison with the new membership and we're well underway as it relates to getting our sales centers renovated. In total, we're going to transform 29 sales centers this year. The membership and—with the launch of the membership, that's when we're going to really be able to start driving those synergies. You should think about this as kind of rolling out in the back half of the year, so we'll start building momentum as we go through the year on that. Then as it relates to the synergies around the rebranding of the property, that's really more related to the rental synergies and the ability to get those properties on hilton.com.

Now, those will take a little bit longer, though we have prioritized the biggest and most important sales centers or properties to get those done this year. All in all, very pleased with the way the progress is going towards revenue synergies. But all told, we've got a very solid road map to drive revenue synergies starting this year and as we move through the year, and it will also roll into '23 and '24.

Dan Mathewes
Ben, just from a dollar perspective, you can probably find details in the proxy but it's basically in line at circa 150 from a revenue synergy perspective, kicking in post Q1.

Ben Chaiken
Got you. Thank you very much.

Operator
Thank you. Our next question is from David Katz with Jefferies. Please proceed with your question.

David Katz
Hi, good morning, everyone. Thanks for taking my question. You've gone through quite a lot of detail on the guidance. What I wanted to ask about is, as you've integrated Diamond, if you could just share some details or insights around that customer base's behavior and buying patterns relative to your legacy population? Whether there are any interesting surprises one way or the other as you get to know those owners?

Mark Wang
Yes. David, this is Mark. Look, I think very similar attributes to our owners, I think what we have seen is that, from a demographic standpoint, they seem to be buying a bit earlier in the life stage. In fact, if you look at '21, 70% of the new buyers for Diamond were Gen X or younger, right? I think the Diamond product has really provided a great entry point for those customers is the price points scale down from where we're at. I think we're really excited as we're able to start putting the database toward the Diamond product and sales centers that will be converted over to HGV. All in all, average household income sit at about $100,000 versus our circa $130,000. From a FICO score standpoint, they're very strong. They're about 20 points below ours but we've seen some really good performance. I'm really pleased actually with the new buyer VPGs. The new buyer VPGs actually for the quarter were up about 40% and compared to the new buyer of VPGs up at HGV at 16%. I think part of that is the excitement and anticipation around what Hilton is going to mean to Diamond product going forward.

David Katz
Understood. If I can follow this up. One of the kind of important metrics we do track are loan loss. How do those two buckets compare with each other or are they similar?

Dan Mathewes
Well, I think when you think about loan loss under Diamond, historically, they've—if you go back and look at some of their historical financials pre-COVID, the provision for bad debt on a quarterly basis was high-teens, low 20%. What we've seen during COVID and throughout 2021 was an improvement in that performance. Their loan losses performed in the high teens, whereas ours has historically fallen in a range of between, depending on varies at the quarters and various things going on, anywhere from 11% to 15%. All in, Q4, you'll notice the loan provision was just under 12%. We would expect that to go to the mid-teens and slightly higher once things normalize, because we're benefiting from certain things as well, right? Everybody's personal balance sheet is looking solid. But still, the delinquency rate, both on Diamond and HGV are at lows compared to even pre-COVID levels which speaks volumes to the level of engagement that we have, and we continue to enjoy but we do think those credit metrics will normalize.

I anticipate just given some of the entry-level product that Diamond has, that the loss provision for Diamond will always be slightly elevated to HGV. It's just the way credit metrics typically work. But ultimately, we expect to be in that mid to—mid-single digits but below—definitely below 20% from a loan loss provision perspective.

David Katz
Got it. Thank you very much.

Operator
Thank you. Our next question is from Stephen Grambling with Goldman Sachs. Please proceed with your question.

Stephen Grambling
Hey, thanks for seeing me back on. I guess to follow-up on the financing receivable book, are you making any changes to interest rates to—in terms of what you're charging to consumers ahead of rate moves? How do you generally think about rate sensitivity on the book?

Dan Mathewes
Yes. Look, that's a great question. When it comes to looking at the rates, we're constantly looking at it and we do look at it in advance of rate hikes or anticipated rate hikes. We do it in a very structured manner, though, because I think you've heard us reiterate multiple, multiple times, very focused on new buyer and new owner growth, etc. Making sure it's as easy to buy for them as possible, comes into consideration when we think about interest rates. We are—we actually did implement a rate hike recently across the system. It's roughly 80 basis points but that's to existing owners, not necessarily to new buyers and that's a range bound depending on states and various factors that come into play. But generally speaking, to existing owners, we've already instituted a rate hike of roughly 80%.

Then when it comes to sensitivity, I mean, I think what we focus on is that obviously securitizing our receivables and most recent deals have been very favorable. I mean, if you look at some of our colleagues in the space, those deals have priced under 2%. Obviously, the margins have moved, so we would anticipate pricing higher than that when we do our securitization. But clearly, we anticipate being well below our 2020 deal which as you will recall, we reopened the entire ABS market—public ABS market for the timeshare industry which priced north of 3.5%.

Stephen Grambling
Great. Thanks so much.

Operator
Thank you. This is the end of our question-and-answer session. Before we end the call, I would like to turn it back over to Mark Wang for any closing remarks. Mr. Wang?

Mark Wang
Well, thanks, everyone, for joining us today. Two-thousand-twenty-one was a monumental year for us here at HGV. I'm really proud of all the hard work that the team has accomplished to complete our integration, while staying focused on providing our guests with memorable vacation experiences. I look forward to sharing our progress with you as we move throughout the year and have a great day. Take care.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.