

Hilton Grand Vacations Inc.

Q4 2024 Earnings Conference Call

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**CORPORATE PARTICIPANTS**

**Mark Melnyk** – *Senior Vice President Investor Relations*

**Mark Wang** – *Chief Executive Officer*

**Erin Day** - *Executive Vice President, Finance & Acting Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Hilton Grand Vacations Fourth Quarter 2024 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 #13751065.

At this time, all participants have been placed in a listen-only mode, and the floor will be open for your questions following the presentation. If you should require Operator assistance, please press star, zero. If you are using a speakerphone, please lift your handset to allow the signal to reach our equipment.

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

### **Mark Melnyk**

Thank you, Operator, and welcome to the Hilton Grand Vacations fourth quarter 2024 earnings call.

Before we begin, I'd note that we've uploaded slides to our IR website detailing our financing business optimization program, which are available for download at [investors.hgv.com](https://investors.hgv.com).

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 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](https://investors.hgv.com).

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. For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA and our real estate results will refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods.

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 and a complete accounting of our historical deferral and recognition activity can also be found in Excel format on the financial reporting section of our Investor Relations website.

In a moment, our Chief Executive Officer, Mark Wang, will provide highlights from the quarter in addition to an update on our current operations and Company strategy. After Mark's comments,

our EVP of Finance and Acting CFO, Erin Day, will go through the financial details for the quarter. Mark and Erin will then make themselves available for your questions.

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

**Mark Wang**

Good morning, everyone and welcome to our fourth quarter earnings call.

I want to give a special thank you to our team members across the globe for making 2024 another productive year for HGV. We closed our Bluegreen acquisition and completed a significant amount of integration work, adding nearly 200,000 members and expanding our portfolio to more than 200 properties. We made substantial progress against our goal of realizing \$100 million in cost synergies.

We made meaningful organization changes, leveraging the strength of our combined teams to improve sales and marketing execution. We launched HGV Max to our Bluegreen members, providing them with access to more properties and more destinations, and we generated record free cash flow while returning a record amount to Shareholders. This was on top of the work we've been doing to continuously enhance the value of HGV ownership for our members.

The teams have a lot to be proud of, and while our path in 2024 was not without its challenges, I'm pleased that we finished on a strong note in the fourth quarter. Our new organizational structure and strategic initiatives have been producing further results, and we got off to a great start with the introduction of HGV Max to our Bluegreen members. As a result, we saw growth in transactions, VPGs and contract sales, even after adjusting for some of the nonrecurring impacts we saw during the fourth quarter of both '23 and '24.

From a macro perspective, the consumer environment remains consistent with the past few quarters as inflation and elevated interest rates continue to impact spending and sentiment. But we're pleased to see that travel intentions have remained strong, and we're optimistic that our operational adjustments and initiatives will help to insulate us from those two broad macro factors.

As we look ahead, our '25 guidance reflects the view that these initiatives will further enable growth in contract sales and EBITDA, along with strong free cash flow generation as we continue to build on those improvements. That growth comes despite the addition of \$25 million of additional consumer finance interest expense associated with our financing business optimization, which we expect to materially improve our future capital returns. While there's more work remaining, I'm pleased with the significant progress we made to regain our momentum which positions HGV for success in '25 and beyond.

Turning to an overview of the fourth quarter results. Reported contract sales were \$837 million, and Adjusted EBITDA was \$289 million, with margins excluding reimbursements of 23%, which came in ahead of our expectations. Contract sales in the quarter were driven by strong VPG performance, which more than offset a decline in tours. Tour growth was primarily impacted by back-to-back hurricanes that hit the Southern U.S. at the start of the quarter, along with our initiatives to improve our efficiency and the removal of a new buyer channel on the Bluegreen side that we made earlier this year.

Controlling for those effects, our channel trends remained consistent with past several quarters. We continue to see strength in our owner tours, aided by our launch of HGV Max for Bluegreen

owners. New buyer tour growth has been more muted as we continue to improve the efficiency of those channels, along with the removal of a third-party channel on the Bluegreen side. We expect these trends to continue throughout the year, which should drive further improvements in VPG mix.

These dynamics played out during the fourth quarter with VPG of \$4,026, over 20% ahead of pro forma '19 and at the best level since the highs we saw in '22. Geographically, it's worth noting the strong performance out of our APAC region in the fourth quarter, as we lapped the Maui wildfires, we saw high demand for both the remaining inventory at our Okinawa project, as well as initial sales launch of our new Ka Haku property in Waikiki.

Ka Haku will be our first Hilton Club offering in Hawaii. Like our other Hilton Club offerings, this boutique luxury property will include exclusive amenities and meticulous attention to every detail, which we think will be very popular with our high-end net worth members. We've already seen strong upgrade activity in Ka Haku, which has added benefit of freeing up additional inventory at some of our other highly desired properties in the islands.

Looking at our demand indicators, occupancy of 82% was slightly up in the quarter. Our rental arrivals look very strong for the first half – in particular in the first quarter – and our package pipeline also remains robust at over 710,000 packages. We have great partners like Hilton, Bass Pro and Choice that have access to a huge pool of quality customers to enable us to continue building that pipeline. As a result, we continue to be optimistic about the leisure travel environment.

Turning to our non-real estate business, our member count stood at 724,000 at the end of the quarter and NOG was 1.1%. HGV Max members' growth remains well ahead of overall NOG as we continue to see strong owner upgrade demand with our Max member base growing 34% this year to more than 193,000 members. Our rental business is showing good top line trends, although its profitability is being masked by seasonality and the addition of the Bluegreen rental business, which Erin will speak to shortly.

On the cash flow front, we had a record year in adjusted free cash flow generation at \$837 million. We also set a record in the amount of capital returned to our Shareholders this year at over \$432 million. Building on the momentum, I'm also excited about our financing optimization, which will unlock additional cash flow this year and will allow us to return a record \$600 million to Shareholders. Erin will provide more details here in a few minutes.

Now let me provide an update on our integration and strategic initiatives. Starting with Bluegreen, we achieved some significant milestones with our integration over the last year. We officially rolled out HGV Max in our rebranded Bluegreen sales centers in early November and received a strong initial reception from both members and sales teams. We added nearly 5,000 new HGV Max members in less than two months post launch, which was a quicker uptake than we saw with the initial launch of Max in early '22. There was a lot of anticipation building ahead of the launch, and we're pleased to see that excitement convert into new memberships.

Looking at cost synergies related to the integration, we're well on track to achieve our \$100 million goal this year and with a significant amount of headcount and organizational work completed in '24, our integration efforts this year will turn more towards rebranding. In the fourth quarter, we rebranded Bluegreen sales centers ahead of our Max launch. On the whole, their sales centers were already in great shape, which enabled us to move very quickly to get them rebranded.

On the property side, we have a detailed rebranding plan for approximately 30 Bluegreen properties. We expect a roughly even split of those rebrands to be completed over the next three years with work commencing this spring.

On the operational side, we have several initiatives to further improve our tour efficiency and enhance our value proposition of our offerings. We continue to optimize our staffing coverage to better service our tour flow, particularly in some of our regional markets, and we're continuing to evolve our tour scoring models with additional filters and data points to ensure that we're prioritizing our best tours at any given time. We also have several additional value enhancements planned for this year in addition to expanding our Ultimate Access offerings, which have been incredibly popular with our members.

Taken together, the goal of these efforts will be focused on improving tour quality and tour outcomes to drive growth in transactions rather than absolute tour volume growth. Ultimately, those transactions are what will drive improved EBITDA generation, margins and cash flow.

Moving to our partner programs, in the fourth quarter, we started introducing our brand into locations within the Bass Pro network. We completed a handful of locations during the quarter. Over the course of '25, we plan on introducing our brands into nearly 125 additional stores. So far, we're very pleased with the results in these first locations, and we're seeing an increase in comparative traffic levels. We're also working with Bass Pro to evolve the in-store presence and deliver an experiential interaction that reflects the value of our brands coming together.

The Great Wolf partnership is also producing solid results, exceeding projected expectations in room nights, call transfer and member feedback. The rollout remains on schedule with 14 retail locations currently active.

Finally, we're pleased to solidify our long-term partnership with Choice Hotels in the fourth quarter. Historically, Choice was a material source of new buyer tours for Bluegreen, and we see further potential to grow lead flow as we expand our existing marketing channels and launch new channels. Overall, we're very pleased with the success of our partnership model, and we continue to scout for new partners that can expand our reach and enhance our owner experience.

In summary, it was a strong end to a busy year for HGV, and I'm optimistic about our momentum coming into '25. We're in the middle innings of our integration work with solid line of sight on the remaining milestones. Our sales teams are excited about selling HGV Max across all our brands, and we have a great set of initiatives to drive another strong year of EBITDA and cash flow generation this coming year.

Before I turn it over, I'd like to note that per our 8-K earlier this month, our President and CFO, Dan Mathewes, has taken a temporary leave of absence for personal reasons, and our EVP of Finance and Acting CFO, Erin Day is stepping in for him on today's call.

With that, I'll turn it over to Erin to talk you through the numbers. Erin?

**Erin Day**

Thank you, Mark, and good morning, everyone.

Before we start, note that our reported results for this quarter include \$90 million of sales deferrals, which reduced reported GAAP revenue and were related to presales of our newest project, Ka Haku. We also recorded \$41 million of associated direct expense deferrals. Adjusting for these two items would increase the EBITDA reported in our press release by a net \$49 million to \$289 million. In my prepared remarks, I'll only refer to metrics excluding net deferrals, which more accurately reflect the cash flow dynamics of our financial performance during the period.

As Mark mentioned, this was a very impactful year for HGV. We ended the year on a strong note, exceeding our prior expectations and finishing in the upper half of our revised guidance range. We generated contract sales of \$3 billion and Adjusted EBITDA of \$1.1 billion. We converted 76% of that EBITDA into a record \$837 million of adjusted free cash flow, enabling us to repurchase a record \$432 million of stock, reducing our diluted share count by 10%.

Now let's turn to our results for the quarter. Total revenue, excluding cost reimbursements in the quarter, was \$1.2 billion, and Adjusted EBITDA was \$289 million, with margins excluding reimbursements of 23%. EBITDA included just over \$17 million of Bluegreen cost synergies recognized during the quarter for a run rate of \$75 million annualized, on target with our plan for \$100 million of cost synergies within 24 months.

Turning to our segments, within real estate, contract sales grew to \$837 million for the quarter, up 9% year-over-year on a pro forma basis, with Bluegreen contributing \$208 million of sales and new buyers comprising 25% of total contract sales. If you recall, we faced several headwinds in the fourth quarter of '23, including the continued impact of the Maui fires, along with a system outage impacting our ability to convert tours into contracts.

In the quarter, we also experienced a significant impact from the dual hurricanes that affected the Southern states and cost us nearly \$23 million in lost contract sales and \$11 million in EBITDA. Adjusting for these one-time impacts in both periods, I'm pleased to note that we returned to solid contract sales growth for the quarter, including double-digit year-over-year growth from Bluegreen, which benefited from the launch of HGV Max in early November.

Tours were nearly 207,000 with Bluegreen contributing just over 54,000 tours for the quarter. If we adjust for the one-time impacts of Q4, both this year and last, tours declined roughly 1%, which reflects efforts made during the quarter to focus on tour efficiency. As Mark mentioned earlier, this will continue to be a key focal area for us in 2025 as we push to drive improvements in our VPG. On a pro forma basis, VPG for the quarter rose 13% to 4,026, which was over 20% ahead of pro forma 2019 levels. Both our owner and new buyer channels showed strong growth during the quarter, and we still experienced high single-digit VPG growth even after adjusting for the one-time headwinds experienced this and last year.

The introduction of HGV Max to our Bluegreen members and the launch of sales at Ka Haku were significant drivers of VPG during the quarter, producing our highest close rate since the record levels of 2022 and enabling us to drive solid transaction growth despite tours being slightly lower year-over-year.

Cost of product was 15% of net VOI sales for the quarter, and our provision for bad debt as a percent of owned contract sales was 13% in the quarter. Real estate sales and marketing expense was \$387 million for the quarter or 46% of contract sales. Real estate profit for the quarter was \$167 million with margins of 26%.

In our financing business, fourth quarter revenues was \$153 million, and segment profit was \$93 million with margins of 61%.

I'd like to take a moment here to highlight the slides that we have on the IR website detailing our financing business optimization that we launched in the fourth quarter. That initiative aims to increase both the level and consistency of our nonrecourse borrowing activity, generating additional adjusted free cash flow during the program ramp and enabling incremental shareholder value creation from both capital return and business reinvestment. The goal is to increase the amount of current receivables that we are regularly securitizing to between 70% and 80% from the historical run rate, which was closer to mid-50s. We began the first stage of the program late in the fourth quarter and we'll continue to ramp it over the next 18 months.

Our business is well positioned today to execute on this initiative. We have significant excess liquidity of over \$2 billion. We've become a programmatic ABS issuer with a record of strong execution, which will support our access to the securitization market. We've recently completed extensive work to enhance our credit and consolidate our warehouse facilities, providing us with additional flexibility and a solid platform for this optimization effort.

As shown on Slide 5, our goal in 2025 is to increase our nonrecourse rate to between 65% and 70% with the ultimate goal of holding our rate in a range of between 70% and 80%. When comparing to our baseline at full run rate, this will unlock an additional \$700 million of cash versus our prior securitization strategy, which we can use for additional capital returns and business reinvestment.

At full run rate, we anticipate the program will result in a step-up in our consumer financing interest expense of \$39 million versus our pre-optimization level, which reduces our Adjusted EBITDA due to being reported as an operating expense. Importantly, however, the tax shield and incremental securitization activity to maintain our new higher rate means the optimization will have minimal impact to our underlying cash flow while still being highly accretive to our equity value. We'll use that incremental cash to support additional capital returns, increasing our share repurchase goal by 50% to 600 million or an average of 150 million per quarter.

As I mentioned, we expect to take roughly 18 months for us to fully achieve full run rate where we're holding our 70% to 80% target range throughout the year. In 2025, our current expectation is that we'll achieve an average securitization rate between 65% and 70% which will increase our consumer financing interest expense by \$25 million and consequently reduce our Adjusted EBITDA by that same amount. That \$25 million impact is currently included in the guidance range we issued this morning.

Turning back to our portfolio metrics, our originated weighted average interest rate was 14.95%. Combined gross receivables for the quarter were \$4 billion or \$2.9 billion net of allowance. Our total allowance for bad debt was \$1.1 billion on that \$4 billion receivable balance or 27% of the portfolio. Our annualized default rate for our consolidated portfolios, inclusive of Bluegreen, stood at 10.8% for the quarter. Our provision was 13.3% of owned contract sales in the quarter.

Finally, I note that our other financing expense increased this quarter, owing in part to an additional reserve of \$13 million, primarily on the acquired Bluegreen portfolio. This is similar to the approach we used with Diamond, where we acquired a portfolio of mortgage receivables that will continue to pay off over time, and we've taken a reserve against it as we work over time to migrate the underwriting and sales processes to legacy HGV.

Also similar to Diamond, early indications are the originated portfolio is performing better than the acquired portfolio, reflecting the higher value proposition of HGV's network, HGV Max and improved underwriting standards.

In our resort and club business, our consolidated member count was approximately 724,000 and our NOG was 1.1% at the end of the quarter. Revenue was \$206 million for the quarter and segment profit was \$147 million with margins of 71%. Rental and ancillary revenues were \$174 million in the quarter with segment loss of \$11 million. Revenue growth was driven by the addition of Bluegreen, along with an increase in available room nights at our legacy business, offset by a mix-driven decline in RevPAR. The mix impact on RevPAR was driven by an increased number of room nights in our Hawaii markets being dedicated to member stays rather than rental this quarter as we lap the wildfire-related disruption in the region.

Given that Hawaii carries the highest ADR in our portfolio, this created a negative mix impact when looking at system-wide RevPAR. But when looking at same market basis, our RevPAR's increased versus the prior year in each of our major markets during the quarter.

Expenses in the period were elevated primarily due to the addition of Bluegreen's rental business, which operated at a loss along with continued elevated developer maintenance fees associated with our unsold inventory. During the fourth quarter, we also saw strong usage of points for stays at Great Wolf Lodge through our new partnership program with associated point conversion expense showing up in our rental segment.

Over time, we expect annual segment profitability to improve, mainly as a result of selling through our unsold inventory, which reduces the burden of developer maintenance fees. But the addition of Bluegreen's business will continue to weigh on segment profits and rental, mainly in the seasonally slower first and fourth quarters.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, JV EBITDA was \$6 million, corporate G&A was \$46 million, license fees were \$47 million and EBITDA attributable to non-controlling interest was \$5 million.

Our adjusted free cash flow in the quarter was \$883 million, which included inventory spend of \$159 million. I note that this is materially higher than our initial expectations. We elected to take advantage of tax deferrals in the U.S. and Japan at the end of the year, coupled with a timing shift on some of our anticipated inventory spend in the quarter. We expect that both of these items will instead be paid in 2025.

In addition, we had a significant level of securitization activity in Q4, which contributed to the strong cash flow in the quarter. For the year, we produced adjusted free cash flow of \$837 million or 76% of our Adjusted EBITDA, which was materially higher than our long-term target range of 55% to 65%. Excluding the deferral items I mentioned above, our conversion rate in the quarter would have been in the high 50s. Looking forward, our cash conversion rate will also be elevated as we ramp our financing optimization program before reverting back to our long-term target range of 55% to 65%.

As we look at 2025 specifically, by the inclusion of the tax deferrals and deferred inventory payment, our optimization benefits will still enable our cash conversion rate for the full year to be in a range of 65% to 75%.

During the quarter, the Company repurchased 3.15 million shares of common stock for \$125 million. Through February 20, we repurchased an additional 1.6 million shares for \$66 million, leaving us with \$361 million of remaining availability under our share repurchase plan.

Turning to our outlook, we are establishing our 2025 Adjusted EBITDA guidance to be in a range of \$1,125 million to \$1,165 million. When contemplating this range, there are several important expense items embedded into the guidance that should be noted. The first is the \$25 million increase in our consumer financing interest expense due to our financing optimization program. Excluding this expense, our guidance would have been in the range of \$1,150 million to \$1,190 million. But as I detailed earlier, we believe this program will be accretive to our cash flow and our equity value.

The second item is regarding our license fees. The overlap of our final license fee rate step-up on our Diamond sales and our first rate step-up on our Bluegreen sales makes 2025 uniquely high with respect to year-over-year change in our license fee rate. If we assume no change in sales from 2024 levels, this change in rate would be a \$30 million EBITDA headwind in 2025.

As it relates to our liquidity, as of December 31, our position consisted of \$328 million of unrestricted cash and \$715 million of availability under our revolving credit facility. Our debt balance at quarter end was comprised of corporate debt of \$4.6 billion and non-recourse debt balance of approximately \$2.3 billion. At quarter end, we had \$423 million of remaining capacity on our warehouse facility. We also had \$1.2 billion of notes that were current on payments but unsecured. Of that figure, approximately \$749 million could be monetized through either warehouse borrowings or securitization, while another \$291 million of mortgage notes we anticipate being eligible following certain customary milestones such as first payment and recording.

Turning to our credit metrics, at the end of Q4 and inclusive of all anticipated cost synergies, the Company's total net leverage on a TTM basis was 3.77 times. Finally, I'm happy to announce that we've remediated the material weakness that we previously disclosed in our 2023 Form 10-K.

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

## **QUESTIONS AND ANSWERS**

### **Operator**

Thank you. Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad to enter the queue. If at any point your question has been answered you may remove yourself from the queue by pressing star, two. Please limit yourself to one question and one follow-up to allow the opportunity for everyone to ask questions. You may then reenter the queue to ask additional questions. One moment please, we will poll for questions.

The first question comes from the line of Patrick Scholes from Truist Securities. Please go ahead.

### **Patrick Scholes**

Great, thank you. Good afternoon, or good morning. A number of questions here for you. How should we think about some of the puts and takes as far as growth rates between balancing off our flow and VPG as it relates to your 2025 outlook? Certainly, in the most recent quarter saw

this massive year-over-year acceleration in VPG. Does that flow-through if you give a little more color on that? Then I'll have a follow-up question or two.

**Mark Wang**

Yes, sure. Thank you, Patrick. Maybe I'll touch on just a high level and then I'll have Erin provide a little bit more detail here. But look, I think as you saw it finished the year strong with really good momentum. Teams did a great job, improved execution from all the initiatives that we put in place last year.

We expect strong top line revenue driven by growth in contract sales this year. We've talked about the rollout of Max and importantly, Ultimate Access, we're going to be rolling that out – that's our experiential platform – to Bluegreen. We'll continue to benefit from the launch of Ka Haku especially in our APAC region. Our focus around customer conversion, we talked about it, not just around the quality of the tour, but our staffing ratios, getting our staffing ratios and the teams have done a great job, our recruiting team, our sales leadership done a good job getting us in a better position there.

To get into what we're thinking here and what we're guiding to is tours, we see in the low to mid-single digit, and we think that VPG will be in the same range. We do have some unique expense headwinds impacting EBITDA this year. Erin covered off and talked about it in our prepared remarks. You're going to see revenue will outpace EBITDA this year, but expect solid growth in our underlying business, including strong free cash flow generation.

Erin, if you like, you could probably provide a little bit more detail on that.

**Erin Day**

Yes. Thanks, Mark. As Mark mentioned on the top line, if you take that tour flow at that low to mid and the VPG at mid-single digit, we really expect to be mid to high single digit overall. As Mark mentioned, we are going to see a slight margin contraction primarily related to items I mentioned in my prepared remarks. That's around the additional interest expense from our financing optimization business as well as a license fee headwind and some rental pressures around recovered inventory.

From a cadence standpoint, just thinking about the year, Q1 will be the lowest from a growth and margin perspective. That's mainly due to some of those cost headwinds lapping throughout the year. But on the sales side, we also had easier comps. We'll have easier comps in second quarter, third quarter. We really should see some better flow-through on those quarters. Then what Mark mentioned as well on the cash flow side, where expecting 65% to 75% conversion rate, and that's really the benefit of the financing optimization program we announced today.

**Patrick Scholes**

Okay, thank you. Then my follow-up question really just relates to this optimization program. It seems pretty straightforward, I guess, is a very simplified way of describing it essentially just picking up the pace of securitizations. Because you're doing that, you'll receive less immediate income from that, but the trade-off is you get more cash infusion from doing the actual securitizations, which you could use for share repurchases. Is that a very simplified way, high level of describing it?

**Erin Day**

Yes, Patrick. I think that's a good way of describing it. I think one thing to know is just that remember, the program is going to ramp over the next 18 months to get to that full \$700 million

we announced. Probably when you just think about 2025, as we focus there, we really anticipate generating \$800 million at the midpoint of our cash flow guidance for the year in '25. That also includes absorbing those timing impacts of that Q4 cash benefit.

Then of that \$800 million, we're going to commit \$600 million to the share repurchase program that we upped from \$100 million to \$150 million per quarter. Overall, we're targeting our non-recourse borrowing in '25 to be in that 65% to 70% range. I think we ended Q3 right around 55%.

We did start this program a little bit in Q4. You see a little bit of benefit there, both on the non-recourse borrowing, and then consequently on the share repurchase, but this will ultimately ramp to 70% to 80% as we ramp over the next 18 months.

**Mark Wang**

Yes. Just to maybe finish up on that. Look, our priority is the return cash to our Shareholders. When ramped, the program is really going to have minimal impact, our underlying go-forward cash flow. As we've talked about in the prepared remarks, we see this as highly accretive to our free cash flow in the near term as well as to our equity value.

**Patrick Scholes**

Okay. That makes sense. I certainly found over time Shareholders like the cash infusion used for share repurchases as the preference. I have more questions. I'll hop into the queue. Thank you.

**Operator**

Thank you. The next question comes from the line of Brandt Montour from Barclays. Please go ahead.

**Brandt Montour**

Good morning, everybody. Thanks for taking my question. Maybe for Erin, the loan loss provision, you did give a lot of detail, and I apologize if I missed this, but as a percentage of owned it did bounce around a fair amount in last year. I know there was some volatility market wide in terms of delinquencies. But maybe you could just help us understand how to think about '25 at least qualitatively versus the numbers that we saw in '24?

**Erin Day**

Yes. You're right. It did bounce around a bit. If you remember, Q1, we were around 12%, and that started picking up in 2Q and 3Q. We did mention on last November's call that we always expect seasonally it's a bit lower in Q4. That pretty much came in as expected. Overall, book is holding up really well. Delinquencies are stable. When you look into next year, I think you're going to see some headwind in Q1 as we talked about that mid-teens, and we still think that's a good number.

We're going to see that stabilize in that area. It's really going to be on an annualized basis. If you think about it from a cadence perspective, the provision typically picks up throughout the year with a decline in Q4. Q1, you're going to see a little bit of a headwind. We still expect to be on an annualized basis in that mid-teens when we're looking at '25 and what we've assumed in our guidance.

**Brandt Montour**

Okay. That's super helpful. Thank you for that. Okay. Then maybe for Mark, the Bluegreen HGV Max pent-up demand where they were waiting for that to roll out, and they were waiting all year. It sounds like you saw what you wanted to see in November when you launched that to all those folks in the Bluegreen that we're waiting for. Can you help us understand a little bit about the sales cycle length, meaning that we're sitting here in February? Are all those folks—have you gotten through to all those folks that were waiting? Or does that take a lot longer? Is that a tailwind for the next few quarters?

**Mark Wang**

Yes. Great question. Actually, I'm glad you asked that, Brandt. Look, super excited about the launch and the uptick is much stronger than we initially launched Max back in '22. We talked about it last year. There was some hesitancy. We saw it in the performance in Bluegreen ahead of the launch people that members were waiting to find out what the benefit of the acquisition of Bluegreen from Hilton Grand Vacations was going to be.

What we saw is we saw this great uptick. As you think about the cadence here, it will take us a good 18 to 24 months really to get in front of all the members. When we talk about a launch, we launched it within the sales center. This isn't, we're mailing out or e-mailing or doing a lot of transactions telephonically or digitally. What we're doing is we introduce it into our sales centers. We wait for our members, in this case the Bluegreen members, to arrive at the property, and those that are interested to learn about HGV Max then are invited to come in and go through sales presentation.

Great question. It will take us a good 18 to 24 months to really, I think, get to a good meaningful amount of these members.

**Brandt Montour**

Great. Thanks everybody.

**Operator**

Thank you. The next question comes from the line of Stephen Grambling from Morgan Stanley. Please go ahead.

**Stephen Grambling**

Hey, thank you. You may have addressed a little bit of this in the opening remarks. But I guess, what have you seen in terms of changes in customer behavior across the different segments that you now have across the portfolio post-election? Maybe another way of asking this, if we were to have the guidance conversation a quarter ago, what would have changed?

**Mark Wang**

Yes. Stephen, I'd say, number one, I think trends remain broadly the same, particularly around the pressure on just cost of living right, inflation. We talked about it throughout '24. We saw that pressure, especially in our new buyer close rates. The KPIs for the bottom third net worth customer was the one that we were really struggling with. But I can tell you today, that bottom third tier is really stabilized. If you think about that bottom third to top half of that bottom third has definitely stabilized.

I can tell you that leisure travel remained strong. We saw it in the fourth quarter improvements across the board. When you look at the performance across all of our brands and new buyers, owners, VPGs and closing rates were up, solid across all of them. VPG's for new buyers were up 8%, for owners, 13%. I think for us, what we've been able to control have been the improved

execution and getting really this new organization aligned around our brand, our Company strategy.

Then we talked about the Max launch already. Ka Haku is a big one. If you look at who led performance for the Company, it was APAC. Hawaii had an outstanding quarter. We saw great growth there. We saw it in Oahu. We saw it in Maui. We saw it in the Big Island. We also saw growth in Japan as our new buyer tour flow is ramping up there. I guess to answer your question, people are engaged in travel. I think things have stabilized. I think our execution and our focus around what's important and what we can control has improved.

All-in-all, I feel good about the momentum that we came out of Q4 with.

### **Stephen Grambling**

That's great color on what's going on in Hawaii. An unrelated follow-up, and I know you talked a little bit about the free cash flow conversion. But maybe if we can just drill down into the inventory investment that you're anticipating in 2025? I may have missed that. Thank you.

### **Erin Day**

Yes. Thinking about 2025 on the inventory side, we are looking at—I think when we had HGV as a standalone Company, we were talking \$250 million to \$350 million, and that was roughly \$2.5 billion or so of sales. Bluegreen when we bought them, they operated right around the run rate of \$100 million. They're being invested every year a little bit because they came with a bit lower inventory than we had at the Diamond acquisition.

For '25 and '26, we expect to be at the high end of the combined range. The combined rates being \$350 million to \$450 million. When you think about '25, it's going to be circa \$450 million, give or take a little bit.

We did talk about a bit of inventory spend that got delayed from Q4 into '25. Mainly that's really finishing up these pre-COVID projects, primarily in the Hawaii market. Mark just talked about Ka Haku. That's going vertical right now, so that's a big portion of the spend. We're going to see it ebb and flow a little bit throughout the year. But as we lap over the next two years, we expect a longer term outlook to be more near the low end of that combined range of \$350 million to \$450 million.

### **Mark Wang**

Yes, then Stephen, I'll just add that I think we're in a very favorable inventory position. We have good availability. We have high quality across all our segments. When you look at the Diamond acquisition, it came with ample inventory. We haven't spent any capital since that acquisition. Bluegreen is very similar. It came with ample inventory. This elevated spend that we're seeing now is really, as Erin alluded to, is finishing up on these projects that we announced back in 2018 that got delayed through COVID.

Great position for inventory, four years on hand, a bit more than we would typically want for our long-term target, but we were committed to finishing these projects off. They're good projects, and they will, we believe, have compelling returns for us.

### **Stephen Grambling**

Excellent. I'll jump back in the queue. Thank you.

### **Operator**

Thank you. The next question comes from the line of Ben Chaiken from Mizuho Securities. Please go ahead.

**Benjamin Chaiken**

Hey. Thanks for taking my questions. The legacy Bluegreen ownership, does that convert at one to one or is it on a case-by-case basis when people are upgrading to HGV Max? Then are consumers proactively seeing that value proposition, or do you need to flag it, to them to your point around this taking 18 to 24 months, ramping up? Then I have one or two quick follow ups. Thanks.

**Mark Wang**

Yes, I'm not sure. Ben, I understand the first part of the question.

**Benjamin Chaiken**

Sure, yes. I would assume that—maybe I'll ask the question, when Bluegreen customers purchase—when legacy Bluegreen customers upgrade to HGV Max, does their legacy ownership in Bluegreen also now apply at some exchange ratio to the HGV Max system?

**Mark Wang**

Oh, I get you, okay. Yes. Look, we have a conversion, as far as our points go in Bluegreen. They own points at Bluegreen, in the Bluegreen Club, they will continue to have those benefits and be able to use that within that system. But there's a conversion rate as a Max member.

The benefit for them is now they have the ability when they join HGV Max, you have to upgrade into additional purchase, but you get cross booking activities. Now you can go from the 40 some odd Bluegreen properties across 200 properties within Max. You also get Hilton honor status. You get discounted stays at Hilton Hotels. You also add on that the travel services that we have, you can exchange your points for cruises, flights, rental cars, etc. Yes, so they're there. To be able to take advantage of the Max benefits, you have to upgrade into the Max system, and you don't lose any of the benefits you had at Bluegreen.

As far as timing goes, the timing is really like I think I talked about just a few minutes ago, the introduction of Max was introduced into our sales centers. The ability for people to learn about HGV Max, now, of course, it comes in there, on the website. We talk about it there, but to really purchase it and upgrade, it's done at the sales table. Again, it's going to take a good 18 to 24 months before we can get this program, this value proposition presented in front of a customer.

**Benjamin Chaiken**

Got it, got it. That makes sense. Have you done any work on similar transactions regarding the potential upgrade propensity or proportion of the owner base over time, maybe looking at past transactions in the industry?

**Mark Wang**

Yes. Look, we track that daily and monthly. We have a static pool on upgrade propensity. One of the things that we really liked about Bluegreen is their upgrade propensity wasn't, or hasn't been historically, at the same level as HGV, nor at the levels that Diamond had. We think part of it is because there really wasn't a compelling new story and compelling new value proposition that was put in front of those customers. Our expectations is, we underwrote it to be lower than the propensity at HGV legacy. We still see the VPGs at right around \$2,000 to \$2,500 stronger than they've historically been, but still below historic HGV or VPG.

**Benjamin Chaike**

Got it. Then just squeezing one more quick one in. The securitization financing update is very straightforward and appreciated. I guess the question would be, why not do the securitization all at once? Is it a market demand dynamic that takes 18 months or so to move the ratio higher?

**Erin Day**

Yes, we're really thinking about the—remember, we talked about, we started this in Q4, but we're thinking about the ramp from a couple of different reasons. But the ramp really will allow us to continue to execute a tighter spread versus doing it all at once. The ramp is really somewhat—the timing is a little bit dependent on the securitization market, but we do expect to be there at the run rate as we—the first half of 2026. The ramp is just a—we want to do it over time.

For this year, we're going to be that 65%. We're going to get a lot of it this year and then we'll finish up with the expectation is in that first half of 2026 when the full nonrecourse percent will be there on a stabilized basis.

**Benjamin Chaike**

Got it. Thank you.

**Operator**

Thank you. The next question comes from the line of David Katz from Jefferies. Please go ahead.

**David Katz**

Good morning. Appreciate all the copious detail in the prepared remarks and the deck, and I appreciate you taking my questions. Look, I do want to get a sense for your updated geographic distribution and how you look at it on a combined basis. Just remembering some of the concentration that was Hawaii early on. Looking at where the Company is able to touch today and where might be future places for you to grow into? Thank you.

**Mark Wang**

Sure. Thanks, David. I tell you we're such a different Company since 2019 when you think about just our platform and when you look at what a much wider reach we have geographically. I would say when you looked at our business back in '19, we were very focused around four big core markets with a couple of regional markets. Today, we still have those core markets that are even bigger than they were in '19, but we now have 44 new regional markets. Geographically, we've added places like Savannah and Virginia Beach and Sedona and Scottsdale and Palms Desert and Lake Tahoe.

We have completely changed the dynamics of the value proposition from an ability to travel to different locations. Excited about that. Now as far as how we've organized the business, we've reorganized the business into five regions where before we had two regions. I can tell you, geographically, I talked about it, APAC had a very outstanding quarter. Japan showed up well. Our JV with Bass Pro and our East teams did a really good job.

All-in-all performance has been improving. The opportunity now for us when you think about Nashville, for instance, we have a small footprint there. The opportunity to expand in Nashville is a great opportunity for us. There's 12 Hilton-branded hotels in that market, for instance. Texas, we have a small footprint through the acquisition of Bluegreen in San Antonio. Texas happens to have the third largest members for HGTV combined. Texas is another market that we see

that's compelling. Then we announced Kyoto last quarter. We think domestic—we were the first Company, first international Company to develop a purpose-built timeshare resort in Japan. It was so successful. We're almost sold out ahead of our underwrite and that pushed us into buying Kyoto. We think there's going to be good domestic demand for us in Japan. We see a lot of greenfield opportunities in Japan.

This whole new platform gives us the opportunity to really expand in some of these regional markets. Now when I talk about expansion, these will not be Vegas markets. They won't be Orlando markets. But these are incremental markets that I think where we can grow in the high single digits to low double digits whereas our big, big core markets are probably more, going to be more strained to mid-single digits.

I think a great opportunity for us. It's going to take time for us to unlock this. But we are working through a plan to focus on how that expansion will work. Importantly, the spend as we look at the investment in those markets will be much more incremental. We're not going to be building necessarily big towers. We'll also look to do capital-efficient deals on a just-in-time basis.

**David Katz**

Thank you very much.

**Operator**

Thank you. The next question comes from the line of Chris Woronka from Deutsche Bank. Please go ahead.

**Chris Woronka**

Hey, good morning. Thanks for taking my questions. Mark, you talked earlier about improving the efficiency, the close rates. I'm curious as to whether that's going to have any potential impact on the financing business in terms of either propensity to finance or maybe lower LLPs. Is this a higher quality customer that you think you can get the higher close rates on?

**Mark Wang**

That's an interesting question. We haven't seen any material change in the propensity to finance. It's when we are seeing a higher quality customers. I would say today that we have not seen any material change in that.

**Chris Woronka**

Okay. Fair enough. Then I know you mentioned, I think you re-upped with Choice. Can you maybe, without going into any specifics you don't want to go into, can you let us know if there's any difference in economics there? Or how much uplift do you expect from the renegotiated relationship? Thanks.

**Mark Wang**

Thanks. Pleased we solidified our partnership with Choice. They're a great partner with Bluegreen. They did a really good job driving new buyer transactions. This is part of our new business. We've really diversified our new buyer lead sources. With the Bluegreen acquisition, Bass Pro, Choice, but Choice had a really nice call transfer program that's performed well. Where we see the opportunity with this partner is in the digital side and other consumer-facing marketing opportunities.

Excited about this. It took a while for us to get things figured out, when you're dealing with two hospitality brands. But the Choice customers will be focused on the Bluegreen product and will

not be focused on the Hilton product. We will keep those separate going forward. We need to be mindful around the brand integrity. We'll have dedicated sales centers for Choice leads going forward.

**Chris Woronka**

Okay, super helpful. That's it for me. Thank you.

**Operator**

Thank you. The next question comes from the line of Patrick Scholes from Truist Securities. Please go ahead.

**Patrick Scholes**

Great, thank you. Just a quick follow-up question. On an earnings call this morning, one of your peers had somewhat cryptic comments about softness in sales beginning in February, which subsequently stabilized. Curious if you saw anything similar along those lines. Thank you.

**Mark Wang**

Yes. We haven't seen anything similar to that. We had very similar momentum that we saw in the fourth quarter roll through January. Right now, that momentum continues. We haven't seen that softness.

**Patrick Scholes**

Okay, thank you. That's it.

**Operator**

Thank you. Ladies and gentlemen, this concludes the question-and-answer session. Before we end, I will turn the call back over to Mark Wang for any closing remarks. Mr. Wang?

**Mark Wang**

All right. Thanks everyone for joining us today. I also want to thank all of our team members again for going above and beyond to provide outstanding vacation experiences for our members and we look forward to speaking with you on our next call. Thank you.

**Operator**

Thank you. Ladies and gentlemen, the conference of Hilton Grand Vacations has now concluded. Thank you for your participation. You may now disconnect your lines.