

Hilton Grand Vacations Inc.

Q2 2025 Earnings Call

Thursday, July 31, 2025, 11:00 A.M. Eastern

CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President Investor Relations*

Mark Wang – *Chief Executive Officer*

Daniel Mathewes – *President and Chief Financial Officer*

PRESENTATION

Operator

Good morning, and welcome to the Hilton Grand Vacations' Second Quarter 2025 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 13751067.

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 would like to ask a question, please press star, one on your touchtone phone to enter the queue. If at any point your question has been answered, you may remove yourself from the queue by pressing star, two. If you 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.

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.

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

Mark Melnyk

Thank you, Operator, and welcome to the Hilton Grand Vacations second quarter 2025 earnings call. 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. The 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.

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 a 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 only 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.

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

Mark Wang

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

We produced solid results for the quarter, led by the continued strength of our HGV Max offering, the outperformance of our owner business, and progress on the initiatives we laid out on our prior call. Through those initiatives, we expanded our lead flow and grew the top of our sales funnel, improved our execution, which drove sustained transaction growth, and rolled out additional features to further enhance the value proposition of Max membership.

Thanks to the efforts of our teams, we produced double-digit contract sales growth driven by strong VPG expansion, and tour flow trends that improved compared to the first quarter. We built momentum as we moved through the quarter, culminating in a strong June performance that carried into July, and our demand indicators remained encouraging with on-the-books arrivals outpacing prior year, along with strong package pipeline. While the policy landscape remains volatile, the consumer environment has been relatively stable. We're continuing to monitor those trends closely, and we remain focused on executing against our initiatives to help insulate us from macro noise.

Looking ahead, our performance in the second quarter gives us confidence in our business, and I'm pleased to reiterate our guidance for the year. While I'm pleased with our progress thus far on our initiatives and integration work, we still see significant value creation opportunities ahead of us.

Looking at the results for the quarter, reported contract sales were up 10% to \$834 million, and Adjusted EBITDA was \$278 million, with margins excluding reimbursements of 23%. As I mentioned, we built sales momentum as we moved through the quarter with VPG, close rates and contract sales improving each month from April to June. Similar to last quarter, tours were slightly lower in Q2, as we continued to ramp our efficiency initiatives that prioritized our highest propensity tours. However, that decline was more than offset by the continued VPG strength, which is a favorable trade-off in our view. Volume per guest was up 11% to \$3,690 led by our owner business, with our Max offering and sales of Ka Haku contributing to another double-digit VPG quarter.

Looking at our demand indicators, occupancy in the quarter was equal to the prior year at 83%. Consolidated arrivals in the third quarter and back half are even with the prior year, with particular strength in our marketing and rental arrivals indicating favorable travel demand. In addition, our efforts to grow the top of the funnel through increased package sales and activations have been successful. We added over 20,000 packages to our pipeline, more than doubling the additions we had in the first quarter. We also made great progress on our package activations to support our tour flow pipeline.

Moving on to our other businesses, our member count was nearly 725,000 at the end of the quarter and we ended with over 233,000 HGV Max members, including nearly 21,000 legacy Bluegreen members who have joined the program. We've continued to see very consistent monthly growth in our Max membership, driven by new member growth and owner upgrades. We expect to retain this momentum as we introduce additional benefits that further enhance the value proposition of Max.

Net owner growth for the quarter was 0.6%. This reflects our continued success in adding new members to Max, but it also reflects the netting effect of increased activity from our inventory recapture program.

We've spoken a number of times about the efficiency of our recapture model, which carries several key advantages. First, it provides a source of low-cost inventory and reduces the need to

spend on additional inventory in the future, supporting lower cost of product and future cash flow growth. Second, we embed additional value into our membership base, adding engaged active members with a high lifetime value, while replacing members who are not actively vacationing at the same levels they used to.

With the acquisition of Diamond and Bluegreen, our member base has grown substantially, and our average ownership tenure across the system has also increased. Having a more mature system provides us additional opportunities for strategic inventory recapture as we continue to refine our inventory sourcing strategy. While we expect the effect of this recapture activity will continue to have an impact on NOG, it ultimately supports the embedded value of our owner base, while also improving our free cash flow over the long term. Our Max members are the most active, have the highest satisfaction rates, and have the highest embedded value, and we'll continue to focus on enhancing the value of that membership and driving the growth of our Max members.

Moving on, demand in our rental business has remained stable, with higher RevPAR supporting results for the quarter. Solid rental performance across the broader portfolio was offset by softness in Las Vegas, where lower market-wide international and convention business is creating increased competitive promotional activity.

Turning to financing, as you likely saw a few weeks back, our team successfully closed on a ¥9.5 billion timeshare securitization in Japan, the first of its kind for a U.S. operator, with a very favorable cost of capital. This deal not only supports our financing business optimization and capital return goals this year, but it opens up an entirely new market to provide a source of low-cost funding to support our business and capital allocation goals as we grow this new platform. It's a testament to our decades of effort to develop our market-leading position in Japan through our commitment of providing quality and service excellence to our 75,000 Japanese members, and it's a significant milestone for HGV, so I'm very proud of the team.

From a cash flow perspective, our financing optimization helped us generate over \$135 million in adjusted free cash flow for the quarter. We expect to complete spending on our Ka Haku project in 2026, marking the end of a major inventory investment cycle that we announced back in 2018. As we return to a normalized level of annual inventory spending and realize the benefits of the financing optimization program, we're transitioning toward a sustainable model of strong cash flow generation, and we remain committed to returning excess cash to our shareholders. We returned \$300 million to our shareholders this year, including \$150 million for the quarter, and we're confident in our goal of returning \$600 million this year.

Turning next to an update on our initiatives and integration progress, our initiatives helped to support our solid operational performance during the quarter. First, regarding the top of the funnel, as I mentioned earlier, we had strength in our package sales during the quarter, and the efforts that the teams put forward to optimize our package activations led to a considerable increase in our activation pace, which should support tours in the second half of the year.

Second on the execution side, we implemented our newest prescreening models in several more package sales channels and sales sites, which has allowed us to better prioritize our tour flow and support improved VPGs.

Our third initiative was around product enhancements. We continue to expand our experience platform and recently made Bluegreen's successful hosted trips program available to all of our members. This popular program has had high guest satisfaction scores and a high level of repeat business, and we think it will be a great addition to the services we offer our members and guests.

In addition, earlier this month, we also rolled out cross-booking capabilities to our HGV Max members, giving them the ability to easily use their points across the entire system of resorts; and we have several other enhancements slated for rollout later this year, which will continue to drive engagement and enhance the value proposition of Max.

On the project front, I'm also excited to announce that we held our topping off ceremony for our Ka Haku property last week, and we remain on track to begin welcoming guests in 2026.

Turning to our Bluegreen integration, we remain on track with our goals. We've nearly achieved our stated cost savings target, and remain confident in our ability to reach our \$100 million goal this year. We've rolled out our Envision sales technology to the majority of our Bluegreen sales centers, and we expect to be completed by the end of this quarter. We're also in the process of integrating Ultimate Access into the Bluegreen resort network. In a few weeks, we'll begin our Bluegreen property rebrand program, which we expect to have completed over the next three years.

On the partnership front, we've completed the rebranding of our Bass Pro locations, and we continue to make great progress with our partners toward implementing digital marketing programs with them to further expand our lead flow.

To sum it up, I'm happy with our performance this quarter. The value of HGV Max has continued to resonate with our owners and guests, and we've built momentum over the course of the quarter as we executed on our initiatives. We're generating and returning significant cash flow with our financing business optimization, and opening up the Japan securitization market should provide us with a new avenue of cost-efficient adjusted free cash flow generation in the future. As we cross over the halfway point of the year, our focus remains on executing our initiatives as well as continuing our integration work. We've made steady progress, and we still have significant opportunity ahead.

With that, I'll turn it over to Dan for more details on the numbers. Dan?

Daniel Mathewes

Thank you, Mark, and good morning, everyone.

Before we start, note that our reported results for the quarter included \$82 million of sales deferrals, which reduced reported GAAP revenue, and were related to presales of our newest projects, Ka Haku and Kyoto. We also recorded \$37 million of associated direct expense deferrals. Adjusting for these two items would increase the Adjusted EBITDA to shareholders reported in our press release by a net \$45 million to \$278 million. In my prepared remarks, I'll only refer to metrics excluding net deferrals, which more accurately reflects the cash flow dynamics of our financial performance during the period.

As Mark mentioned, we had another solid quarter driven by gains in our VPG, which were aided by our initiatives and continued success of HGV Max. It translated into 10% contract sales growth and improvement in our real estate margins. Our financing business optimization has also continued to be a meaningful positive driver to cash flow. We finished the quarter with 73% of our current receivables securitized, remaining within our target range of 70% to 80% on a steady state basis.

In addition, as part of our optimization, I am very pleased to announce that we executed on our first securitization of Japanese receivables, with ¥9.5 billion issuance at an attractive 1.41% borrowing rate. This is a significant milestone for us and represents the first and only timeshare securitization in the Japanese market, and it builds off our decades of leadership in that market. While this initial deal was relatively small, over time we plan to scale our presence in that market to provide us with another option to generate additional adjusted free cash flow at an attractive cost of capital.

You may have also noticed we filed a 15G earlier this week and expect to be in the market with an ABS deal of approximately \$400 million shortly as we continue to focus on efficiently monetizing our financing business.

Turning to our results for the quarter, total revenue, excluding cost reimbursement, in the quarter grew 9% to \$1.2 billion, and Adjusted EBITDA to shareholders was \$278 million with margins, excluding reimbursements of 23%. In addition, since the close of the Bluegreen acquisition, we've achieved \$92 million of run rate cost synergies, nearing our goal of \$100 million of run rate synergy savings.

Within our real estate business, contract sales were \$834 million, up 10% versus the prior year. New buyers represented 28% of our contract sales during the quarter, improving sequentially from the first quarter by 300 basis points. Tours were down about 50 basis points year-over-year to 225,000, which again reflected the tour efficiency initiatives that Mark mentioned earlier, along with ongoing sales center closures related to the hurricane this past fall.

As Mark mentioned, during the quarter we continued rolling out our prescreening and efficiency programs. This allowed us to tour higher propensity guests through our sales centers and, along with continued success of HGV Max, helped to drive another quarter of strong VPGs, which were up 11% year-over-year to nearly \$3,700. We still anticipate high-single-digit contract sales growth for the year. However, given the year-to-date trends, we now expect flat tour growth and high-single-digit VPG growth to be the drivers that get us to that sales target.

Cost of product was 11% of our net VOI sales in the quarter, down nearly 100 basis points from the prior year. Real estate sales and marketing expense was \$412 million, or 49% of contract sales, flat to the prior year. Real estate profit was \$162 million in the quarter, with margins of 26%, up 300 basis points over the prior year.

In our financing business, second quarter revenue was \$126 million, and segment profit was \$72 million, with margins of 57%. Excluding the amortization items associated with our acquired receivable portfolios, financing margins were 61%.

Looking at our portfolio metrics, our originated weighted average interest rate was 15%. Combined gross receivables for the quarter were \$4 billion, or \$3 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 the consolidated portfolio stood at 10.2% for the quarter, equal with the first quarter's levels.

Our originated portfolio delinquencies continue to outperform a much more seasoned acquired portfolio, which is a testament to the strength of the HGV brand, increased value proposition of HGV Max, and the continued rollout of the best-in-class sales and underwriting practice. As a result, our second quarter provision was 14% of owned contract sales, down from 15% in the same quarter of the prior year.

Delinquency rates for both the HGV and legacy DRI portfolios are running at or below last year. While we expect the provision rate to build throughout the year, given the current operating environment and seasonal trends, we still expect all-in provision in the mid-teens for the full year, consistent with our previous guidance. We also monitor our 31- to 60-day delinquency trends very closely as an early indicator and have not seen any signs of increased stress within our portfolio in recent weeks, but we continue to monitor the situation closely.

In our Resort and Club business, our consolidated member count was nearly 725,000, and over the trailing 12 months the Max membership has grown by nearly 65,000 members. Revenue grew 7% to \$183 million for the quarter, owing to our increased member count and solid member activity during the quarter; and segment profit was \$127 million with margins of 69%.

Rental and ancillary revenues were flat to the prior year at \$195 million in the quarter, with segment loss of \$8 million. Revenue growth was driven by higher ADR with available room nights roughly the same as the prior year. On the whole, we saw improvements in both rate and occupancy across the portfolio, although Mark mentioned softer trends in the Las Vegas market.

On the expense side, developer maintenance fees continue to be the largest driver of our rental and ancillary margins.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, JV EBITDA was \$7 million, license fees were \$52 million, and EBITDA attributable to noncontrolling interest was \$5 million. Corporate G&A was \$42 million, or 3.4% of pre-reimbursement revenue, which was 50 basis points better than last year's expense rate.

Our adjusted free cash flow in the quarter was \$135 million, which included inventory spending of \$77 million. For the full year, we still anticipate that our conversion rate of Adjusted EBITDA into adjusted free cash flow will be in the range of 65% to 70%. During the quarter, the Company repurchased 4.1 million shares of common stock for \$150 million. From July 1st through July 24, we repurchased an additional 626,000 shares for \$29 million.

We remain committed to capital returns as the primary use of our free cash flow and believe our shares continue to represent a compelling value. We currently have \$98 million of remaining availability under our share repurchase plan. In addition, as you saw in our press release, we just obtained a new authorization from the Board of Directors for an additional \$600 million of share repurchases for a total of roughly \$700 million between the two programs.

Turning to our outlook, we are maintaining our 2025 Adjusted EBITDA guidance to be in the range of \$1.125 billion to \$1.165 billion, which assumes that the environment remains consistent with what we've seen today. As I mentioned earlier, we expect to convert 65% to 70% of that EBITDA into cash flow.

Using our second quarter ending share count of just under 90 million shares, this implies we'll generate approximately \$8 to \$9 of adjusted free cash flow per share for the year, and we'll continue to return the majority of that cash flow to our shareholders. We remain committed to returning an average of \$150 million per quarter to shareholders this year through share repurchases, or \$600 million in total, representing the vast majority of our adjusted free cash flow.

Moving to our liquidity, as of June 30, our liquidity position consisted of \$269 million of unrestricted cash, and \$794 million of availability under our revolving credit facility. Our debt balance at quarter

end was comprised of corporate debt of \$4.6 billion, and a nonrecourse debt balance of approximately \$2.5 billion.

At quarter end, we had \$120 million of remaining capacity on our warehouse facility. We also had \$937 million of notes that were current on payments but unsecuritized. Of that figure, approximately \$429 million could be monetized through either warehouse borrowings or securitizations, while we anticipate another \$260 million will become available following certain customary milestones such as first payment, deeding and recordings. Despite market volatility, ABS markets remain open and functioning. This fact, coupled with our \$850 million warehouse, give us confidence we can execute on our previously discussed finance optimization strategy.

Turning to our credit metrics, at the end of Q2 and inclusive of all anticipated cost synergies, the Company's total net leverage on a TTM basis was 3.9 times.

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

QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting a question-and-answer session.

If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key.

Your first question comes from Ben Chaiken with Mizuho Securities. Please go ahead.

Benjamin Chaiken

Hey, good morning. Thanks for taking my question.

One thing that kind of stuck out as we were going through the release is the higher mix of fee-for-service in the quarter relative to 1Q and relative to what we were expecting, especially in the context of your overall inventory on the balance sheet being above 90% owned. Is there any way to approximate—I guess, A, did this have a drag on EBITDA? I would think that it would. Then is there any way to approximate the impact of converting contract sales to fee-for-service versus traditional owned, if that question makes sense? If not, I can rephrase it.

Daniel Mathewes

Hey, Ben. It's Dan. To your point, yes, fee-for-service mix was a little bit higher in Q2 than it was in Q1. I think it was about 200 basis points higher, 17% versus 15%. For the full year, there's a little ebb and flow here. The fee-for-service work is associated with our deeded product, so where demand is, is where we'll obviously entertain the customers' point of view on what they want to buy. So, it really depends on who's coming through the door, and then there's some motivation on our side, with different fee structures that we have in place, to maximize what we can earn with our fee partners.

I think to answer your question for the full year, if you think about that mix, I think we're going to end up right in the middle of Q1 and Q2, right around 16%, but it's going to be in that range, 15% to 17%. It shouldn't be a significant amount of movement. Now, to your point, when you think

about fee-for-service, we clearly only retain a commission for those sales. While the margin is good, from an absolute dollar perspective, the flow-through is less.

Mark Wang

Yes, Ben. I'd just say that the teams in South Carolina, Myrtle Beach, Hilton Head, they had a great quarter. They've been having a great year, pretty much outperforming most of the regions out there, so that's part of it. As Dan alluded to, look, we've got people in Myrtle Beach and Hilton Head that are interested in the product, which we have extremely good product with our third-party partner there, we're going to continue entering them into our system there.

Benjamin Chaiken

Got it. As a quick follow-up, directionally, should your fee-for-service go to 10% or under 10%? I'm kind of just using what's implied on the press release today regarding your inventory balance. Or is there something else that could change that over long term, I mean, next year, two years from now, etc.?

Daniel Mathewes

Yes. No, that makes sense. You should see it start to ratchet down. In fact, if we think about our pipeline, the only project that's fee-for-service in our pipeline is a subsequent project that we have in Myrtle Beach with our partners there, but that's a few years away.

Benjamin Chaiken

Okay, got it. Then just would love to hear more on the demand side from Bluegreen upgrade sales to Max. Are these inbound sales? Are you reaching out to customers to upgrade? Then any help with cadence as we move through the year, either on tours, VPG, contract sales, just whatever you want or whatever you can provide?

Mark Wang

Yes. Max has really taken hold, and when you look at our upgrade curve for our members, it's up 20% since the launch of Max. It's been strong. Even if you go back to our legacy HGV members, DRI members still four years out, we continue to see really good activity there, and the program has really resonated on the value proposition and just the bigger network.

As it relates to Bluegreen, great response from Bluegreen. We expect that that's going to continue on. I think we've got about 20,000-some Bluegreen members who've joined Max since the middle of November when we launched it, so again, it's great to see what Max has done. The teams did a really good job designing this new program, with people upgrading quicker and with greater frequency. It's a testament to what the teams have done, and it's a testament to our brand and our ability to take our brand and leverage that brand across the two acquisitions. So, that's going well.

As far as the rest of the year, I think what we're seeing is a consumer environment that remains, I'd say, very stable, and so our expectations are very consistent for the rest of the year is what we've seen at the beginning of the year. Then July, as we went into July, we saw the same kind of performance we saw as we exited Q2, which that quarter ramped up through the quarter, with June being the best month. So, pleased with what the teams are doing and the demand creation that's out there, and I'd say a much more stable environment than we've seen in a while. Look, obviously still we got a policy environment that remains fluid, but we feel pretty good based on just looking at our forward indicators that people continue to want to travel.

Benjamin Chaiken

Thanks very much.

Operator

Next question, Brandt Montour with Barclays. Please go ahead.

Brandt Montour

Good morning, everybody. Thanks for taking my question.

Mark, I want to dig in a little bit deeper on the new owner side. I think you guys said you leaned on where you had really good owner sales, and I know you're focusing on the owner side for Bluegreen. I think what we've kind of heard from peers who were more worried about in this environment is new owner sales, and so maybe if you could just talk about how the new owner sales effort has evolved throughout the year, especially on Diamond, where I know there was a big effort by you guys to push new owner sales in those sales centers last year.

Mark Wang

Yes. What I'd say, Brandt, around new owners is, I think if you recall back in Q2 of '24, we saw some degradation, especially if you look at, let's just say, six cohorts, the bottom cohort of that group. But I can tell you, across the board, we've seen stabilization in all of our cohorts, so pleased with what's happening there, and we continue to build momentum.

We talked about in our prepared remarks, our new buyer pipeline was up 10%. We sold 200,000 packages in the quarter, and we also saw great progress around activation. So the momentum really is looking good around new buyers, and so when you look at it from a transactional mix, we had about 30% new buyers from a transactional standpoint, but part of that mix is we're seeing very high performance on our owners. I mentioned that in the previous answer, that the upgrade curve has improved 20%. So, from a mix perspective, part of the transactional mix being at 30% versus potentially 35% has just been the outperformance on the owner side.

All in all, I think we're making great momentum. The teams did a great job on executing. It did put some pressure on cost during the quarter. When you think about the cost, when we oversold our budget on package sales, just to remind everybody, those guests typically don't travel until 6 to 18 months out, but we take the majority of the expense in the quarter, so it did put some pressure on flow-through, but we're not going to not create the demand when it's there.

I think that's another good indicator out there, when you think about the consumer that we sold 200,000 packages in what some may call a bit more uncertain time, but for us, we're seeing a lot of activity and the teams continue to do a great job. We've rebranded all our Bass Pro Shop stores. We saw 20% increase in package sales there. Our Hilton partners—between Hilton, Bass Pro, and Choice percent of our tour stores for new buyers, other than what we do at the property level and our local marketing, are coming through those three big partners.

Brandt Montour

That's great to hear. Thanks for that.

Then I do want to get your thoughts on what's going on in Vegas. Obviously, you heard from some of the strip up gaming operators. When you look at your forward indicators for that market, do you see anything that would suggest this isn't just sort of summer leisure-related softness? Anything that concerns you maybe into the back end of the year, when that market is supposed to be maybe a little bit more on a sounder footing from a seasonal perspective?

Mark Wang

Yes. Look, visitations are down, and some of the pressure is just the promotional activity that's coming from the mainly casino operators out there, but in the interim—so, that pressure has put some pressure on our room rates, especially what is considered a seasonally low period to begin with.

One of the big advantages for us, Brandt, is we don't have a fixed rental night capacity. What do I mean by that? We can strategically allocate additional room nights to club, to marketing to help drive additional sales, so we continue to make those adjustments to help insulate us from some of the recent softness in that particular market. As it relates to contract sales in Las Vegas, we saw some softness relative to our other core markets, but the good news is owner VPGs in Vegas remain extremely strong.

Brandt Montour

Great. Thanks, everybody.

Operator

Next question, Patrick Scholes with Truist Securities. Please proceed.

Patrick Scholes

Good morning, Mark and Dan. Thank you. Dan, can you talk to the performance of your loan book as the quarter progressed and into July? Thank you.

Daniel Mathewes

Yes. No, absolutely. The loan book is in good shape. Year-over-year, we're seeing delinquency rates across the three brands be stable to improve, with the exception of Diamond, but I think I'd say that's just a nominal move. We're talking about 5 to 10 basis points, nothing material. That's more of a depending on what time of the day you take it, right? But if you look at year-to-date movement on delinquencies, in particular the 31- to 60-day delinquencies, which we look to as being leading indicators across the three there, going into July, they're below 2024 levels. So, I think we find ourselves in a good position.

Patrick Scholes

Okay, good. One more question here on VPGs. Last quarter, you had noted an expectation for mid-to-high single-digit VPG growth for the remainder of the year. You did about 11% in 2Q. For the back half of the year, would you still expect to do mid-to-high single-digit growth for VPGs?

Daniel Mathewes

I think when you think about the back half of the year, there's two distinct stories there. When you think about VPGs in Q3, we still have not lapped the launch of HGV Max. We should see strong VPG growth in Q3, but when you think about Q4, it is lapping the launch of HGV Max through the Bluegreen owners, which happened, I want to say it was November 8 of 2024. So, we would envision VPGs to be down in Q4 year-over-year because of that tough comp primarily.

Patrick Scholes

Okay. Understood. Thank you for the clarity by quarter. I'm all set.

Operator

Next question, Stephen Grambling with Morgan Stanley. Please go ahead.

Stephen Grambling

Hey, thank you. Just maybe another follow-up on VPG. I just want to make sure that I heard you correctly. It sounded like, Mark, you had said that you were pretty happy with the VPG performance in the quarter and you take VPG over maybe tour flow. Can you just remind us of what the typical flow-through is on a point of VPG versus tour flow? Then, as you look at new owner VPG, I know you touched on this a little bit, but are you seeing any change in conversion rates for new owners coming through tours? Thanks.

Mark Wang

Yes. Stephen, first of all, I'd say owner VPGs remain extremely strong year-over-year, and even when you go back and you compare it to where we were in '19. On the new buyer side, the new buyer side has been very stable. We saw very little movement over the last couple of quarters, so it's remained very stable. I think, again, the rebranding efforts that we have going forward with Bluegreen, which will begin in earnest in the next couple of months here and will take about three years to rebrand the properties, that will be a benefit for us going forward.

I think the Bluegreen launch of Max to new buyers is taking place, and so we have some opportunities there. We're still a ways away before we can really capture the opportunity around the integration of our product across sales centers as we wait for the technology to be built. All in all, I'd say owner VPGs are extremely strong. I'd say new buyer VPGs are very stable.

Daniel Mathewes

Yes. Just to tack onto that, Stephen, and you're probably going to get more than you asked for here, but when you think about VPGs, the flow-through for every dollar, we anticipate—and there's a lot of moving pieces which I'll get into in a minute, but the flow-through should be somewhere in the 50%-plus range; and on tour flow, it's materially less because you have incremental costs, and that'd be closer to 30%.

When I say there's a lot of moving parts, you saw in the second quarter that our real estate margin was up 300 basis points year-over-year. Where does bad debt go? Where does cost of product go, etc.? Some of that is seasonal when it comes to the provision for bad debt. We were sub-14%, 13.7% in the second quarter. Due to seasonality, we and our expectations for the balance of the year, we see that provision increasing closer to, in Q3, north of 16%, just around 17%, and then coming back down in a seasonally stronger Q4 period, closer to 15.5%.

On the cost of product front, it really depends on the mix of product you're selling. As you saw in Q2, we had a favorable mix, and it came in around 11%. Q1 was north of 12%. For the full year, we think it's going to be a little bit better than we originally expected for the year, but still in that 12% to 13% range. I think this also underscores the benefit that we're realizing from the acquisitions.

I know this is a long answer for VPGs, but I think it's worth reiterating. When you think about legacy HGV before any of the acquisitions, our cost of product was 25%-plus. Following the acquisition of Diamond, we originally anticipated cost of product to fall in the low 20s. After working with the Diamond Trust for a couple of years, we've lowered those expectations to the high teens; and with the acquisition of Bluegreen, more recaptured inventory at a very favorable cost levels have us anticipating cost of product being in that 13% to 16% range, in that mid-teen range.

Now, mix is going to matter from quarter-to-quarter, but that's how we view it long term. But most notably I think, and this is very important that I think we need to underscore probably more on our side, is what does that mean for future development? What does that mean for future inventory spend?

As you know, our inventory spend this year is going to be roughly \$450 million. It's going to be of a similar nature next year. These are really associated with those commitments Mark alluded to earlier, Ka Haku and Maui, some of the commitments we made in 2018. But now, with the Bluegreen Trust, the Diamond Trust, we look at our longer-range inventory spend to be at \$300 million. Now, to put that in perspective, right after the acquisition of Bluegreen, our vision of inventory spend on a stabilized basis was closer to \$350 million to \$450 million. From a high point range, we've brought that down fairly substantially from that \$450 million down to \$300 million.

I know that's beyond your VPG question, but I think all those components come into play and make a meaningful difference to the future of the business.

Stephen Grambling

No, that's super helpful. It just also leads into one potentially quicker one, which is just as you think about that adjusted free cash flow at 65% to 70%, but then you have this longer-term benefit to potentially cost of VOI and also inventory spend, could that drift higher as well?

Daniel Mathewes

My only hesitation on saying it could drift higher is because I can tell you where I anticipate having our inventory spend over the next five years. What I cannot tell you for even next year is what's the political rhetoric going to do with tax rate? That obviously comes into play. Holding everything else equal, ideally we'd be at the higher end of that range, but there's a lot of nuances on puts and takes.

Stephen Grambling

Fair enough. Thanks so much.

Operator

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

Mark Wang

All right. Well thanks, everyone, for joining us today.

I want to thank our team members for going above and beyond to meet our owners' needs and deliver outstanding vacation experiences. And, I want to thank our owners who make vacationing a priority, and entrust us with creating those memorable experiences for themselves and their families.

Have a great day. Thank you.

Operator

Thank you. This does conclude today's teleconference. We thank you for your participation. You may now disconnect your lines at this time.