

Hilton Grand Vacations Inc.

Q3 2025 Earnings Call

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Eastern

CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President, Investor Relations*

Mark Wang – *Chief Executive Officer*

Dan Mathewes – *President and Chief Financial Officer*

PRESENTATION

Operator

Good morning and welcome to the Hilton Grand Vacations' Third Quarter 2025 Earnings Conference Call.

A telephone replay will be available for 7 days following the call. The dial-in number is 844-512-2921 and enter PIN number 13751068.

At this time, all participants have been placed in a listen-only mode, and the floor will be open for the 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' Third Quarter 2025 Earnings Call.

As a reminder, our discussions 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 SEC filing. 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 are 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 on Table T-1 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 third quarter earnings call.

We had strong operational and financial execution this quarter, with 17% growth in our contract sales driving material improvement in our real estate business profitability versus the prior year. Those results enabled a near double-digit growth in our EBITDA for the period, along with maintaining our commitment to returning substantial cash back to shareholders.

I was particularly pleased with how broad-based our sales performance was. We grew our tour flow and VPG in both owner and new buyer channels, all of our domestic geographic regions produced double digit gains in VPG, and we delivered mid-teens contract sales growth at both our legacy and Bluegreen businesses. Our teams have been working hard on executing against our strategic initiatives to grow our lead flow, improve our execution, and enhance our value proposition. Those efforts are continuing to produce results.

The consumer environment has remained stable overall, and travel demand continues to be healthy when looking at our forward indicators and member surveys. While recent events have highlighted the continued volatility in the policy landscape, our focus on our strategic priorities has not changed. We are controlling the things we can control by executing against identified initiatives and highlighting our value proposition in the short term, while continuing to invest in building out our capabilities for the long-term.

We still have work to do around growing our new buyer mix and improving our cost efficiencies, but our results reinforce my confidence that we're making progress toward achieving those objectives, and that the investments we're making today will drive sustainable value creation in the business.

Looking ahead, we're carrying good momentum into the year-end, and we're reiterating our existing EBITDA guidance for the year, along with our expectation of achieving high single-digit contract sales growth.

Turning to the results for the quarter, reported contract sales were up 17% to \$907 million, which was a record for the business on a pro-forma basis. Adjusted EBITDA was \$302 million with margins excluding reimbursements of 24%.

As I mentioned, I'm encouraged by the composition of our sales in the quarter. Consolidated tour growth of 2% continued the consistent trend of improvement we've seen this year, with both owner and new buyer channels contributing to the growth. We grew new buyer tours at our legacy and Bluegreen businesses, and we achieved that growth while executing on our tour efficiency initiatives and improving the overall quality of the tour pipeline.

VPG was up 15% against the prior year, with our performance also reflecting broad strength. Both owners and new buyers contributed to the growth. The gains were also relatively well-balanced between our legacy and Bluegreen businesses, and geographically, we saw double digit growth across every one of our mainland regions.

Looking at our forward demand indicators, which also remain healthy, occupancy in the quarter was equal to the prior year at 83%. Consolidated arrivals in the fourth quarter are ahead of the prior year, and our marketing and rental arrivals continue to be our strongest channels. Our

package sales initiatives also continue to be successful, with another quarter of double-digit package sales growth and a pipeline that remains near 750,000 packages.

Moving on to our other business units, our member count was nearly 722,000 at the end of the quarter and reflected the increased rate of recapture we discussed last quarter, which will support both embedded value creation and improved long-term cash flow generation.

Our HGV Max members are our most engaged and active members, and we're maintaining a very steady pace of Max additions with both new buyers and owner upgrades. We've added 70,000 members to HGV Max over the past 12 months. And in doing so, we achieved an important milestone, surpassing a quarter million HGV Max members, including nearly 30,000 legacy Bluegreen members now enrolled in the program. So, we continue to see robust demand for the Max program and the compelling value proposition it offers.

In our rental business, continued travel demand supported growth in much of our portfolio. While the Las Vegas FIT rental market remained slow due to visitation and competitive dynamics, our Vegas sales teams did a tremendous job in our sales centers during the quarter, driving near double-digit contract sales growth despite market challenges.

In our financing business, we continue to execute our business optimization program that will enhance our cash flow over the long-term. During the quarter we repurchased 3.3 million shares of stock for \$150 million. We're on track to hit our goal of returning \$600 million to shareholders through a repurchase this year, and we remain committed to returning excess capital to shareholders.

Turning next to an update on our initiatives and integration, we continue to make progress with our lead generation initiatives to drive package sales and activations. The packages we sold in the first six months of the year are starting to convert into tours and were a key contributor to our return to positive new buyer tour growth this quarter. We also generated double-digit growth in the number of packages sold in Q3, exceeding our internal forecasts for the second quarter in a row. Those packages will in turn help us to build out our tour pipeline into 2026.

So, while stronger than expected performance resulted in proportionately elevated marketing spend in the period and weighed on our flowthrough, we view this investment as an important driver of future growth. As those packages convert into tours and ultimately into contract sales, we'll see the benefit of new buyers entering the system and adding additional lifetime value.

Regarding our product enhancement initiatives, HGV and HVC resorts began receiving Max members from Bluegreen this month, with those members now able to easily use their points for stays at resorts across all of our brands. And we plan to launch additional Hilton benefits for our newest Max members from Bluegreen, along with access to travel concierge service to help with planning and making the most out of their next getaway.

Turning to the Bluegreen integration, we continue to make good progress. We've reached \$94 million in our run-rate cost synergies this quarter and remain on track with the targeted \$100 million in savings. We fully rebranded our Bluegreen sales centers and rolled out our Envision sales technology in each of them. And with the recent completion of our Bass Pro kiosk rebrands, we have great brand synergy across our marketing channels, highlighting Hilton Grand Vacations' quality of product and service backed by the Hilton brand.

On the property front, we've rebranded our first seven Bluegreen properties, with the goal of having our targeted rebrands completed over the next three years.

Our Technology teams also continue to make progress on our digital transformation path, rolling out additional tools to our teams while also introducing new enhancements to improve our member experience. This quarter we've upgraded our proprietary MyExplorer chatbot to provide our members a personalized AI-powered tool tailored to their membership profile to help them with their booking and vacation needs.

From a partnership perspective, we've been focused on executing and deepening our existing relationships. Through strategic alliances with Hilton, Bass Pro, Choice, and Great Wolf, we reach a broad, diverse and growing audience. And we're constantly working with those partners to test new marketing programs and increase the efficiency of our funnel to convert leads to new member transactions and drive lifetime value.

So, to sum it up, I'm proud of our performance this quarter, and I'm especially pleased with how broad-based our performance was across our KPIs, channels, and geographies. Our teams have done a great job executing against the initiatives we've laid out, and their hard work is producing results. We're focused on further improving our cost structure and flowthrough, along with driving additional new buyer growth, and I believe that the investments we're making in the business are setting us up for long-term value creation.

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

Dan Mathewes

Thank you, Mark, and good morning, everyone.

Before we start, note that our reported results for this quarter include \$99 million of sales deferrals which reduced reported GAAP Revenue, and were related to presales of our Ka Haku and Kyoto projects. We also recorded \$42 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 \$57 million to \$302 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.

We had a strong sales performance this quarter, reflected across our channels, KPIs, and geographies, leading to contract sales growth of 17%. That fueled an acceleration in both our top line and EBITDA growth, with strength in our Real Estate, Financing, and Club and Resort businesses. Real Estate margins had their second consecutive quarter of meaningful expansion, and our recurring Financing and Club and Resort business continue to demonstrate consistent growth. While we still have work to do on Rental business and our overall cost efficiency, I think we made solid progress in the quarter overall.

We finished the quarter with 69% of our current receivables securitized, as we continued to execute against our financing business optimization. While our cash generation was lower this quarter due to the timing of securitization activity, we remain confident in our 65% to 70% cash flow conversion target for the year. Year to date we've produced \$342 million in adjusted free cash flow, and we're expecting to generate a material amount of cash in the fourth quarter along with our final securitization deal of the year.

Turning to the results for the quarter, total revenue before cost reimbursement in the quarter grew 12% to \$1.3 billion, and Adjusted EBITDA to shareholders was \$302 million with margins excluding reimbursements of 24%, roughly in line with the prior year. We've recognized \$94 million of run-rate cost synergies from our Bluegreen acquisition and are within sight of our goal of \$100 million of run-rate savings.

Within our Real Estate business, contract sales were a record \$907 million, up 17% versus the prior year.

As Mark mentioned, the composition of our sales performance was encouraging, with gains in both our owner and new buyer channels. New buyers mix remained steady at 27% of our contract sales during the quarter.

Tours were up 2% year-over-year to 232,000, with growth in owner and new buyer channels. We expect to see an acceleration in our fourth quarter tour growth, supported in part by our package sales performance in the first half of the year.

Turning to VPG, our tour efficiency initiatives, HGV Max and Ka Haku launches underpinned an acceleration in growth to \$3,900, up 15% year over year. As was the case with tours, both our owner and new buyer channels saw a step-up in growth from the second quarter rate. Cost of product was 12% of net VOI sales in the quarter, in line with the prior year.

Real estate sales and marketing expense was 46% of contract sales, a 300 basis point improvement from the prior year. Similar to last quarter we outperformed our package sales estimates, which will help support future tour growth. Due to the nature of timeshare marketing, the expenses related to that outperformance are realized up front and will convert to EBITDA as we tour those package guests in the coming quarters. In Q3, the additional marketing expense was roughly \$7 million. Despite the additional expense, however, real estate profit was \$178 million in the quarter, with margins of 27%, up 300 basis points over the prior year.

In our financing business, third quarter revenue was \$128 million, and profit was \$75 million, with margins of 59%. Excluding the amortization items associated with our acquired receivables portfolios, financing margins were 62%.

Looking at our portfolio metrics, our originated weighted average interest rate was 14.7%. Combined gross receivables for the quarter were \$4.2 billion, or \$3.1 billion net of allowance. Our total allowance for bad debt was \$1.1 billion on that \$4.2 billion receivable balance, or 27% of the portfolio. Our annualized default rate for our consolidated portfolios was 10.1% for the quarter, slightly better than our second quarter level. Our third quarter provision was 17% of owned contract sales in the quarter, a hundred basis point improvement from the prior year.

Delinquency rates across all portfolios are trending at or below last year. We continue 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.

In our Resort and Club business, our consolidated member count was nearly 722,000, reflecting recapture activity during the quarter, and as Mark mentioned we crossed over 250,000 members in HGV Max, which is a great milestone.

Revenue grew 8% to \$193 million for the quarter due to fee increases and stable member activity rates, and segment profit was \$135 million with margins of roughly 70%.

Rental and ancillary revenues were up 2% versus the prior year to \$186 million, with a loss of \$4 million driven by developer maintenance fees.

Revenue growth in the period was driven by higher available room nights and relative stability in RevPAR across the portfolio as a whole. The Las Vegas rental market continues to remain soft, although recent trends have shown signs of stabilization. We'll continue to leverage our ability to reallocate room nights between marketing and rental in Vegas to adjust to rental demand dynamics. And as Mark mentioned our teams did a great job in that market driving strong contract sales, with mid-teens growth in our Vegas VPGs.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, JV EBITDA was \$5 million, license fees were \$56 million, and EBITDA attributable to noncontrolling interest was \$4 million.

Corporate G&A was \$43 million, or 3% of pre-reimbursement revenue, roughly in line with Q2 and the year ago quarter

Our adjusted free cash flow in the quarter was \$23 million, which included inventory spending of \$77 million. Our cash flow was lower this year owing to the timing of our ABS deals. 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%, which would imply a material amount of adjusted free cash generation in the fourth quarter and a conversion rate that will be in excess of 100%.

Using our third quarter ending share count of just under 87 million shares, this implies we'll generate \$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 shareholders.

During the quarter, the Company repurchased 3.3 million shares of common stock for \$150 million. From October 1 through October 23, we repurchased an additional 1.1 million shares for \$47 million. Including these shares, we've repurchased a total of 12.4 million shares year-to-date for \$497 million, representing nearly 18% of our public float coming into the year.

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. As of October 23, we had \$531 million of remaining availability under our current share repurchase plan.

Turning to our Outlook, we are maintaining our 2025 Adjusted EBITDA guidance to be in a range of \$1.125 billion to \$1.165 billion, which assumes that the environment remains consistent with what we see today.

Moving on to our liquidity. As of September 30th, our liquidity position consisted of \$215 million of unrestricted cash and \$632 million of availability under our revolving credit facility. Our debt balance at quarter-end was comprised of corporate debt of \$4.7 billion and a non-recourse debt balance of approximately \$2.5 billion.

At quarter end, we had \$300 million of remaining capacity in our warehouse facility. We also had \$1.1 billion of notes that were current on payments but unsecuritized. Of that figure, approximately \$586 million could be monetized through a combination of warehouse borrowing and securitization, while we anticipate another \$358 million will become available following certain customary milestones such as first payment, deeding and recording.

Despite volatility in some portions of the credit market, our ABS market remains open and functioning. This fact, coupled with our \$850 million warehouse, gives us the confidence we can execute on our previously discussed finance optimization strategy.

Turning to our credit metrics, at the end of Q3 and inclusive of all anticipated cost synergies, the Company's total net leverage, on a TTM basis, was 4.0 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 an answer-and-question 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, if you would like to remove your question from the queue. Again, limit yourself to one question and one follow-up question. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from Patrick Scholes with Truist Securities.

Patrick Scholes

Hi. Good morning, everyone. I wonder if it's possible you could give us some initial high-level expectations or thoughts for 2026, and then specifically within that, talk about expectations for financing profits. Certainly, we've seen in the last couple of years, given the unfavorable direction of interest rates and the net spreads where that margin has been squeezed, given that seems to be going the other way, I'd like to hear just sort of high level for financing as well. Thank you. If you can.

Mark Wang

Sure, yeah, Patrick, thanks. Of course, we're very focused on finishing the year strong so that's first and foremost. And as usual, we'll provide guidance on our first call next year, but at a high level, I think we're really well set up with momentum heading into '26 and expect to get to the growth a bit differently than we did this year from a top line standpoint.

We're continuing to see solid demand for leisure travel despite some of the noise out there, and we expect good tour flow growth next year, resulting from the investments we made during the year, which is going to be the primary driver for contract sales growth next year.

You have to remember we're lapping the Max launch with Bluegreen and the Ka Haku property that we launched sales in Hawaii. And then, of course the new buyer tour flow growth is going to weigh a little bit on our VPG, so it'll be less of a driver on contract sales growth next year, but we're going to stay very focused on leverage in our fixed costs and expect some operational cost improvements.

All of that said, we believe we're going to be able to continue to drive strong free cash flow and we're still very committed to returning capital to our shareholders. So, we look forward to sharing more details on our next call.

I think I'll let Dan jump in and talk about the financing profitability that you ask on the second part of that question.

Dan Mathewes

Thanks, Mark. Patrick, yeah, absolutely. I mean, as Mark underscored, I think we're well positioned for 2026. When it comes to the financing business, one element that we will see in 2026 is some headwinds on that front just as we continue to maximize our finance business optimization program. As you recall, we expected that to take about 18 months, so that will run into next year. Now, that'll be slightly offset by a growing portfolio.

As you recall, last quarter, we announced the first securitization in the Japanese market. We'll be looking to attack that market again next year too. So, hopefully with the combination of all those things you'll see margin hold despite the headwind and potentially grow, seeing how rates play out. But you can expect us to take full advantage of all those opportunities.

Patrick Scholes

Okay, and if I could ask just a follow-up question here. It actually has to do with the VPG, the very strong VPG results in 3Q, up 15%. Certainly, I follow a lot of travel and leisure companies, and we don't see much of anything growing 15% at the moment. If you had to—you kind of did this in your prepared marks, but just boil it down and summarize how you're doing something that's growing 15% versus sort of the rest of the travel world not growing much of anything. Boil it down for me. Thank you.

Mark Wang

Yeah, Patrick, first of all, I'd say, our teams did a great job, great execution, and when you look at where and how we accomplish this, it's really a similar story from a geographic perspective. East, west, mid-Atlantic, South, Vegas was even up 10% in a market that's struggling from a FIT standpoint. Orlando, New York, Hawaii—all double-digit gains across the business.

Why do we think we're seeing this? I think it really is a testament to the new club that we launched. We innovated and launched a brand new club, and it was a reinvention of what we've done, and Max is performing extremely well. It's been a catalyst for both owners and new buyers.

We reached 250,000 members in just over four years. If you go back and you look at HGV Legacy Club, it took us 25 years to reach that mark, right? And what's happening is, and most importantly is our Max owners are reporting higher satisfaction rates and engagement scores, and our sales advisors continue to deliver on great vacation solutions.

So, owners are upgrading earlier and more frequently than we have in the past and driving record VPGs. And we're seeing that from our legacy club members upgrading into Max, and we're also seeing existing Max members who've joined over the last 3 to 4 years upgrade. And in fact, I talked about the 250,000 Max members – we actually have 360,000 transactions in Max. So, I really attribute a lot of the performance to the great work our teams did rolling out this new membership program. It really has improved our value proposition. We've added a lot more Hilton benefits to connect our members to the broader Hilton ecosystem.

When you look at our base and members in Max, just above 50% of our Max members have a tenure in our system of less than 5 years. So, what does that mean? That means that those members that are in our system for less than 5 years have 90% of their lifetime value sitting ahead of them, and then nearly 70% of our Max members have a tenure of less than 10 years in our system, so those members have 50% of their lifetime value sitting ahead of them.

Anyways, the rapid growth in the Max space really bodes well for our business and just great execution.

Operator

Our next question comes from Ben Chaikin with Mizuho Securities.

Ben Chaiken

Hey, good morning. I'd love to touch on flow through. You kind of touched on in the prepared remarks, but I want to dig in a little further. Top line was strong, but it just feels like there's a couple things working against you. You mentioned the higher tour packages. I think you said this was worth \$7 million. So, essentially, just to confirm, these are expenses incurred in the quarter of which you get revenue in the future, and the \$7 million would be the amount above the normal course of business, I guess, is that fair? And then it also looks like you had higher rescission and reportability and other adjustments, just anything you would flag in the P&L and then to the extent you could quantify it, that'd be great. Thanks.

Mark Wang

Yeah, let me touch on some of that, and then I'll let Dan jump into some more detail here. There's always a level of investment in the business for growth, right? And we continue to invest in high tech and high-touch solutions really to reach a bigger audience. And '25 has been a year above average investment in the future customer acquisition and that was by design.

On the high-tech side, we've got great partners, right? We added 41 new marketing sites across Hilton, Great Wolf, and Bass Pro this year, and we continue to invest in our digital channels. So, these initiatives require upfront investment in staffing, technology. The results have been great, 10% year-over-year package sales growth for two consecutive quarters.

Now, as you alluded to, that growth is still only partially reflected on our tour flow as it takes sometimes 9 to 12 months on average for a package holder to actually travel to one of our properties, and we're going to start seeing that growth in Q4 and beyond.

Anyways, we expect, the upfront investment will bring us some steady level growth in the future and most importantly, as we move more forward out and we go into next year, we want to get on a more consistent cadence between our package sales and tour flow, and our expectations next year is that the level of investment will be more closely matched to the revenue.

And then Dan, I think there's probably a couple other points...

Dan Mathewes

Yeah, definitely, Ben just to address some of your specific questions. To your point, the marketing packages activity, that \$6 or \$7 million it rounds to \$7 million. It is above the ordinary course of business. As you'll recall, those are packages that will be traveling in the future. That's when we'll recognize the package revenue, but the cost is up front and obviously as they come to the properties, they'll tour, and we will recognize contract sales to the extent we sell them. So, that's a piece of it.

To your question on reportability. There is a piece associated with reportability. It's actually not a bad story. It's a good story. So, during the last 10 days, if you look year over year just from a rescission perspective, we sold more contract sales the last 10 days of this year compared to last

year. That's roughly \$8 million, so that's really effectively timing just getting past that rescission period that consumers have.

In addition to that, and this is part of the investment as well, from an FDI perspective we have rolled out some of the higher cost FDIs to the entire system. That yielded an elevated level of FDIs in Q3. As you know, it's one of the tools we use to close a transaction, and it's a bit of a balancing act, but I would tell you that this quarter was elevated on an FDI perspective by probably a point to a point and a half. So, all of those things yielded, some compression on the flow through.

Ben Chaiken

Got it. That's helpful. And then the rescission, that \$8 million—that basically dropped straight to EBITDA. Is that fair or how do we think about that eight and the (inaudible) with it.

Dan Mathewes

There's some deferral, but we'll recognize all that as we flow into Q4.

Ben Chaiken

Got it. And 1 to 2 points on the FDI, sorry, is that 1 to 2 million or when you say points, I didn't fully follow that.

Dan Mathewes

So, that FDI is a percentage of contract sales. Call it between \$9 million and, on the higher end, \$15 million for the quarter.

Ben Chaiken

Okay. That's meaningful. Okay, got it. And then switching gears a little bit, as we think about free cash flow conversion in '26, can you help us think about the puts and takes? I think we've talked about in the past maybe reducing some inventory spend, which obviously is a good guide for a free cash flow conversion, and then I'm not sure if you have any big, beautiful bill benefits. But just again, as a percentage of EBITDA—so EBITDA free cash flow conversion at '26, what's kind of a good ballpark for...

Dan Mathewes

Look, I'll start with the taxes. Obviously, like every other operator out there, we're trying to take full advantage of what's in the Big, Beautiful Bill, but I think generally speaking I would look for cash taxes to be roughly in that mid-teens level as a percentage of EBITDA, call it 13% to 16%, somewhere in that realm. To the degree we can take advantage, we will.

From a cash flow and an investment perspective on inventory, last time I think we talked about this, it's worth highlighting again. Right after the Bluegreen acquisition, we expected to be in a position where we would need to invest between \$350 million and \$450 million in inventory on an annualized basis. Since then, we're obviously capitalizing to a great degree on recaptured inventory. And that's going to allow us to lower that long-term level investment from \$350 million to \$450 million down to roughly \$300 million.

Now, we've been talking about this for a few years because we did push off inventory investments during COVID, so we're still wrapping up some of those larger investments, most notably Ka Haku and Maui in Hawaii. So, this year we will spend just under \$400 million. That will be a similar level next year, and then you'll get to that average run rate of roughly \$300 million on an annual basis, which includes new projects as well as recaptured inventory.

Operator

Moving on to our next question, Chris Woronka with Deutsche Bank.

Chris Woronka

Hey, guys. Good morning. I was hoping we could maybe talk for a minute about your first time buyers and not sure if you want to maybe segment them across the different brands or some other way, but just how they're—I know you said that all the metrics are up for first timers, but is there any difference you see between maybe a Bluegreen first time buyer in HGV, depending on how you source them. Just thinking about in terms of close rate or VPG or things like that, is there any way to segment any kind of trends for first time buyer versus an existing buyer? Thanks.

Mark Wang

Yeah, so I've got a few data points here I'll share with you. As you know, we're fully committed to new buyers, and really pleased with the progress the teams are making. On an absolute basis, we're sourcing more new buyer tours to our sales centers and driving more transactions than anybody in our sector, and that's really been the case for the last 15 years. We continue to be very focused.

I talked earlier about the investments we've made this year to even bolster that going into '26. What I'd say is number one on the VPG front, new buyer close rate reached its highest level since Q2 of '23, and we're really pleased to see that that movement there.

From a generational standpoint, Gen X, Millennials and Gen Z made up 70% of our tour flow and close rate improved across all of those generations. And then, when you look at it from an income tier standpoint, close rates were steady in the low net worth tier, and they increased in the middle and high tier net worth customers. So, we're seeing it right now, the consumer is stable and we're very focused on executing on all the things that we can control.

Chris Woronka

Okay, thanks, Mark, very helpful. And then follow-up question, how should we think about kind of getting that rental business back to zero or better from an EBITDA standpoint? I know some of the challenges and unsold inventory, maybe you could give us a little bit of a walkthrough in terms of what has to happen and timing and how we should think about that for the next couple of years, it's a step function or more of a grind. Thanks.

Dan Mathewes

Yeah, no, absolutely. A lot of the momentum that we need to do is really driven off of contract sales. So, as we sell more and we get through the recapture bubble, that will allow us to lower the developer maintenance fee. That will contribute heavily to improvement on the rental side. We talked about this last quarter to some degree, from a recaptured inventory standpoint, that is going to yield lower net owner growth over the next 20, 40, or even 36 months. As you saw this quarter, it's relatively flat and it will go negative. But that's a big component of it.

The other component that should help drive margin improvement, holding all else equal, which I know is a big assumption, especially when you think about ADR rates, but it's converting properties over to the Hilton. A brand we do realize ADR benefits from that standpoint, and we also realize cost benefits from an OTA perspective. It's really a combination of all those components and it is a long-term process to get there.

Mark Wang

Yeah, and then I just add on to that. I think our teams have done a really thorough job this year in the resort operation side. Really looking for improved efficiencies in our operations, and I think we're going to see our members are going to see the increases that we're looking for next year are by average standards are going to be below what we've historically seen and then.

Then I'd also say, look, we picked up a lot of good inventory in the acquisition, but we do have some of that inventory that's non-branded and quite frankly it's just not an investment case of putting the dollars in to get them to the standard we want, and so there may be some inorganic options here. What I mean by that, where we have maybe oversupply or product that doesn't really fit the portfolio where in the future we can figure out a way to move that inventory off our balance sheet and move it along to somebody else that can better utilize it.

Operator

Moving next to Brandt Montour with Barclays.

Brandt Montour

Good morning, everybody. Thanks for taking my question. There's been a lot of talk across consumer land this earning season as well as in travel, right? About the high end versus low end, and you're seeing it on the Strip and you're seeing it elsewhere in different verticals. Mark, you gave some great stats and you kind of cut it up a bunch of different ways. It doesn't sound like you're seeing anything. But if you just look at close rates for new owner sales across your properties and you look at the smaller properties, a lot of those were legacy diamond versus maybe some of the bigger ones in Orlando or other markets, do you see any divergence based that would sort of track that theme at all?

Mark Wang

Well, Brandt, I think that divergence really is more execution than it is from a consumer standpoint. Like I said, our new buyer close rate reached its highest amounts or highest rate since the quarter, second quarter of '23. I talked about it a number of quarters ago around the low network tier customers. That tier is really stabilized. It really hasn't come back to the historical levels, but what we've seen, Brandt is that middle to higher network tier really improve.

We have spent a lot of time this year on optimizing our tour and we continue to evolve how we use our data and analytics and our marketing to drive new buyers and really sharpening our qualifications, and the discovery process to just gather better information early on. At the end of the day, we're trying to be much more effective in sourcing our customers, and so we're really focused on trying to put our money and our focus to that mid to higher tier net worth customer than the lower tier right now. Like I said, they've stabilized but they really haven't recovered to the levels we've historically seen.

Dan Mathewes

The only thing I'd add to that, just from a performance standpoint is when we look at our portfolio, as you can imagine, one of the things we look at on an almost daily basis is delinquency rates between 31 and 60 days is a leading indicator from a performance standpoint. And we slice that data to the nth degree, but just to oversimplify it to some extent, if we look at those with FICO scores greater than 650 versus those with lower than 650. What I can tell you is sequentially and generally speaking, it's been trending actually positive, greater than 650, and below 650 has been very stable. So, even on that front, we see positive trends in totality.

Brandt Montour

Okay, thank you very much.

Operator

David Katz with Jefferies has our next question.

David Katz

Hi, everybody. Thanks for taking my question. I appreciate all the detail around some of the momentary or pedestrian investments and growth, as well as some of the timing issues that seem a bit more momentary also. How do we think about in a general sense 2026, right? Is that an investment year to some degree also? Or should we think about modeling this as kind of a year to reap what you've invested here?

Mark Wang

Yeah, David, as I mentioned just a few minutes ago, I think what you're going to see next year is the big lift in investment for really broadening and building out our new buyer marketing channels, and on the digital side there'll be some investment there, but it won't be at the same level that we put into this year. So, our expectations are next year we're going to be looking at tour flow growth that exceeds what we had this year. We're looking more in that kind of low to mid a single-digit tour flow growth and with a little bit more moderate VPG next year.

The investments on the package side—we're going to get into a cadence where the growth on the package side is going to align much better to the growth on the tour flow side, so we start seeing the revenue generation more closely matched up to the expense side. So, that's our expectation next year. Our goal, for next year is—our goal is to be able to exceed bottom line growth rate or grow the bottom line at a faster rate than our top line.

Dan Mathewes

Yeah, I mean, another way to think about it is just from '25 to '26—it's kind of bridging to that long-term algorithm that we've historically talked about. Low single-digit flow growth, low single-digit growth in VPG to translating into mid single growth in contract sales and then a focus on leveraging cost to drive hopefully higher EBITDA growth.

David Katz

Very helpful. Thank you.

Operator

Our next question comes from Stephen Grambling with Morgan Stanley.

Stephen Grambling

Hey, thanks. Just wanted to follow-up on some of the inventory and sales details, and specifically maybe digging into Hawaii and some of that inventory specifically. I guess how would you compare and contrast the mix of the inventory that's left to kind of sell specifically in Hawaii and when you think you'd be kind of sold through that over the rest of—as we think about next year and even maybe beyond. Thank you.

Mark Wang

Yeah, Steve, as far as a mixed standpoint, we've been doing this for a long time and we're very focused on a balanced mix and so I think when we think about it, we're very much on track to be able to utilize the benefit of Ka Haku for a number of years. I'd say the same thing around Maui

and also on the Big Island, we're still converting parts of that hotel into units. So, we're in a really good position from a deeded standpoint. Ideally on a long-term basis we want to be in about 2.5 years of deed inventory and right now we're running a little bit over that, so we're in a good position there.

In the long run, our goal is to bring our COP down and bring our balances down. As Dan alluded to earlier, that'll benefit our rental segments. So, all in all, I think we're in a really good position from an inventory standpoint, and especially that high-end inventory that has a lot of demand across the whole network. We're very measured in how we release that inventory to make sure it's balanced over a number of years.

Stephen Grambling

That's great. That's it for me. Thank you.

Operator

Moving on to Dany Asad with Bank of America.

Dany Asad

Hey, good morning, guys. Dan, and I think it was to Brandt's question you called out where you mentioned that the delinquencies when it comes to the FICOs that are below 650 have been stable. Look, at the same time we're reading about subprime auto delinquencies ratcheting up and to Brandt's point, other pockets of the consumer struggling. I guess how do you square specifically how the sub 650 bands of timeshare loans are stable here from of delinquency standpoint and then other places where it's kind of not.

Dan Mathewes

Yeah, no, look, that's a great question. I think there's a twofold answer there. First and foremost, I would say, we are very focused on—when it comes to the consumer's mindset, on the maximizing their desire to pay, and that comes down to how we interact with them from the starting point at the sales table, actually from selling them a package to the sales table and the experience they receive at that property. So, there is a certain, emotional attachment to timeshare and vacationing. So, I think that element holds strong.

Then, to be quite blunt, the subprime FICOs are not our core either, so we probably have just to a degree lesser exposure than some of our counterparties who are having a larger problem with it. But sequentially, we've held up well, and the trending is positive on that below 650 and then even when I think about annualized default rates—again in total, but annualized default rates sequentially have improved from even last quarter and year over year they've actually improved more than they improved sequentially. As we sit here today, we're seeing everything holds stable to positive.

Dany Asad

Fantastic.

Mark Wang

Yeah, Dany, I'll just add too. I think Dan touched on this a little bit and I mentioned it earlier. Look, our Max owners are reporting much higher satisfaction rates and engagement scores. It's a testament to our club team and all of those that are touching our customers across the network, not just the upfront sales process and, as I mentioned, I gave some stats on the tenure within the Max program, and it's pretty impressive how young a base we have in the Max program, and I

think I can't underestimate or overstate the fact that high satisfaction and engagement scores are super important in people's willingness to want to pay.

Dany Asad

Got it. And just as a follow-up, in the past you've talked about a mid-teens expectation for loan loss provisions based on kind of what you're looking at and those trends, is that still where we're trending right now for either Q4 or 2026?

Mark Wang

Yeah, no, I think that's accurate, and I think we're effectively there at this point.

Dany Asad

Got it. Thank you very much.

Operator

That does conclude our 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, thank you, Carrie, and thanks everyone for joining us today.

I want to thank all of our team members, but a special shout out to our resort operations teams at our 200 resorts for delivering heartfelt hospitality and elevated experiences to our members and guests, and to our members for trusting HGV with what matters most, moments with friends and family and experiences designed to inspire and connect you to the world. Thank you, everyone.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines and have a wonderful day.