Hilton Grand Vacations Inc.

Q3 2023 Earnings and Acquisition Announcement Conference Call

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CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President of Investor Relations*

Mark Wang – *President and Chief Executive Officer*

Daniel Mathewes – *Senior Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Hilton Grand Vacations Third Quarter 2023 Earnings and Acquisition Announcement 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 13735181.

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. (Operator instructions).

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 2023 and Acquisition Announcement Call.

A brief note, that we've uploaded slides to our Investor Relations website, that are available for you to follow along.

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 filings.

We will 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. To help you make more meaningful period-to-period comparisons, you can find details of our current and historical deferrals and recognitions in Table T-1 of our earnings release.

For ease of comparability and to simplify our discussion today, our comments on adjusted EBITDA and our Real Estate results will refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. A complete accounting of our historical deferral and recognition activity can be found in Excel format on the financial reporting section of our Investor Relations website.

In a moment, Mark Wang, our President and Chief Executive Officer, will provide highlights from the quarter, in addition to an update of our current operations and Company strategy, and today's acquisition announcement. After Mark's comments, our Chief Financial Officer Dan Mathewes will go through the financial details for the quarter. Mark and Dan will then make themselves available for your questions.

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

Mark Wang
Good morning, everyone, and thanks for being flexible and joining our earlier call this morning.

As you've seen from our announcement today, we have a lot of things to go through.

The first is that I'm happy to announce our definitive agreement to acquire Bluegreen Resorts, along with a 10-year exclusive marketing and JV agreement with the nation's premiere outdoor and conservation company, Bass Pro Shops. We're really excited about this transaction and think that it will open up new avenues for growth, while also enhancing the resilience of our business and building long-term value. We'll get into those details shortly, after I walk through our third quarter earnings.

Before we get started, I'd like to extend my best wishes to our team members and the people of Maui as they continue their recovery efforts from the devastating wildfires in August. We're committed to providing our support to the local community during the rebuilding process, including our many team members who live and work on the island.

Turning to our results, contract sales in the third quarter were $603 million, and EBITDA was $276 million, with margins of 27%. Tours grew 15% for the quarter, and our VPG was 10% ahead of 2019's levels, within our target range, despite some of the unique challenges we saw in the quarter. The first was the devastating wildfires that impacted our Maui business directly. Additionally, we believe that the macroeconomic crosscurrents played more of a role in our Q3 results than they have in prior quarters.

In the face of these challenges, our owner business was resilient during the quarter and has remained a source of strength for our business. HGV Max has continued to resonate with our owners and our Max membership growth has exceeded our overall member growth as we attract more owners to upgrade into the program and deepen our member engagement.

On the new buyer side, our performance for the quarter was solid in absolute terms, with mid-teens growth in tours driving positive growth in transaction and contract sales. But, after a solid start in July, we saw softening in this segment as we moved through the quarter, resulting in tours, VPG and contract sales coming in short of our expectations. We believe the compounding effects of inflation and interest rates affected the mentality of our new buyers more than owners. However, the good news is that we still grew transactions, as we saw more people touring and previewing our offerings. We remain committed to growing our new buyer channel and believe that it's the right thing to do for the long-term health of the business.

That said, given some of these near-term headwinds, along with some ongoing Maui impacting Q4, we've updated our guidance to better align our expectations with the trends we're seeing. Dan will share more details on our outlook here in a few minutes.

Now, let's take a look at our performance in the third quarter.

Contract sales in the quarter were driven by growth in tours, which offset the expected declines in VPG. Our new buyer tours again grew faster than our owner tours, with year-over-year growth of more than 17%. I'm really pleased with how our owner channels remain resilient despite the unforeseen headwinds from losing tours in Maui for most of the quarter. Owner tours

showed an acceleration in growth versus Q2 on a year-over-year basis, as well as further exceeding our pace against 2019.

As I mentioned earlier, we saw softening of our tour trends as we moved through the quarter, particularly in August, although trends stabilized in September. VPG for the quarter was just over $3,600, which was within our expected range despite the loss of high VPG Maui sales, and our close rates were roughly in line with Q2 levels and remain nicely ahead of 2019.

Turning to our demand indicators, occupancy for the quarter was 81%. Our arrivals in the fourth quarter are ahead of the prior year and are currently indicating a step-up in growth in the first half of next year, that will support occupancy levels. I'm also encouraged that our marketing pipeline and activations remain near record highs to build a solid base of tour flow growth going forward.

Moving to our non-Real Estate segments, our Rental, Club, Finance business showed solid growth in the quarter. Rental revenues were nearly on par with the seasonally stronger second quarter, and we maintain double-digit margins. Club profits continued to benefit from both improved revenue and margins, along with new member growth, and our Financing Team executed on an oversubscribed securitization with great pricing.

Finally, during the quarter, we repurchased $64 million worth of shares, demonstrating our ongoing commitment to returning capital to our shareholders.

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

Dan Mathewes
Thank you, Mark, and good morning, everyone.

Before we start, note that our reported results for this quarter included $7 million of net deferrals related to presales of the newest phase of our Sesoko project, which reduced reported EBITDA. Adjusting for these deferrals would increase the EBITDA reported in our press release by $7 million to $276 million. In my prepared remarks, I'll only refer to metrics excluding the deferrals, which more accurately reflects the cash flow dynamics of our financial performance during the period.

Turning to our results for the quarter, total revenue, excluding cost reimbursements, in the quarter was down about 2% against the prior year at $933 million. We saw strong growth in our Financing, Resort and Club and Rental and ancillary businesses, that was offset by a reduction in Real Estate revenue. Q3 reported Adjusted EBITDA was $276 million, with margins of 27%, or 30% when excluding cost reimbursements.

Coming to our segments, within Real Estate, total contract sales was $603 million, or down 3% versus the prior year, tours were up 15% against another tough comparison, despite the loss of over 2,000 tours directly attributable to the property closures in Maui, and our new buyer channels continue to show tour strength, with tours up 17% in the quarter, and positive contract sales growth versus the prior year, reflecting just over 30% of total sales in Q3.

VPG was just over $3,650 for the quarter and 10% ahead of 2019 levels, still within our expected range, despite the drag from losing roughly $15 million of high VPG Maui sales during the quarter.

Cost of product was 12% of net VOI sales for the quarter, lower versus last quarter and last year, owing to favorable sales mix.

Real Estate sales and marketing expense was $273 million for the quarter, or 45% of contract sales. This is in line with the sales and marketing expense ratio in Q2 and was higher than our expectations due to carrying the same level of fixed expense in our Maui operations with no offsetting revenue, along with new buyer sales that were below our expectations, which created operating deleverage on our marketing expense for the quarter. That being said, we are still expecting a sequential improvement in our sales and marketing expense ratio in Q4. Real Estate profit of $167 million had margins of 34%, which improved against our Q2 and first half 2023 margins, despite some of the headwinds in the quarter.

In our Financing business, third quarter revenue was $75 million and segment profit was $50 million, with margins of 67%, versus margins of 63% in the prior year. Combined gross receivables for the quarter were $2.52 billion, or $1.82 billion net of allowance, and our interest income was $68 million. Our allowance for bad debt of $731 million included $258 million related to the acquired Diamond portfolio, which has a balance of $539 million. Our annualized default rate for our consolidated portfolios, including the Diamond acquired and underwritten portfolios, was 8.53%, compared to 8.68% in the prior quarter. Our provision for bad debt was $46 million, or 11% of owned contract sales. As previously discussed, we continue to see normalizing credit trends with the termination of certain government stimulus plans, but we believe our current loan loss provision is adequate.

In our Resort and Club business, our consolidated member count was 526,000 and our consolidated NOG was 2.1% at the end of the third quarter. Revenue of $138 million was up 6% for the quarter and segment profit was $95 million, with margins of 69% showing 200 basis points of improvement sequentially.

Rental and Ancillary revenues were $171 million in the quarter, with segment profit of $17 million and margins of 10%, versus 9% last year. Revenue growth was driven by ADR gains in most markets, offset by slightly lower occupancy and the loss of high-dollar rental room nights in our Maui properties due to the wildfires.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, corporate G&A was $27 million, license fees were $37 million, and JV Adjusted EBITDA was $2 million.

Our adjusted free cash flow in the quarter was $257 million, which included inventory spending of $36 million and excludes acquisition-related costs of $25 million. The adjusted free cash flow conversion rate for the quarter was 93% due to the timing of cash flows associated with our recent securitization, and we remain confident in achieving the low end of our target of 50% to 60% conversion range for the year.

During the quarter, the Company repurchased 1.5 million shares of common stock for $64 million, and through October 30, we have repurchased an additional 690,000 shares for $26 million, leaving us with $432 million of remaining availability under our 2023 repurchase plan. Year to date, we have repurchased an average of $90 million per quarter, which is in line with our goal of roughly $100 million per quarter.

Turning to our outlook, as you saw in the press release, we are lowering our 2023 Adjusted EBITDA guidance to $1 billion to $1.02 billion, from our prior guidance of $1.90 billion to $1.120 billion. There are two drivers of the adjustment:

- the impact of the Maui wildfires in Q3 of $10 million, along with an expected further drag of $7 million to $10 million in Q4, for a total impact of $17 million to $20 million, including the Q3 impact; and

- an adjustment to our expectation of contract sales growth for the fourth quarter.

As of September 30, our liquidity position consisted of $227 million of unrestricted cash and $866 million of availability under our revolving credit facility. Our debt balance at quarter end was comprised of corporate debt of $2.7 billion and a non-recourse debt balance of approximately $1 billion. At quarter end, we had $750 million of remaining capacity on our warehouse facility, of which we had $395 million of notes available to securitize, and another $359 million of mortgage notes we anticipate being eligible following certain customary milestones, such as first payment, deeding and recording.

Turning to our credit metrics, at the end of Q3, the Company's total net leverage on an LTM basis was 2.56 times.

With that, I'll turn the call back over to Mark to walk through this morning's transaction announcement. Mark?

Mark Wang
Great, thanks, Dan, and now that we've discussed our results, I'm excited to share our other announcement today, and that's our definitive agreement to acquire Bluegreen Resorts, along with a 10-year exclusive marketing and JV agreement with the nation's premiere outdoor and conservation company, Bass Pro Shops.

This acquisition gives us the unique opportunity to create the industry leader in vacation ownership and experiential travel. Bluegreen is the highest quality, independently branded vacation ownership operator, and it's one more critical piece of the strategic journey of expansion and diversification that we started two years ago with the acquisition of Diamond.

With nearly 50 resorts and over 200,000 members, we'll add scale that would have taken us a decade of growth to do organically. It will enable us to solidify our leadership in the industry, while positioning us to win in the experiential membership space, where we see a growing convergence between the travel and leisure sector, and it will create value for our shareholders, adding resiliency to the business by increasing recurring EBITDA and adjusted free cash flow.

Turning now to Slide 2, let me take a moment to walk you through the key highlights of the transaction.

First, we'll add scale to the business and drive additional growth. Bluegreen has a large base of loyal members, many of whom haven't yet upgraded, that we think would be a great fit with our HGV brands. This acquisition will also expand our reach with enhanced sales distribution in new key locations, enabling us to engage additional new buyers with attractive price points at an earlier stage in their lives, providing additional opportunities for upgrades and improving lifetime value, and with our robust suite of brands backed by the power of our Hilton partnership, we'll give members plenty of options to upgrade through their years of membership with HGV.

Second, our partnership with Bass Pro allows us to expand our lead generation, which is critical to driving tour flow, net owner growth and, ultimately, embedded value. Importantly, it also adds a source of leads that's not levered to lodging, diversifying our lead generation and improving our resilience across cycles.

We see this transaction as a perfect coupling to the business evolution that we have undergone over the last two years, and it will enable us to fully leverage all the amazing programs and infrastructure we created with our Hilton Vacation Club brand, HGV Max membership program and Ultimate Access experiential platform.

On the cost front, we expect to generate $100 million in cost synergies within the first two years of operations. We have a proven track record of executing on synergy capture, as demonstrated by outperforming our synergy estimates with the Diamond acquisition, and doing it earlier than expected.

Finally, Bluegreen's trust structure and efficient inventory model will also add additional recurring EBITDA and strengthen our free cash flow conversion, further improving the resilience of our business and financial model.

I'll turn it over to Dan to walk you through the transaction on the next slide. Dan?

Dan Mathewes
Thanks, Mark.

Let me start with a quick overview of the transaction.

This is an all cash deal and we're acquiring Bluegreen for $1.5 billion, or 6 times the pro forma EBITDA, including identified cost synergies.

The HGV Management Team will run the combined entity, with Mark Wang as CEO, Gordon Gurnik as COO, and myself as CFO, and the composition of the Board will remain unchanged.

This transaction is double-digit accretive on an adjusted free cash flow per share basis.

Pro forma leverage as of 9/30 was 3.4 times, and we will return to our target range of 2 to 3 times within 18 months of close. We also expect to realize $100 million in run rate cost synergies within two years of transaction close, along with future revenue synergy opportunities.

Regarding timing, we anticipate closing the transaction in the first half of 2024.

I'll now turn it back to Mark to talk a little bit more about Bluegreen.

Mark Wang
All right. Well, thanks, Dan.

Looking at Slide 4, we view Bluegreen as a highly successful operator that has achieved unique scale in the vacation ownership marketplace, and we believe it will be a great complement to HGV's overall brand portfolio. They have a large, geographically-diverse base of over 218,000 members, over 75% who are Gen X or younger, with strong FICO scores, and Bluegreen has historically also stood out with the industry for its focus on new buyers, which has also been a key strength of HGV. Perhaps most importantly, they've outshone others with their innovative

marketing programs. Through their network of partnerships, they've built a robust pipeline of over 165,000 vacation preview packages to enhance visibility and support tour growth, which will build upon the nearly 550,000 packages that we have at HGV.

If you turn to the next slide, they have 48 resorts throughout the country, including 14 geographies and eight states that will be new to HGV. Nearly 90% of their members live within a four-hour drive of a Bluegreen resort, which complements our portfolio with additional drive-to properties. We've been impressed with the consistent high-quality nature of the resorts and we believe they'll be readily able to convert over to HGV brands.

As you see on Slide 6, once rebranded, the addition of Bluegreen will enable us to span the entire breadth of the Hilton offering, providing us with additional scale, and creating synergy with our key partner and their Hilton Honors membership. From a people perspective, we believe their teams will be a great cultural and business fit and we think they'll quickly integrate into the culture here at HGV, their focus on providing exceptional experiences through a commitment to service and quality, as we've seen throughout our interactions with their leadership.

Let's go on to Slide 7. We see this acquisition as very synergistic to HGV, adding scale to our member base, package pipeline and resort network, while enabling us to leverage our key partnerships to drive additional growth, reinforcing our leadership position in the vacation ownership space.

Now, if you turn to Slide 8, as I mentioned, a key contributor to Bluegreen's organic growth has been their partnership with leading brands, including Choice Hotels, NASCAR, and, most importantly, with Bass Pro, the nation's leading outdoor retailer. Bass Pro currently has over 200 destination superstores across the U.S., where they serve more than 200 million visitors per year, and their customer base is a dedicated group of outdoor enthusiasts, for whom the outdoors is very much a lifestyle. Bass Pro's passion about their product, culture of service and dedication to their customers drives tremendous loyalty and engagement, and it aligns with the values that guide us here at HGV.

That's why I'm also really excited to announce a new 10-year strategic partnership with Bass Pro, along with the extension of the Bluegreen joint venture featuring four high-end wilderness resorts under the Big Cedar Lodge brand. This partnership will provide us with a source of high-quality leads from a loyal customer base, and will generate that lead flow outside the lodging channel, providing us with additional diversification in our marketing efforts.

Looking at the strategic rational for this deal, it really enhances the vision that we had with the Diamond acquisition, leadership in not just vacation ownership, but also providing unforgettable experiences for our members. It's a strategy that drives engagement and builds loyalty with our members by catering to more than just a great stay.

Additionally, looking at Slide 9, our focus will be expanding on the aspects of our relationship with Bass Pro. We'll benefit from the growth in their store network and customer base, with increased and diversified lead flow that's incremental to our existing channels with Hilton, and our relationship with Bass Pro also enhances our credibility and experience offerings in the outdoor space, opening up a new avenue of growth for our Ultimate Access platform and increasing the attractiveness of the HGV membership for the adventure-seeking traveler. We've already seen great success with Ultimate Access, and we think that providing unique and memorable experiences to our guests is a key differentiator that drives owner engagement and supports the health and long-term value of the business. We know that the HGV's quality of

service and network of properties will be appealing to Bass Pro customers, and we know that we can further expand the program by combining an elevated in-store experience with our digital marketing and analytics capabilities. We also see a lot of potential in the JV, building on the four existing properties and adding new locations with a Club formula that highlights Bass Pro's connection to the outdoor lifestyle and targets the outdoor experiential market.

I've met several times with their founder, Johnny Morris, and we're both excited about bringing together the quality of HGV's offering and the power of the Hilton brand with the outdoor expertise of Bass Pro to create a high-quality platform of experiences for their customers and our members.

On the next few slides, you'll see how we'll benefit from the programs and processes we've already developed, de-risking the integration process, while enabling additional growth by leveraging their proprietary platforms. Over the past two years, we've transformed our business, launching a new brand with Hilton Vacation Club, a new membership club with HGV Max and a new experiential platform with Ultimate Access. We've also integrated our salesforces, team members and systems, and built the capabilities to sell deed and trust across a wide range of price points. The acquisition of Bluegreen furthers this evolution, leveraging the strength of the Hilton brand with these best-in-class offerings and differentiated capabilities, including our marketing expertise, enabling better personalization of offerings and driving net owner growth.

We'll also add scale by building upon the solid foundation that Bluegreen's team has laid out through their years of steady organic growth and focus on new buyers. As I mentioned earlier, Bluegreen's base of over 200,000 owners is less penetrated than ours, from an upgrade perspective, and we see a lot of opportunity to leverage our key partnership with Hilton and the compelling value proposition of HGV Max and Ultimate Access to realize that embedded value.

We'll also add additional distribution by expanding into new states and destinations, states like Texas, which has our third largest member base, yet where we don't currently have a resort or sales presence, along with sought-out leisure destinations, like Nashville, Vail Colorado, and additional beach locations along Florida and the East Coast. We'll leverage this transformative infrastructure to accelerate the integration of Bluegreen and unlock additional sources of growth that would have been difficult to achieve without the benefit of those programs and capabilities.

Now, I'll turn it over to Dan to talk you through some of the financial merits of the acquisition. Dan?

Dan Mathewes
Thanks, Mark.

Looking at Slide 12, we've identified $100 million in cost synergies in this transaction, with savings in G&A and headcount, along with additional operational and financial efficiencies. Given our recent track record, we are very confident in our ability to realize those synergies and expect to do so within 24 months of closing the acquisition.

In addition, if we turn to the next slide, we think there are number of attractive financial aspects of this transaction.

First, Bluegreen's robust member base and financing business create additional resources of recurring EBITDA, which will further enhance the resilience of our business.

Next, as Bluegreen is a trust product, it carries many of the same attractive capital-efficient features, as we noted when we acquired Diamond. In general, the inventory carries a lower cost of product and increased pricing incrementality, enabling us to offer more attractive price points to consumers, growing HGV's member base and fueling embedded value creation. It also allows efficient recapture of inventory, reducing the level of maintenance inventory spending required to drive sales growth. Those two factors will support increased conversion of EBITDA into adjusted free cash flow. That cash flow will allow rapid deleverage following the close of the transaction. Pro forma leverage is 3.4 times, and we expect to reduce our leverage to under 3 times within 18 months, and we are maintaining our target leverage of 2 to 3 times.

Importantly, this transaction will not impact our ability to return cash to shareholders through share repurchases, preserving our capital allocation strategy and enabling us to maintain our focus on maximizing shareholder value.

Mark?

Mark Wang
All right. Well, thanks, Dan.

So, in conclusion, with this acquisition, we'll not only solidify our position as a leader in the vacation ownership industry, but will also expand our corporate vision to providing exclusive, memorable experiences to our members. Bluegreen is a complementary asset that will add scale to our business. Our strategic partnership with Bass Pro will expand and diversify our lead flow channels, opening new avenues for growth, will unlock additional upside by leveraging the strong value proposition of HGV Max and Ultimate Access, and will improve the financial resilience of the business by strengthening our sources of recurring EBITDA and our free cash flow generation. We have a track record of achieving our cost synergies and building upon the process and tools from our successful integration of Diamond Resorts. We're confident in our ability to execute on this transaction.

With that, I'll turn the call back over to the Operator to open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator
Thank you. At this time, we will conduct a question-and-answer session. (Operator instructions)

Thank you. Our first question today is from the line of Patrick Scholes with Truist Securities. Please proceed with your questions.

Patrick Scholes
Hi, good morning, everyone. I suspect I'll probably be re-entering the queue here with many questions, but, Mark, congratulations on the acquisition, and, Alan, I believe you're on the line, congratulations, as well.

Mark, first, let's talk about the acquisition. Certainly, with the recent Diamond acquisition, is it fair to almost categorize it, now that you've done Diamond, that this would be called something plug-and-play for you at this point; and then, related to that, if you could summarize maybe your top two or three lessons learned from the Diamond acquisition that you would be applying to this? Thank you.

Mark Wang
Sure. Well, thanks, Patrick. Yes, we're very, very excited about today's announcement. We think it's the perfect complement to what we've built at HGV. It is clearly an evolution where we've been focused on in the last two years and what we've been able to accomplish with the Diamond acquisition.

With Bluegreen, we get what we think is a great and very innovative company. We've known them, obviously, for a long time. I've known Alan for a long time. The industry is very aware of Bluegreen and what they've done. We think, from a strategic standpoint, it made a lot of sense for us to pursue this opportunity. Obviously, scale and diversity is important, right, and with over 200,000 members and an additional 50 properties, that really improves our overall scale, and we're getting new distribution, we're going to have over 10 new distribution centers in eight new states.

This partnership, you know, the partnership, these guys have been super-innovative. No one—when you think about their pipeline of new buyers, they've got 160,000 people in their pipeline for new buyers, that's the third largest in our space, and you add that to our 550,000, we have 700,000 new buyers in our pipeline on a collective basis. They've really been able to do this with third parties, because they haven't been able to leverage, like, the Hilton database, like we have. Bass Pro clearly has been the biggest generator of those, but they also have a relationship with Choice and NASCAR. But, Bass Pro, super-excited to work with them, and we have some really big plans, I think, ahead with them.

Anyways, I think it fits perfectly. As I said, I think it's an evolution of what we've achieved. As you mentioned, Patrick, it really plugs into all the things that we did to stand up Diamond. We were fortunate to be able to create a new brand with Hilton, under Hilton Vacation Club. We created a whole new membership program, which we'll be able to apply to this acquisition, and Ultimate Access, our experiential platform, we're going to be able to expand that, especially with this Bass Pro new announcement, with the new agreement with Bass Pro. So, all in all, it really de-risks our deal.

When I look at Bluegreen, I really look at Bluegreen as kind of like legacy HGV, you know, very focused on new buyers. They've been very, I think, strategic in their growth. Their properties are very consistent. So, all in all, very, very happy.

Look, I think, you know, always lessons learned when you do a transaction. I think a lot of the lessons that we've learned through the Diamond transaction, we can apply here. I think the biggest one is just continuing to work extremely hard to integrate the teams. I think we did a good job with Diamond, and we're going to even do a better job with Bluegreen.

Patrick Scholes
Okay, thank you. Has this been approved by Hilton Corporation, or does it need to be approved?

Mark Wang
It does need to be approved, and it was approved yesterday, so we're really thankful for Hilton's cooperation, and, most importantly, their investment into this transaction. We're very aligned with Hilton. They are our biggest partner, and will always be our biggest partner, and we appreciate all their support.

Patrick Scholes

Okay. Let's move on to the quarter and to the guidance. You called out some macroeconomic and crosscurrent concerns beginning, I think it was after August. Specifically, where are you seeing this? Is this going to be in your legacy higher end business or more of the mass market Diamond? Are you seeing this as a hit to your tour flow, your close rates, your VPG, where—if you could drill down a little bit more on that. Thank you.

Mark Wang
In the third quarter, new buyer sales and transactions actually rose year-over-year, right, and tour flow grew by 15% versus where we were last year for new buyers. That said, though, we had high expectations, and we had high expectations for the second half of the year. Look, I think the consumer is now finally behaving more in line with what you'd expect, given the rapidly rising interest rates and sustained inflationary period, and then, obviously, the unexpected pressure we've had from Maui and that unfortunate situation, but we're focused on controlling what we can control, and that's our execution. Maybe I'll have Dan kind of walk you through in a little bit more detail on that.

Dan Mathewes
Yes, thanks, Mark. The other thing I would add, Patrick, is when you take a look at the portfolio, we've seen actually some good trends sequentially. Just trying to break it out against, you know, the legacy Diamond portfolio versus the HGV portfolio, HGV is in line, slightly ahead of where we were in 2019. Sequentially, there's some modest movement up, nothing material, but, nonetheless, a little bit of movement up. Now, when you look at the Diamond, we've talked historically at various points in time about how they have been significantly outperforming 2019 levels, and that holds true today, as well. So, sequentially, they've actually modestly improved. You're not seeing from an annualized default rate material movement between the different consumer bases, if you will.

From the guidance, to Mark's point, a lot of this, what you're seeing, is we are still anticipating heavy tour flow growth on the new buyer side. That clearly causes compression in upon itself. That, coupled with the macro side, is really driving a lot of it. When you look at the balance of the segments, you'll see some margin compression in Finance, because, as you saw just recently, we completed a new securitization and that's just under 6%, but that will clearly impact Financing margins in Q4. On the benefit side, though, Q4 for Resort and Club is really strong, because that's when a lot of transaction fees come into play. Q4, historically, has always been our strongest on that front. Then, when it comes to Rental, you'll have some seasonality, so it'll be in line with prior year margin levels, slightly down to where we finished Q3.

So, when you look at Q4, the implied guidance, obviously, gives you a number that's lower than the previous guide, but we've had a lot of things going on, in addition to the Maui fires, right?

Patrick Scholes
Right, and I have a follow-up question on that, and then I'll put myself back in the queue here.

One of the other major players here had a sizeable charge in the loan loss provision. It didn't sound like that you're seeing similar issues in delinquencies, is that correct, or am I correct that you did not take any material charge at this point?

Dan Mathewes
No, we definitely didn't take a material charge at this point. If we look at delinquencies and we look at all these default rates, they're very consistent with the trends that we've been talking about all year, some modest reversion to the mean. Our provision as a percent of contract sales

was just north of 10%. We do not see, at this time, any reason to take a material charge against our portfolio.

Patrick Scholes
Okay, and another major trend here, sort of along the lines of normalization here, do you think it's just sort of normalization also being caused by Americans traveling abroad—you're primarily a domestic company—or taking cruises? Do you think that's also a driver of that and that was maybe more impactful than you initially thought?

Mark Wang
I think, Patrick, the bottom line is our expectation was an acceleration into the back half of the year, and what we saw is we saw some softening in arrivals, but still strong arrivals, better than we saw in the previous year, and as I mentioned earlier, I think there's some compounding effects with the consumer right now around just all the information out there. So, there's a bit of moderation in our VPGs and our conversion rates, and we expected that moderation, but not to the level that we saw. Now, we saw stabilization early in October, and we also saw it in the back of September. So, yes, all in all, I think it was just very high expectations, still performing well from a relative standpoint when you look at overall transactions and tour flow, but I think, at the end day, it was just very high expectations.

Patrick Scholes
Okay, thank you. I'll hope back into queue and allow others to ask questions. Thank you.

Mark Wang
All right, thank you.

Operator
The next questions come from the line of Brandt Montour with Barclays. Please proceed with your questions.

Brandt Montour
Hey, good morning, everybody, and congrats on the announcement.

I'm curious, if you're willing to share, Mark or Dan, how you sort of got to the price premium and if there was sort of a process that was ran for Bluegreen, or how that sort of came together between you two organizations.

Mark Wang
Yes, there was a process, and we went through that process. We've known Bluegreen for a long time, and as I mentioned earlier, we think they're a very innovative operator and we think this deal has a lot of strategic value for us, and I talked about a lot of the value, you know, the pipelines, the new buyers, the Bass Pro deal, etc. We valued the business on a future cash flow and EBITDA, inclusive of the $100 million in cost synergies. That's how we got to the basis on the value, but, Dan, if you want to lean in here.

Dan Mathewes
Yes, Brandt, just to add a little color to that, look, when you look at Bluegreen stock, how it has historically traded, they've got the A/B structure, which always has some kind of impact where it trades. When we went through a valuation process, it was based on a classic discounted cash flow structure. That, then, translates into the multiple that we disclosed today on a synergized basis. But, as you can see, the synergies play a key role in the valuation. I think we're very

happy where we landed, at 6 times LTM, 9/30, on a synergized basis, and it's actually almost—actually a full turn less than what we acquired Diamond for on a synergized basis, and when you look at our two transactions, they are, by far, the lowest multiple paid for any entity in the last five to seven years. So, we're pretty pleased with where we landed up.

Brandt Montour
That's excellent color guys, thanks for that. Then, on the synergy number, how do we think about the $750 million odd Bluegreen LTM sales VOI, and how that would—how do we calculate fees to Hilton on that hitting the system, and is that included in the $100 million cost synergies?

Dan Mathewes
The cost synergies does not include the license fees, so there's—okay, so there's a couple of components here, right? Cost synergies of roughly $100 million, and then there's revenue synergy opportunity of between $75 million and $100 million, which more than offset the license fee increase to Hilton. The license fee increase at the low end of that revenue synergy would be floating around the mid-40s, just to give some color on that perspective. Mark mentioned earlier that Hilton did invest in this transaction, and they did it in a very similar fashion that they did with the Diamond transaction, and that's what the fee ran. To over-simplify it, because there's a lot of ins and outs, but to over-simplify it, it's effectively a four-year ramp at 3%, 3%, 4% and 5%, which is consistent when you hit run rate where we are today. There's some ins and outs on different pieces, but that's where it boils down to.

Mark Wang
Yes, and they also invested in the Bass Pro and other partnership relationships, where we have a lower license fee for those partnerships, because, obviously, there are costs related to those partnerships to drive the deal. I think the actual performance we've seen with Diamond, obviously, informed us around these estimates, especially around the cost side.

Brandt Montour
Great, thank you. Best of luck.

Mark Wang
Thank you.

Dan Mathewes
Thank you.

Operator
Our next questions comes from the line of Chris Woronka with Deutsche Bank. Please proceed with your questions.

Chris Woronka
Hey, good morning, guys, and also congratulations on the announcement.

I guess a higher level question for you, Mark, is when you looked at this, when you looked at Bluegreen and the customer, and kind of similar to what you did a few years back with Diamond, is there any, I guess, correlation with the fact that Hilton is also kind of shifting some of its unit growth initiatives into, I guess, what we'd call the more mid-scale area of the lodging business? I mean, is that kind of where you see the biggest buyer pool opportunity growing, if that makes sense?

Mark Wang
Yes, no, a great question. Look, when we looked at this deal, one of the things that was very attractive to us was the demographics, right? It's a younger owner; 75% of the members at Bluegreen are Gen x or younger, still a very FICO score, above 725. So, for us, attracting solid customers earlier in the stage of their life is important, and we have—with HGV Max and Ultimate Access, we have, over time, the ability to grow them through our system and move them through our brand portfolio.

From a property perspective, one thing that we really liked about Bluegreen is just the consistency of the quality of the properties, and they do fully align with the growth of Hilton's portfolio, as you mentioned earlier, as well as the odder (phon) member base. Hilton, as you know, Chris and Kevin announced last week, have now 173 million members. It's still the fastest growing hotel loyalty program. So, we thought it made a lot of sense strategically and it will really support our net owner growth and allow us to continue to build embedded value in the business.

Chris Woronka
Okay, appreciate that color, Mark, and then kind of another, I guess, somewhat theoretical question or higher level question for you. Obviously, Bass Pro, that's a very unique asset, but at higher level, do you think maybe going forward there's more of a focus on some of these retail partnerships with companies that maybe have that, whether it's an outdoor angle or a travel angle? It seems like this is kind of becoming a new way to source customers, maybe in an indirect way, but any thoughts on that as to whether that's going to be a new, I guess, secondary avenue for customer acquisition?

Mark Wang
Yes, look, Best Pro is extremely unique in itself, right? I don't know if you've had the opportunity to visit one of their destination superstores, but they are a destination onto themselves, right? As I mentioned earlier, I've had the opportunity to meet with Johnny and his teams, and they've done amazing work at their Big Cedar Lodges and the stores. Their quality of commitment, their focus on conservation, it's so impressive. For us, we think it's just a massive opportunity with the marketing pipeline, and now being able to leverage our brand with them, and they're excited about that. We believe we're going to be able to do much more with Bass Pro than Bluegreen was, because of our portfolio and the diversification of our platform, and then our Ultimate Access experiential platform. So, yes, there could be other opportunities out there, but we think we have found and are acquiring the best one, for sure.

Chris Woronka
Okay, fair enough, thanks, Mark. Just, I guess, kind of a quick follow-up for the quarter now, if I could. Is there any common theme—and this is probably more as we look out to fourth quarter than kind of dissect third quarter, but on the lower outlook for Q4, is there any common theme geographically, or if you look at the customer, where they're not showing up or where the conversion rate is lower, whatever it might be, and maybe we need to strip Hawaii out of that, even though it's obviously a big piece? I'm just trying to get a sense as to whether there's anything you can pinpoint that identifies one specific area of softness.

Mark Wang
Yes, I would say that Orlando has been off more than we had expected, right, there's been some softening there, and we think it's partially just driven around just some of the noise around Di and what's going on there. But, overall, when you look at our mainland business, though, it is

strong, tour flows, essentially, recovered, and we're at historical levels for owner VPGs. The real impact, one of the drags for us has, unfortunately, been APAC. We've talked about Maui, so I won't dive into that, but we're also continuing to wait for the Japanese to come back to Hawaii, which is really important. Now, our owners are coming back pretty well, but the Japanese, in general, are still down 65%, 70% from pre-pandemic, and, really, part of that is it's less about the pandemic now, it's more about the currency. So, all in all, I would say our mainland business is generally in good shape, other than a little softness in Orlando, it's really more around our APAC business. It'll come back, it's just going to take longer than we expected.

Chris Woronka
Okay, very good, very helpful. Thanks, guys.

Mark Wang
Thank you.

Operator
The next questions are a follow-up from the line of Patrick Scholes with Truist. Please proceed with your questions.

Patrick Scholes
Okay, thank you. Right now, Bluegreen has licensing agreements with Choice Hotels. How much longer does that agreement last for, and is it realistic to expect when that expires you'll be dropping that agreement?

Mark Wang
Yes, we're not going to talk about the agreement in detail here, but I would say, look, we're excited to work with Choice. We believe they've been a good source of incremental and diversified lead flow for Bluegreen. We've been in active discussions with them about the structure and we look forward to sharing more with you as we get closer to the deal closing. But, Bluegreen formed a nice partnership with them and they've built a nice little pipeline of tour flow. On a relative basis, and to put it context of the combined company, it's small, it's about 5% to 6% of what the combined company will be, but we've got a plan to accommodate those leads and we're going to have the appropriate guardrails in place around the customer and the brand. All the partners are aware of the structure. Again, we'll share more, Patrick, as we go further down the road here.

Patrick Scholes
Okay, fair enough, and then my last question here. The other major competitor last week talked about their maintenance fees going up mid-teens for next year, and that will be a higher cost for them for any unsold inventory. I'm curious what you think your maintenance fees might be going up next year, and would that be a similar challenge for you folks, as well. Thank you.

Dan Mathewes
Look, we anticipate maintenance fees going up, driven by various cost pressures, most notably property insurance, but ours will not be going up mid-teens, probably mid-single-digits-plus, in that ballpark.

Patrick Scholes
Okay, okay. So, more in line with inflation as opposed to much higher than inflation.

Dan Mathewes

That's correct.

Patrick Scholes
Okay. I think I'm all set for the moment. Thank you.

Mark Wang
Great, thanks, Patrick.

Operator
Our next questions are a follow-up from the line of Brandt Montour with Barclays. Please proceed with your questions.

Brandt Montour
Hi again, everybody. I just had another one. I wanted to dig in a little bit more on the synergies. The cost synergies of $100 million versus—I think Diamond was $125 million at announcement, and Mark, you kind of made it sound like you feel a little bit better about these ones this time around because you have the integration platform ready to go, you've got all these learnings, and like someone else said, it was more plug-and-play, but it also sounds like the Bluegreen system is that the owner base undersold, whereas we could probably argue that Diamond was oversold, and so that's an interesting sort of dichotomy. That's firmly on the revenue synergy side, I could expect, though. So, I guess, do you agree with that assessment?

Mark Wang
Yes, I totally agree that the revenue synergy opportunity really lies, you know, in VPGs around owners. Their new buyer VPGs actually hold up pretty well against ours. When I think about our VPGs to owners are almost double what Bluegreen is generating today. We're not looking to double those, we're taking a kind of conservative approach and somewhere in-between that. On the cost synergy side, I think we think these cost synergies are achievable in 18 to 24 months. We have a pretty good track record now of being able to achieve those through the Diamond acquisition, and we've looked at it very, very carefully, and I think we've been very thoughtful in our approach.

Dan Mathewes
Yes, I think the only thing I'd add, Brandt, is going through the Diamond transaction, obviously, we learned different lessons, but when we talk about roughly $100 million in cost synergies with regards to Bluegreen, cost synergies still require a lot of work, right, and you have to have a thoughtful process, but roughly 65% of the cost synergies is driven by headcount, which, when you think about cost synergies, is probably the easier ones to garnish, if you will. But, the thought process around who is—where the redundancy's identified, that's where the Diamond history plays in well, right? Now, we've learned, hey, in Diamond's situation, we had made certain estimates where we cut too deep here and not too much there, and we applied those learnings here and we're really comfortable that we're going to get to that $100 million in cost synergies, really confident, so that's good.

Brandt Montour
Okay, that's helpful. Then, for those of us that don't cover Bluegreen, or maybe know that asset as well, and again contrasting it with Diamond, is it fair to say that there's no friction that you expect from the removal of the Bluegreen brand from the consumer process, right, and the consumer is always sensitive to sort of confusion and brands change around, but the Bass Pro is really where the consumer infinity lay, and so Hilton sort of cutting Bluegreen out of that process is sort of a no-risk situation; is that right?

Mark Wang
Yes, we believe when the members at Bluegreen understand that they're being acquired by Hilton, that they're going to be very excited about what that means for them and what that means for their club going forward, when you think about, you know, Hilton is just such an iconic lodging brand. Bluegreen has done a great job taking care of their customers, building loyalty within their brand, but when you think about the opportunity to be able to improve your value proposition—and this kind of goes back to the revenue synergy question—part of the reason we think there's going to be good revenue synergies on the other side is the ability to move across 200 properties versus 50 properties, and the ability to move into the Hilton ecosystem and utilize those properties. Those are powerful, right? Then, you put on top of that the Ultimate Access program, and those are really compelling for them.

The other thing I would say, Brandt, is Bluegreen is actually a simpler business model than Diamond was. I say that because Bluegreen has one trust and Diamond had, like, seven trusts, and so there was a lot more complexity. The reason Diamond had so many more trust product is because Diamond's strategy was acquisition of various companies, so it was M&A and tuck-in, and Bluegreen has been 100% organic from day one, they weren't acquiring any other companies. So, in a way, the company is much—I wouldn't say cleaner, it's a lot simpler, and it's a lot more in tune to the way HGV was born, with one club at one point starting forward. It's just going to be a lot simpler for us to connect this all together.

Brandt Montour
Great. That's all for me. Thanks again.

Operator
Thank you. The next question is a follow-up from the line of Chris Woronka with Deutsche Bank. Please proceed with your question.

Chris Woronka
Hey, guys, thanks. Just a quick follow-up, and apologize if I may have missed it, but is it possible to know what percentage of Bluegreen owners today are already Hilton Honors members and maybe how that compares to what percentage of Diamond members were Honors members at the time of that announcement or acquisition?

Mark Wang
No, we don't have that information in front of us and we haven't—we really haven't looked into that, but there's obviously going to be some crossover, when Hilton has 173 million members out there, and as you know, people typically are members of various hospitality loyalty programs, but our goal, though, is going to be getting all of those Bluegreen members to be Hilton Honors members going forward.

Chris Woronka
Sure, okay, fair enough. Thanks, guys.

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

Mark Wang

Thank you. I want to reiterate how excited I am about the opportunity in front of us and my confidence in our strategy. I want to also thank Alan Levan, Ray Lopez and his entire Leadership Team. I also want to thank the Bluegreen team, and we look forward to working with you. I'd also say thank you to Johnny Morris and the entire Bass Pro Shops for their warm welcome. We look forward to an exciting future working with these great organizations, and thanks, everyone, for joining us this morning.

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