Hilton Grand Vacations Inc.

Fourth Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President of Investor Relations*

Mark Wang – *President and Chief Executive Officer*

Daniel J. Mathewes – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to Hilton Grand Vacations' Fourth Quarter 2023 Earnings Conference Call. A telephone replay will be available for seven days following the call.

The dial in number is 844-512-2921 and enter pin number 13743184

(Operator instructions)

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

Mark Melnyk
Thank you, Operator, and welcome to the Hilton Grand Vacations Fourth Quarter 2023 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 filings.

We'll also be referring to certain non-GAAP financial measures. You can find definitions and components of such non-GAAP numbers, as well as reconciliations of non-GAAP and GAAP financial measures discussed today, in our earnings press release and on our website at investors.hgv.com.

Our quarter results for all periods reflect accounting rules under ASC 606, which we adopted in 2018. Under ASC 606, we're required to defer certain revenues and expenses related to sales made in the period when a project is under construction and then hold off on recognizing those revenues and expenses until the period when construction is completed.

For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA and our Real Estate results will refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. To help you make more meaningful comparisons, you can find details of our current and historical deferrals and recognitions in Table T1 in our earnings release and 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. 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
Morning, everyone, and welcome to our fourth quarter earnings call.

Contract sales in the quarter were $572 million and EBITDA grew 12% to $282 million, with margins of 27% improving 200 basis points from the prior year. For the year, EBITDA of $1.026 billion was slightly ahead of our revised guidance of $1 billion to $1.020 billion, with margins of 26%.

Tour flow grew 7% for the quarter with growth in arrivals and improved occupancy levels. Our owner channels again proved to be resilient with tours remaining above 2019's levels. But while tour flow was solid overall, it nevertheless came in modestly below our expectations, reflecting some lingering hesitancy in consumer behavior, particularly on the new buyer side, which we also saw in the early part of this quarter. That said, we're entering '24 with a strong pipeline of booked vacation packages, giving us confidence that the willingness to travel remains steady.

VPGs declined 14% in the quarter, roughly on the same trend of mid-teen declines that we've seen all year as we lapped tough comparisons from '22. But it also reflects the effects of continued disruption in our Maui market, along with a temporary system outage that impacted our legacy deeded sales system early in the quarter. The issue was fully remedied, and we subsequently enhanced our backup systems to mitigate any future risks, but it did create a modest drag on our sales and VPG results in the quarter, which Dan will get into in a minute. In that context, I'm happy with our underlying EBITDA performance despite these issues, which highlighted the adaptability of our business along with the benefit of our recurring EBITDA.

On the cost front, we have a natural hedge due to our largely variable expense base, and we also implemented additional short-term cost savings measures to protect our margins.

Looking at sales, we adjusted the use of some of our more expensive marketing channels to improve our efficiency, and we made changes to some sales processes and new sales incentives to focus on our highest quality tours and help improve our tour outcomes and VPGs. We have a lot of levers to pull in this business to support our margins, and, ultimately, our free cash flow generation.

Our confidence in our business model is reflected in our '24 guidance we issued today, which shows growth in our EBITDA supporting even faster growth in our cash flow per share. While our current expectations is that the consumer softness will persist through the first half of the year, our cost and our tour efficiency initiatives will still enable us to grow our EBITDA. In addition, we're also expecting EBITDA growth at Bluegreen this coming year, along with the recognition of some initial cost synergies.

Regarding the acquisition of Bluegreen, after a smooth review process and great execution on our financing, I'm happy to announce we officially closed the transaction on January 17, much earlier than our initial expectations. We're really excited about this transaction, and we think Bluegreen will be a great complement to HGV, enabling us to reinforce our position as the premier vacation ownership and experience company. We're adding scale and diversity to our existing offerings through Bluegreen's member base and additional geographies. We're also expanding and diversifying our lead flow with the addition of new world-class strategic partners and lead flow channels, and we'll also explore new avenues for growth through our joint venture relationship with one of those partners, Bass Pro shops.

In addition, we'll de-risk the integration process by leveraging the infrastructure and experience we developed with the Diamond acquisition. We'll realize material synergies, and importantly, we'll further strengthen the resiliency of our business with additional recurring EBITDA and free cash flow.

Along with today's release we've provided some additional financial details for Bluegreen on our Investor Relations website, but I'm happy to say they finished out '23 with solid momentum, growing contract sales, 4% in the quarter to $193 million, and generating EBITDA of $46 million with margins of 17% improving nearly 500 basis points year-over-year. Our teams have already begun the integration process, and we've formed working groups throughout the organization to collaborate with our new Bluegreen team members as well as our new strategic partners. We intend to support Bluegreen's momentum during the integration by operating their sales organization in parallel with HGV over the course of the coming months.

At the same time, we'll also be working closely with Bass Pro and our other strategic partners to develop a roadmap for the successful integration and expansion of our marketing efforts. We're hitting the ground running with our integration efforts.

On the heels of Diamond's integration, our teams are well-versed in the processes and procedures that we need to ensure a smooth transition, and we're excited to share our progress with you over the coming quarters.

Now, let's take a look at our operational performance. Remember that these fourth quarter results refer to standalone HGV; we just closed the Bluegreen acquisition here in the first quarter and will report operations as a combined entity beginning in Q1 '24 results. As has been the case throughout the year, contract sales in the quarter were driven by growth in tours, offset by a decline in VPG. The 152,000 tours generated in Q4 were up 7% and maintained the trend of tour growth, with new buyer tours growing slightly faster than our owner channel.

VPG for the quarter was $3,730, continuing the pace of normalization we've seen through the year. Close rates also remain ahead of 2019's levels led by the strength of Owner channel, which are still above 2019 by several hundred basis points, and as we've now lapped the tough VPG comparisons from last year, our expectation is to return to a more normal pace of VPG growth in '24.

Turning to our demand indicators. Our package pipeline remains robust at well over 500,000 packages and we've entered '24 with a record number of those packages dated for travel, which should support additional tour flow growth this year. Fourth quarter occupancy of 82% was 300 basis points ahead of last year, with strong improvements in November and December. We continue to see arrivals this year trending ahead of last year's, pointing to additional gains in '24.

We also capped off a strong year for our experiential platform, HGV Ultimate Access. We hosted over 3,600 events during the year for more than 120,000 members and guests, and we're already off to a strong start in '24. Our marquee Ultimate Access event, The Hilton Grand Vacation Tournament of Champions, built upon last year's strength with attendance and media exposure setting new records. Our teams have put together a rich list of programming for the year ahead that will surpass last year's performance. We believe that differentiated offers like Ultimate Access drive increased owner engagement and loyalty, strengthening the value proposition of HGV's ownership.

Moving to our non-real estate segments, transient travel demand remained strong in the quarter, leading to gains in both occupancy and rate and driving growth in our rental business, despite having more room nights allocated toward Owner stays and fewer available room nights in Maui.

In our recurring Club and Financing business, NOG grew 2%, and capped off another year of member growth. We ended the year with nearly 529,000 members, including more than 144,000 Max members. That means we added 70,000 Max members this year both through new member additions and upgrades from existing owners, which nearly equal the number of Max members we added during last year's strong launch period.

Our Financing business also continued to perform well, even after controlling for a one-time expense adjustment made in the fourth quarter of last year. During the quarter we repurchased 2.6 million shares of stock, bringing the total to 8.7 million shares for the year, and since we spun out as an independent public company in 2017, we've repurchased over a billion dollars of stock, or 30 million shares. We remain committed to returning capital to enhance our total shareholder returns, and with the addition of Bluegreen, we're on a path to enhance that commitment as we further improve our cash flow generation.

Looking back to 2023, I'm proud of the progress we made and I'm excited about the year ahead. As we continue our integration of Diamond assets and turn our attention toward Bluegreen this year, our goal is to solidify our position as the premier vacation ownership and experience company. We have the widest offering of products and price points in the industry, the most accessible and feature packed member club with HGV Max, and the largest experience platform with HGV Ultimate Access. With the addition of Bluegreen and our new partners, we'll also be able to reach a wider audience than we ever have before. Our goal this year will be to ensure a smooth integration of Bluegreen and engagement with our new club members, team members, and partners. And we'll maintain our focus on driving long-term value creation and free cash flow generation, along with capital returns.

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

Daniel J. Mathewes
Thank you, Mark, and good morning, everyone.

Before we start, note that our reported results for this quarter included $21 million of sales deferrals, which reduced reported GAAP revenues, and were related to presales of the latest phases of our Ocean Tower and Sesoko projects. We also recorded $9 million of associated direct expense deferrals. Adjusting for these two items would increase the EBITDA reported in our press release by $12 million, to $282 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.

To begin, our team did a great job this year adapting to a number of headwinds, including the normalization of VPGs from the all-time highs of 2022, elevated interest rates, a more tenuous macroeconomic environment, and the devastating wildfires in Maui. Despite that, we produced results that were near the record levels of last year, with contract sales of $2.3 billion and Adjusted EBITDA of $1.026 billion. Importantly, we converted 52% of the EBITDA into over $530 million of cash flow. We used that cash flow effectively to support shareholder returns by repurchasing over $365 million of shares this year. In addition, when combined with our balance sheet discipline and low leverage, that cash flow helped to put us in a position to capitalize on the opportunity to acquire Bluegreen Resorts and provide us with another avenue to add long term value to the business.

As Mark mentioned, our integration process with Bluegreen is underway and we have a robust plan in place that we will be executing against over the coming months.

Moving to our results for the quarter. Total revenue excluding cost reimbursements for the quarter grew 3% to $943 million. Growth was led by our Financing, Resort and Club, and Rental and Ancillary businesses, more than offsetting a decline in real estate revenue.

Q4 reported Adjusted EBITDA was $282 million with a margin of 30% excluding cost reimbursements. Our margins in the quarter improved over 200 basis points versus the prior year, and compared to the first half of 2023, margins in the back half improved by 300 basis points to 30%, as we improved efficiency and lapped some of the investment spending from the second half of last year. For the full year of 2023, we generated EBITDA of $1.026 billion, versus our guidance of $1 billion to $1.02 billion, with margins of 28% excluding reimbursements.

As Mark mentioned, our sales this quarter were impacted by the ongoing effects of the Maui wildfires, combined with a temporary outage at one of our third-party data center providers that impacted our sales systems over a number of days early in the quarter. We believe that the combination of these two items was an impact of roughly $40 million of contract sales, $21 million of Adjusted EBITDA during the quarter.

Turning to our segments. Within Real Estate, total contract sales of $572 million were down 10% versus the prior year, with new buyers comprising 26% of contract sales in the quarter. Tours grew by 7% in the quarter to 152,000 tours, with both our owner and new buyer channels showing similar levels of growth.

VPG of $3,730 in the quarter was 5% ahead of 2019 levels, but excluding those two one-time items we believe we would have achieved the low end of our expectations to be 10% to 15% ahead of 2019.

For the full year, our reported VPG was 11% ahead of 2019, and looking out to 2024, we believe that the VPG growth will return to return to a more normal level of a low-single-digit annual growth.

Cost of product was 15% of net VOI sales for the quarter. Real estate S&M expense was $248 million for the quarter, or 43% of contract sales, improving nearly 200 basis points sequentially as we improved efficiency and lapped some of the marketing investments made beginning in the back half of last year. Real Estate profit for the quarter was $158 million, with margins of 34% improving 70 basis points from the fourth quarter of last year.

In our Financing business, fourth quarter revenue was $82 million and segment profit was $56 million, with margins of 68%, versus margins of 48% in the prior year, or 61% if you exclude the one-time expense true-up that we made during Q4 of last year. Combined gross receivables for the quarter were $2.9 billion, or $2.1 billion net of allowance, and our interest income was $74 million.

Our originated portfolio weighted average interest rate was 14.85%, while our acquired portfolio had a weighted average interest rate of 14.66% and includes a $3.4 million contra-revenue for the amortization of a non-cash premium associated with the portfolio of receivables that we acquired from Diamond during the acquisition.

Our allowance for bad debt was $779 million on that $2.9 billion receivables balance. Of these amounts, the acquired portfolio, which used Diamond’s underwriting standards, was $249 million

on a portfolio balance of $499 million. Our annualized default rate for our consolidated portfolios, including the Diamond acquired and underwritten portfolios, was 8.56%. Our provision for bad debt was $54 million, or 12% 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. Going forward, we expect our provision to migrate towards the low- to mid-teens percentage of contract sales on a normalized basis, not accounting for the Bluegreen acquisition. We continue to evaluate Bluegreen's provision and allowance through our opening balance sheet and purchase accounting workstreams. We'll share more on the portfolio during our first quarter results.

In our Resort & Club business, our consolidated member count was 529,000, and our consolidated NOG was 2% at the end of the fourth quarter. Revenue of $167 million was up 8% for the quarter, and segment profit was $119 million driven by the typical seasonal uptick in revenues and expenses in our Club business, with margins of 71%.

Rental & Ancillary revenues grew 2% to $164 million in the quarter, with segment profit of $12 million and margins of 7%, versus 4% last year. Revenue growth was driven by ADR gains in most markets, partially offset by lower available rental room night inventory owing to increased member stays along with fewer available room nights from the affected properties in Maui.

During the fourth quarter, the timing shift from adjusted Diamond member benefit recognition resulted in a $3 million year-over-year benefit to the fourth quarter expenses, which was in line with our expectations. With those timing adjustments made this year, they won't create issues with comparability in 2024 or beyond.

Bridging the gap between Segment Adjusted EBITDA and Total Adjusted EBITDA, corporate G&A was $36 million, license fees were $37 million, and JV Adjusted EBITDA was $6 million. Our adjusted free cash flow in the quarter was $255 million, which included inventory spending of $88 million. The adjusted free cash flow conversion rate for the quarter was 90%, and for the year, we had a conversion ratio of 52%, which was nicely inside our 50% to 60% target range.

During the quarter, the Company repurchased 2.7 million shares of common stock for $99 million, and through February 23, we repurchased an additional 1.7 million shares for $71 million, leaving us with $289 million of remaining availability under the 2023 repurchase plan. In 2023, we repurchased an average of $92 million per quarter, which is in line with our goal of roughly $100 million per quarter.

Turning to our outlook, we expect Adjusted EBITDA in the coming year of $1.2 billion to $1.26 billion. I'd note that our guidance includes the assumption that bad debt and COP will approach their long-term run-rate levels of the mid- and high-teens, respectively, which collectively would represent a headwind to EBITDA of roughly $100 million. It also includes an estimated $150 million to $160 million of pre-synergized EBITDA contributed from our acquisition of Bluegreen, which was completed in mid-January.

In addition, we're also expecting to achieve actual cost synergies for the year of $50 million, which puts us nicely down the path of achieving $100 million of run-rate cost synergy within 24 months of acquisition close.

As of December 31, our liquidity position consisted of $589 million of unrestricted cash and $553 million of availability under our revolving credit facility. Our debt balance at the quarter-end was comprised of corporate debt of $3 billion, and a non-recourse debt balance of approximately $1.5 billion. At quarter end, we had $351 million of remaining capacity in our warehouse facility, of which we had $155 million of notes available to securitize and another $317 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 Q4, the Company's total net leverage on a TTM basis was 2.44x. Again, these liquidity and leverage calculations reflect HGV legacy operations and do not contemplate the Bluegreen acquisition. We did have a very successful permanent debt financing for the Bluegreen transaction in early January, successfully placing $900 million of secured debt at six and five eights, and an incremental term loan B of $900 million at SOFR+275.

We are also recommitting to our long-term leverage target of 2x to 3x total net leverage. On a pro forma basis, not taking into consideration account any purchase accounting adjustments, we were just above 3x levered at 12/31 on a pro-forma basis. Coupled with our collateral available to securitize and expectations to realize approximately $100 million of synergies, we are very confident in returning to our target leverage ratio without negatively impacting our expectations for approximately $100 million of share repurchases per quarter in 2024.

Before we turn to Q&A, I'd like to note one additional item that will appear in our 10-K. First, I'm happy to say that we fully remediated the material weakness at Diamond that was detailed in our annual filing last year and referenced in our quarterly filings during 2023. Separately, and unrelated to the systems outage that we previously talked about, during the course of our audit this year, we identified an issue with an IT application having to do with user access, that was classified as a material weakness. Just like the Diamond-related material weakness from last year, this item did not impact our current or historical financial results or create the need for a restatement of historical results, nor did it impact our business operations in any way. We have already begun our remediation plan and will provide updates on the process, but we expect that we'll be able to remediate this new item during 2024.

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

QUESTIONS AND ANSWERS

Operator
Thank you.

(Operator instructions)

Our first question is from Patrick Scholes with Truist Securities, please proceed with your question.

Patrick Scholes
Great, thank you. A couple questions here for you. With the full year guidance, how should we think about—and I apologize, hopefully, you didn't mention this in the remarks. How should we think about the contribution from the legacy company and then the contribution from newly acquired Bluegreen? Thank you.

Daniel J. Mathewes
Hey, Patrick, it's Dan here. We gave a little bit of color in the prepared remarks. But just to repeat that, when we think about Bluegreen, we're looking at EBITDA guidance of roughly $150 million to $160 million. Cost synergies, we're not moving as quickly as we did with Diamond. We're operating separate operations for a little while, but we're still making some sizable traction on that front. We've already gone through track one, if you will, from a cost synergy base, which is mostly on the G&A side. We expect to realize $50 million in the current year. That would put, if you do the math, that would put the range for legacy HGV guidance of between $1 billion and $1 billion 25, just given those dynamics. Relatively flat from a HGV perspective, up low single digits on the Bluegreen business, and then the benefit of cost synergies. That all gives you a midpoint in the guidance of just under 5%, a range being between 2% and 7% growth on EBITDA.

Patrick Scholes
Okay. Thank you. I have a follow-up question here. In the about a year or so ago, you had talked about—this is pre-Bluegreen—a CapEx of around $300 million run rate for 2024. Going forward, how should we think about the CapEx at this moment? Thank you.

Daniel J. Mathewes
Yes, that's great question. When it comes to capital allocation with regards to inventory in particular, we talked about a long term run rate of between $250 million and $350 million. That being the order of magnitude that you needed to support $2.5 billion in contract sales.

Now, what I'd remind everyone, and I think we talked about this on our last earnings call with the announcement of Bluegreen. Unlike Diamond, Bluegreen was not an inventory play, from the standpoint that Diamond came with four years of excess inventory. Bluegreen had a very efficient use of their balance sheet, and maintained inventories levels very commiserate where you would expect, between one and two years. When we think about 2024, we actually spent a little less in inventory spend in 2023 than we originally anticipated; that's really just a function of the timing of our own construction. Unfortunately, as you can expect, these projects ebb and flow, they're not just straight line. But from an inventory spend in 2024, we would expect a little bit north of $350 million, call it $370 million from a legacy HGV side, and then there would be an incremental $100 million associated with the Bluegreen side. You're talking about $470 million-ish, give or take a million in inventory spend for 2024.

Now, just to break that down—just to break that down a little bit, on the legacy HGV side, that's driven by Maui Bay Villas, which as you recall, is a series of low-rise buildings in Maui. Conversion of ocean tower, and also, we've started construction on the Ka Haku, which is O'ahu, and that's a vertical build. Then we have one final payment for a just in time project in Okinawa, that's Sesoko, and that's going to happen in Q1. That'll take care of all of our contractual payments. That and one other smaller item takes care of all our contractual payments from a just-in-time perspective.

Patrick Scholes
Okay, and just one last—if I could take it. As of January 17, prior to this CapEx for this year, how many years of unsold inventory do you have on hand, roughly?

Daniel J. Mathewes
With Bluegreen, let me pull that number. It's multiple years. To put things in perspective, when I've mentioned Diamond as being an inventory play to a certain degree, since acquisition, we've

actually invested with a minor exception of some conversion costs. Virtually zero dollars in any Diamond inventory. Bluegreen brings along with it an incremental year of inventory. I think when you think about contract sales, we would point you to our results in 2023, add roughly $800 million in contract sales for Bluegreen and that $12 billionish in inventory will help you do the math there.

Patrick Scholes
Okay, I do have more questions, but I'm going hop back in the queue. Thank you.

Daniel J. Mathewes
Okay, great.

Operator
Our next question is from Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Hey, good morning, everybody. Thanks for taking my questions. Maybe on the first one for VPG, if you're looking for low single digit growth for the year, that puts you squarely back—I'm assuming you're talking about legacy HGV. You're squarely really back in that 110% to 115% of '19 range, which is on top of what you did in the third quarter. The question is, Mark, you gave some qualitative commentary about the soft consumer. It sounds like things haven't gotten worse from three months ago when you first started talking about this in late November. Could you just bridge your comments with that guidance and tell me if I'm missing anything there?

Mark Wang
Yes. Brandt, I'd say we feel really good about the business right now. I think VPG finished the year still up 11% over 19, and we talked about the system, the Maui issues, so that obviously had an impact there. But just taking a step back, our goal and when we put out that soft guidance probably a couple years ago was really to highlight that we've generated a sustainable upside to the prior peak based on the investments we've made. I did make a comment in my prepared remarks around the consumer, and on the margin, we do see some more hesitancy, particularly with the new buyers, and it's something that we actually started seeing in the third quarter, the second half of the third quarter and it's persisted through the fourth quarter and into early this year. At the end of the day, I think from an execution standpoint there's some areas for us to improvement, but clearly, we are seeing a little bit more hesitancy from a buyer standpoint. Again, more on the new buyer side than on the owner side.

Brandt Montour
Okay, great. Thanks for that. Then on the loan loss provisions. Dan, it looks like that $100 million is right in there in that mid-teens range, which you've been talking about I feel like for a year now, and we never have seen you get that high. But now you're baking it into guidance and being a little bit more forthright there. What are you seeing that suggests that you're going to see that step up of several points here from the fourth quarter?

Daniel J. Mathewes
Well, I think it's similar to some of Mark's commentary on the macroenvironment. Obviously, interest rates where they are, associated with other avenues for spending, are clearly squeezing the consumer to a certain extent. From a delinquency rate, what I would say is we did see a little bit of sequential deterioration in our portfolio; nothing overly material, but 20 basis points between both the legacy Diamond and legacy HGV side is something that we pay attention to.

Now, from an annualized default rate, we still are performing from a legacy HGV side consistent with 2019 levels at the higher end of 2019 levels, and the Diamond portfolio continues to outperform significantly where they were in 2019. We're optimistic but at the same time with normalization of credit trends, we're not being overly optimistic, and that's why we expect the bad debt provisioning to creep up on us in 2024.

Brandt Montour
Thanks, everyone.

Operator
Our next question is from David Katz with Jeffries. Please proceed with your question.

David Katz
Thanks for taking my question. In the release, and Dan, I think in your comments you mentioned $40 million in revenues and $21 million of EBITDA from Maui, and the third-party sales center. Wonder if you could maybe break that out for us and the nature of the question is, at least for us, our fee for service sales were lower than what we're looking for. My sense is, others too?

Daniel J. Mathewes
Yes. A just a couple of clarifications point there, David. When we talked about the $40 million, that's a combination of the impact from Maui as well as the sales outage from a system issue. Now, the system issue with sale outage, it's one of those things that happens one in a million event. I doubt we could even—it could repeat itself, not only with us, or virtually any other organization. It was a human error with a third-party vendor that was doing a hardware update at same time we were doing a software update. What happened was it effectively knocked our deeded sales system offline, and to bring those sales back up, it was offline for almost a week.

As Mark mentioned, we've done a lot of work to make sure that the backup system replicates on a real time basis and that recovery would no longer take that much time, even if this very unusual event were to happen. Now to break that down just to quantify it for you. Out of the $40 million, I'd say roughly two thirds was associated with the system outage and the balance was with Maui. From an EBITDA perspective, the sales system outage had a high flow through because tours were still coming through our sales centers, right. We still wanted to get in front of customers, have that interaction. When you look at an EBITDA impact, Maui was roughly caught in the $6 million to $8 million range, and the balance was associated with a system outage, so right around $14 million.

David Katz
Right.

Mark Wang
Yes, David, just follow up on that real quick on Maui. Our expected recovery really won't happen until we're able to build back our sales teams. Maui is a tale of two different stories, the South side of Maui being villas continues operate as normal; Ka'anapali Beach where we have the bulk of our units, we have over 400 units up there on the west side, that was near the epicenter of the worst damage. We committed to our team members, we had close to 100 team members who lost their homes up there, and so we committed to keep a roof over their head and happy to say that 60 have found permanent housing, we still have 40 that we're housing today. But what happened is we lost a lot of our sales teams who left to other islands or to other locations, a lot of them transferring within our Company, and it's going to take a while to get them built back up. This Maui impact is something that's going to continue throughout the rest of this year. It will get

better as we move through the year, but there will be an impact that is much more lasting than the system outage which Dan alluded to was really just around a week.

David Katz
Understood. That's precisely the nature of the question is, one's a moment and one lingers. Thank you very much.

Operator
Thank you. Our next question is from Chris Woronka with Deutsche Bank. Please proceed with your question.

Chris Woronka
Hi guys. Good morning. Thanks for taking the question. Mark or Dan, you guys mentioned a little bit of—you're seeing a little bit of hesitancy on the consumer front. I think you've talked about that being a little bit more exogenous to the new owners. Is that comment for any specific region? Is that more about Maui? Or is that more of a general comment, geographically?

Mark Wang
Yes, when we look at it, it's really pretty much related to the U.S. mainland is where we're seeing more of the impact and it's more, again, with the new buyers. Our owners are—we're in really good shape with our owner base, we've got a great base of owners. When you combine now the Bluegreen owners, we've got a strong base of recurring revenue that's coming through that part of the business. We've seen a little bit of pullback that's still above our historical levels. Where we're seeing most of it is around our new buyers and I have to say, I talked about it; I just mentioned that there was, I think, some execution, better execution opportunities on our side. But Dan mentioned macro, we've got the inflationary pressures out there and rates that have moved, and essentially that puts some pressure on people's ability to deal with their essential payments.

But the other side of it is we grew our tour flow last year, our new buyer tour flow by 22%, and that put a lot of pressure on our new agents, right? That's a lot to digest in a short period of time, and so what we did is we started dialing back on a few of our lower producing channels, starting the middle of the year, and hence, we reduced the amount of new buyers coming through the system as the year went on. Our expectations is now we've dialed in some of those back up; we're still seeing a bit of softness there. But long term we still believe, as Dan alluded to earlier, we're going to grow our contract sales approximately 6% to 7%, probably weighted heavily toward VPG than it will be to tour flow this year and a lot of that is due that we're lapping softer comps.

Chris Woronka
Okay, that is helpful. Then as you look out with the package pipeline, you mentioned I think over 500,000 tours on the books. Can you give us a sense of the cadence to that? Or is it more back end loaded? Is it more—just trying to get sense for level of conviction and what you're expecting this year on tour flow and how that relates to what you've got on the books right now.

Mark Wang
Yes, no. We've got great visibility, that's one of the benefits of our model in having this big pipeline is, of course, on the owner side, arrivals on the books creates a lot of certainty in our expectations. What we see right now is our owners are above the levels we saw last year. The new buyer pipeline is served over half a million, then you add Bluegreen into it, and they bring another 160,000 packages. But as I mentioned, we dialed back activations the back half of last year, and that'll have a knock on effect in the early part of this year, because as you ramp some of that

down, it takes a while to ramp that up. The cadence of tours will ramp up through the back half of the year, so it's definitely more back half weighted than front half weighted.

Chris Woronka
Okay, very helpful. Thanks, guys.

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

Patrick Scholes
Thank you. Follow up question here. Mark, I'm surprised you haven't talked about Japanese customer coming back. I was on the Park Hotels conference call, and they seem very enthusiastic about the return. I'm wondering your thoughts or what you're seeing or not seeing in that regard. Thank you.

Mark Wang
Yes. I think when you look at our business today, the U.S. mainland is basically fully recovered from ‘19 for new buyers, and we're well over our number for owners on the mainland. Now, in Hawaii, we have had a pretty good recovery of our owners coming back. In fact, I've used and I've said this datapoint a number of times, our owners who are very loyal to the brand made that commitment to buying into the brand and buying into Hawaii have come back really strong. We're basically back to the historical levels we had in ’19.

Where we're trailing off is we're really still trailed off on the new buyers coming back to Hawaii, and we're still about 25% to 27% down there. Now, that's better than the market. When you look at the market, the recovery for the Japanese coming back to Hawaii is around 50% of the ‘19 level. When you look at our new buyer traffic in Japan, it's still down about 25% and that's because we source a lot of tours from the International airports in Japan and while the Japanese are traveling, they’re traveling mainly domestic right now.

We are optimistic that Japan business will be a strong business for us over the long term. Our expectations, though, is that we won't get back to full recovery until you get the Japanese back into Hawaii. This is less a pandemic issue. I think that is way past us now; I think it's more about the weakness of the yen. I think right now there's just better options for them to travel elsewhere. But they'll be back and our expectation is probably—we're probably looking more in toward the latter part of ‘25, ’26 than we are anytime this year or early next year.

Patrick Scholes
Okay. Thank you. Then just a related last question here. When we think about pre-Diamond acquisition, pre-Bluegreen acquisition, Hawaii was 20% or so of your business. What would be that comparable number? If you went back to 2018, and had both acquisitions? It certainly sounds like Hawaii is less relevant as far as your overall exposure. How should we think about how that percentage has decreased because of these acquisitions? I hope that makes sense. Thank you.

Mark Wang
Yes, that makes sense. Actually, it was a bigger percentage pre- the two M&A deals we did. Today, it's, when you look at Hawaii, you look at Hawaii and Japan, in total, it's still—it's right around 20%, or just under 20%. But the Japanese part of that is about 10% of that. The Japan part of it itself is about a 10% part of our business now. It's come down materially.

Patrick Scholes
Okay. That should do it. Thank you.

Mark Wang
Thanks.

Operator
Thank you. There are no further questions. At this point, I'd like to hand it back over to Mark Wang for any closing comments.

Mark Wang
All right. Thank you, everyone, for joining us today. Before I wrap up, I'd like to thank all of our team members for the hard work this year, and their continued service and dedication to our owners and guests. When you think about what we've accomplished in the last 30 months, acquiring two new companies and setting the business at a whole new level, with the most offerings, experiences and partners in the industry, I'm really proud of what we've achieved together. I'd also like to offer a special welcome to our new Bluegreen team members. Welcome to the HGV family. I'm really optimistic about the future of HGV and look forward to speaking with you again next time. Thank you.

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