Hilton Grand Vacations Inc.

First Quarter 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President Investor Relations*

Mark Wang –*Chief Executive Officer*

Daniel Mathewes –*President and Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Hilton Grand Vacations' First Quarter 2024 Earnings Conference Call. A telephone replay will be available for seven days following the call. The dial-in number is 844-512-2921 and enter PIN 13743185.

At this time, all participants have been placed in a listen-only mode, and the floor will be opened for your questions following the presentation. If you would like to ask a question, please press star, one on your touchtone phone to enter the queue. If at any point your question has been answered, you may remove yourself from the queue by pressing star, two. If you should require Operator assistance, please press star, zero. If using a speakerphone, please lift your handset to allow the signal to reach our equipment. Please limit yourself to one question and one follow-up to allow the opportunity for everyone to ask questions. You may then re-enter the queue to ask additional questions.

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

Mark Melnyk
Thank you, Operator, and welcome to the Hilton Grand Vacations' First Quarter 2024 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 our factors that could cause actual results to differ, please see the Risk Factors section of our SEC filing. We'll also be referring to certain non-GAAP financial measures. You can find definitions and components of such non-GAAP numbers, as well as reconciliations of non-GAAP and GAAP financial measures discussed today in our earnings press release, and on our website at investors.hgv.com. Our reported results for all periods reflect accounting rules under ASC 606, which we adopted in 2018. Under ASC 606, we are required to defer certain revenues and expenses related to sales made in the period when a project is under construction, and then hold off on recognizing those revenues and expenses until the period when construction is completed.

For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA and our real estate results will refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. To help you make more meaningful peer-to-peer comparisons, you can find details of our current and historical deferrals and recognitions in Table T-1 of our earnings release, and a complete accounting of our historical deferral and recognition activity can also be found in Excel format on the Financial Reporting section of our Investor Relations website.

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

Mark Wang
Morning everyone and welcome to our first quarter earnings call.

Reported contract sales in the quarter were $631 million and EBITDA was $270 million with margins of 24%, which includes just over two months of results from our recently closed Bluegreen acquisition. I'm happy with the results overall, and I'm even more encouraged when looking at the momentum that we built over the course of the quarter.

Recall that in the fourth quarter we adjusted some marketing channels at our legacy business to optimize our tour flow, which we expected would create some follow-on effects in the first half of '24. We came into the year with a goal to dial up some of our marketing activities in a thoughtful way and accelerate package activations of our tour pipeline and these efforts began to yield results as we moved through the quarter. While we started with a modest year-over-year decline in tours in January, we saw an acceleration each month of the quarter, exiting with a low-single-digit-positive tour growth in March, which put us solidly on track relative to our expectations for the full year. We also added more packages this quarter than any other quarter since mid-'22, and our mix of activated packages is back to record levels we saw in the first half of '23.

These trends speak to a consumer that remains committed to travel despite some of the macroeconomic pressures that have built up, particularly in regard to inflation. While those pressures are still leading to some hesitancy at the sales tables, our sales teams have made adjustments to help highlight the value proposition of ownership, which should result in improved close rates as we move through the year. It's also important to note the continued resilience of our Owner business, which saw an acceleration in tour growth compared to the fourth quarter, along with improved close rates. The repeat nature of our dedicated Owner base is a key feature of our business that drives stability and embedded value creation in our model over time. Our Owners love the level of HGV service and the benefits offered by our Max membership, they want to use the product more, and ultimately, that drives additional upgrade business.

Nearly a third of our members are in HGV Max only two years after our launch, indicating how successful the program has been at attracting existing members as well as new buyers. And as we welcome our new Bluegreen owners into the HGV system over time, we're confident that the HGV Max benefits and service levels will resonate with them as well.

Speaking of Bluegreen, since closing our acquisition in January we've been hard at work on our rebranding plans and integration. A lot of great work has been done by the teams, and I'm very pleased with how they're executing and coming together over the last few months. There's still a lot of work left ahead of us, but the foundation of our business is better than ever.

I'm also excited about our recently announced partnership with Great Wolf Lodge, which will create a new source of lead flow that we think will be a great fit with the HGV family of brands.

So, we have a number of positives coming out of the quarter that leaves us optimistic. While we're still a few quarters out from reaping the benefits of dialing up our activations over the last few months, I'm happy with the trends we're currently seeing out of the business and our team's execution, and we remain confident in our guidance for the year.

Turning to our integration efforts, let's start with a quick update on Diamond. Through the end of the first quarter, we rebranded 36 properties, representing over 9,600, or two thirds of the total keys. We expect that we'll rebrand another 12 properties this year for an additional 2,500 keys,

bringing us to over 70% of the total by year-end. The remainder of the properties will be completed between 2025 and ‘26. We’re happy with the results of the rebrands thus far, but more importantly, our guests are happy. We continue to receive positive feedback, and our occupancy levels and package sales trends remain strong at those rebranded resorts. We’re also making steady progress integrating our technology, with several key module launchings this year that will move us toward a unified system for our Deed and Trust products, which we’ll also leverage as we move through the Bluegreen integration process. These enhancements will not only enable our sales teams to transition more seamlessly between product offerings, improving efficiency and the likelihood of conversion, but they’ll also enable us to seamlessly grow in the future. And importantly, they’ll also create a smoother customer experience helping Owners’ engagement and retention.

Moving to Bluegreen, as I mentioned, we’ve been working diligently to integrate our teams over the past several months. Throughout the process, I’ve been thoroughly impressed with the Bluegreen team at all levels of their organization. At the same time, we’ve been fully engaged [to drive growth with our new partners, Bass Pro, Choice and NASCAR, and have also continued working toward finalizing our rebranding plans ahead of a kickoff later this year.

I also want to spend a minute talking about our new relationship that we announced a few weeks ago with Great Wolf Lodge. Partnerships are a critical component of our strategy to engage new customers and deepen the relationship with existing members through experiential offerings, and this partnership with Great Wolf furthers that proposition; serving over 10 million guests annually with a focus on families with young children, which is a priority growth segment for us. Together, we’re able to engage a broader spectrum of vacations and age ranges, as well as provide HGV families with increased flexibility in their vacation options.

In the coming months, HGV members will begin to vacation at Great Wolf Lodge resorts using their club points, while also benefiting from exclusive discounts during their stay. In addition, Great Wolf Lodge guests will have the opportunity to receive curated offers to explore HGV's network of properties. HGV will have a presence in 18 Great Wolf resorts, with more locations to be added as Great Wolf continues their expansion. The partnership also includes call transfer and digital marketing programs, enabling us to generate new lead flow across multiple channels. Above all, these partnerships are about bringing people together to create memorable experiences, and I’m thrilled to be collaborating with CEO John Murphy and the entire Great Wolf team who share a similar passion for hospitality and for delivering high quality vacations that bring families together.

Now, let’s take a look at our operational performance, assuming that we owned Bluegreen for the entire quarter, to make things simpler. Combined contract sales using that full-quarter basis were $656 million, with steady tour growth and a decline in VPG. Both HGV and Bluegreen demonstrated very similar growth trends for tours and VPG and were largely in line with our expectations.

As I mentioned earlier, I was very pleased with the trajectory of our tour flow as the quarter progressed, along with the resilience of our owners, and as we move into the back half of the year, we expect to see our pipeline continue to drive improved tour trends as well. Combined VPG for the full quarter was $3,575, down about 5%, driven by lower close rates. However, close rates in our legacy business improved from the fourth quarter, leaving us optimistic that our efforts and initiatives are producing results and leave us on-track for the year.

Looking at our forward demand indicators, occupancy in the quarter was flat at 79%, although last year’s numbers included the full complement of Maui rooms. As I mentioned, we made great

progress with our package activations this quarter, and our arrivals on the books for the rest of the year are ahead of '23, with strength in our marketing and rental arrivals owing to our success in driving increased package activations.

Moving to our non-real estate segments. We continue to see great trends in our transient rental business, led by higher available room nights and higher ADR. Our rental nights on the books remain very strong through the rest of the year, and some regions where we have seen softer trends, such as Orlando and Hawaii, also showed signs of improvement this quarter, which also bodes well for future performance.

In our recurring Club & Resort business, NOG at our legacy business was 2% and the addition of Bluegreen enabled us to reach a member count of 718,000, which led to another strong quarter of EBITDA generation.

And our financing business had a solid quarter of growth with improved margins owing to the addition of the Bluegreen portfolio and good receivables generation.

We also maintained our commitment to capital returns this quarter, repurchasing 2.3 million shares for $99 million.

So, all in all, I'm very pleased with this quarter. We performed in line with our expectations, and our trends through the quarter leave us optimistic that we're on track to achieve our guidance for the year. More importantly, I think we're really set up well for the long term. I believe that we're building the most talented team that we've ever had in my 25 years at HGV, and I'm excited to share our Bluegreen integration plans with you as we get them finalized.

Before I turn it over to Dan, I'd like to congratulate him on being named president along with continuing his duties as CFO. He's done a great job over these last five years helping to navigate our business through markets that were turbulent at times, all while maintaining a commitment to shareholder value creation and risk management, and I know that he'll continue to maximize the value of our business and financial model in the years ahead.

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

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

Before we start, note that our reported results for this quarter included $2 million of sales recognitions which increased reported GAAP Revenue, and were related to opening the most recent phase of our Sesoko project. We also recorded $1 million of associated direct expense recognitions, adjusting for these two items would decrease the EBITDA reported in our press release by $3 million, to $270 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. I'd also note that our results today also include the financial results of Bluegreen, which we acquired on January 17th.

Turning to our results for the quarter. Total revenue excluding cost reimbursements in the first quarter was $1.03 billion and Adjusted EBITDA was $270 million with margins of 26%, also excluding cost reimbursement. EBITDA included $11 million of Bluegreen cost synergies

recognized during the quarter, or a run-rate of $53 million annualized, putting us nicely on the path of achieving a targeted $100 million of cost synergies within 24 months.

Turning to our segments. Within real estate, reported contract sales were $631 million for the quarter including a partial quarter of Bluegreen ownership. Assuming that we owned Bluegreen for the entire quarter, contract sales would have been $656 million versus pro forma combined sales in the prior year of $692 million. Bluegreen produced $161 million of that $656 million in sales on the full quarter basis.

New buyers comprised 27% of legacy contract sales in the quarter, improving nearly 200 basis points from the fourth quarter level.

Reported tours for the quarter were just over 174,000. Assuming a full quarter of Bluegreen ownership, tours of 182,000 were roughly flat in the quarter on a pro forma basis, with owner tours again growing at a solid mid-single digit rate, offset by a decline in new buyer tours.

As Mark mentioned, the decision to pull back on some channels in the fourth quarter also had an effect on our tour pace in this quarter, but having reaccelerated our packages and our tour efforts in Q1 we do expect to see a benefit from those efforts later this year as they cycle through our marketing pipeline. Bluegreen's tours for the full first-quarter of just under 52,000 displayed similar trends to our legacy business during the quarter, with flattish growth in tours driven by low-single digit owner tour growth offset by a similar level of decline in new buyer tours.

Reported VPG for the quarter was $3,600. Assuming a full quarter of Bluegreen ownership, VPG was $3,575. For our legacy business VPG was about 6% ahead of 2019 levels, roughly in line with the trend that we saw in the fourth quarter. As Mark mentioned, our expectation is that as we move through the year we'll see improvement in our VPG that will help to support low single digit growth in VPG for the full year.

Reported cost of product was 11% of net VOI sales for the quarter, and our provision for bad debt as a percentage of owned contract sales was 12% in the quarter.

Real estate sales and marketing expense was $320 million for the quarter, or 51% of contract sales. Sales and marketing dollars and percentage were elevated in the quarter owing to seasonality along with the addition of Bluegreen, but we expect to see operating leverage on this expense as we begin to recognize additional cost synergies through this year. Real estate profit for the quarter was $131 million, with margins of 26%.

In our financing business, first quarter revenue was $104 million and segment profit was $65 million, with margins of 63%. Interest income and segment profit for the quarter were impacted by a $10 million contra revenue for the amortization of the non-cash premium associated with the portfolio of receivables that we acquired from Bluegreen in the acquisition, in addition to the premium still being amortized for the Diamond transaction. Excluding this non-cash amortization, interest income was $112 million and margins were 69%.

Combined gross receivables for the quarter were $3.8 billion, or $2.9 billion net of allowance. Our originated portfolio weighted average interest rate was 15.1%. For context, our Diamond acquired portfolio had a weighted average interest rate of 15.7% while our acquired Bluegreen portfolio had an average interest rate of 15.2%.

Our total allowance for bad debt was $900 million on that $3.8 billion receivables balance or 23.6% of the portfolio. We continue to evaluate the Bluegreen allowance through our purchase accounting process and any additional changes to the allowance we expect to flow through the balance sheet as an opening balance sheet item.

Our annualized default rate for our consolidated portfolios inclusive of Bluegreen stood at 9.7% for the quarter. 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 a mid-teens percentage of contract sales on a normalized basis.

I also want to highlight our strong capital markets execution with our recent $240 million ABS deal of Bluegreen legacy collateral. The deal highlights the strength of our brand and market position as we nearly quadrupled Bluegreen Vacations' historical investor base on HGV's first securitization of Bluegreen Vacations collateral. The total coupon was 6.42%.

In our Resort & Club business, our consolidated member count was 718,000, and our consolidated NOG was 2% at the end of the first quarter. Revenue was $166 for the quarter, and segment profit was $112 million with margins of 68%. Rental and ancillary revenues were $181 million in the quarter, with segment profits of $8 million and margins of 4%, slightly ahead of last year.

Revenue growth was driven by higher available room nights and RevPAR growth, underpinned by continued travel demand. As Mark mentioned, we continue to see strong arrivals through the rest of the year, which should support a continuation of trends. Expenses on our legacy business continue to be elevated due to the inclusion of developer maintenance fees on unsold inventories, along with the inclusion of Bluegreen's much lower margin rental business. As you can see from the financial information we uploaded to the IR website last quarter, Bluegreen's Rental business ran at a loss, But we believe this provides us an opportunity for improvement over time as we integrate them into the Hilton system.

Bridging the gap between Segment Adjusted EBITDA and Total Adjusted EBITDA, corporate G&A was $35 million, license fees were $35 million, EBITDA from unconsolidated affiliates was $5 million, and EBITDA attributable to noncontrolling interest was $3 million. Our adjusted free cash flow in the quarter was a use of $374 million, which included inventory spending of $105 million. I'd note that the cash flow usage this quarter was entirely the result of timing, as we paid down the balances on our warehouse facility ahead of our most recent securitization, as well as to capture capital markets synergies by closing multiple ABS facilities associated with the acquisition.

With the successful completion of that offering a few weeks ago and another one planned during the summer we expect to see a cash flow benefit in the quarters ahead, and we're still expecting an EBITDA conversion rate slightly ahead of last year's 52%.

During the quarter, the Company repurchased 2.3 million shares of common stock for $99 million. And through April 30th we repurchased an additional one million shares for $47 million, leaving us with $213 million of remaining availability under the 2023 Repurchase plan. We expect to continue our current trend of approximately $100 million in share repurchases per quarter.

Turning to our outlook, we are reiterating our guidance for full year Adjusted EBITDA of $1.2 billion to $1.26 billion.

As of March 31st, our liquidity position consisted of $355 million of unrestricted cash and $293 million of availability under our revolving credit facility. Our debt balance at quarter-end was comprised of Corporate debt of $5.1 billion and a non-recourse debt balance of approximately $1.5 billion.

At quarter end, our legacy business had $460 million of remaining capacity in our warehouse facility, of which we had $462 million of notes available to securitize and another $321 million of mortgage notes we anticipate being eligible following certain customary milestones such as first payment, deeding and recording. From a timing perspective, we expect to bring another deal to the market in the summer.

Turning to our credit metrics, at the end of Q1 and inclusive of all anticipated cost synergies, the Company's total net leverage on a TTM basis was 3.74x . We are also recommitting to our long-term leverage target of 2x to 3x Total Net Leverage.

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

QUESTIONS AND ANSWERS

Operator
Thank you. Once again, if you would like to ask a question, please press star one on your telephone keypad. You may press star two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from a lineup Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Good morning, Mark and Dan.

Mark Wang
Morning.

Patrick Scholes
First question concerns the Bluegreen acquisition, you have about four months under your belt now. How would you say that's tracking versus your underwriting? Then related to that, you initially expected about $100 million or was expected cost synergies and then expected $75 million to $100 million of future revenue synergies. Now, do those seem realistic at this point? Maybe too conservative. How are you tracking and thinking about all of those? Thank you.

Mark Wang
Yes, sure, Patrick. First of all, you know, we closed quickly, right, we closed in January. So we've spent the last or the first couple months really refining our plans, and we're really pleased with the progress and remain excited about the opportunities ahead. The main elements of the integration will be similar to the Diamond deal cost savings, rebranding of our sales centers and properties and, and integrating them into the overall HGV system. Then there's the partnership piece, which is really a new element, the deal that, you know, that Diamond didn't bring.

On the cost side, we've moved to execution phase beginning in March and we're sitting here today, we've achieved nearly half of the $100 million cost target on a run rate basis. So we feel really confident there. The rebranding of the sales centers will come first followed by the properties over the next number of years. And remember, we're still rebranding Diamond properties, I mentioned it in the prepared remarks, I think we have more than 10 planned for this year. Similar to what we did with DRI. It's going to take some time for us to design the rollout for HGV Max, which is as you recall is our membership program. We're excited about that, but it will take some time. We have ultimate access and it's really around working through some of the technology developments and legal requirements there. So make great progress on the partnership front.

Very, very excited about the opportunity with Bass Pro. We had our Board up there yesterday; we had our Board meeting up there and we had a chance to meet with their Founder and the Bass Pro Management team. They're very, very engaged, and we're very engaged and very aligned to growing that relationship. Then anyway, taken together, I think, you know, the Bluegreen membership, the new distribution, significant pipeline, we're very excited about the revenue opportunities ahead. So all in all feel really good and I'll just add the last thing. You know, we've been very pleased with the team members that we've inherited, or we brought on board from Bluegreen, they've got a great culture, and we've seen that across the business.

Daniel Mathewes
I think Patrick, the only thing to add or just getting back to one of your initial questions. With the Diamond transaction, when we announced it, we said "hey, cost synergies of $125 million plus", so we always thought there was a little bit more room there. The contrast that just from a context perspective, for Bluegreen, we've always had a run rate target of $100 million. It's a smaller organization. To Mark's earlier point, we are at a run rate, even through Q1 of just over, or just about half of that run rate. And embedded in our guidance is realized synergies with the year within 2024, $50 million to $55 million. We're definitely on the right track, we're very confident we're going get to the $100 million, but we're also doing a full evaluation of the talent and making sure that we have the right people in the right places to execute everything we need to execute on. I would say we're comfortable with $100 million, we're confident we're going get there. But it's not the same element that Diamond was so I wouldn't look for us, you know, in the next couple of quarters to go, oh, it's going to move from $100 million to $110 million. We're right now very much focused on achieving the $100 million target.

Patrick Scholes
Great. my follow up question is on Maui. Mark, could you give us an update on how things are progressing there. And did you mention if there was an earnings impact in the quarter? Also if you could, again, talk about how you see the rest of the year progressing for you folks? Thank you, in Maui.

Mark Wang
Yes, sure. Thankful. We're very fortunate neither of our properties sustained any physical damage. Our Maui Bay Villa properties is in South Maui, so that is on the other side of the island, we're operating. Normal trends are continuing to improve the Kaanapali Beach property, which is which is on the west side near the epicenter of the worst damage. Operations are still impacted. We have some team members, FEMA and aid workers still staying within the property. So we said previously we think occupancy will come back by the end of this year, but sales recovery will lag and, and sales recovery, if it's less about occupancy, because occupancy now in Maui is around 90%, so slightly below our historical, mid-historical levels. which are usually in the mid- to upper-90, despite the headwinds. X the impact of the wildfire, Maui would have been around $90 million in sales in '23 and we're still down almost 15% versus prior year in Q1. So we expect

roughly the same in Q2. We're expecting, meaning the recovery of the build is really going to build in the second half of the year, but still below our trajectory pre-fire. We expect to be fully back in in 2025.

Patrick Scholes
Okay. That's great. Thank you.

Mark Wang
Sure.

Operator
Next question comes from the line of Brandt Montour with Barclays. Please proceed with your question.

Brandt Montour
Good morning, everybody. Thanks for taking my question. So Mark, I was hoping you could elaborate a little bit more on sort of the consumer, right, and sort of what you saw improved throughout the first quarter in terms of close rates. It sounds like there were some tweaks that you made, there might have been a little bit of mix shift benefit from a new Owner tours to repeat Owner tours. But if you strip all that out, what's the sort of sequential movement in hesitancy to sales table, we all know that interest rates and inflation are high and dragging on some consumer. So maybe you could opine on that please.

Mark Wang
The positive news is we've seen stabilization, right, and when you look at, you know, the traffic continues to be good and it's building. All in all, I think, around the consumer, there's some uncertainty around the margin. But it isn't trending negatively, and the behavior isn't really any different than what we've seen through previous cycles. New buyers have pulled back more than Owners and, and that makes sense, right. Owners have lived a value proposition, they've made a commitment, and they've been committed for a number of years. I'd say across the segment, you know, with the type of quality a customer were engaged with, it's less about income, it's more really about the uncertainty. They're reading the news every day as we are and, and that's pushed up a bit of hesitancy for this type of purchase, but on the other side, the good news is we have a lot of visibility on the traffic in our sales centers and control over tour flows. So that's a lever that we've opened up and, and we're growing towards well, maintaining the quality of the consumer, based on, you know, FICO and income and net worth. So I think we're also much better positioned today, Brandt, with our broader portfolio, including all the drive to destinations and a much more affordable entry point. All in all, we're very focused on continuing to promote the value proposition of the product and the experiential aspect of our Club, to our members. So, basically, we're seeing stabilization, we're seeing some improvement and, and we'll ramp tour flow as we go through the year.

Brandt Montour
That's helpful. Thank you for that. And then maybe for Dan, and I apologize if it's in your prepared remarks. You might have answered this, to some extent, but in loan loss provisions—I think I had asked this question last quarter. Last quarter, we've been sort of waiting for this loan loss provision to move up toward this, you know, more punitive level of long-term target, and it looks like in the first quarter, it may even have taken a step back a little bit, quarter-over-quarter. I know this is now including Bluegreen for a couple of months. We thought Bluegreen would have again, pressed, pushed that number higher, and so what's the reason for that? Sort of, how should we think about that line going forward?

Daniel Mathewes
Yes. Thanks, Brian. I mean, it seems like I've been talking about this for a couple years now. Right? Ultimately, we do anticipate it to escalate to that mid-teens range. If you look year-over-year, there's a lot of factors that come into play with the actual absolute dollar amount, how many people—what's the propensity to borrow? How much are they actually mortgaging, etc. If you look from a pure rate perspective, year-over-year, it was detrimental for the quarter, it probably cost us around circa $10 million. So we are seeing some level of elevation. I mean, it was 12% of contract tours. We talked about it going from an average last year of 10 to an average this year of 13. I think we're seeing some of that escalation, and we're kind of right on track with that. So it's pretty consistent with headwind we talked about last quarter, where we were thinking about headwinds hitting us this year, that $100 million number, a big chunk of that was associated with bad debt. The balance was COP and some other nuances with license fees, etc. But the majority was the bad debt and we are seeing some of that movement.

Now, that being said, some items are still performing far better than what they were pre acquisition and most notably, it's still the Diamond paper. The Diamond paper had an annualized default rate close to, depending on the quarter that you're looking at, but back in '19, it was between 17% and 19%. That is still holding very strong. From an improvement standpoint, depending on the quarter, it's between 11% and 12%. So significant improvement over pre acquisition levels. Then when you look at the HGV side, it's fairly consistent, slightly higher than 2019 levels. All in all, we feel pretty good. And we're pretty confident that ultimately, as we run the business, it will land in that circa 15% of contract of owned contract sales level.

Brandt Montour
That's perfect. Thanks, everyone.

Operator
Our next question comes from the line of Ryan Lambert with JP Morgan. Please proceed with your question.

Ryan Lambert
Hi, thanks for taking my question. Just wanted to tease out the impact of Bluegreen a little bit more. Did the weather have any sort of impact during the quarter just given that the owner base is a little bit more drive to in nature?

Mark Wang
Yes, you know, there was there was a little bit of impact, I think, really, the bigger impact probably is, first of all, a lot of excitement from the Bluegreen members and, and the team members around the acquisition of Hilton. And I think what we're seeing, though very much like what we saw with DRI, we are seeing some—we're seeing some maybe hesitation or anticipation of what the rollout of and what the combination of Hilton means to the Bluegreen members. So they're excited, they love our brand. But right now, we're not introducing any of the Hilton, or Hilton Grand Vacations or HGV Max elements to the to the program right now. So there's that anticipation right now and that I think is going to cause a little bit hesitancy until we work through that. That's really more technology driven and legal driven and we expect that we're going to be able to announce that connection probably as we move into the fourth quarter of this year.

Ryan Lambert

Great. Thank you. If we can switch gears real quick to the Fee-for-Service business. I think it came in a bit lower than we and I think the street was remodeling (phon). So how should we think about that business for the balance of the year? That's all for me. Thanks.

Daniel Mathewes
Sure, on a pro forma basis, if you were to look at 2023, because there is a little bit of Fee-for-Service business at Bluegreen already, but on a pro forma basis for 2023, Fee-for-Service accounted for about 24% annualized, from a contract sales perspective. It's down to 16% in Q1, and what I would tell you is to assume the same level for the balance of the year. Just given the mix of the product that we have available to us, there shouldn't be a lot of movement in that throughout 2024.

Operator
Our next question comes from the line of Ben Chaiken with Mizuho, please proceed with your question.

Ben Chaiken
Hey, thanks for taking my questions. Regarding Bluegreen. Just back to one of the previous comments. I think you mentioned there was some anticipation/hesitation from Bluegreen owners. Just to confirm, I think you were saying prior to introducing Max, there's some technical and legal items. Did I catch that right? Maybe just explain, maybe a little bit, if possible, what those are. Then once connected in 4Q, assuming I caught all that right. Will there be an active outreach? Or can you help us think about when you may start to see some of that sales leverage? I'm not sure if there's a delay. Then kind of related to that on Bass Pro. Any color on how you may change or improve that experience from an in-store perspective to better leverage the max product is now available? Then one quick follow-up.

Mark Wang
Thanks. Yes, sure Ben. Yes. I'll try to make this a little clearer. First of all, very excited about the opportunity with Bluegreen and their members. They're very excited about the announcement. And historically Bluegreen has not upgraded their members to the same degree as HGV, or the industry more broadly. When we launched HGV Max with DRI, we now have nearly 160,000 Max members now. We're confident that the brand Hilton benefits, expanded portfolio, the new experiences are going to resonate really well with the Bluegreen members. We saw that with DRI, and we saw it with our HGV members. And we're working hard on designing the program and getting it ready for launch. But it will take some time before we can offer it to the Bluegreen owner base. As we saw with Diamond, we know there's a lot of demand and Bluegreen base is excited about it. So we have some technology work that we have to do, and more importantly, we have some legal work and some legal structuring work we had to do. Same thing happened with Diamond, it took a number of quarters to get there. Our expectations right now is a rollout in the beginning of the fourth quarter. May come a little earlier, may come a little later, we're not 100% sure. But I can assure you that all the teams are working towards that. Our expectations is we'll see a nice bump up and activity and transactions, similar to the way we saw with DRI when that occurs.

Dan Mathewes
Ben, the only thing I would add is, as you would imagine, and as Mark alluded to just now, we've seen this before, this is exactly how we walked through with Diamond. So as you would expect this was all built into our underwrite when we acquired Bluegreen. So Q4 is not a delay. It's where we actually expected to start rolling this out, right around that timeframe, anyway. It actually might have been a hair later. But in any case, it was all included in our underwrite of the deal.

Ben Chaiken
That's very helpful, then on the Bass Pro side do you have any plans or anything about how you may improve that or change or improve that experience, just because not you've now got a much broader product to introduce? Thanks.

Mark Wang
Super excited about Bass Pro. I think I mentioned just a minute ago, we had our Board meeting up there yesterday, and a good part of our Board up there, we had an opportunity to meet with Johnny Morris, the Founder, his Management team. Bass Pro is more than a retail store, it's really a destination unto itself. We were looking at some of the data that Bass Pro was showing us yesterday, 200 million visitors there a year. And it's not like they're going to a normal retail outlet, in and out buying something quickly, they explore the store, and it's designed to really keep you engaged while you're there. We are working right now, with Bass Pro, and we brought in some outside consultants to think about how we can reimagine how we put the Hilton Grand Vacation brand in the store. Bluegreen did a nice job with what they were doing and you know, over the years, but we think we could elevate that partnership and expand the opportunities to benefit our combined customers. It's a great source of customer—when you look at really what's embedded in that Bluegreen member base. Close to 50% of those members have been sourced through Bass Pro, either through new buyers or owners upgrading and we think we're going to be able to expand and use different channels, beyond the in-store. We think there's digital opportunities, and we love the diversification of the customer. So super excited and I know, Bass Pro is very, very excited too. So we'll provide more information as we roll out new programs there.

Ben Chaiken
Got it and just a very quick follow up. On the sales and marketing side you mentioned getting some more operating leverage moving forward. Understanding that Bluegreen has higher sales and marketing, could you maybe just dig into what maybe drove it higher in the 1Q? Then why you would get more operating leverage going forward? Thanks.

Dan Mathewes
Sure. Actually, if you look on a pro forma basis, the sales and marketing percent year-over-year was relatively flat right at 51%. Some of the operating leverage you're going see is as we expect, in the back half a year, you're going to see, not only from a seasonality perspective, but some of the initiatives we've talked about with VPG's improving you'll get a little bit of scale obviously offer some leverage and some benefits from a P&L perspective. Then also from a percentage basis, we basically and I'm going to oversimplify this because there's, for some of the team members listening on the phone, I mean, they're doing a lot of work with regard to cost synergies and all of those type of items. It's a bit of a heavy lift. So oversimplification, though, there's basically two tracks, track one was focused primarily on G&A, which we started to execute on and you can see that as reflected in numbers. And track two is really looking at the sales and marketing side and as I alluded to earlier, making sure that we have the right talent, the ample level of talent to make sure we can execute on everything that we need to get done. One other element that you see that's specific to Q1 now, year-over-year would be the same. But we do have a large ultimate access event in Q1, and it's our LPGA event that's held in January. So that also elevates costs in Q1 relative to other quarters.

Ben Chaiken
Thank you very much.

Operator

Thank you. Our next question comes from the line of David Katz with Jefferies. Please proceed with your question.

David Katz
Hi, everyone, thanks for taking my question. You covered a lot of details. But I'm just curious, when we look at the two acquisitions you've added to your system, you know, the past few years, and the corporate orientation that includes a meaningful amount of Hawaii. Just curious of those two owner groups that have added to your system? How inclined are they? And you know, are they participants in the Hawaii market? To what degree relative to their other activities? Kind of on the mainland?

Mark Wang
Yes. Diamond had; I think three properties—yes it was three properties. We have a total of 12 properties now in Maui, or Hawaii soon to be 13. They had three properties there. So the Diamond members were already participating in Hawaii. So, in occupancy in Hawaii, overall Hawaii occupancy, I think is right around 90%. Yes, O'ahu and the Big Island are in the mid-90s. and in line with what we did in 2019. I mentioned Maui's low-90s right now, and still below historical levels back in '19. So great participation in Hawaii from that Diamond member base.

What I think the Bluegreen—when I looked at Bluegreen and we looked at Bluegreen for, you know, a number of years. We coveted that business, and especially around some of their great partnerships and, and their organic growth they've had with their membership program. The one missing element for Bluegreen, I always felt was Hawaii. I can tell you that the teams and the members at Bluegreen are super excited about the opportunity now to be able to experience Hawaii. Now that won't occur until we get HGV Max rolled out, and that won't occur until the latter part of this year. But we think, as I talked about, historically Bluegreen hasn't upgraded at the same degree as the rest of the broader industry. We think Hawaii is going to help move that upgrade along as well as the HGV Max and all the Hilton benefits. So yes, Bluegreen—I know the team members are super excited to be able to talk about Hawaii in their presentation going forward.

David Katz
Excellent. If I can just follow up on the interesting Bass Pro commentary. Obviously not fishing for details we can't have, but when we think about Bass Pro as a partner and potential sort of new structure of the deal. Is that something that's this year dynamic or this year conversation where we might get some more detail?

Mark Wang
Yes. We'll provide more detail as we move forward. I mean, we have a JV—there's two parts of the Bass Pro deal, right? We have the marketing agreement, and we have the JV agreement. And we were looking at a number of opportunities from a JV standpoint, really creating this experiential, outdoor type of enthusiast brand. We have some plans and it's too early to discuss them at this point. But as we move through the year or into next year, we're going to be excited to announce some of these new JV properties and, and also, as I talked about on a previous—when I speak to Dan, we're going to talk more about some of the program developments that we're going to be doing within the stores.

David Katz
Got it. Okay. Thank you.

Mark Wang
Thank you.

Operator
Next question comes from the line of Patrick Scholes with Truist Securities. Please proceed with your question.

Patrick Scholes
Thank you. Mark, a follow up question not dissimilar to what I asked last quarter on the Park Hotels earnings call. They really came out quite optimistic on the return to the Japanese customer again. I think when I asked a similar question, last quarter, I think you were a bit more, I would characterize as subdued about the return of the Japanese customer. What are your latest thoughts on that? Certainly we've seen a sizable increase in year-over-year in returning of the Japanese customer (inaudible).

Mark Wang
Yes. So look, there's a couple pieces for us, right. When you look at the Japan business. The good news for us is our Owners are coming back and they are back, pretty much back to ‘19 levels. The other good news is if you look at the Owners that are going to Sissoko, our new property in Japan, when you combine that those arrivals in Hawaii and the arrivals in Japan, they're well over what we saw in ‘19. So our members are traveling at a very good rate. Now, when you think about new buyers, Japanese new buyers, we're still down. When you look at the data today, I think, in ‘23 arrivals from Japan, were 63% below ‘19. Now year-to-date, they're 53% below ‘19. So it's getting better.

Now our new buyer Japan tours within Japan is we have 13 offices over there. Those are back almost to ‘19 levels. So the good news, our Japanese members are traveling, they're staying at our properties. The good news is the new buyer Japanese are traveling, are back in Japan. We’re still waiting for those new buyers to come back to Hawaii, from the general transient business. And our expectations right now are that it's still going to take a number of years, but it's moving in the right direction.

Patrick Scholes
Good. Thank you for the update.

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

Mark Wang
Before we wrap up, I'd like to thank all of our team members for their continued service and dedication to our owners and guests to create memorable vacation experiences. Thank you for joining us today and we look forward to speaking with you again soon. Have a great day.

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