

Financial Performance

2017

A SURVEY OF TIMESHARE & VACATION OWNERSHIP COMPANIES

EXECUTIVE SUMMARY



2017 EDITION
PREPARED BY **Deloitte.**



Market Intelligence | Career Advancement

Financial Performance

EXECUTIVE SUMMARY

Methodology

Deloitte & Touche conducted a survey of 17 timeshare developing companies encompassing 398 resorts that were open and in active sales during 2016 that account for a predominance of industry sales. It is important to understand that, contrary to the annual *AIF State of the Vacation Timeshare Industry Report: U.S. Study* that forecasts metrics for the entire U.S. industry, this survey is not a projection of the timeshare industry metrics as it is not based on a random sample of companies, nor is it a census of all companies. This survey is designed to further examine the industry's financial performance by providing timely information that permits companies to compare operations to industry benchmarks and a reference for tracking industry trends. It is also a valuable resource for potential entrants to the industry and others seeking to better understand the vacation timeshare industry.

Sales activity

- **Net originated sales excluding fee-for-service increased 3.9 percent, while net originated sales including fee-for-service increased 3.6 percent.**

In total, the 17 respondents that provided sales information reported \$6.156 billion in net originated timeshare sales excluding fee-for-service in 2016. Total net originated sales including fee-for-service arrangements increased 3.6 percent from 2015 to 2016, increasing from \$6.810 billion to \$7.052 billion.

- **Points sales represented 71.1 percent of the \$6.156 billion of net originated sales excluding fee-for-service.**

Of the \$6.156 billion of net originated sales reported by 17 companies in 2016, \$4.375 billion (71.1 percent) was classified as points sales, while \$1.780 billion (28.9 percent) was classified as interval sales.

- **The amount of U.S. net originated sales that were sold on behalf of others under fee-for-service arrangements increased 1.4 percent from \$883.9 million in 2015 to \$896.1 million in 2016.**
- **Quarterly net originated sales compared to the previous year were greater in total for all four quarters for the core company set.**
- **Net originated sales at U.S. locations averaged \$35.8 million per resort in active sales.**
- **Unsold weeks held in inventory increased from 1.73 years in 2015 to 2.07 years in 2016, on a weighted average basis, for the core company set.**

- **Capital expenditures related to timeshare inventory decreased by 17.9 percent from 2015 to 2016.**

Total capital expenditures related to timeshare inventory decreased from \$1,153 million in 2015 to \$947 million in 2016.

- **The average yield per week* increased 3.0 percent in 2016, with a weighted average yield of \$31,663.**
- **Sales tours, average transaction value and volume per guest increased and net close rate decreased slightly from 2015 to 2016.**

In 2016, respondents reported hosting 2.48 million sales tours, compared to 2.44 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 14.7 percent, which decreased from the 15.2 percent reported for 2015. During the year, weighted average volume per guest increased from \$2,835 in 2015 to \$2,847 in 2016, and weighted average transaction value increased from \$19,225 to \$19,905, respectively.

- **A greater share of net originated sales, by dollar value, was attributable to existing owner sales than in 2015.**

Existing owner sales accounted for 57.0 percent of sales volume at U.S. locations in 2016, compared to 56.0 percent in 2015.

- **Rescissions, as a portion of gross sales, increased 0.2 percentage points in 2016.**

Respondents reported an increase of gross sales rescissions, which averaged 15.0 percent in 2015 compared to 15.2 percent in 2016.

SALES TOURS METRICS BY COMPANY CATEGORY, 2016, U.S.

	Company size				Average yield per week		
	All respondents	\$500M or more	\$100M to \$499M	Less than \$100M	\$25,000 or more	\$15,000 to \$24,999	Less than \$15,000
Number of tours	2,476,394	1,391,772	970,163	114,459	1,740,915	319,916	415,563
Number of sales transactions	361,588	191,102	151,028	19,458	230,588	80,048	50,952
Net close rate	14.7%	13.8%	15.7%	17.7%	13.6%	18.4%	16.7%
Net originated sales excluding telesales (mill)	\$6,735	\$3,694	\$2,822	\$219	\$4,969	\$1,113	\$653
Weighted volume per guest ("VPG")	\$2,847	\$2,721	\$3,042	\$2,456	\$2,972	\$2,659	\$2,208
Weighted average transaction value	\$19,905	\$20,485	\$19,418	\$16,377	\$21,753	\$15,496	\$13,340

Source: Deloitte & Touche LLP based on 17 company survey responses.

*The average yield per week measure is calculated as net originated sales revenue divided by the number of weeks sold. Note: This measure takes into consideration the number of equivalent weeks sold as points product, which is determined using an implied interval week conversion factor.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 16.2 percent in 2016.**
- **Product costs, as a portion of net originated sales, averaged 12.4 percent in 2016.**
- **Costs related to sales and marketing increased from 2015 to 2016.**
Total sales and marketing costs, as a portion of net originated sales, averaged 42.6 percent in 2016.
- **General and administrative costs, as a portion of net originated sales, averaged 7.6 percent in 2016.**
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 2.1 percent in 2016.**
- **Operating profit margin on timeshare sales operations decreased from 21.5 percent to 19.1 percent.**
The pre-tax margin, or operating profit margin, on timeshare sales operations as a portion of net originated sales, averaged 19.1 percent in 2016. This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components. Approximately 17.7 percent of respondents reported negative pre-tax margins, which may reflect short term timing impacts, the impact of slowing sales pace, or other factors that do not represent the long-term stabilized profit margin of the business.
- **Respondents reported that 58.3 percent of timeshare sales, by dollar value, in 2016 were to buyers who already owned at least one timeshare interest at the company, on a weighted average basis.**

Hypothecation of receivables

- **The average interest rate decreased and the advance rate increased when compared to 2015.**

Eight respondents provided information on hypothecations of receivables that occurred during 2016, totaling \$491.3 million. The average interest rate decreased from 4.5 percent in 2015 to 4.4 percent in 2016. The average advance rate increased from 64.9 percent in 2015 to 77.1 percent in 2016.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2015 and 2016, both the average transaction size of securitizations and interest rates increased while the average advance rates decreased.**

For those respondents that reported securitizations in both 2015 and 2016, the average transaction size of reported securitizations increased 24.2 percent from \$223.7 million to \$277.9 million; the average interest rate increased 1.0 percentage points from 3.9 percent to 4.9 percent; and the average advance rate decreased 2.9 percentage points from 94.0 percent to 91.1 percent. The eight separate securitization transactions reported by survey respondents in 2016 represented a total value of \$2.223 billion, measured as the gross value of the sales contracts securitized.

KEY RATIOS AS A % OF NET ORIGINATED SALES VALUE, 2016, U.S.

	Company size			Average yield per week		
	\$500M or more	\$100M to \$499M	Less than \$100M	\$25,000 or more	\$15,000 to \$24,999	Less than \$15,000
Estimated uncollectible sales	19.0%	11.5%	12.7%	14.5%	30.9%	11.1%
Cost of sales, also referred to as product cost	9.9%	16.0%	18.3%	11.4%	12.8%	17.9%
Sales commissions	16.2%	13.3%	21.7%	15.9%	13.6%	13.4%
Other sales and marketing costs	25.6%	30.3%	25.4%	26.3%	29.8%	30.0%
Sub-total: Sales commissions and other sales and marketing costs	41.8%	43.6%	47.1%	42.2%	43.4%	43.4%
General and administrative costs related to timeshare sales operations	8.5%	4.8%	18.2%	7.7%	9.8%	5.6%
HOA subsidies and/or maintenance fees	3.4%	0.2%	3.3%	2.8%	0.9%	0.0%
Pre-tax margin of timeshare sales operations	17.4%	23.9%	0.4%	21.4%	2.2%	22.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Deloitte & Touche LLP based on 17 company survey responses.



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Consumer financing and receivables portfolio performance

- Of the \$5.791 billion of net originated timeshare sales in which respondents provided financing information, \$3.616 billion were financed.
- Average down payments on non-upgrade sales and average term increased in 2016, while average interest rates (including servicing fees), and average down payments on upgrade sales decreased for the *core company set*.

For the *core company set*, the interest rate on new consumer loans exclusive of servicing fees in 2016 was consistent with 2015 at 13.5 percent, on a weighted average basis, while the interest rate on new consumer loans inclusive of servicing fees in 2016 was 13.2 percent, down from the 13.4 percent reported in 2015, on a weighted average basis. As a percentage of contract prices, average down payments on non-upgrade sales in the *core company set* increased from 18.1 percent in 2015 to 18.2 percent in 2016 while average down payments on upgrade sales in the *core company set* decreased from 47.7 percent in 2015 to 46.7 percent in 2016. The average term on new consumer loans in the *core company set* increased from 119.6 in 2015 to 119.9 in 2016, on a weighted average basis.

- Current receivables increased from 2015 to 2016, while those more than 120 days delinquent decreased by 0.3 percentage points.

The share of current receivables (current or fewer than 31 days delinquent) was 91.5 percent in 2016, while the share of receivables more than 60 days delinquent was 6.3 percent.

- Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 7.4 percent in 2016, which is an increase of 1.5 percentage points from 2015.
- The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 15.3 percent in 2016.

This was a decrease of 0.4 percentage points as compared to 2015.

- The weighted average interest rate, both exclusive of and inclusive of servicing fees, on loans held in portfolios decreased from 2015 to 2016, and the average remaining term decreased 0.2 months.

The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 13.5 percent in 2016 exclusive of servicing fees and 13.7 percent in 2016 inclusive of servicing fees. The weighted average term to maturity for loans held was 101.9 months.

- The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.4 percent in 2016.

FICO scores

- The use of FICO scoring as an underwriting component remained consistent in 2016.
- Average FICO scores on loans held in receivable portfolios improved in 2016.
- The weighted average FICO scores on new financings decreased in 2016.
- The weighted average static pool default rate increased 0.3 percentage points to 18.0 percent in 2016, as reported by fourteen respondents.
- The static pool default rate by FICO score (the static pool default percentages by FICO score range at the time the loan was made to purchasers) increased across several bands from 2015 to 2016.

PERFORMANCE OF CONSUMER RECEIVABLES PORTFOLIOS AT YEAR-END, 2015 AND 2016, ALL GEOGRAPHIES

	2015	2016
Current	91.4%	91.5%
31 to 60 days	2.1%	2.2%
61 to 90 days	1.2%	1.3%
91 to 120 days	1.1%	1.1%
More than 120 days	4.2%	3.9%
	100.0%	100.0%

Source: Deloitte & Touche LLP based on 17 company survey responses.

MEMBER \$25 | NON-MEMBER \$50

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