Financial Performance

2018

A SURVEY OF TIMESHARE & VACATION OWNERSHIP COMPANIES

EXECUTIVE SUMMARY

2018 EDITION
PREPARED BY Deloitte.

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Financial Performance

EXECUTIVE SUMMARY

Methodology

Deloitte & Touche conducted a survey of 17 timeshare developing companies encompassing 389 resorts that were open and in active sales during 2017 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 5.1 percent, while net originated sales including fee-for-service increased 4.9 percent.**

  In total, the 17 respondents that provided sales information reported $6.428 billion in net originated timeshare sales excluding fee-for-service in 2017. Total net originated sales including fee-for-service arrangements increased 4.9 percent from 2016 to 2017, increasing from $7.011 billion to $7.358 billion.
- **Points sales represented 73.3 percent of the $6.428 billion of net originated sales excluding fee-for-service.**

  Of the $6.428 billion of net originated sales reported by 17 companies in 2017, $4.711 billion (73.3 percent) was classified as points sales, while $1.717 billion (26.7 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 3.9 percent from $896.1 million in 2016 to $930.9 million in 2017.**
- **Quarterly net originated sales compared to the previous year were less in total for all quarters except the second quarter for the *core company set*.**
- **Net originated sales at U.S. locations averaged $37.1 million per resort in active sales.**
- **Unsold weeks held in inventory increased from 2.12 years in 2016 to 2.15 years in 2017, on a weighted average basis, for the *core company set*.**
- **Capital expenditures related to completed timeshare inventory increased by 41.0 percent from 2016 to 2017.**

  Total capital expenditures related to completed timeshare inventory increased from $416 million in 2016 to $586 million in 2017.
- **The average yield per week decreased 3.1 percent in 2017, with a weighted average yield of $30,523.**

  The *core company set* reported an average increase in the weighted average yield of a timeshare week of 1.4 percent from 2016 to 2017, increasing from $31,633 to $32,072.
- **Sales tours, average transaction value and volume per guest increased and net close rate decreased slightly from 2016 to 2017.**

  In 2017, respondents reported hosting 2.51 million sales tours, compared to 2.48 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 14.8 percent, which decreased from the 15.0 percent reported for 2016. During the year, weighted average volume per guest increased from $2,826 in 2016 to $2,915 in 2017, and weighted average transaction value increased from $19,484 to 20,542, respectively.
- **A greater share of net originated sales, by dollar value, was attributable to existing owner sales than in 2016.**

  Existing owner sales accounted for 56.2 percent of sales volume at U.S. locations in 2017, compared to 55.2 percent in 2016.
- **Rescissions, as a portion of gross sales, decreased 0.2 percentage points in 2017.**

  Respondents reported a decrease of gross sales rescissions, which averaged 15.9 percent in 2016 compared to 15.7 percent in 2017.

SALES TOURS METRICS BY COMPANY CATEGORY, 2017, 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	2,505,012	1,724,076	683,955	96,981	1,610,251	490,293	152,555
Number of sales transactions	365,130	233,707	117,674	13,749	206,250	91,531	27,029
Net close rate	14.8%	13.7%	17.3%	15.4%	13.3%	18.9%	18.0%
Net originated sales excluding telesales (mill)	$6,992	$4,855	$1,953	$183	$4,743	$1,221	$406
Weighted volume per guest ("VPG")	$2,915	$2,909	$2,957	$2,609	$3,076	$2,545	$2,830
Weighted average transaction value	$20,542	$21,778	$17,129	$24,181	$23,100	$14,868	$15,610

Source: Deloitte & Touche LLP Company size data based on 16 company survey responses,
Average yield per week data based on 15 company survey responses.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 16.9 percent in 2017.**
- **Product costs, as a portion of net originated sales, averaged 12.5 percent in 2017.**
- **Costs related to sales and marketing decreased from 2016 to 2017 for the *core company set*.**

  Total sales and marketing costs, as a portion of net originated sales, reported by the *core company set* decreased from 41.7 percent in 2016 to 41.0 percent in 2017.
- **General and administrative costs, as a portion of net originated sales, averaged 8.4 percent in 2017.**
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 2.7 percent in 2017.**
- **Operating profit margin on timeshare sales operations decreased from 18.9 percent to 18.0 percent.**

  The pre-tax margin, or operating profit margin, on timeshare sales operations as a portion of net originated sales, averaged 18.0 percent in 2017. This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components. Approximately 6.7 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 59.4 percent of timeshare sales, by dollar value, in 2017 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 and the advance rate increased when compared to 2016.**

  Eight respondents provided information on hypothecations of receivables that occurred during 2017, totaling $393.6 million. The average interest rate increased from 4.4 percent in 2016 to 4.6 percent in 2017. The average advance rate increased from 76.3 percent in 2016 to 77.9 percent in 2017.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2016 and 2017, both the average transaction size of securitizations and interest rates decreased while the average advance rates increased.**

  For those respondents that reported securitizations in both 2016 and 2017, the average transaction size of reported securitizations decreased 8.4 percent from $304.0 million to $278.5 million; the average interest rate decreased 0.6 percentage points from 4.1 percent to 3.5 percent; and the average advance rate increased 2.1 percentage points from 91.7 percent to 93.8 percent. The eight separate securitization transactions reported by survey respondents in 2017 represented a total value of $1.671 billion, measured as the gross value of the sales contracts securitized.

KEY RATIOS AS A % OF NET ORIGINATED SALES VALUE, 2017, 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	18.7%	12.1%	11.0%	15.4%	24.9%	8.8%
Cost of sales, also referred to as product cost	11.2%	14.8%	23.3%	12.0%	12.5%	16.9%
Sales commissions	15.1%	11.8%	18.8%	14.4%	16.0%	9.8%
Other sales and marketing costs to sell timeshare intervals or points	26.7%	28.8%	21.7%	26.2%	28.4%	32.9%
Sub-total: Sales commissions and other sales and marketing costs	**41.8%**	**40.5%**	**40.5%**	**40.6%**	**44.4%**	**42.7%**
General and administrative costs related to timeshare sales operations	9.0%	5.2%	18.0%	9.8%	3.7%	7.4%
HOA subsidies and/or maintenance fees	3.6%	0.2%	2.6%	3.5%	0.9%	0.0%
Pre-tax margin of timeshare sales operations	15.7%	27.1%	4.6%	18.7%	13.6%	24.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Deloitte & Touche LLP based on 15 company survey responses.

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Consumer financing and receivables portfolio performance

- **Of the $6.133 billion of net originated timeshare sales in which respondents provided financing information, $3.764 billion were financed.**
- **Average down payments on upgrade sales and non-upgrade sales and average interest rates (including service fees) increased in 2017, while average interest rates (excluding servicing fees), and average term decreased for the *core company set*.**

  For the *core company set*, the interest rate on new consumer loans exclusive of servicing fees in 2017 decreased when compared to 2016 from 13.6 to 13.4, on a weighted average basis, while the interest rate on new consumer loans inclusive of servicing fees in 2017 was 13.8 percent, up from the 13.6 percent reported in 2016, 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 17.4 percent in 2016 to 18.1 percent in 2017 while average down payments on upgrade sales in the *core company set* increased from 46.6 percent in 2016 to 52.6 percent in 2017. The average term on new consumer loans in the *core company set* decreased from 120.2 in 2016 to 120.1 in 2017, on a weighted average basis.
- **Current receivables decreased from 2016 to 2017, while those more than 120 days delinquent increased by 0.4 percentage points.**

  The share of current receivables (current or fewer than 31 days delinquent) was 90.1 percent in 2017, while the share of receivables more than 60 days delinquent was 7.9 percent.
- **Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 8.3 percent in 2017, which is an increase of 0.7 percentage points from 2016.**
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 16.3 percent in 2017.**

  This was an increase of 1.5 percentage points as compared to 2016.
- **The weighted average interest rate exclusive of servicing fees on loans held in portfolios remained consistent from 2016 to 2017, while the average remaining term increased from 2016 to 2017, and the weighted average interest rate inclusive of servicing fees on loans held in portfolios decreased.**

  The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 13.6 percent in 2017 exclusive of servicing fees and 13.8 percent in 2017 inclusive of servicing fees. The weighted average term to maturity for loans held was 100.9 months.
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.6 percent in 2017.**

FICO scores

- **The use of FICO scoring as an underwriting component remained consistent in 2017.**
- **Average FICO scores on loans held in receivable portfolios increased 2 points from 706 in 2016 to 708 in 2017.**
- **The weighted average FICO scores on new financings increased from 715 in 2016 to 719 in 2017.**
- **The weighted average static pool default rate increased 0.6 percentage points to 17.9 percent in 2017, as reported by thirteen 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) decreased for all bands except rates from 800 to 850 from 2016 to 2017.**

PERFORMANCE OF CONSUMER RECEIVABLES PORTFOLIOS AT YEAR-END, 2016 AND 2017, ALL GEOGRAPHIES

	2016	2017
Current	90.5%	90.1%
31 to 60 days	2.2%	2.0%
61 to 90 days	1.4%	1.3%
91 to 120 days	1.2%	1.3%
More than 120 days	4.9%	5.3%
	100.0%	100.0%

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

MEMBER $25 | NON-MEMBER $50