

Financial Performance

2019

A SURVEY OF TIMESHARE & VACATION OWNERSHIP COMPANIES

EXECUTIVE SUMMARY



2019 EDITION
PREPARED BY

Deloitte.



Market Intelligence | Career Advancement

Financial Performance

EXECUTIVE SUMMARY

Sales activity

- **Net originated sales excluding fee-for-service increased 6.7 percent, while net originated sales including fee-for-service increased 7.2 percent** In total, the 16 respondents that provided sales information reported \$6.840 billion in net originated timeshare sales excluding fee-for-service in 2018. Total net originated sales including fee-for-service arrangements increased 7.2 percent from 2017 to 2018, increasing from \$7.340 billion to \$7.869 billion.
- **Seven out of ten companies who responded with details around ASC 606 had adopted ASC 606 during 2018. 85.7% of the companies who adopted ASC 606 used the Full Retrospective adoption method.**
- **Points sales represented 80.1 percent of the \$6.840 billion of net originated sales excluding fee-for-service.** Of the \$6.840 billion of net originated sales reported by 16 companies in 2018, \$5.478 billion (80.1 percent) was classified as points sales, while \$1.360 billion (19.9 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 10.6 percent from \$930.9 million in 2017 to \$1,029.2 million in 2018.**
- **Quarterly net originated sales compared to the previous year were more in total for all quarters for the core company set.**
- **Net originated sales at U.S. locations averaged \$39.2 million per resort in active sales.**
- **Unsold weeks held in inventory decreased from 2.35 years in 2017 to 2.09 years in 2018, on a weighted average basis, for the core company set.**
- **Capital expenditures related to completed timeshare inventory decreased by 21.3 percent from 2017 to 2018.** Total capital expenditures related to completed timeshare inventory decreased from \$598 million in 2017 to \$471 million in 2018.
- **The average yield per week decreased 9.2 percent in 2018, with a weighted average yield of \$27,761.** The core company set reported an average increase in the weighted average yield of a timeshare week of 3.8 percent from 2017 to 2018, increasing from \$32,100 to \$33,310.
- **Sales tours, average transaction value and volume per guest increased and net close rate decreased slightly from 2017 to 2018.** In 2018, respondents reported hosting 2.59 million sales tours, compared to 2.48 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 14.7 percent, which decreased from the 14.9 percent reported for 2017. During the year, weighted average volume per guest increased from \$2,916 in 2017 to \$3,000 in 2018, and weighted average transaction value increased from \$20,163 to \$20,991, respectively.
- **A slightly less share of net originated sales, by dollar value, was attributable to existing owner sales than in 2017 for the core company set.** Existing owner sales at US locations decreased by 0.1 percent from 56.7 percent in 2017 to 56.6 percent in 2018.
- **Rescissions, as a portion of gross sales, increased 0.9 percentage points in 2018.** Respondents reported an increase of gross sales rescissions, which averaged 15.7 percent in 2017 compared to 16.6 percent in 2018.

SALES TOURS METRICS BY COMPANY CATEGORY, 2018, U.S.

	All respondents	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
Number of tours	2,593,891	1,998,542	515,319	80,030	1,109,469	913,360	150,596
Number of sales transactions	374,211	279,156	81,322	13,733	177,750	99,324	23,478
Net close rate	14.7%	14.3%	15.8%	17.7%	16.0%	10.8%	15.9%
Net originated sales excluding telesales (mill)	\$7,476	\$5,773	\$1,517	\$185	\$3,718	\$2,196	\$433
Weighted volume per guest ("VPG")	\$3,000	\$2,988	\$3,032	\$3,123	\$3,443	\$2,412	\$3,002
Weighted average transaction value	\$20,991	\$21,516	\$19,368	\$17,935	\$21,887	\$22,821	\$18,781

Source: Deloitte & Touche LLP Company size data based on 16 company survey responses, Average yield per week data based on 14 company survey responses.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 17.9 percent in 2018.**
- **Product costs, as a portion of net originated sales, averaged 14.0 percent in 2018.**
- **Costs related to sales and marketing increased from 2017 to 2018 for the *core company set*.** Total sales and marketing costs, as a portion of net originated sales, averaged 44.5 percent in 2018.
- **General and administrative costs, as a portion of net originated sales, averaged 8.5 percent in 2018.**
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 1.5 percent in 2018.**
- **Operating profit margin on timeshare sales operations averaged 13.6 percent in 2018.**
- **Respondents reported that 54.5 percent of timeshare sales, by dollar value, in 2018 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 2017.** Six respondents provided information on hypothecations of receivables that occurred during 2018, totaling \$402.5 million. The average interest rate increased from 4.5 percent in 2017 to 5.2 percent in 2018. The average advance rate increased from 77.1 percent in 2017 to 80.8 percent in 2018.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2017 and 2018, 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 2017 and 2018, the average transaction size of reported securitizations increased 25.0 percent from \$278.5 million to \$348.2 million; the average interest rate increased 0.9 percentage points from 2.9 percent to 3.8 percent; and the average advance rate decreased 0.6 percentage points from 93.6 percent to 93.0 percent. The eight separate securitization transactions reported by survey respondents in 2018 represented a total value of \$2.785 billion, measured as the gross value of the sales contracts securitized.

KEY RATIOS AS A % OF NET ORIGINATED SALES VALUE, 2018, U.S.

	All respondents	Interval companies	Points companies	Public companies	Private companies
Estimated uncollectible sales	17.9%	20.5%	17.2%	14.1%	25.3%
Cost of sales, (product cost)	14.0%	17.8%	13.1%	15.4%	11.3%
Sales commissions	15.9%	15.5%	16.0%	15.7%	16.4%
Other sales and marketing costs	28.6%	24.3%	29.8%	27.5%	30.7%
Sub-total: Sales commissions and other sales and marketing costs	44.5%	39.9%	45.8%	43.2%	47.1%
General and administrative costs related to timeshare sales operations	8.5%	7.6%	8.7%	6.5%	12.3%
HOA subsidies and/or maintenance fees	1.5%	0.0%	1.9%	1.9%	0.8%
Pre-tax margin of timeshare sales	13.6%	14.3%	13.3%	18.9%	3.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Deloitte & Touche LLP based on a minimum of 16 company survey responses.

Methodology

Deloitte & Touche conducted a survey of 17 timeshare developing companies encompassing 391 resorts that were open and in active sales during 2018 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.



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Consumer financing and receivables portfolio performance

- Of the \$5.870 billion of net originated timeshare sales in which respondents provided financing information, \$3.547 billion were financed.
- Average down payments on upgrade sales and non-upgrade sales, average interest rates (including service fees), and average term decreased in 2018, while average interest rates (excluding servicing fees) stayed consistent with 2017 for the *core company set*. For the *core company set*, the interest rate on new consumer loans exclusive of servicing fees in 2018 stayed consistent at 13.5 percent, on a weighted average basis, while the interest rate on new consumer loans inclusive of servicing fees in 2018 was 13.9 percent, down from the 14.0 percent reported in 2017, on a weighted average basis. As a percentage of contract prices, average down payments on non-upgrade sales in the *core company set* decreased from 18.1 percent in 2017 to 18.0 percent in 2018 while average down payments on upgrade sales in the *core company set* decreased from 46.4 percent in 2017 to 44.4 percent in 2018. The average term on new consumer loans in the *core company set* decreased from 120.1 months in 2017 to 117.7 months in 2018, on a weighted average basis.
- Current receivables decreased from 2017 to 2018, while those more than 120 days delinquent increased by 0.5 percentage points.
- Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 8.2 percent in 2018, which is consistent with 2017.
- The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 17.4 percent in 2018. This was an increase of 1.2 percentage points as compared to 2017.
- The weighted average interest rate exclusive of servicing fees on loans held in portfolios remained consistent from 2017 to 2018, while the average remaining term increased from 2017 to 2018, 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 2018 exclusive of servicing fees and 13.8 percent in 2018 inclusive of servicing fees. The weighted average term to maturity for loans held was 102.6 months.
- The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.4 percent in 2018.

FICO scores

- The use of FICO scoring as an underwriting component increased from 81.2 percent in 2017 to 87.5 percent in 2018.
- Average FICO scores on loans held in receivable portfolios increased 2 points from 708 in 2017 to 710 in 2018
- The weighted average FICO scores on new financings increased from 718 in 2017 to 723 in 2018.
- The weighted average static pool default rate increased 0.6 percentage points to 18.7 percent in 2018, 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) increased across several bands from 2017 to 2018.

PERFORMANCE OF CONSUMER RECEIVABLES PORTFOLIOS AT YEAR-END, 2017 AND 2018, ALL GEOGRAPHIES

	2017	2018
Current	90.1%	89.6%
31 to 60 days	2.1%	2.0%
61 to 90 days	1.3%	1.4%
91 to 120 days	1.2%	1.2%
More than 120 days	5.3%	5.8%
	100.0%	100.0%

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