Financial Performance

2014

A SURVEY OF TIMESHARE & VACATION OWNERSHIP COMPANIES

EXECUTIVE SUMMARY

2014 EDITION
PREPARED BY Deloitte.

Financial Performance

A SURVEY OF TIMESHARE
& VACATION OWNERSHIP COMPANIES

EXECUTIVE SUMMARY

Sales activity

- **Net originated sales excluding fee-for-service increased 6.9 percent, while net originated sales including fee-for-service increased 10.8 percent.**

  In total, the 20 respondents that provided sales information reported $5.298 billion in net originated timeshare sales (excluding fee-for-service) in 2013. The overall percentage change in net originated sales between 2012 and 2013 was an increase of 6.9 percent, based on comparable information for 2012 and 2013 provided by the 20 respondents. For the *core company set* in aggregate, net originated sales (excluding fee-for-service) were 4.8 percent higher in 2013 than in 2012 and net originated sales including fee-for-service arrangements were 9.3 percent higher in 2013 than in 2012. Total net originated sales including fee-for-service arrangements increased 10.8 percent from 2012 to 2013, increasing from $5.286 billion to $5.859 billion.

- **Points sales represented 63.9 percent of the $5.298 billion of net originated sales excluding fee-for-service.**

  Of the $5.298 billion of net originated sales reported by 20 companies in 2013, $3.386 billion (63.9 percent) was classified as point sales, while $1.912 billion (36.1 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 from $328.1 million in 2012 to $561.8 million in 2013.**

- **Quarterly net originated sales compared to the previous year were greater in total for all quarters except Q1.**

- **Net originated sales at U.S. locations averaged $32.4 million per resort in active sales.**

- **Unsold weeks held in inventory remained consistent at 1.6 years from 2012 to 2013 for the *core company set*.**

- **Capital expenditures related to the development of timeshare inventory increased by 53.1 percent from 2012 to 2013.**

  Total capital expenditures related to the development of timeshare inventory increased from $446 million in 2012 to $683 million in 2013. Capital expenditures related to the development of new timeshare inventory decreased while capital expenditures related to the development of existing projects and capital expenditures related to completed inventory increased. The largest percentage increase in capital expenditures came from completed inventory.

- **The average yield per week increased 11.9 percent in 2013, with a weighted average yield of $27,298.**

  The *core company set* reported an average increase in the weighted average yield of a timeshare week of 13.6 percent from 2012 to 2013, increasing from $24,454 to $27,781.

- **Sales tours, average transaction value, volume per guest, and net close rate all increased from 2012 to 2013.**

  In 2013, respondents reported hosting 2.27 million sales tours, compared to 2.12 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 15.5 percent, which was 0.2 percentage points higher than the 15.3 percent reported for 2012. During the year, weighted average volume per guest increased from $2,601 in 2012 to $2,699 in 2013, and weighted average transaction value increased from $17,359 to $17,637, respectively. The *core company set* also reported a weighted average increase in net close rates from 15.2 percent in 2012 to 15.5 percent in 2013.

- **A greater share of net originated sales, by dollar value, was attributable to upgrade sales than in 2012.**

  Upgrade sales accounted for 42.0 percent of sales volume at U.S. locations in 2013, compared to 39.3 percent in 2012. Respondents reported that the average transaction value for non-upgrade sales was $18,102, and for upgrade sales was $17,418, in 2013.

- **Rescissions, as a portion of gross sales, increased 0.5 percentage points in 2013.**

  Respondents reported a greater reduction of revenue for rescissions, which averaged 14.3 percent in 2012 compared to 14.8 percent in 2013. There was a decrease in rescission rates for upgrade sales and an increase in rescission rates for non-upgrade sales for the *core company set* from 2012 to 2013.

SALES TOURS METRICS BY COMPANY CATEGORY, 2013, U.S.

		Company size			Average yield per week		
	All Respondents	$250 million or more	$25 million to $249 million	Less than $25 million	$25,000 or more	$15,000 to $24,999	Less than $15,000
Number of tours	2,271,346	1,835,641	420,392	15,313	1,202,131	784,834	284,381
Number of sales transactions	341,799	274,591	65,102	2,106	158,618	131,280	51,901
Net close rate	15.5%	15.4%	16.1%	14.2%	14.1%	17.2%	18.2%
Net originated sales excluding telesales (mill)	$5,600	$4,783	$790	$27	$3,263	$1,731	$606
Volume per guest ("VPG")	$2,699	$2,800	$2,119	$1,617	$2,987	$2,341	$2,168
Average transaction value	$17,637	$18,356	$13,460	$11,434	$20,821	$13,578	$12,051

Source: Deloitte & Touche LLP based on a minimum of 19 company survey responses.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 14.5 percent in 2013.**
- **Product costs, as a portion of net originated sales, averaged 17.4 percent in 2013.**
- **Costs related to sales and marketing increased, averaging 41.2 percent of net originated sales in 2013.**

  Total sales and marketing costs reported by the core company set increased from 37.5 percent in 2012 to 40.0 percent in 2013.
- **General and administrative costs, as a portion of net originated sales, averaged 8.0 percent in 2013.**

  General and administrative costs reported by the *core company set* increased from 6.0 percent in 2012 to 6.7 percent in 2013.
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 2.8 percent in 2013.**
- **The pre-tax margin, or operating profit margin, on timeshare sales operations as a portion of net originated sales decreased from 16.8 percent to 16.1 percent in 2013.**

  This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components. Approximately twenty 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. The operating profit margin reported by the *core company set* increased from 18.2 percent in 2012 to 18.3 percent in 2013.
- **Respondents reported that 51.0 percent of timeshare sales, by dollar value, in 2013 were to buyers who already owned at least one timeshare interest at the company.**

  The percent of timeshare sales, by dollar value, that were to buyers who already owned a timeshare interest at the company reported by the *core company set* increased from 49.1 percent in 2012 to 49.3 percent in 2013.

Hypothecation of receivables

- **The average interest rate decreased and the average advance rate increased when compared to 2012.**

  Eleven respondents provided information on hypothecations of receivables that occurred during 2013, totaling $565 million. The average interest rate decreased by 0.7 percentage points from 5.9 percent to 5.2 percent. The average advance rate has increased 1.6 percentage points from 78.8 percent to 80.4 percent.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2012 and 2013, the average transaction size of securitizations and advance rates increased, while average interest rates decreased.**

  For those respondents that reported securitizations in both 2012 and 2013, the average transaction size of reported securitizations increased 0.4 percent from $230.1 million to $231.0 million; the average interest rate decreased 2.0 percentage points from 4.0 percent to 2.0 percent; and the average advance rate increased 5.5 percentage points from 86.5 percent to 92.0 percent. The seven separate securitization transactions reported by survey respondents in 2013 represented a total value of $1.6 billion, measured as the gross value of the sales contracts securitized.

KEY RATIOS AS A % OF NET ORIGINATED SALES VALUE, 2013, U.S.

	Company size			Average yield per week		
	$250 million or more	**$25 million to $249 million**	**Less than $25 million**	**$25,000 or more**	**$15,000 to $24,999**	**Less than $15,000**
Estimated uncollectible sales	13.8%	18.0%	23.1%	13.7%	16.2%	13.4%
Cost of sales, also referred to as product cost	17.9%	14.3%	17.5%	19.2%	13.8%	19.1%
Sales commissions	15.0%	18.2%	16.8%	14.7%	16.0%	18.4%
Other sales and marketing costs to sell timeshare intervals or points	24.6%	31.7%	31.8%	23.7%	28.6%	27.9%
Sub-total: Sales commissions and other sales and marketing costs	**39.6%**	**49.9%**	**48.6%**	**38.4%**	**44.6%**	**46.3%**
General and administrative costs related to timeshare sales operations	7.8%	8.9%	7.0%	7.0%	10.5%	4.9%
HOA subsidies and/or maintenance fees	3.2%	1.2%	2.7%	3.2%	3.0%	0.3%
Pre-tax margin of timeshare sales operations	17.7%	7.7%	1.1%	18.5%	11.9%	16.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Deloitte & Touche LLP based on 20 company survey responses.

1201 15th Street NW, Suite 400
Washington, DC 20005
(202) 371-6700
(202) 289-8544 fax

www.arda.org

Consumer financing and receivables portfolio performance

- **Of the $4.726 billion of net originated timeshare sales in which respondents provided financing information, $2.522 billion was financed by respondents.**
- **Average down payments on non-upgrade sales and interest rates decreased in 2013, and down payments on upgrade sales and term increased for the *core company set*.**

  For the *core company set*, the interest rate on new consumer loans in 2013 was 13.8 percent, down from the 13.9 percent reported in 2012, 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 19.5 percent in 2012 to 17.1 percent in 2013 while average down payments on upgrade sales in the *core company set* increased from 46.9 percent in 2012 to 51.3 percent in 2013. The average term on new consumer loans increased from 113.9 in 2012 to 117.3 in 2013, on a weighted average basis.
- **Current receivables decreased 0.6 percentage points, while those more than 120 days delinquent increased by 0.7 percentage points.**

  The share of current receivables (current or fewer than 31 days delinquent) was 89.8 percent in 2013, while the share of receivables more than 60 days delinquent was 8.3 percent .
- **Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 6.9 percent in 2013, which is a decrease of 0.9 percentage points from 2012.**
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 15.1 percent in 2013.** This was an increase of 2.0 percentage points from 2012.
- **The average interest rate on loans held in portfolios decreased 0.1 percentage points, while the average remaining term decreased by 0.4 months.**

  The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 13.9 percent in 2013; and the weighted average term to maturity for loans held was 99.3 months.
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.5 percent in 2013.**

FICO scores

- **The use of FICO scoring as an underwriting component remained consistent in 2013 at 80.0 percent.**
- **The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by respondents, increased 1 point from 697 in 2012 to 698 in 2013.**
- **FICO scores on new financings ranged from 656 to 756 in 2013. Additionally, the weighted average FICO score on new financings decreased from 722 in 2012 to 720 in 2013.**
- **The static pool default rate by FICO score decreased for each band from 600 to 749 from 2012 to 2013, while default rates below 600 increased from 2012 to 2013.**
- **The weighted average static pool default rate remained consistent at 19.2 percent in 2013, as reported by seventeen respondents.**

PERFORMANCE OF CONSUMER RECEIVABLES PORTFOLIOS AT YEAR-END, 2012 AND 2013, ALL GEOGRAPHIES

	2012	2013
Current	90.4%	89.8%
31 to 60 days	2.0%	1.9%
61 to 90 days	1.2%	1.1%
91 to 120 days	1.0%	1.1%
More than 120 days	5.4%	6.1%
	100.0%	100.0%

Source: Deloitte & Touche LLP based on 21 company survey responses.

MEMBER $25 | NON-MEMBER $50