2012
EXECUTIVE SUMMARY

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FINANCIAL PERFORMANCE 2012:
A Survey of Timeshare & Vacation Ownership Companies

Prepared by: Deloitte.

2012 EDITION

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A Survey of Timeshare & Vacation Ownership Companies

This study is an estimate of key metrics that provide an overview of the vacation timeshare industry in the United States. It is not a comment on any individual company, whose performance may vary from the information included in this study.

EXECUTIVE SUMMARY

The following summarizes key results of the study:

Sales activity

- **Net originated sales excluding fee-for-service increased 2.0 percent, while net originated sales including fee-for-service increased 5.2 percent.** In total, the 25 respondents that provided sales information reported $4.66 billion in net originated timeshare sales combined in 2011. The overall percentage change in net originated sales between 2010 and 2011 combined was an increase of 2.0 percent, based on comparable information for 2010 and 2011 provided by the 25 respondents. Total net originated sales including fee-for-service arrangements increased 5.2 percent from 2010 to 2011, increasing from $4.699 billion to $4.944 billion.
- **Point sales represented 56 percent of the $4.66 billion of net originated sales excluding fee-for-service.**
- **The increase in U.S. net originated sales from 2010 to 2011 can be attributed to the economic recovery.**
- **The amount of U.S. net originated sales that were sold on behalf of others under fee-for-service arrangements increased from $149.7 million in 2010 to $297.7 million in 2011.**
- **Quarterly net originated sales compared to the previous year were marginally greater in total for all respondents.** For the *core company set*[1] in aggregate, net originated sales were marginally higher than the same quarter of 2010. Specifically, sales in the last three quarters were more in 2011 compared to the same period in 2010.
- **Net originated sales at U.S. locations averaged $28.3 million per resort in active sales.**
- **Unsold weeks held in inventory decreased 0.3 years to an equivalent of 1.7 years in 2011 for the *core company set*.**
- **Capital expenditures related to timeshare inventory increased by 48.9 percent from 2010 to 2011.** Total capital expenditures related to timeshare inventory increased from $628 million in 2010 to $935 million in 2011. Capital expenditures related to new timeshare inventory and capital expenditures related to the continued development of existing projects both increased.
- **The average yield per week[2] decreased in 2011, with a weighted average yield of $24,217.** The *core company set* reported an average increase in the weighted average yield of a timeshare week of 1.7 percent from 2010 to 2011.
- **Sales tours increased while average transaction value and net close rate decreased.** In 2011, respondents reported hosting 2.05 million sales tours, compared to 1.95 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 14.8 percent, which was 0.6 percentage points lower than the 15.4 percent reported for 2010. During the year, weighted average volume per guest decreased from $2,467 in 2010 to $2,366 in 2011, and weighted average transaction value decreased from $16,372 to $16,317, respectively.
- **A greater share of net originated sales, by dollar value, was attributable to upgrade sales than in 2010.** Upgrade sales accounted for 37 percent of sales volume at U.S. locations in 2011, compared to 34 percent in 2010. Respondents reported that average transaction value for non-upgrade sales was $16,187, and for upgrade sales was $16,267, in 2011.
- **Rescissions, as a portion of gross sales, decreased 0.4 percentage points in 2011.** Respondents reported a lesser reduction of revenue for rescissions, which averaged 14.8 percent in 2010 compared to 14.4 percent in 2011. There was a decrease in rescission rates for both upgrade and non-upgrade sales from 2010 to 2011.

Sales tours metrics by company category, 2011, 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	2,053,326	1,441,615	562,166	49,545	409,421	1,242,033	198,058
Number of sales transactions	292,800	201,552	85,196	6,052	60,075	163,282	38,232
Net close rate	14.8%	14.4%	16.2%	14.6%	15.9%	13.4%	19.2%
Net originated sales excluding telesales (millions)	$4,394	$3,397	$925	$72	$1,255	$2,377	$403
Volume per guest (VPG)	$2,366	$2,513	$1,871	$1,753	$3,289	$2,019	$2,034
Average transaction value	$16,317	$17,712	$11,353	$14,140	$21,029	$15,480	$10,608

Source: Deloitte & Touche LLP based on a minimum of 23 company survey responses.

1 A core group of companies reported detailed information in both 2010 and 2011, providing year-in and year-out results that yield a stable perspective on industry trends. Wherever appropriate, information reported by this “core company set” has been presented to benchmark year-to-year trends from 2010 to 2011, based on a consistent set of respondents.

2 The average yield per week measure is calculated as net originated sales revenue divided by the number of weeks sold.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 16.1 percent in 2011.**
- **Product costs, as a portion of net originated sales, averaged 19.6 percent in 2011.**
- **Costs related to sales and marketing increased, averaging 41.7 percent of net originated sales.** Total sales and marketing costs, as a portion of net originated sales, averaged 41.7 percent in 2011. Total sales and marketing costs reported by the *core company set* increased from 40.0 percent in 2010 to 40.9 percent in 2011.
- **General and administrative costs, as a portion of net originated sales, averaged 7.2 percent in 2011.** General and administrative costs reported by the *core company set* increased from 6.0 percent in 2010 to 6.7 percent in 2011.
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 2.9 percent in 2011.**
- **Operating profit margin on timeshare sales operations increased, averaging 12.5 percent.** The pre-tax margin or operating profit margin, on timeshare sales operations, as a portion of net originated sales, averaged 12.5 percent in 2011. This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components of many timeshare development companies.
- **Respondents reported that 56.6 percent of timeshare sales, by dollar value, in 2011 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 at least one timeshare interest at the company reported by the *core company set* decreased from 58.2 percent in 2010 to 57.3 percent in 2011.

Key ratios as a percentage of net originated sales value, 2011, U.S.

	All respondents	Interval companies	Points companies	Public companies	Private companies
Estimated uncollectible sales	16.1%	14.3%	17.6%	15.8%	16.5%
Cost of sales (product cost)	19.6%	21.4%	18.2%	20.7%	18.0%
Sales commissions	14.6%	12.4%	16.3%	15.0%	14.0%
Other sales and marketing costs to sell timeshare intervals or points	27.1%	29.4%	25.3%	25.4%	29.7%
Sub-total: Sales commissions and other sales and marketing costs	41.7%	41.8%	41.6%	40.4%	43.7%
General and administrative costs related to timeshare sales operations	7.2%	6.2%	8.0%	7.1%	7.4%
HOA subsidies and/or maintenance fees	2.9%	0.3%	4.9%	3.6%	1.8%
Pre-tax margin of timeshare sales	12.5%	16.0%	9.7%	12.4%	12.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Deloitte & Touche LLP based on 25 company survey responses.

Hypothecation of receivables

- **The average interest rate and average advance rate increased when compared to 2010.** The average interest rate increased by 0.3 percentage points from 5.6 percent to 5.9 percent. The average advance rate has increased 1.4 percentage points from 79.2 percent to 80.6 percent. Eighteen respondents provided information on hypothecations of receivables that occurred during 2011, totaling $693 million.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2010 and 2011, the average transaction size of securitizations and advanced rates increased, while average interest rates declined.** The average transaction size of reported securitizations increased 5.1 percent from $245.0 million to $257.4 million. The average advance rate has increased 13.0 percentage points from 81.2 percent to 94.2 percent. The six separate securitization transactions reported by survey respondents in 2011 represented a total value of $1.4 billion, measured as the gross value of the sales contracts securitized.

Consumer financing and receivables portfolio performance

- **Of the $4.1 billion of net originated timeshare sales in which respondents provided financing information, $2.1 billion was financed by respondents.** Approximately 50.7 percent of the dollar value of net originated timeshare sales were financed in 2011. Respondents reported that in 2011, the average interest rate on new loans to consumers was 14.1 percent, the average down payment associated with non-upgrade sales was 18.7 percent of the contract price, and the average down payment associated with upgrade sales, including the equity in their existing vacation ownership interest, was 48.5 percent of the contract price.
- **Average down payments increased slightly in 2011, and interest rates remained consistent for the *core company set*.** For the *core company set*, the interest rate on new consumer loans in 2011 was 14.0 percent, consistent with the interest rate of 14.0 percent reported in 2010, 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 17.8 percent in 2010 to 18.8 percent in 2011 and average down payments on upgrade sales in the *core company set* increased from 49.2 percent in 2010 to 49.9 percent in 2011.
- **Current receivables decreased 0.2 percentage points, while those more than 120 days delinquent increased by 0.2 percentage points.** The share of current receivables (current or fewer than 31 days delinquent) was 90.2 percent in 2011, while the share of receivables more than 60 days delinquent was 7.7 percent.

Performance of consumer receivables portfolios at year-end, 2010 and 2011, all geographies

	2010	2011
Current	90.4%	90.2%
31 to 60 days	2.1%	2.1%
61 to 90 days	1.2%	1.1%
91 to 120 days	1.1%	1.2%
More than 120 days	5.2%	5.4%
Total	100.0%	100.0%

Source: Deloitte & Touche LLP based on 25 company survey responses.

- **Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 8.3 percent in 2011, which is a decrease of 0.9 percentage points from 2010.**
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 13.6 percent in 2011.**
- **The average interest rate on loans held in portfolios increased 0.1 percentage points, while the average term decreased by 1.3 months.** The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 13.9 percent in 2011; and the weighted average term to maturity for loans held was 99.2 months.
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.3 percent in 2011.**
- **The weighted average static pool default rate, as reported by 19 respondents, was 19.7 percent in 2011.**
- **The static pool default rate[3] by FICO score (the static pool default percentages by FICO score range at the time the loan was made to purchasers) decreased across most bands from 2010 to 2011.**

FICO scores

- **The use of FICO scoring as an underwriting component remained consistent in 2011.** A majority of the respondents, 79.2 percent, reported that they utilize FICO scoring in their underwriting criteria, which remained consistent with 79.2 percent in 2010.
- **Average FICO scores on loans held in receivable portfolios improved in 2011.** The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by respondents, increased 4 points from 689 in 2010 to 693 in 2011. The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by the *core company set*, increased 5 points from 689 to 694.

3 Static pool analysis is used to measure the performance of a grouping, or pool, of receivables. For this survey, the static pool default rate is calculated as cumulative actual and projected future capital losses net of reinstatements, divided by the original principal balance

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