2013 EXECUTIVE SUMMARY

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FINANCIAL PERFORMANCE 2013:

A Survey of Timeshare & Vacation Ownership Companies

Prepared by: Deloitte.

2013 EDITION

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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 11.7 percent, while net originated sales including fee- for-service increased 12.2 percent.** In total, the 22 respondents that provided sales information reported $4.925 billion in net originated timeshare sales (excluding fee-for-service) in 2012. The overall percentage change in net originated sales between 2011 and 2012 was an increase of 11.7 percent, based on comparable information for 2011 and 2012 provided by the 22 respondents. For the *core company set*[1] in aggregate, net originated sales were 10.8 percent higher in 2012 than in 2011. Total net originated sales including fee-for-service arrangements increased 12.2 percent from 2011 to 2012, increasing from $4.681 billion to $5.253 billion.
- **Points sales represented 64.1 percent of the $4.925 billion of net originated sales excluding fee-for-service.**
- **The amount of U.S. net originated sales that were sold on behalf of others under fee-for-service arrangements increased from $273.1 million in 2011 to $328.1 million in 2012.**
- **Quarterly net originated sales compared to the previous year were greater in total for all quarters.** For the *core company set* in aggregate, net originated sales were higher in each quarter compared to the same quarter of 2011.
- **Unsold weeks held in inventory decreased 0.2 years to an equivalent of 1.52 years in 2012 for the *core company set*.**
- **Capital expenditures related to the development of timeshare inventory decreased by 12.0 percent from 2011 to 2012.** Total capital expenditures related to the development of timeshare inventory decreased from $359 million in 2011 to $316 million in 2012.
- **The average yield per week increased 5.7 percent in 2012, with a weighted average yield of $23,996.** The *core company set* reported an average increase in the weighted average yield of a timeshare week of 5.1 percent from 2011 to 2012.[2]
- **Sales tours, average transaction value, volume per guest, and net close rate all increased from 2011 to 2012.** In 2012, respondents reported hosting 2.12 million sales tours, compared to 2.01 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 15.2 percent, which was 0.4 percentage points higher than the 14.8 percent reported for 2011. During the year, weighted average volume per guest increased from $2,419 in 2011 to $2,554 in 2012, and weighted average transaction value increased from $16,979 to $17,194, respectively.
- **A greater share of net originated sales, by dollar value, was attributable to upgrade sales than in 2011.** Upgrade sales accounted for 39.5 percent of sales volume at U.S. locations in 2012, compared to 37.8 percent in 2011. Respondents reported that the average transaction value for non-upgrade sales was $16,515, and for upgrade sales was $14,543, in 2012.[3]
- **Rescissions, as a portion of gross sales, decreased 0.5 percentage points in 2012.** Respondents reported a lesser reduction of revenue for rescissions, which averaged 14.9 percent in 2011 compared to 14.4 percent in 2012. There was a decrease in rescission rates for both upgrade and non-upgrade sales from 2011 to 2012.

Sales tours metrics by company category, 2012, 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	2,118,932	1,702,999	401,418	14,515	446,089	1,410,495	225,957
Number of sales transactions	316,334	251,721	62,730	1,883	66,898	204,534	38,251
Net close rate	15.2%	15.0%	16.5%	13.6%	15.8%	14.6%	17.0%
Net originated sales excluding telesales (millions)	$5,032	$4,258	$746	$28	$1,451	$3,059	$473
Volume per guest (VPG)	$2,554	$2,641	$2,081	$1,769	$3,427	$2,232	$2,082
Average transaction value	$17,194	$17,996	$12,751	$12,790	$21,842	$15,899	$12,271

Source: Deloitte & Touche LLP based on a minimum of 18 company survey responses.

1 A core group of companies reported detailed information in both 2011 and 2012, 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 2011 to 2012, 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.

3 Note: The average transaction values for upgrade and non-upgrade sales are based on figures provided by respondents who provided detailed information on upgrade and non-upgrade sales and may not correspond to weighted average figures provided in other sections.

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 16.0 percent in 2012.**
- **Product costs, as a portion of net originated sales, averaged 18.4 percent in 2012.**
- **Costs related to sales and marketing decreased, averaging 39.3 percent of net originated sales.** Total sales and marketing costs reported by the *core company set* decreased from 39.4 percent in 2011 to 36.8 percent in 2012.
- **General and administrative costs, as a portion of net originated sales, averaged 6.8 percent in 2012.** General and administrative costs reported by the *core company set* decreased from 6.7 percent in 2011 to 6.0 percent in 2012.
- **Home owner association (HOA) subsidies and maintenance fees for unsold units net of rental revenues, as a portion of net originated sales, averaged 3.0 percent in 2012.**
- **Operating profit margin on timeshare sales operations increased from 12.1 percent to 16.5 percent.** 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 12.9 percent in 2011 to 18.8 percent in 2012.
- **Respondents reported that 62.7 percent of timeshare sales, by dollar value, in 2012 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* increased from 60.8 percent in 2011 to 63.9 percent in 2012.

Key ratios as a % of net originated sales value, 2012, U.S.

	All respondents	Interval companies	Points companies	Public companies	Private companies
Estimated uncollectible sales	16.0%	14.9%	16.6%	16.5%	15.2%
Cost of sales, (product cost)	18.4%	20.3%	17.4%	18.7%	18.1%
Sales commissions	14.0%	12.0%	15.1%	13.6%	14.5%
Other sales and marketing costs to sell timeshare intervals or points	25.3%	29.0%	23.2%	22.0%	30.4%
Sub-total: Sales commissions and other sales and marketing costs	39.3%	41.0%	38.3%	35.6%	44.9%
General and administrative costs related to timeshare sales operations	6.8%	6.2%	7.1%	6.2%	7.6%
HOA subsidies and/or maintenance fees	3.0%	0.4%	4.5%	3.5%	2.3%
Pre-tax margin of timeshare sales	16.5%	17.2%	16.1%	19.5%	11.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

Hypothecation of receivables

- **The average interest rate increased and the average advance rate decreased when compared to 2011.** Eleven respondents provided information on hypothecations of receivables that occurred during 2012, totaling $538 million. The average interest rate increased by 0.4 percentage points from 5.4 percent to 5.8 percent. The average advance rate has decreased 2.9 percentage points from 80.5 percent to 77.6 percent.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2011 and 2012, the average transaction size of securitizations increased, while average interest rates and average advance rates decreased.** The average transaction size of reported securitizations increased 18.5 percent from $257.4 million to $305.1 million. The average interest rate has decreased 1.1 percentage points from 4.1 percent to 3.0 percent. The average advance rate decreased 5.4 percentage points from 94.2 percent to 88.8 percent. The five separate securitization transactions reported by survey respondents in 2012 represented a total value of $1.5 billion, measured as the gross value of the sales contracts securitized.

Consumer financing and receivables portfolio performance

- **Of the $4.35 billion of net originated timeshare sales in which respondents provided financing information, $2.2 billion was financed by respondents.** Respondents reported that in 2012, the average interest rate on new loans to consumers was 14.1 percent, the average down payment associated with non-upgrade sales was 19.4 percent of the contract price, and the average down payment associated with upgrade sales, including the equity in their existing vacation ownership interest, was 46.1 percent of the contract price.
- **Average down payments on non-upgrade sales increased slightly in 2012, and interest rates remained consistent for the *core company set*.** For the *core company set*, the interest rate on new consumer loans in 2012 was 13.8 percent, consistent with the interest rate of 13.8 percent reported in 2011, 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 19.0 percent in 2011 to 19.8 percent in 2012 while average down payments on upgrade sales in the *core company set* decreased from 50.7 percent in 2011 to 47.0 percent in 2012.
- **Current receivables increased 0.2 percentage points, while those more than 120 days delinquent increased by 0.1 percentage points.** The share of current receivables (current or fewer than 31 days delinquent) was 90.6 percent in 2012, while the share of receivables more than 60 days delinquent was 7.5 percent.

Performance of consumer receivables portfolios at year-end, 2011 and 2012, all geographies

	2011	2012
Current	90.4%	90.6%
31 to 60 days	2.1%	1.9%
61 to 90 days	1.1%	1.2%
91 to 120 days	1.2%	1.0%
More than 120 days	5.2%	5.3%
Total	100.0%	100.0%

Source: Deloitte & Touche LLP based on 22 company survey responses.

- **Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 8.2 percent in 2012, which is a decrease of 0.1 percentage points from 2011.**
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 13.0 percent in 2012.**
- **The average interest rate on loans held in portfolios increased 0.1 percentage points, while the average remaining term decreased by 0.5 months.** The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 14.0 percent in 2012; and the weighted average term to maturity for loans held was 99.6 months.
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.4 percent in 2012.**

FICO scores

- **The use of FICO scoring as an underwriting component remained consistent in 2012.** A majority of the respondents, 76.2 percent, reported that they utilize FICO scoring in their underwriting criteria, which remained consistent with 76.2 percent in 2011.
- **Average FICO scores on loans held in receivable portfolios improved in 2012.** The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by respondents, increased four points from 694 in 2011 to 698 in 2012. The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by the *core company set*, increased six points from 695 to 701.
- **The static pool default rate[4] by FICO score (the static pool default percentages by FICO score range at the time the loan was made to purchasers) increased slightly across several bands from 2011 to 2012.** The static pool default rate by FICO score increased for each band from 600 to 749 from 2011 to 2012.
- **The weighted average static pool default rate decreased by 4.3 percent to 19.1 percent in 2012, as reported by seventeen respondents.**

4 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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