2013

AIF

# FINANCIAL PERFORMANCE 2013:

## *A Survey of Timeshare & Vacation Ownership Companies*

*Prepared by:* Deloitte.

2013 EDITION

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ARDA International Foundation

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# FORWARD



On behalf of ARDA International Foundation, Deloitte & Touche LLP (Deloitte & Touche) has conducted this edition aof the *Financial Performance 2013: A Survey of Timeshare & Vacation Ownership Resort Companies* ("Financial Performance Survey"). ARDA International Foundation has collected similar timeshare data since 1991. Through the years, the survey tool and breadth of analysis have evolved in consideration of industry trends, interest in new topics, regulatory changes, and other factors impacting the vacation timeshare industry. Accordingly, this year's Financial Performance Survey includes additional statistics that may be useful to the reader as well as results that show how the industry is being impacted by the current economic environment.

**Additional statistics in this year's edition:**

1. **Business combinations completed during the year:** Survey respondents were asked if they completed any acquisitions during the year. Four companies reported acquisitions in 2012 and four companies reported acquisitions in 2011. (Three companies reported acquisitions in both 2011 and 2012)
2. **Goodwill impairment charges:** Survey respondents were asked if they recorded any Goodwill impairments during the year. No Goodwill impairments were reported.
3. **Capital expenditures related to completed timeshare inventory:** Survey respondents were asked to report the total capital expenditures related to fully completed timeshare inventory during the year (e.g. turn-key, Just In Time inventory purchases, buy-backs from Property Owner Associations). (Page 23)
4. **Inventory impairment charges:** Survey respondents were asked if they recorded any Inventory impairments during the year, and if so, the dollar value of the impairments. (Page 24)
5. **Construction costs and undeveloped land included in inventory, but not under current development:** Survey respondents were asked to report the total dollar value of construction costs and undeveloped land included in inventory, but not under current development (i.e. inventory developments where construction has been placed on hold or is inactive). (Page 24)

These additional metrics can help provide insights into the overall condition of the industry as well as changes in the capital expenditure practices during the economic recovery.

According to the Federal Open Market Committee press release dated May 1, 2013:

> "Information received since the Federal Open Market Committee met in March suggests that economic activity has been expanding at a moderate pace. Labor market conditions have shown some improvement in recent months, on balance, but the unemployment rate remains elevated. Household spending and business fixed investment advanced, and the housing sector has strengthened further, but fiscal policy is restraining economic growth. Inflation has been running somewhat below the Committee's longer-run objective, apart from temporary variations that largely reflect fluctuations in energy prices. Longer-term inflation expectations have remained stable."[1]

The moderate recovery pace discussed above significantly impacted the timeshare industry during the year. This was evidenced by an increase in net originated sales when comparing 2012 with 2011. Further, there are additional positive indicators in the results reported in 2012 as increases were reported in resorts open and in active sales, number of equivalent weeks sold and capital expenditures related to new timeshare inventory. Further, average Fair Isaac Corporation (FICO) scores within the receivables portfolio continued to increase in 2012 when compared to 2011.

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.

1 Federal Open Market Committee (FOMC) Press Releases (2012, April 25) http://www.federalreserve.gov/newsevents/press/monetary/20120425a.htm

# I. SURVEY METHOD

## Survey purpose

The goal of the survey is to compile accurate historical data and to provide a comprehensive perspective on the timeshare industry's financial performance. By conducting the Financial Performance Survey annually, the ARDA International Foundation provides:

1) Timely information that permits companies to compare operations to industry benchmarks;
2) A reference for tracking industry trends; and
3) A resource for potential entrants to the industry and others seeking to better understand the vacation timeshare industry.

## Consistency with current financial accounting standards

The effects of important changes to accounting standards for companies developing and selling vacation ownership interests were first included in the 2007 edition of the Financial Performance Survey. This year's report continues the form of questions established in the previous years. It is important to recognize that the set of companies responding to the survey in each edition of the Financial Performance Survey also changes, and therefore, results from this edition should not be compared to the results of previous editions.

The following provides a summary of that guidance for reference in reading the report.

Accounting Standards Codification (ASC) 978 *Real Estate — Time-Sharing Activities*, is the authoritative literature for accounting for time-sharing transactions.

ASC 978 instructs that[2]:

- Costs incurred to sell timeshare units generally be charged to expense as incurred, including indirect sales and marketing expenses;
- Estimated uncollectible financed sales be presented as reductions of revenue;
- Uncollectible financed sales be estimated based on actual receivables collection experience and other considerations;
- The fair value of certain incentives provided to the timeshare buyer be considered when assessing the adequacy of the buyer's initial investment;
- Changes to inventory cost estimates be reflected in each period on a retrospective basis using a current period adjustment; and,
- Rental and other operations during holding periods should be accounted for as incidental operations, which requires that any excess of revenue over costs be recorded as a reduction of inventory costs.

**2** This summary, and other statements related to accounting standards and company practices, in this report are general observations based on publicly available information, information reported in the survey responses, and conversations with representatives of selected companies. They do not represent accounting guidance of Deloitte & Touche LLP.

## Survey design and administration

The Financial Performance Survey reflects a broad base of respondents and provides information in a consistent format, maintaining benchmarks that may be easily referenced. The survey instrument was updated this year to reflect additional questions related to business combinations, goodwill impairment charges, capital expenditures related to completed inventory, inventory impairment charges, and undeveloped property included in inventory, but not under current development. These changes were made based on input from:

- Previous and current survey respondents
- Readers of previous editions of the report
- Members of the ARDA International Foundation Research Committee and CFO Council
- A task force commissioned by the ARDA International Foundation to help improve the survey
- Staff of the ARDA International Foundation and Deloitte & Touche

Continuing the format established in the Financial Performance Survey 2004 Edition, the survey focuses on timeshare sales activity and excludes sales of fractional ownership interests including private residence clubs and non-equity destination clubs from all results. A copy of the survey form used in this edition is included in the Appendix.

Deloitte & Touche distributed the survey directly to 217 timeshare and vacation ownership resort development companies on January 21, 2013. The survey response deadline was extended to March 19, 2013. During the data analysis phase, Deloitte & Touche contacted some of the respondents with follow-up questions about specific responses they provided.

## Respondents

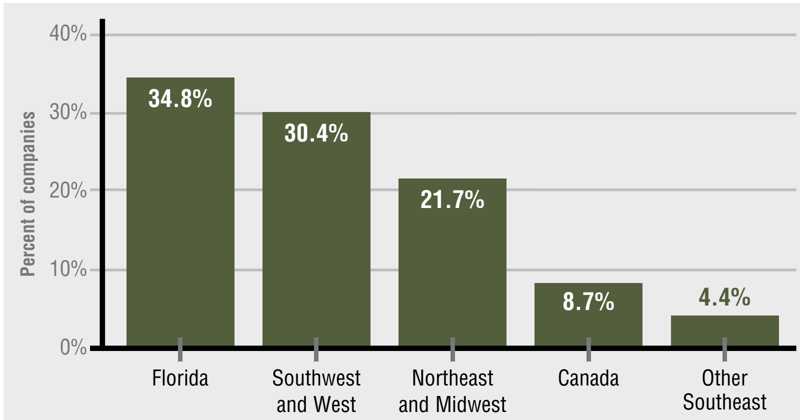
As of March 19, 2013, 23 companies, or eleven percent of those surveyed, had responded. This set encompassed 322 resorts that were open and in active sales during 2012. The source line under each graph in the report shows the number of respondents to the related question. In those graphs in which the companies are segmented into groups by product offering, ownership, company size by sales volume, and weighted average yield per timeshare week, there are, in some instances, fewer respondents in one particular category than the total respondents shown in the source line. This is because some companies did not provide sufficient information to segment them within that category.

Of the 23 survey respondents, six companies are publicly-traded companies or subsidiaries of publicly-traded companies, and 17 are privately-held. The six public companies that provided sales information accounted for 60.8 percent of net originated U.S. sales in 2012, as reported by the 23 survey respondents.

The survey is focused on the United States due to the location of the companies' headquarters, which provides an indication of the geographic regions represented by the response base. By the location of their headquarters, 21 of the respondents are U.S. companies and two are Canadian. Many of the U.S. respondents are based in the Southeast, including eight in Florida and one in another Southeastern U.S. location, though companies in the Northeast and Midwest, and Southwest and West regions also responded.[3]

**3** Regional definitions: Florida; Northeast and Midwest (CT, DC, DE, IA, IL, IN, KS, KY, MA, MD, ME, MI, MN, MO, ND, NE, NH, NJ, NY, OH, PA, RI, SD, VA, VT, WI, WV); Other Southeast (AL, AR, GA, LA, MS, NC, SC, TN); and Southwest and West (AK, AZ, CA, CO, HI, ID, MT, NM, NV, OK, OR, TX, UT, WA, WY).

Figure 1 **Distribution of companies by headquarters location, 2012**




*Source: Deloitte & Touche LLP based on 23 company survey responses.*

## Product offering

The timeshare industry model is fundamentally based on the sale and use of time based resort real estate interests. Within the shared ownership umbrella, there are a variety of product types, the most popular of which may be organized in five categories:

1. **Interval weeks**

   The consumer has purchased a specific type of week at a specific resort. This week may then be exchanged through internal or external exchange systems, either for an interval week-based vacation or in some cases redeemed for points, such as in a hotel brand frequent guest program.

2. **Interval weeks with the ability to use through a timeshare points system**

   The consumer has purchased into a points system or vacation club backed by an interval weeks interest. The legal structure of the consumer's purchase is supported by a deeded week or other week-based interest (including right-to-use, beneficial interest associated with trust based vehicles, or other non-deeded week-based interest), but the consumer has the ability to use the interest at its "home resort" or directly through a points-based system.

3. **Timeshare points**

   The consumer has purchased points or credits backed by a usage right to a resort or a system supporting an internal network of resorts.

4. **Fractional interests**

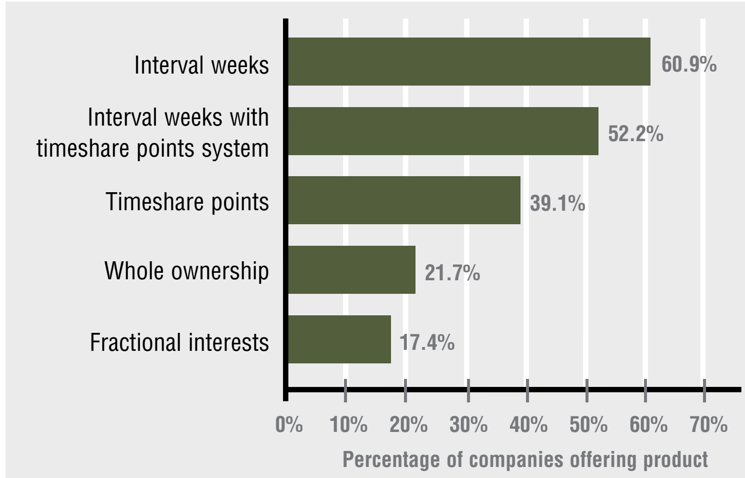
   An ownership interest system that is either a shared equity or club interest representing a time period of not fewer than two weeks, but usually three weeks or more.

5. **Whole ownership**

   Vacation product in which each unit has one owner.

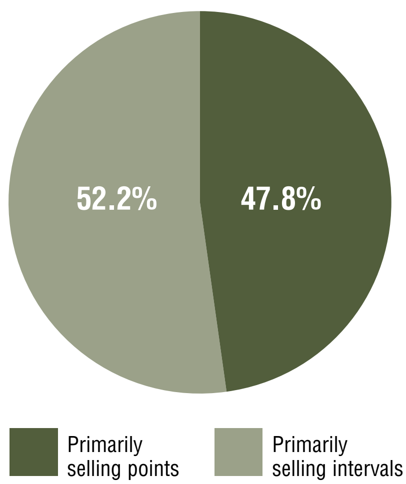
The first of these offerings, interval weeks, was offered by 60.9 percent of respondents, making it the most frequently offered product type in the response set, as shown in Figure 2. Many of these respondents reported also offering other types of products, for example, by offering an interval weeks product at some resorts and a timeshare points product at other resorts, so the totals in Figure 2 sum to more than 100 percent. Four respondents reported offering fractional interest products, and five respondents also reported offering whole ownership products. Company sales reported in this study include any type of timeshare interest in the first three categories and exclude the last two categories (fractional interests and whole ownership).[4]

Figure 2 **Product offering by percentage of companies, 2012**




Note: Some respondents offer multiple product types.
*Source: Deloitte & Touche LLP based on 23 company survey responses.*

Figure 3 **Segmentation of companies by product offering**




*Source: Deloitte & Touche LLP based on 23 company survey responses.*

For the purpose of comparisons in this report, Deloitte & Touche has categorized each company as either primarily an interval company or primarily a points company. This categorization is described as follows. In the survey form, each company was asked to report sales volume in two categories, intervals and points. In this portion of the survey, products that were sold as interval weeks but which could be exchanged for points (interval weeks with timeshare points system above) were counted as interval weeks sales to reflect the base structure of the product. Of the 23 respondents, twelve reported selling only intervals and nine companies reported selling only points. The remaining two companies reported selling a mixture of both interval weeks and points. Both of these companies primarily sold points, and were therefore categorized as points companies. As a result of this categorization process, as shown in Figure 3, 52.2 percent of the respondents were categorized as interval companies and 47.8 percent were categorized as points companies.[5]

**4** Information on the share of respondents offering fractional interests and whole ownership interests was collected as background information to help show the different types of products being offered. The survey focuses on timeshare sales activity and excludes sales of fractional ownership and whole ownership interests from all other results. Non-equity club programs, such as destination clubs, are excluded from the shared ownership concepts covered in this study.

**5** The percentage distributions shown here are for respondent companies, as categorized by primarily selling interval or points product. This distribution is different from the distribution of intervals and points product sales by dollar volume among respondent companies, which is reported on page 15.

## Interpretation of results

To effectively interpret the survey results, it is important to understand that the survey is not a projection as it is not based on a random sample of companies, nor is it a census of all companies. That said, the survey is based on responses from participating companies that account for a predominance of industry sales, and this is one of the reasons it is seen as a valuable resource.

The companies that participated in this edition are not identical to those that participated in prior editions. Due to the relatively large size of some of the companies participating, the changing composition of the response base can materially impact the results reported from one year to another. It is not accurate to compare the 2011 and 2012 results presented in this edition with results shown in reports of earlier years without understanding that the response base has changed. Wherever results are shown in this study for both 2011 and 2012, a consistent set of respondents was used for both years. Nevertheless, some changes from year to year may be the result of acquisitions or divestitures.

Because the focus of this report is on the U.S., only the U.S. geographic region is analyzed in this report.

Unless otherwise noted specifically as simple averages, all averages in this report are weighted averages. For example, responses to questions related to sales topics, such as sales costs as a percentage of sales, are weighted by net originated sales volume.

## Core company set

A core group of 18 companies reported detailed information from 2009 to 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. The *core company set* exhibits the following characteristics:

- Represents 78.3 percent of the survey respondents, 84.8 percent of the open and active resorts, and 87.0 percent of U.S. net originated sales in 2012, as reported by survey respondents.
- Six are publicly-traded companies.
- Seven reported net originated sales of $250 million or more in 2012.

The *core company set* has been kept as a broad set of companies by limiting the time period from 2009 to 2012.

# II. SUMMARY OF RESULTS

## 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 (Page 14). 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* in aggregate, net originated sales were 10.8 percent higher in 2012 than in 2011 (Page 16). 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 (Page 14).

- **Points sales represented 64.1 percent of the $4.925 billion of net originated sales excluding fee-for-service.**

  Of the $4.925 billion of net originated sales reported by 22 companies in 2012, $3.158 billion (64.1 percent) was classified as point sales, while $1.767 billion (35.9 percent) was classified as interval sales (Page 15).

- **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** (Page 16).

- **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 (Page 16).

- **Net originated sales at U.S. locations averaged $29.0 million per resort in active sales** (Page 19).

- **Unsold weeks held in inventory decreased 0.2 years to an equivalent of 1.52 years in 2012 for the *core company set*.** The *core company set* reported that the number of unsold weeks held in inventory at year-end 2012 was equivalent to 1.52 years of sales; a 0.2 year decrease compared to 2011, on a weighted average basis (Page 22).

- **Capital expenditures related to the development of timeshare inventory decreased by 12.0 percent from 2011 to 2012** (Page 22).

  Total capital expenditures related to the development of timeshare inventory decreased from $359 million in 2011 to $316 million in 2012 (Page 23). Capital expenditures related to development of new timeshare inventory increased while capital expenditures related to the development of existing projects decreased (Page 22).

- **The average yield per week increased 5.7 percent in 2012, with a weighted average yield of $23,996** (Page 25). 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 (Page 27).[6]

- **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 (Page 28). 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 (Page 29). During the year, weighted average volume per guest increased from $2,419 in 2011 to $2,554 in 2012 (Page 30), and weighted average transaction value increased from $16,979 to $17,194, respectively (Page 30). The *core company set* also reported a weighted average increase in net close rates from 14.8 percent in 2011 to 15.2 percent in 2012 (Page 29).

- **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[7] (Page 31).

- **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 (Page 34). There was a decrease in rescission rates for both upgrade and non-upgrade sales from 2011 to 2012.

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

**7** 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** (Page 38).
- **Product costs, as a portion of net originated sales, averaged 18.4 percent in 2012** (Page 40).
- **Costs related to sales and marketing decreased, averaging 39.3 percent of net originated sales.** Total sales and marketing costs, as a portion of net originated sales, averaged 39.3 percent in 2012 (Page 43). Total sales and marketing costs reported by the *core company set* decreased from 39.4 percent in 2011 to 36.8 percent in 2012 (Page 43).
- **General and administrative costs, as a portion of net originated sales, averaged 6.8 percent in 2012** (Page 44). General and administrative costs reported by the *core company set* decreased from 6.7 percent in 2011 to 6.0 percent in 2012 (Page 44).
- **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** (Page 45).
- **Operating profit margin on timeshare sales operations increased from 12.1 percent to 16.5 percent.** The pre-tax margin or operating profit margin, on timeshare sales operations, as a portion of net originated sales, averaged 16.5 percent in 2012 (Page 46). 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 (Page 46). The operating profit margin reported by the *core company set* increased from 12.9 percent in 2011 to 18.8 percent in 2012 (Page 47).
- **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** (Page 48). 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 (Page 48).

## 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 (Page 49). 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 (Page 49).

## 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 (Page 51). The average advance rate decreased 5.4 percentage points from 94.2 percent to 88.8 percent (Page 51). 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 (Page 51).

## 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.** Approximately 51.0 percent of the dollar value of net originated timeshare sales were financed in 2012 (Page 52). 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 (Page 56), 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 (Page 56).
- **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 (Page 57). 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 (Page 57) 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 (Page 57).
- **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 (Page 58), while the share of receivables more than 60 days delinquent was 7.5 percent (Page 59).
- **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** (Page 60).
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 13.0 percent in 2012** (Page 60).
- **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 (Page 61); and the weighted average term to maturity for loans held was 99.6 months (Page 61).
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.4 percent in 2012** (Page 63).

## 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 (Page 64).
- **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 (Page 65). 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 (Page 66).
- **The static pool default rate[8] 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** (Page 67). 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** (Page 66).

**8** 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.

# III. SALES ACTIVITY[9]

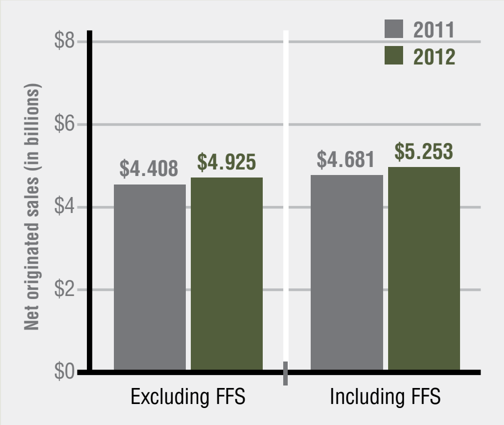
Companies were asked to provide data on major financial indicators for 2011 and 2012. Information on sales has been analyzed in two ways. The first approach is an analysis of net originated timeshare sales, the operational or managerial measure that is generally used in the industry. The second is an analysis of sales revenue in accordance with accounting principles generally accepted in the United States of America (GAAP), which is addressed in the section titled "Revenue Recognition."

## Net originated timeshare sales

The concept of net originated timeshare sales as reported in this survey is gross sales revenues net of rescissions, but before reduction of revenue for uncollectible accounts and deferrals. Therefore, net originated timeshare sales is an operational or managerial measure of sales volume and does not reflect certain adjustments required for financial reporting according to GAAP. For example, it is not impacted by percentage-of-completion accounting, which reflects construction timing rather than sales pace. The survey reports net originated sales inclusive of timeshare inventory sold under fee-for-service arrangements, as well as net originated sales exclusive of these arrangements. Unless specifically stated, the term net originated sales within this report refers to sales of owned inventory which excludes fee-for-service arrangements.

In total, the 22 respondents that provided sales information reported $4.925 billion in net originated timeshare sales in 2012. The overall percentage change in net originated timeshare sales between 2011 and 2012 was an increase of 11.7 percent as shown in Figure 4.[10] This year-over-year change in sales includes the impact of sales at newly opened or acquired resorts. For this analysis, sales volume is reported by location at which the sale occurred rather than the location of the inventory. The increase in U.S. net originated sales from 2011 to 2012 can be attributed to the continued economic recovery from the recession in 2008. Starting in the second half of 2008 and through 2012, timeshare companies had to react to these broader economic constraints by immediately changing the manner in which they marketed, sold, and financed their timeshare properties. Further, the economic recession diminished access to capital and spurred many timeshare companies to evaluate their current marketing channels, as well as seek to eliminate their least successful and inefficient sales personnel and sales sites. It appears that the industry has seen significant expansion for the first time since the recession, as evidenced by the fact that the U.S. net originated sales excluding fee-for-service increased by 11.7 percent from 2011 to 2012. Net originated sales inclusive of timeshare revenue sold under fee-for-service arrangements increased 12.2 percent compared to 2011.

Figure 4 **Net originated timeshare sales: 2011 and 2012**




*Source: Deloitte & Touche LLP based on 22 company survey responses for net originated sales and 6 company survey responses for fee-for-service.*

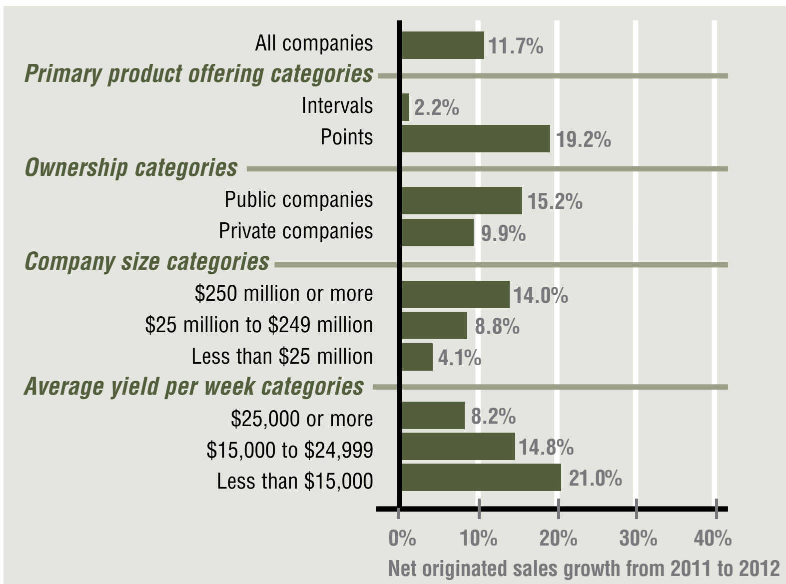
**9** Sales of fractional ownership interests and whole ownership are not included in the Financial Performance Survey.

**10** Net originated sales represent completed or closed sales where all documentation has been executed and includes contracts whereby the rescission period, on a look-back method, has expired and for which the developer has received good cash funds of at least 10 percent of the sales price. Sales may be included in net originated sales even if the unit has not yet been fully constructed. Temporary sales such as trial memberships, exit programs, and sample programs are not included in net originated sales.

Of the 22 companies that reported net originated sales information, fifteen companies or 68.2 percent of the respondents reported sales increases, while the remaining seven companies reported sales decreases. Public companies experienced a weighted average increase of 15.2 percent. Companies with more than $250 million in net originated sales experienced an average increase of 14.0 percent (on a weighted average basis), companies with between $25 million and $249 million in net originated sales experienced an average increase of 8.8 percent, and companies with less than $25 million in net originated sales experienced a 4.1 percent increase (Figure 5). The majority of respondents in each size category reported an increase in net originated sales from 2011 to 2012.

Points companies reported a weighted average increase of 19.2 percent from 2011 to 2012, compared to a 2.2 percent increase for interval companies. Among these respondent companies that provided sales information, 54.5 percent were categorized as interval companies and 45.5 percent were categorized as points companies. Note these percentages differ from Figure 3 due to the fact that one point company did not provide sales information. Of the $4.925 billion of net originated U.S. timeshare sales in 2012, $1.767 billion (35.9 percent) was classified as interval sales, while $3.158 billion (64.1 percent) was classified as points sales.[11]

Figure 5 **Net originated sales growth from 2011 to 2012 by company category**




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

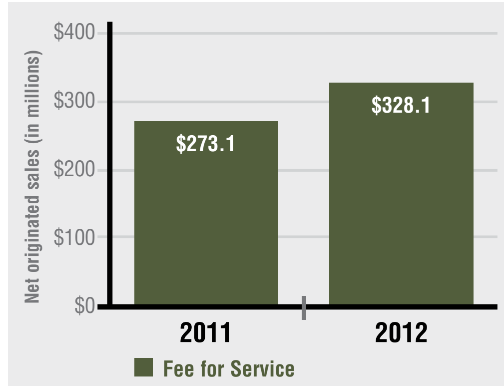
In this report, averages are typically presented as weighted by net originated sales volume. In most cases, to permit more detailed comparisons, a graph similar to Figure 5 is presented, which shows the weighted averages for categories including primary product offering, ownership, company size, and average yield per week. The 11.7 percent increase from prior year is not calculated using a weighted average. The weighted average increase based on current year sales is 13.2 percent compared to 2011.

**11** In considering this split of sales volume, it is useful to consider that interval week programs that offer a timeshare points system that is backed by a deeded week or other week-based interest are classified as interval week sales.

## Fee-for-service arrangements

Services related to sales and marketing arrangements in the form of sale of timeshare interests on behalf of other developers have become an established feature within the industry over the last several years. Several questions within the 2013 survey were asked related to fee-for-service arrangements. Of the 23 respondents, six companies are selling and marketing timeshare on behalf of other developers while none of the respondent companies are outsourcing their selling and marketing of timeshare. Of the six respondents providing fee-for-service, five companies increased fee-for-service operations and one company decreased fee-for-service operations compared to 2011. Figure 6 reflects the amount of timeshare sold on the behalf of others for the six respondents.

Figure 6 **Net originated sales under fee-for-service arrangements**



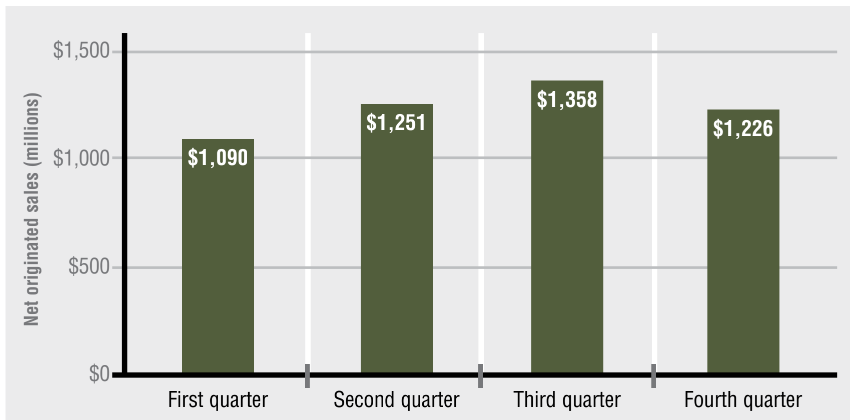

*Source: Deloitte & Touche LLP based on 6 company survey responses.*

## Quarterly timeshare sales

Timeshare sales in many locations exhibit seasonal patterns, as popular vacation periods correspond to heightened sales activity. During 2012, timeshare sales were highest in the third quarter of the year and lowest in the first quarter, based on the responses of 22 companies (Figure 7).

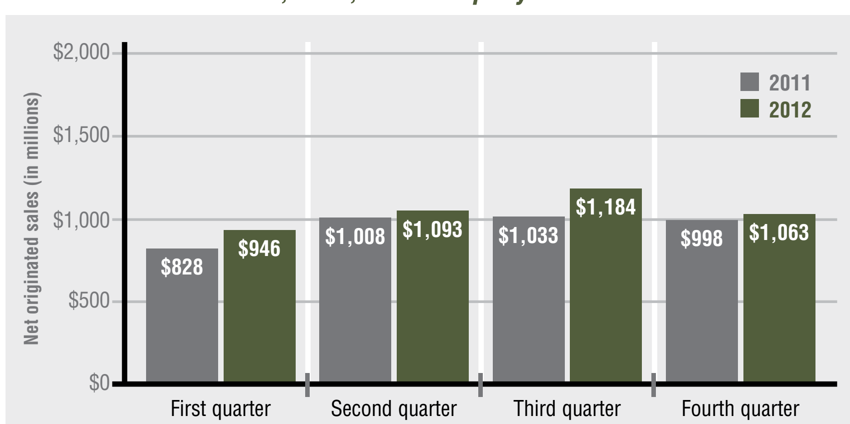
For the *core company set* in aggregate, net originated sales were higher, on average for each quarter of 2012 compared to the same quarter in 2011 (Figure 8). The quarterly increase resulted in an overall increase from 2011 to 2012 of 10.8 percent.

Figure 7 **Quarterly net originated timeshare sales, 2012, U.S.**




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

Figure 8 **Quarterly net originated timeshare sales, 2011 and 2012, U.S., *core company set***




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

## Number of locations

The Financial Performance Survey is conducted at the company level, with most companies representing multiple resorts. Of the 418 U.S. resorts represented by respondents in 2012, 322 were open and in active sales (Figure 9). Active sales resorts include resorts that did not have an on-site sales office, but which were actively sold from other sales centers. The remaining resorts were either not open but in active pre-sales or considered resorts not in active sales (96 resorts).

Figure 9 **Distribution of resorts and sales centers by type, U.S.**

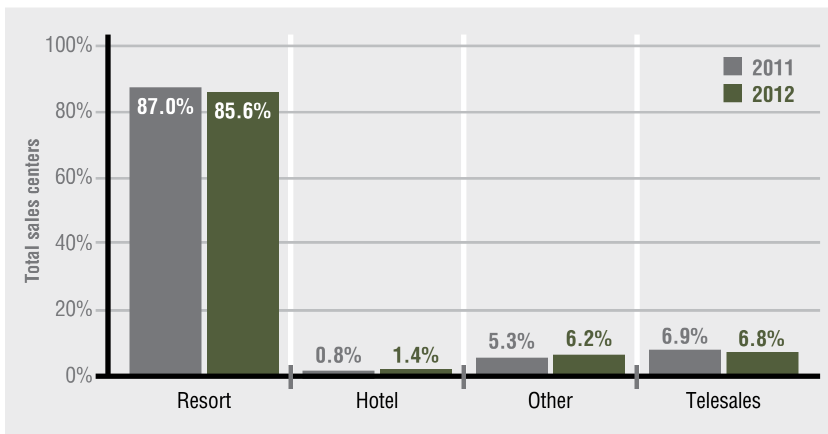
| | 2011 | 2012 | Percent change |
|---|---|---|---|
| *Resorts* | | | |
| Open, in active sales | 296 | 322 | 8.8% |
| In active pre-sales | 3 | 4 | 33.3% |
| Not in active sales | 78 | 92 | 17.9% |
| **Total resorts** | **377** | **418** | **10.9%** |
| *Sales centers* | | | |
| At a resort | 227 | 250 | 10.1% |
| At a hotel | 2 | 4 | 100.0% |
| Not at a resort or a hotel | 14 | 18 | 28.6% |
| Telesales | 18 | 20 | 11.1% |
| **Total sales centers** | **261** | **292** | **11.9%** |

*Source: Deloitte & Touche LLP based on 21 company survey responses for resorts and 22 company survey responses for sales centers.*

Respondents to the survey were asked to provide counts of sales locations in four categories: at a resort (also referred to as on-site), at a hotel, at an off-site location not at a resort or a hotel, or at a telesales center. While most sales centers were located at a resort (250 sales centers), respondents also reported four sales centers at a hotel, eighteen off-site sales centers that were neither at a resort nor at a hotel, and twenty telesales centers.

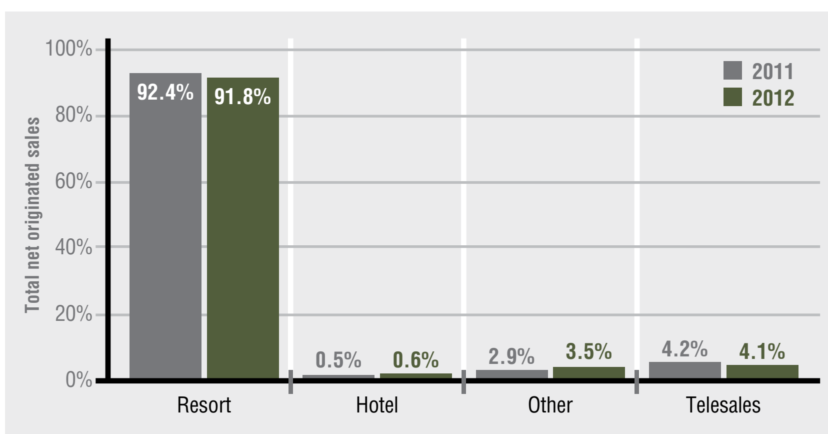
Sales centers at resorts accounted for 85.6 percent of the overall sales centers reported in 2012 and 91.8 percent of net originated sales among the respondent companies (Figure 10 and Figure 11). Conversely, sales centers not located at a hotel or a resort accounted for 13.0 percent of total sales centers, but only 7.6 percent of net originated sales in 2012.

Figure 10 **Distribution of sales centers by type: 2011 and 2012, U.S.**




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

Figure 11 **Net originated sales distribution by sales center type: 2011 and 2012, U.S.**




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

## Company size

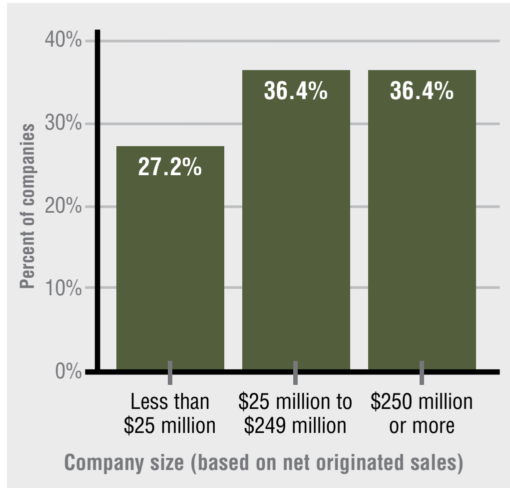
Annual net originated sales for the respondent companies ranged from less than $1 million to more than $1.5 billion per company. Given this wide range of company sizes, this report provides breakouts by company size (based on net sales volume) to give more accurate measures of small, medium, and large companies. The percentage of the total number of respondents in each size category (determined by 2012 net originated sales at U.S. locations) is shown in Figure 12. This gives an indication that the survey included respondents that were broadly distributed by company size.

Because the larger companies have substantial operations, the eight companies in the largest size category ($250 million or more) accounted for 84.1 percent of total net originated sales (Figure 13). In 2012, companies with sales above $25 million represented 72.8 percent of the response base, yet accounted for 99.4 percent of net originated sales.

Since many of the figures presented later in this study are calculated as weighted averages, it is important to keep in mind that the results of larger companies heavily influence the aggregate results presented.

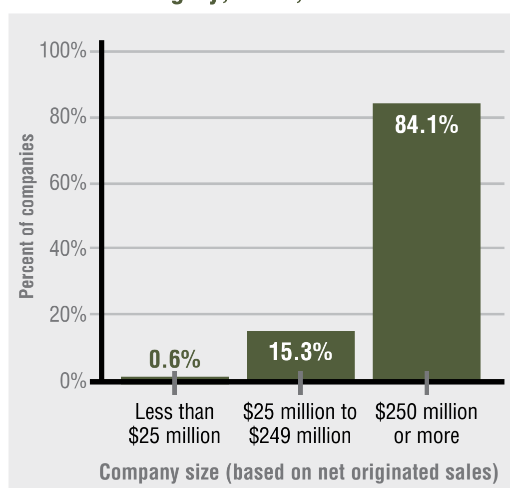
Of the 17 core company respondents that reported sales information five reported sales of less than $25 million, five reported sales between $25 million and $249 million, and seven reported sales greater than $249 million.

Figure 12 **Distribution of companies by company size category, 2012**




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

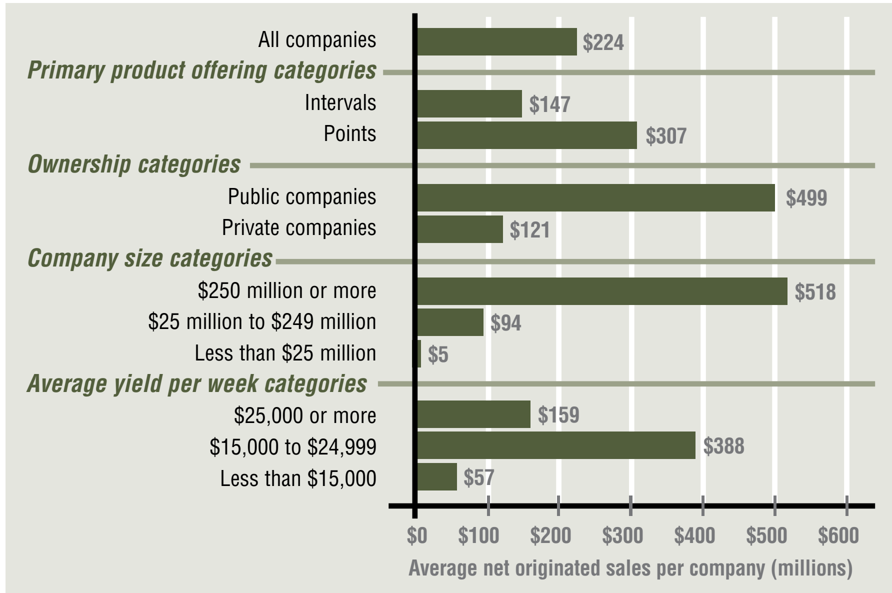
Figure 13 **Distribution of total net originated sales by company size category, 2012, U.S.**




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

Figure 14 shows the simple average of net originated sales per company (average company size) for the different company categories. Point companies averaged higher net originated sales compared to interval companies. Public companies were, on average, significantly larger than private companies. Companies that have an average yield per week of less than $15,000 make up less than seven percent of the total net originated sales. The average net originated sales for each of the company size categories is also provided as background information on the companies in each of those categories.

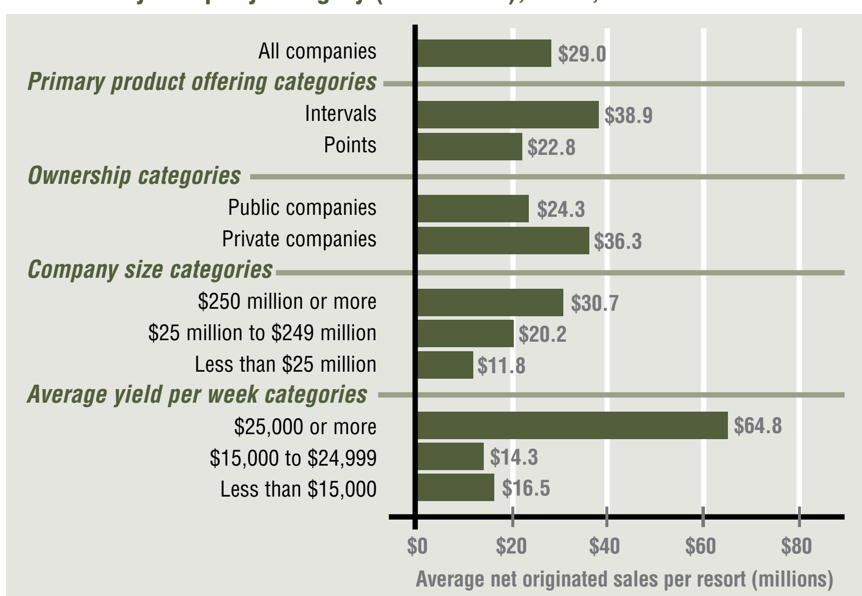
Figure 14 **Average net originated sales in millions per company by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 22 company survey responses.*

Another way to evaluate company size and sales activity is to consider the weighted average annual net originated sales per resort in active sales. Net originated sales per resort in active sales averaged $29.0 million in 2012 (Figure 15). Companies primarily selling intervals reported average sales of $38.9 million per resort in active sales, while points companies reported average sales of $22.8 million per resort in active sales. Companies with average yields per week more than $25,000 achieved the highest results with an average of $64.8 million per resort in active sales.

Figure 15 **Average net originated sales per resort in active sales by company category (in millions), 2012, U.S.**



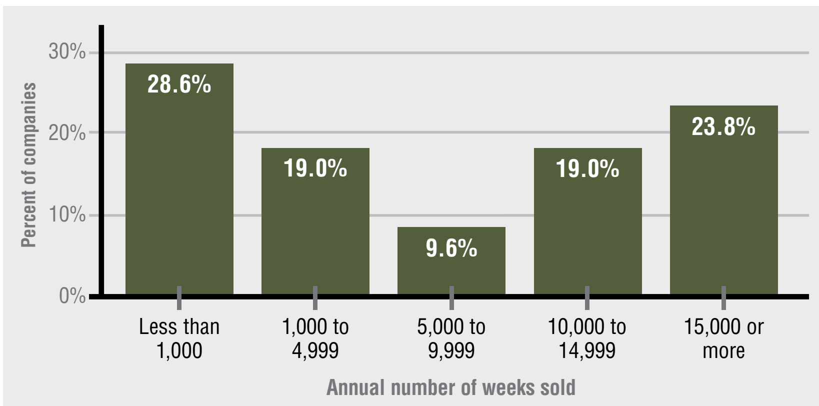

*Source: Deloitte & Touche LLP based on a minimum of 21 company survey responses.*

## Timeshare sales measured in weeks

For the purpose of this study, respondent companies were asked to provide sales volume, measured in weeks of annual use, in order to create a common measurement of the amount of interests in time that were sold. On the survey form, it was suggested that companies with points-based programs calculate equivalent weeks sold using an implied interval week conversion factor based on internal measures.

In total, approximately 235,052 weeks of annual use were sold at U.S. sales locations in 2012 by the 21 companies that responded to this question. Approximately 52.4 percent of the respondents sold 5,000 or more timeshare weeks during 2012 (Figure 16).

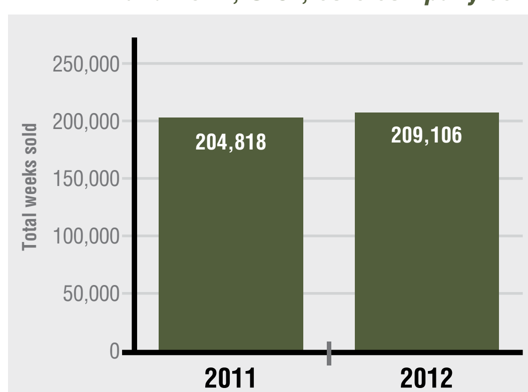
Figure 16 **Distribution of companies by annual number of weeks sold, 2012, U.S.**




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

The *core company set*, which consists of seventeen companies for this question, reported sales of approximately 209,106 timeshare weeks in 2012, which was a 2.1 percent increase in the number of weeks sold in 2011 (Figure 17).

Figure 17 **Number of weeks sold, 2011 and 2012, U.S., *core company set***



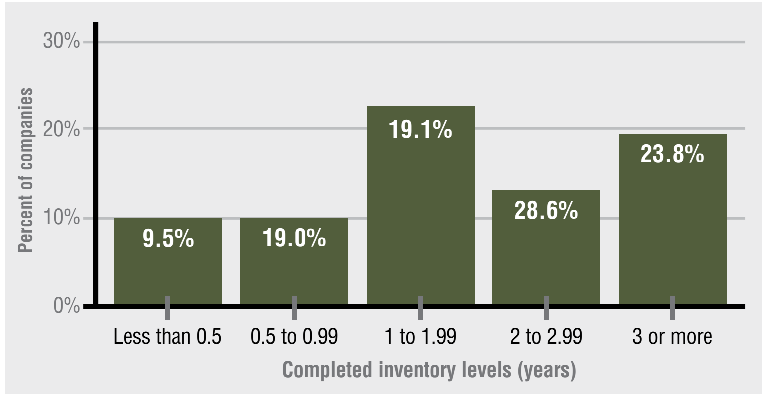

*Source: Deloitte & Touche LLP based on 17 company survey responses.*

## Inventory levels

Timeshare completed inventory, for the purpose of this study, is defined as unsold completed weeks of inventory available for sale at resorts, including developer reacquired weeks. Based on 21 respondent companies, there were a total of 395,125 weeks of completed inventory as of December 31, 2012. Inventory levels can be evaluated by considering the amount of inventory in relation to the company's current sales pace. From the inventories indicated by respondent companies, inventory levels (measured in years) were calculated. This reflects the number of years that the company would need to sell its entire unsold, completed inventory if it were to maintain its 2012 sales pace. Completed inventory levels are calculated by taking the reported inventory and dividing it by the total number of weeks sold in 2012. For example, a company that had 5,000 unsold weeks of inventory at year-end 2012 after selling 2,500 weeks during 2012 would be counted as having an inventory level of two years (5,000 divided by 2,500).

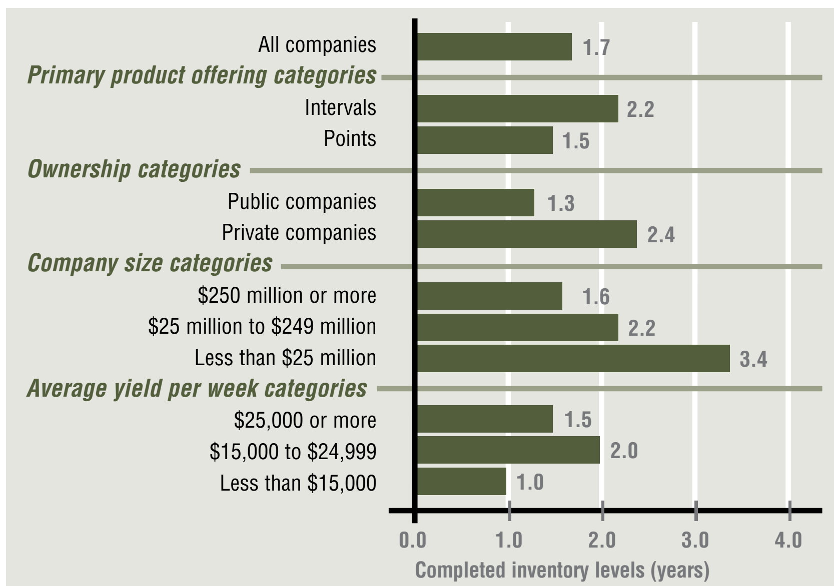
In 2012, 52.4 percent of the 21 companies that responded to this question held at least two years of completed inventory (Figure 18). Years of completed inventory ranged from approximately 0.01 years to more than 26 years. The weighted average inventory levels of all respondents decreased by 0.1 years from 1.8 years to 1.7 years from 2011 to 2012.

Figure 18 **Distribution of companies by completed inventory levels, 2012, U.S.**




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

Figure 19 **Completed inventory levels by company category, 2012, (in years)**




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

Overall, the 21 companies that provided information showed an average of 1.7 years of completed inventory available for sale, on a weighted average basis.[12] Completed inventory levels varied across categories (Figure 19). Companies with net sales less than $25 million held approximately an additional 1.7 years' worth of completed inventory with the category reporting an average of 3.4 years (Figure 19).

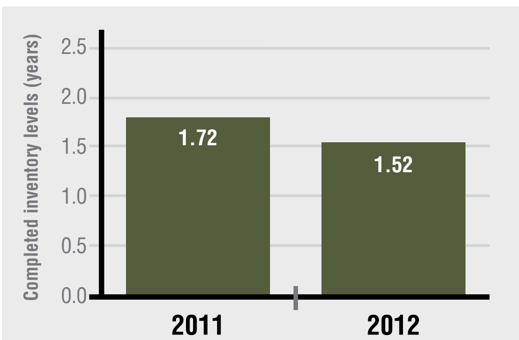
**12** The weighted average inventory level is based on the average 2012 sales pace reported by respondents. Changes in sales pace would cause years of inventory levels to change. For example, a sales pace 15 percent below the 2012 sales pace would imply an average inventory level equal to 2.0 years of sales; similarly a sales pace 30 percent below the 2012 sales pace would imply an average inventory level equal to 2.4 years of sales (calculations reflect rounding).

Information from the *core company set* shows years of completed inventory decreased, approximately 11.6 percent, in 2012 from 2011 (Figure 20). At year-end 2012, the *core company set* had an aggregate completed inventory level of approximately 1.52 years. The calculation for the analysis presented below utilizes equivalent weeks sold in 2012. As the sales pace slightly increased in 2012, the inventory levels have decreased for the *core company set*.

Respondents were also asked to provide the number of unsold weeks of inventory that was available for sale but not yet complete. In other words, this reflected unsold inventory in phases that were in pre-sales at year-end. In total, five respondent companies provided information indicating a total of nearly 9,598 weeks of unsold, not yet completed inventory available for sale as of December 31, 2012.

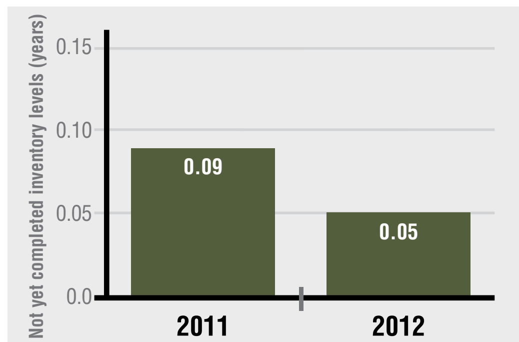
Information from the *core company set*, representing five respondent companies shows years of inventory that was available for sale, but not yet completed, decreased by 44.4 percent from 2011 to 2012 (Figure 21). The calculation presented below was determined using inventory held for sale but not yet complete and equivalent weeks sold in 2012.

Figure 20 **Completed inventory levels, 2011 and 2012, U.S., *core company set***




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

Figure 21 **Not yet completed inventory levels, 2011 and 2012, U.S., *core company set***

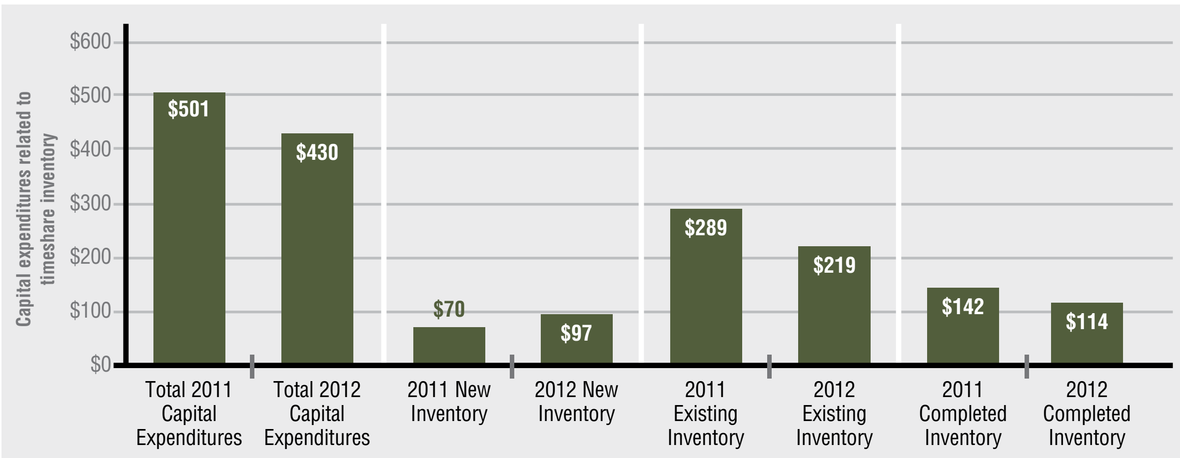



*Source: Deloitte & Touche LLP based on five company survey responses.*

Respondents were asked a question in the 2013 survey regarding capital expenditures related to the development of timeshare inventory for both 2011 and 2012. Of the fourteen respondents, ten, or over 71 percent, increased capital expenditures related to the development of timeshare inventory, and four respondents, or less than 29 percent, decreased capital expenditures related to the development of time share inventory. Capital expenditures related to the development of new timeshare inventory increased from $70 million in 2011 to $97 million in 2012.  Capital expenditures related to the development of timeshare inventory that began construction in prior years decreased from $289 million in 2011 to $219 million in 2012 (Figure 22). In total, capital expenditures related to the development of timeshare inventory decreased by 12.0 percent from 2011 to 2012. Note although the majority of respondents increased capital expenditures, one large respondent reported a significant decrease in capital expenditures which caused the overall decrease.

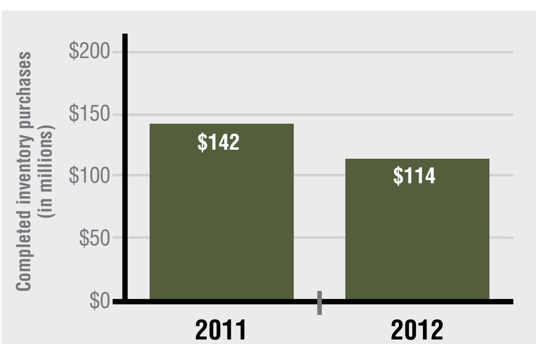
A new question was asked this year related to capital expenditures for completed inventory (e.g. turn-key, just in time inventory purchases, buy-backs from Property Owner Associations). The ten respondent companies reported $114 million in capital expenditures of completed inventory in 2012, which was a decrease of 19.7 percent compared to the $142 million in capital expenditures of completed inventory in 2011 (Figure 23). Seven of the ten respondent companies reported increases in capital expenditures of completed inventory. However, of the three respondents who reported decreases, two respondents reported significant decreases which caused the overall results to decrease compared to 2011. Capital expenditures of completed inventory represented approximately 26.5 percent of total capital expenditures related to timeshare inventory in 2012, compared to approximately 28.3 percent of total capital expenditures related to timeshare inventory in 2011 (Figure 22).

Figure 22 **Capital expenditures (in millions)**



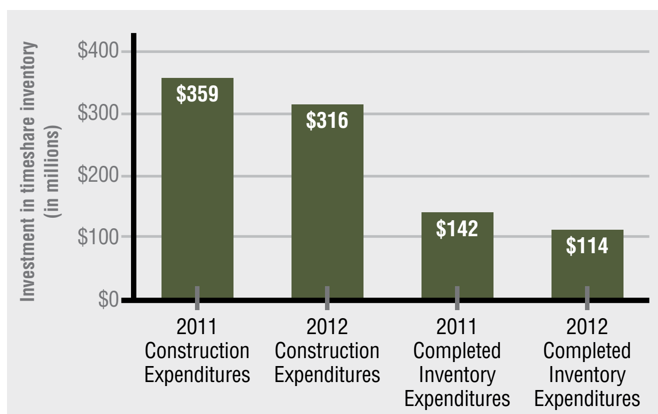

*Source: Deloitte & Touche LLP based on a minimum of 10 company survey responses*

Figure 23 **Capital expenditures related to completed timeshare inventory (in millions)**




*Source: Deloitte & Touche LLP based on 10 company survey responses*

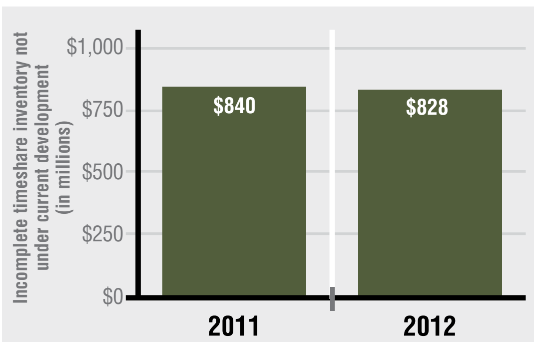
Figure 24 **Capital expenditures related to timeshare inventory (in millions)**




*Source: Deloitte & Touche LLP based on a minimum of 10 company survey responses*

Another new question was added this year related to construction costs and undeveloped land included in inventory, but not under current development (i.e. inventory developments where construction has been placed on hold or is inactive). The nine respondent companies reported $828 million and $840 million of construction costs and undeveloped land included in inventory, but not under current construction for 2012 and 2011, respectively, representing a decrease of 1.4 percent (Figure 25). Five companies reported an increase, three companies reported a decrease, and one company reported no change from 2011 to 2012.

Figure 25 **Incomplete timeshare inventory not under current construction (in millions)**




*Source: Deloitte & Touche LLP based on 9 company survey responses*

Survey respondents were asked to report the dollar value of inventory impairments charged during the year. Two respondents reported inventory impairment charges in 2012 totaling approximately $6.1 million, compared to one survey respondent who reported inventory impairment charges in 2011 totaling approximately $0.1 million.

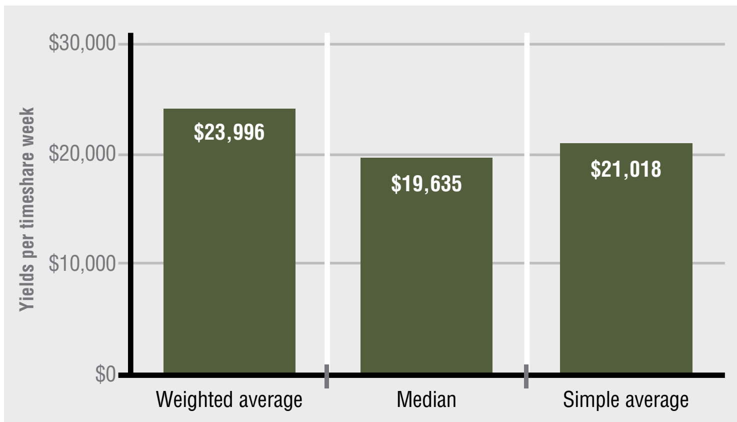
## Average yield of a timeshare week

In this survey, average yield per timeshare week is used as a measure of the amount of revenue generated in relation to the amount of inventory sold. It is calculated as net originated sales volume divided by the weeks of annual use sold during the year. Yield per timeshare week can be impacted by factors other than pricing. For example, in a given year, the mix of upgrade sales or biennial sales at a company could change. Also, the mix of units sold could change, for example, as more two-bedroom units, more units in higher-priced markets, or more units in peak seasons are sold.

One example of the way that yield per timeshare week can be impacted by a factor other than changes in price relates to upgrade sales. An upgrade sale results in net originated sales value that is reflected in the numerator, but does not impact the denominator. This is because no additional weeks are considered sold in an upgrade, for example, of a consumer from a one-bedroom unit to a two-bedroom unit. As a result, increased upgrade sales in one year can cause a company's yield per week to increase even if prices to consumers remain stable. Also, respondents were asked to count biennial sales, or every-other-year weeks, as half a week in the calculation of weeks sold. To the extent that biennial products achieve higher average prices per annual week sold, a shift from annual products toward biennial sales would be expected to increase the average yield of a timeshare week measure in a given year, even if the pricing of specific products did not change.

There are several different ways to analyze the average yield per timeshare week across companies: i) simple average yield, ii) weighted average yield, and iii) median yield. Each measure provides different information. The simple average yield treats each company equally, regardless of a company's contribution to aggregate net originated sales reported by survey respondents. Thus, this measure of the average yield does not distinguish between larger and smaller companies (based on net originated sales). The weighted average yield gives more weight to yields of larger companies and less weight to smaller companies. Consequently, the weighted average yield reflects sales activity and represents a measure closer to the typical yield. The median yield is that average yield per week, which is in the middle of the range, i.e., 50 percent of the companies reported average yields above the median and 50 percent reported average yields below the median. Because it is less influenced by the extremes, the median is also a useful measure to consider.

Figure 26 **Median and average yields per week, 2012, U.S.**




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

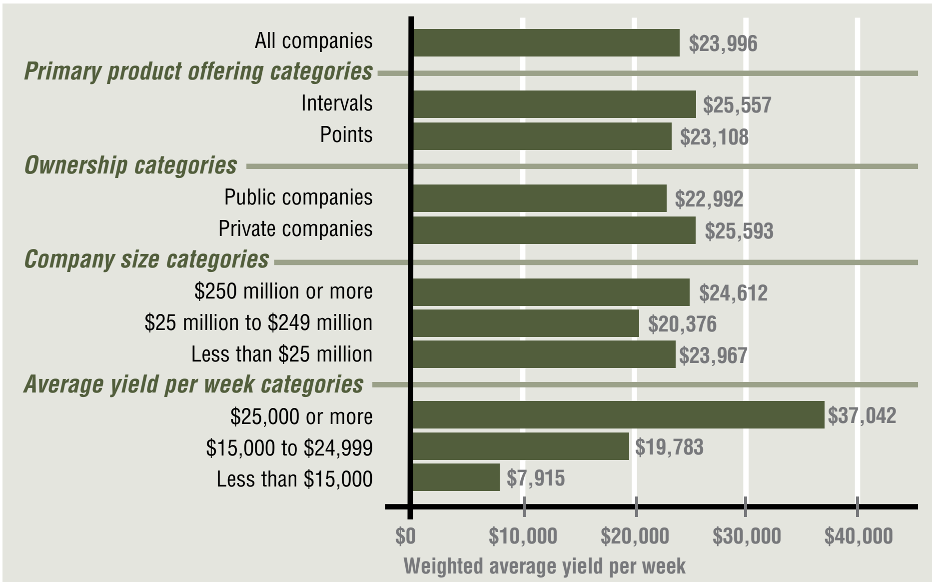
Overall, the different methods of comparing yields show that the typical yield of a U.S. timeshare week in 2012 was between $19,635 to $23,996. The broadest measure of yield, the weighted average yield, was $23,996 per week sold which increased from $22,709 per week sold in 2011.

The various categories of development companies exhibit different weighted average yields per week. Overall, interval companies, private companies and larger companies showed higher average yields per week, while point companies, public companies and mid-sized companies showed lower average yields per week. Weighted averages for specific categories of companies are shown in Figure 27.

The weighted average yield per week for companies that primarily sold interval product was $25,557 in 2012, compared to $23,108 for companies that primarily sold points product. The average yield per week for points sales is based on the net originated sales for points product divided by the number of equivalent weeks sold, as reported by the respondents.

The weighted average yield per week achieved by companies in the $250 million or more company size category was $24,612 per week, which was greater than both the $25 million to $249 million and the less than $25 million categories. The average yield per week in each of the yield per week categories is also shown in Figure 28 to provide background information on the companies in each of those categories.

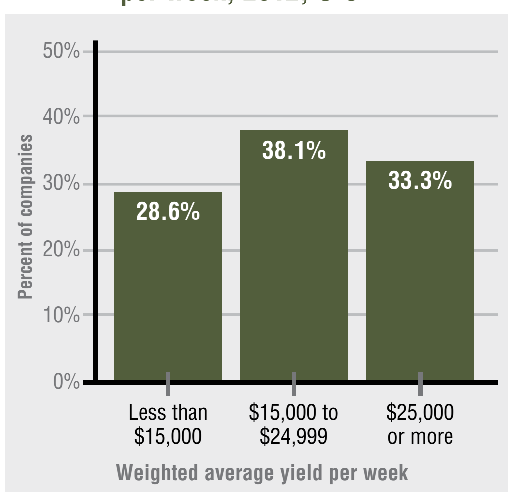
Figure 27 **Weighted average yield per week by company category, 2012, U.S.**




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

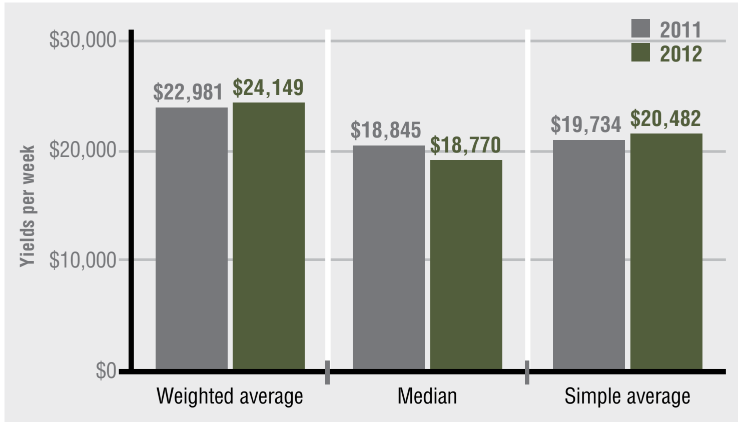
The average yield per week in 2012 ranged from about $1,000 to over $40,000. Approximately 71.4 percent of all respondents reported weighted average yields per week of $15,000 or more during 2012 (Figure 28).

Figure 28 **Distribution of companies by weighted average yield per week, 2012, U.S.**




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

Figure 29 **Median and average yields per week, 2011 and 2012, U.S., *core company set***

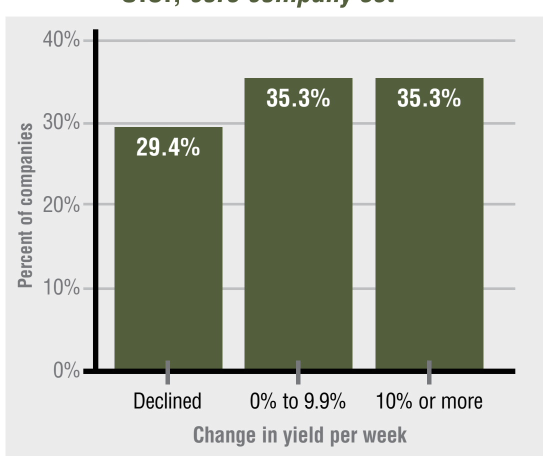



*Source: Deloitte & Touche LLP based on 17 company survey responses.*

Companies included in the *core company set* reported that the average yields per week increased in 2012 from 2011. The weighted average yield per week was 5.1 percent higher in 2012 than in 2011 (Figure 29). This change reflects any changes in timeshare week prices, changes in the volume of upgrade sales, or changes that may have occurred in the types of units sold. In considering these yield per week results, it is also useful to consider that the average transaction value in 2012, which is presented in the next section (page 33), increased 0.8 percent from 17,986 in 2011 to 18,136 in 2012 for the *core company set*. This indicates that the typical amount being spent per purchase was more than the previous year. As a result, the change in average yield per week may not only be the result of price changes, but may be attributable to a change in the mix of products sold. Other factors may include changes in sales at new resorts or sales of remaining inventory at nearly sold-out resorts.

Approximately 70.6 percent of respondents in the *core company set* reported that the company's weighted average yield per week in 2012 was higher than in 2011 (Figure 30). Six companies reported increases in yield per week that exceeded 10 percent.

Figure 30 **Distribution of companies by change in yield per week, 2011 and 2012, U.S., *core company set***




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

## Sales tour metrics

Sales operations are a key process in the timeshare development business, and tours, which refer to sales presentations to consumers, are a fundamental step in the process. Frequently such presentations occur on-site at a resort and include a tour of the resort units and amenities. Each such sales session is counted as a tour, whether it occurs on-site at a resort or at an off-site sales center. Frequently, consumers are offered an incentive, such as a reduced-price hotel or resort stay that is contingent on completing the tour, whether or not the consumer chooses to buy. The percentage of consumers who purchase a timeshare interest, whether it is one week, two weeks, an upgrade of an existing week, or a purchase of points (excluding sampler and/or trial programs), is referred to as the net close rate or closing efficiency. The average net originated sale per transaction (purchase of a timeshare interest), not including telesales, is referred to as the average transaction value. The average net originated sale per tour is referred to as volume per guest (VPG).

In 2012, respondents reported conducting just under 2.12 million tours, compared to 2.01 million in the previous year. Approximately 316,334 sales transactions were reported in 2012, yielding an average net close rate of 15.2 percent (Figure 31). The average transaction value was $17,194[13] and the average volume per guest was $2,554. The net close rate, average transaction value, and volume per guest were calculated using weighted averages as opposed to simple averages to reflect the overall industry trend by survey respondent. These same respondents reported total net originated sales including telesales of $4.925 billion. The results in Figure 31 also show weighted average sales metrics for company categories by company size and average yield per week. As in other figures, the average yield per week categories refer to the overall average yield realized by the company. Consistent with the amounts throughout this report, the amounts in the sales tour metrics are calculated as weighted averages. In addition, we calculated the simple averages of the close rate, volume per guest, and average transaction value for 2012, which are 14.9 percent, $2,375 and $15,907, respectively. Note the number of tours and sales transactions in the average yield table does not agree to the number of tours and sales transactions for all respondents due to the fact that one of the respondents did not provide average yield per week information, and were thus not included in the average yield per week totals below.

Figure 31 **Sales tours metrics by company category, 2012, U.S.**

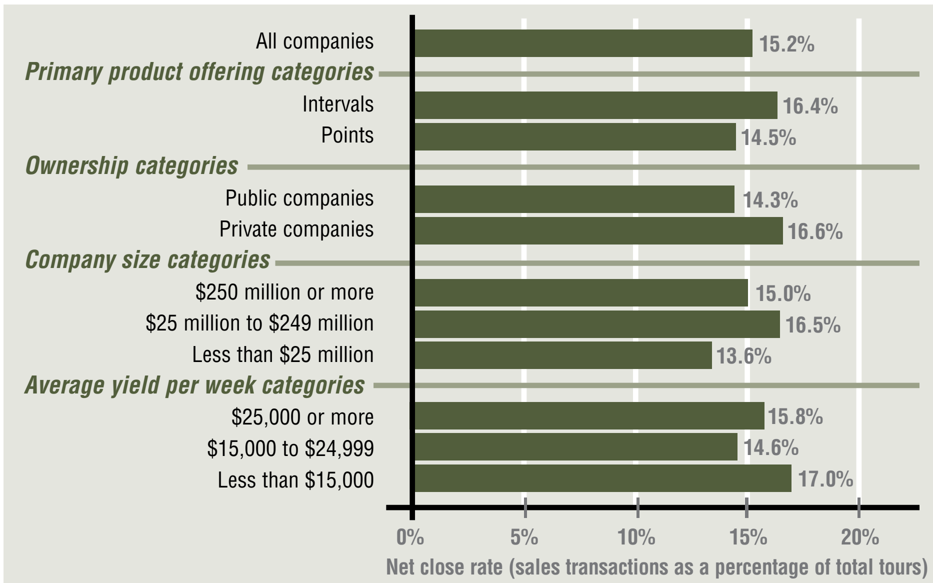
| | | Company size | | | Average yield per week | | |
|---|---|---|---|---|---|---|---|
| | All Respondents | $250 million or more | $25 million to $249 million | Less than $25 million | $25,000 or more | $15,000 to $24,999 | Less than $15,000 |
| Number of tours | 2,118,932 | 1,702,999 | 401,418 | 14,515 | 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.*

**13** The average transaction value of $17,194 (based on 20 respondents) is lower than the average yield per timeshare week of $23,996 (based on 21 responses). These measures refer to two different concepts, with average transaction value referring to net originated sales revenue per transaction, and yield per timeshare week referring to net originated sales divided by the number of weeks of annual use sold during the year. Because some transactions result in the sale of less than a full year of incremental annual use, for example, the sale of a biennial or the sale of an upgrade, there is generally a greater number of transactions than annual weeks of inventory sold.

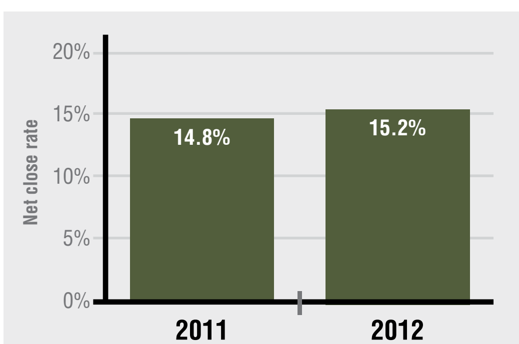
The net close rate, which refers to sales transactions (after removing rescissions) generated per tour, was reported to be 15.2 percent in 2012 for all respondent companies on average, which was 0.4 percentage points higher than the 14.8 percent reported in 2011 (as reported by respondents in the current survey). Private companies reported an average net close rate of 16.6 percent in 2012, compared with public companies, which reported an average net close rate of 14.3 percent (Figure 32). In addition, interval companies tended to have higher net close rates than point companies, as shown below.

Figure 32 **Net close rate by company category, 2012, U.S.**




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

Figure 33 **Net close rate, 2011 and 2012, U.S., *core company set***

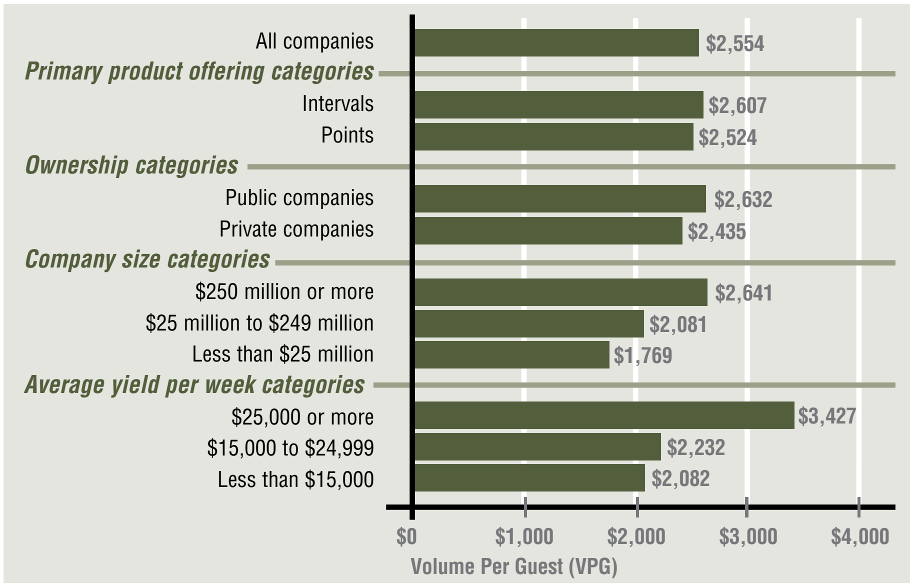



*Source: Deloitte & Touche LLP based on 14 company survey responses.*

Among the *core company set*, net close rates increased from 14.8 percent in 2011 to 15.2 percent in 2012 (Figure 33).

VPG represents timeshare sales revenue measured on a "per tour" basis and is calculated by dividing net originated sales, excluding telesales, by the number of tours hosted. In 2012, nineteen companies reported a weighted average VPG of $2,554 which increased from $2,419 as reported by the same respondents for 2011.

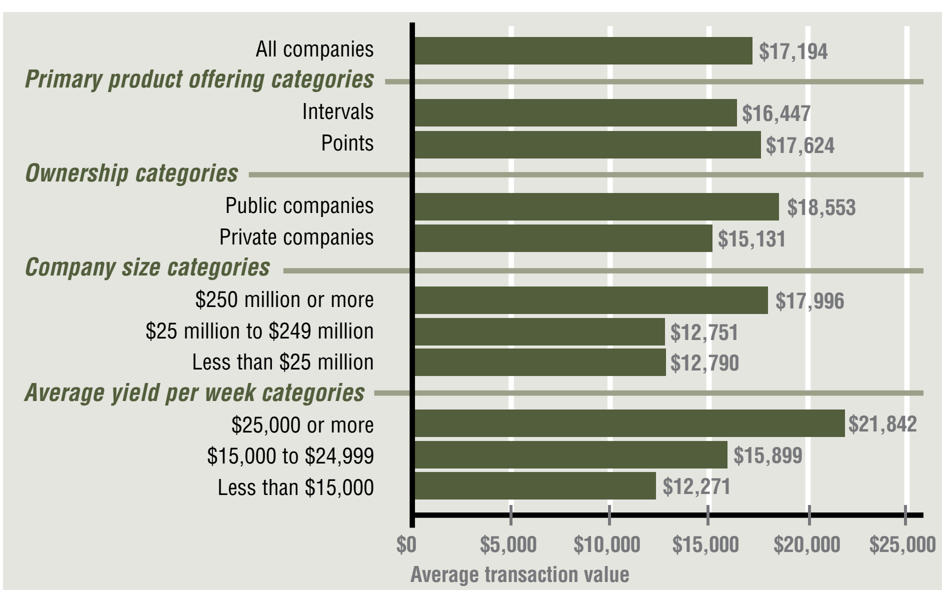
Figure 34 **Volume Per Guest by company category, 2012, U.S.**




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

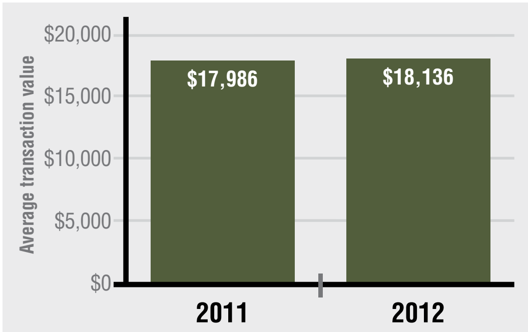
Survey respondents reported a weighted average transaction value of $17,194 in 2012, which increased from $16,979 in the previous year. In general, smaller–to-medium-size companies reported lower transaction values; companies with net originated sales of between $25 million to $249 million reported the lowest average transaction value for the company size category reporting $12,751 in 2012 (Figure 35). Public companies tended to have higher transaction values than private companies.

Figure 35 **Average transaction value by company category, 2012, U.S.**




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

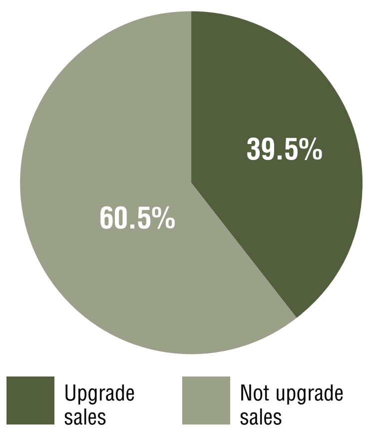
Figure 36 **Average transaction value, 2011 and 2012, U.S., *core company set***




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

Average transaction values among the *core company set* increased by 0.8 percent from 2011 to 2012, averaging $18,136 in 2012 (Figure 36).

Figure 37 **Upgrade and non-upgrade sales as a share of net originated sales value, 2012, U.S.**

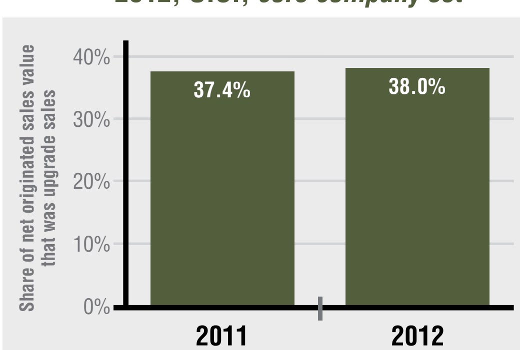



*Source: Deloitte & Touche LLP based on 21 company survey responses.*

The sales tour metrics presented in this section are based on the total number of sales transactions and total net originated sales, which include both upgrade and non-upgrade sales transactions as well as sales made for other developers under fee-for-service arrangements. In total, 21 respondent companies provided detailed information indicating that net originated sales value resulting from upgrade sales increased from 37.8 percent in 2011 to 39.5 percent in 2012. Conversely, the remainder of net originated sales value resulting from non-upgrade sales decreased from 62.2 percent in 2011 to 60.5 percent in 2012 (Figure 37). The same respondents reported that average transaction value for non-upgrade sales was $16,515 and for upgrade sales was $14,543 in 2012.

Respondents in the *core company set* reported that upgrade sales accounted for 38.0 percent of total net originated sales value in 2012, which is 0.6 percentage points higher than 2011 (Figure 38). Fifty percent of respondents in the *core company set* reported an increase in upgrade sales in 2012 as compared to 2011.

Figure 38 **Share of net originated sales value that was upgrade sales, 2011 and 2012, U.S., *core company set***

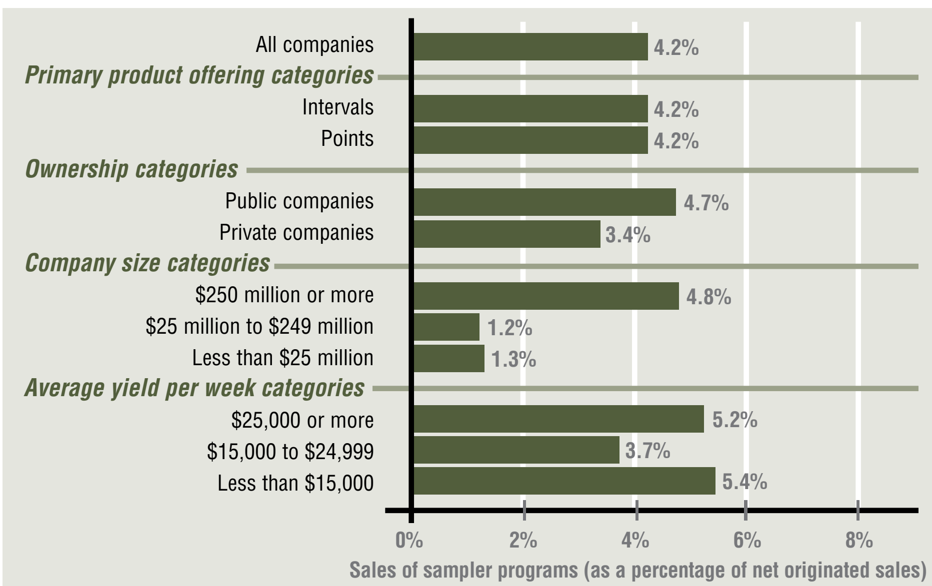



*Source: Deloitte & Touche LLP based on 14 company survey responses.*

Sampler programs, also referred to as exit or trial programs, are marketing programs under which a consumer who has already attended a sales tour purchases a stay at one or more of the timeshare company's resorts for a fee that reflects a reduced rate. In exchange, the customer agrees to take another subsequent tour of the project selected under the sampler program during the customer's stay at that resort. In some cases, if the subsequent tour results in a sale, the developer allows the consumer to apply some or the entire amount paid for the sampler toward the purchase of the timeshare interest.

Sampler program sales are not included in net originated sales. However, as a reporting measure, sampler programs sales can be viewed in relation to net originated sales. In 2012, respondents reported that sampler program sales were equivalent to 4.2 percent of total net originated sales. Sales of sampler programs for both point companies and interval companies were equivalent to 4.2 percent of net originated sales. Public companies and companies with sales of $250 million or more have higher sales of sampler programs in relation to net originated sales than private companies and smaller companies, respectively. (Figure 39).

Figure 39 **Sales of sampler programs (as a % of net originated sales) by company category, 2012, U.S.**




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

# IV. REVENUE RECOGNITION

## The standards in ASC 978 affected how companies recognize revenue generated by the sale of timeshare interests beginning in 2007 for most companies.

In addition to rescissions, companies also deduct from revenue an estimated percentage of financed sales that are likely to become uncollectible. According to ASC 978, uncollectible sales occur when a receivable becomes either wholly uncollectible or is modified in some manner that results in less than 100-percent collection of the original note. Companies estimate the portion of financed sales that are expected to be uncollectible and deduct that amount from sales revenue. Estimates are based on actual receivables collection experience and other considerations.

This deduction for uncollectible sales, as well as three specific deferrals, affects the level of revenue recognized according to GAAP in a specific period. The deferral for rescission period results from sales that have not yet cleared the applicable statutory rescission period. The deferral for buyer commitment applies to sales on which the necessary buyer commitment has not yet been collected by the seller. Meanwhile, deferrals for percentage-of-completion occur when a portion of construction is not yet complete, as companies can only recognize sales in line with the percentage of the resort phase that has been constructed to date. For example, if the relevant resort phase is 30 percent complete, then revenues on 30 percent of the timeshare sold may be recognized, and any excess is deferred and reconsidered at the next reporting date.

Adjustments and deferrals are consistent with the principles of revenue recognition from an accounting perspective. Timeshare companies also typically use net originated sales, calculated as gross sales minus rescissions, but before reduction of revenue for uncollectible accounts and deferrals, as an important measure of the level of sales generated in a period. To provide an example of the relationship between gross sales, net originated sales, and revenue according to GAAP, the Financial Performance Survey collected relevant revenue recognition information from companies in a table format. For the purposes of discussion, these results have been calculated in relation to $100.00 of net originated sales rather than as percentages. The aggregate results, provided in Figure 40, show that after an average of $14.39 in rescissions, on a weighted average basis, $114.39 in gross sales in 2012 generated $100.00 of net originated sales.[14] From this $100.00, an average of $14.10 was deducted as a reduction of revenue for uncollectible accounts, $0.19 was deducted as net deferrals for sales that had not yet cleared the rescission period, and a net amount of $1.27 was deducted as net deferrals for buyer commitment. In total, each $100.00 in net originated sales generated $84.44 in sales for accounting purposes after these adjustments, which after an addition of $0.15 for net deferrals for percentage-of-completion[15] (resulting from less sales that were deferred in the current period than were recognized from previous periods due to the timing of projects under construction), resulted in $84.59 in sales revenue according to GAAP (some figures may not sum due to rounding). Some of the differences between net originated sales and GAAP revenue are timing differences, rather than permanent differences, as the deferrals for the rescission period and buyer commitment will eventually be recognized as GAAP revenue.

**14** The 21 respondents shown in Figure 40 reported $4.920 billion of net originated U.S. sales.

**15** Net deferrals for percentage-of-completion have the effect of increasing average sales revenue because respondents reported positive values, indicating less sales in the current year were deferred than those that were recognized from previous periods.

Figure 40 **Timeshare sales revenue per $100 in net originated sales, 2012, U.S.**

| | All respondents | Public companies | Private companies |
|---|---|---|---|
| Gross sales | $114.39 | $115.88 | $111.95 |
| Rescissions | (14.39) | (15.88) | (11.95) |
| Net originated sales | $100.00 | $100.00 | $100.00 |
| | | | |
| Reduction of revenue for uncollectible accounts | (14.10) | (16.44) | (10.46) |
| Net deferrals for rescission period | (0.19) | (0.10) | (0.33) |
| Net deferrals for buyer commitment | (1.27) | (0.21) | (2.94) |
| Sales after reduction for uncollectibles accounts, and deferrals for rescission period and buyer commitment | $84.44 | $83.25 | $86.27 |
| Net deferral for percentage-of-completion | 0.15 | 0.01 | 0.38 |
| Sales revenue according to GAAP | $84.59 | $83.26 | $86.65 |

Note: One private company and one public company reported positive net deferral for percentage-of-completion in 2012 resulting from sales that occurred earlier and were recognized as projects reached completion.

*Source: Deloitte & Touche LLP based on 21 company survey responses, 6 public companies, and 15 private companies.*

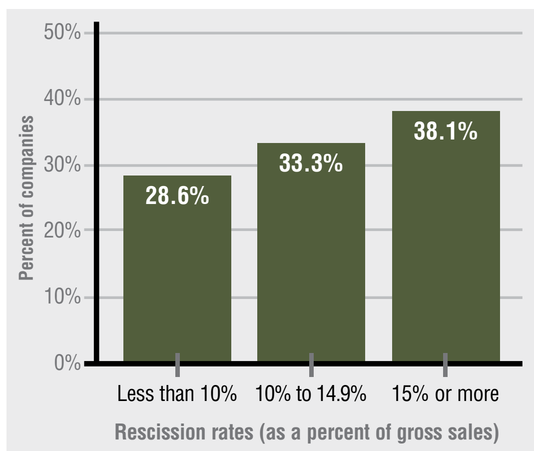
## Rescissions

For the 21 respondent companies that provided rescission information, the weighted average rescission rate (dollar value of rescissions as a percentage of gross sales) decreased from 14.9 percent in 2011 to 14.4 percent in 2012.

The rescission question excludes depositary rescissions. Depositary rescissions refer to situations in which the buyer has made a deposit, but has not yet provided the down payment necessary to qualify the transaction as a contract sale. These are, therefore, not counted in gross sales, and are therefore not counted as rescissions.

Rescission rates reported by companies varied across a wide range. Six companies reported rescission rates below ten percent for 2012, while eight others reported rates in excess of fifteen percent. In 2012, 71.4 percent of respondent companies recorded rescission rates equal to or greater than 10 percent (Figure 41).

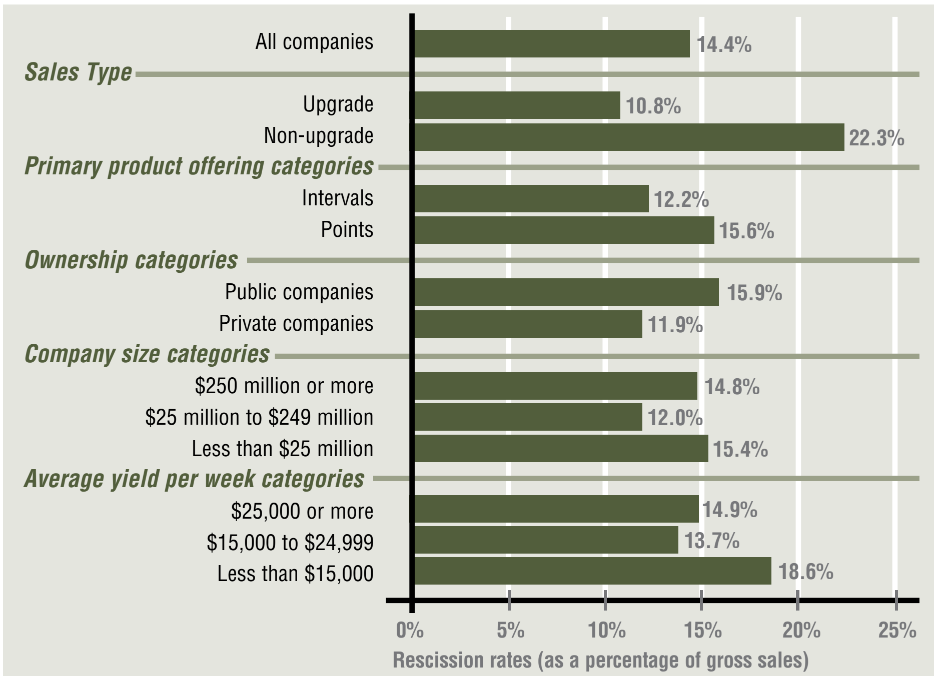
Figure 41 **Distribution of companies by rescission rates, 2012, U.S.**




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

Variations in rescission rates were observed from one company category to another in 2012. Differences are evident between interval and points companies, with interval companies achieving lower average rescission rates (Figure 42). Differences were also noted in the company size categories as companies with $25 million to $249 million of net originated sales reported the lowest average rescission rate of 12.0 percent compared to the 14.8 percent reported by companies with $250 million or more of net originated sales and the 15.4 percent reported by companies with net originated sales of less than $25 million. Upgrade sales achieved a lower average rescission rate compared to non-upgrade sales at 10.8 percent and 22.3 percent, respectively. As with other areas analyzed in this report, it is possible that differences between categories, such as differences between interval and points companies, may represent the characteristics of the specific companies responding rather than an underlying relationship based on product type.

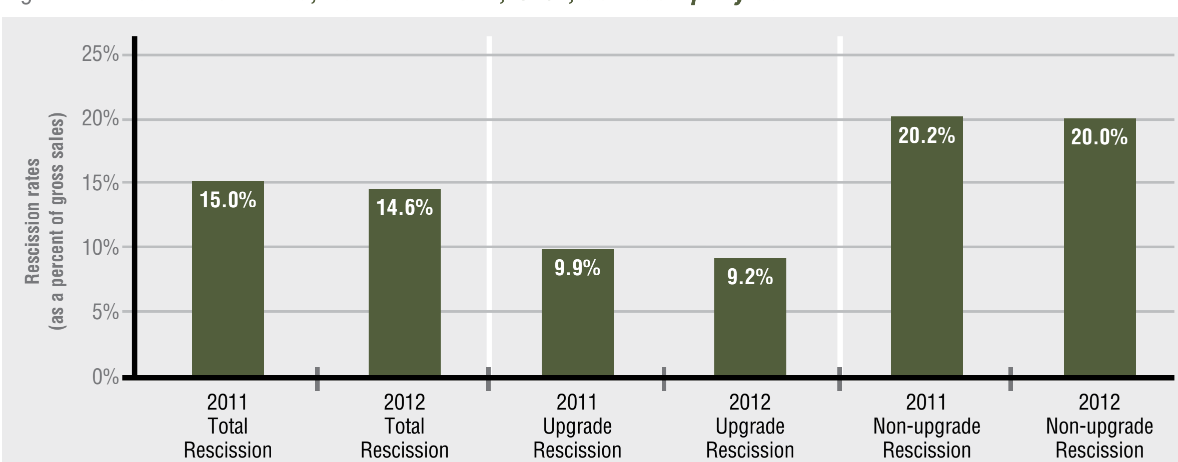
Figure 42 **Rescission rates by company category (as % of gross sales), 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

The *core company set* reported an average rescission rate in 2012 of 14.6 percent which was similar to the overall response set. The average rescission rate for the *core company set* was lower in 2012 compared to 2011 (Figure 43). A decrease is also noted in both upgrade and non-upgrade rescissions.

Figure 43 **Rescission rates, 2011 and 2012, U.S., *core company set***




*Source: Deloitte & Touche LLP based on a minimum of 13 company survey responses.*

# V. KEY RATIOS

## The Financial Performance Survey collects information on expenses of timeshare sales operations to report on a set of ratios that are recognized as some of the key measures in the business.

The "key ratios" question in this year's edition of the Financial Performance Survey follows the format established in previous years' editions and includes:

1. A line for estimated uncollectible sales (as a result of consistent guidance in ASC 978)
2. Guidance for respondents to report only general and administrative costs related to timeshare sales operations
3. A line for the pre-tax margin of timeshare sales operations
4. Guidance that the total of the seven key ratios lines is expected to sum to 100 percent
5. Guidance that the respondents should only report on sales related inventory owned by the developer (i.e., respondents were not to include inventory sold on behalf of others)

As in previous years, the key ratios have been calculated as percentages of net originated sales. Net originated sales was used as the denominator in calculating the ratios, rather than sales revenue according to GAAP, because it is not affected by deferrals that affect the timing of GAAP sales revenue. Key ratio results are summarized in this report in table format, with separate subsections providing more in-depth analysis of each line item.

A majority of respondents completed the key ratios section of the survey. The results show that the largest line items were other sales and marketing costs at 25.3 percent of net originated sales, estimated uncollectible sales at 16.0%, and product cost at 18.4 percent (Figure 44). The weighted average pre-tax margin on timeshare sales operations was 16.5 percent.[16] Several differences were apparent between interval companies and points companies, as well as between public companies and private companies. In particular, relative to public companies, private companies reported lower estimated uncollectible sales, lower product costs, higher sales and marketing costs, higher general and administrative costs, and lower HOA subsidies and/or maintenance fees, resulting in a lower weighted average pre-tax margin.

Figure 44 **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.*

16 Several companies reported timeshare sales expenses in 2012 that were greater than revenue, resulting in a pre-tax loss in their timeshare sales operations. This reduced the weighted average profit margin in some of the categories.

Differences were also evident in the results reported by large companies compared to small companies, including lower total sales commissions and other sales and marketing costs, as well as lower general and administrative costs, resulting in higher pre-tax margins (Figure 45). The following sections provide further analysis on each line item category.

Figure 45 **Key ratios as a % of net originated sales value, 2012, 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 | 15.0% | 21.1% | 16.5% | 5.2% | 21.3% | 12.8% |
| Cost of sales, also referred to as product cost | 19.1% | 14.5% | 22.7% | 34.5% | 10.8% | 22.0% |
| Sales commissions | 13.2% | 18.2% | 15.2% | 8.6% | 16.0% | 16.9% |
| Other sales and marketing costs to sell timeshare intervals or points | 24.4% | 30.0% | 30.4% | 30.1% | 22.1% | 31.4% |
| Sub-total: Sales commissions and other sales and marketing costs | 37.6% | 48.2% | 45.6% | 38.7% | 38.1% | 48.3% |
| General and administrative costs related to timeshare sales operations | 6.5% | 8.4% | 10.4% | 3.7% | 8.2% | 6.8% |
| HOA subsidies and/or maintenance fees | 3.4% | 1.0% | 3.0% | 2.3% | 3.7% | 0.1% |
| Pre-tax margin of timeshare sales operations | 18.4% | 6.8% | 1.8% | 15.6% | 17.9% | 10.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

*Source: Deloitte & Touche LLP based on a minimum of 21 company survey responses for company size and a minimum of 20 company survey responses for average yield per week.*

## Estimated uncollectible sales

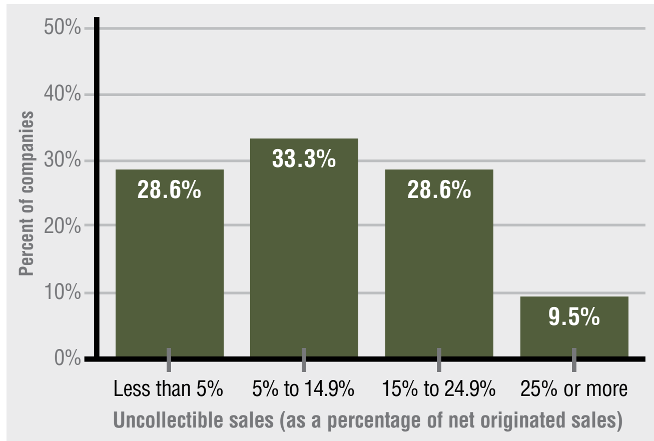
As mentioned in the section above on revenue recognition, according to ASC 978, uncollectible sales occur when a receivable becomes either wholly uncollectible or is modified in some manner that results in less than 100 percent collection of the original note. Companies estimate the portion of sales that are expected to be uncollectible and deduct that amount from sales revenue. Estimates are based on actual receivables collection experience and other considerations.

At least quarterly for public companies and annually for private companies, companies evaluate their receivables, estimate the amount they expect to ultimately collect, and evaluate the adequacy of their allowance. If necessary, companies adjust their allowance through a corresponding adjustment to current-period revenue through the estimated uncollectible sales account. As a result, the amount a company calculates as a deduction for estimated uncollectible sales during a period may not only relate to sales being recognized in that period, but may also include adjustments being made to the allowance for uncollectible sales made in previous periods. For the purpose of this analysis, companies were asked to exclude such retrospective adjustments being made for prior periods so as to provide a more stable measure of uncollectible sales.

Companies' estimates of uncollectible sales averaged 16.0 percent of net originated sales in 2012, on a weighted average basis. Companies reported estimates ranging from zero percent to almost 30 percent, with 38.1 percent of companies reporting estimates equal to or greater than 15 percent (Figure 46). There were three respondent companies that reported a zero percent estimate of uncollectible sales. If these three respondents were removed from the pool the weighted average of the estimates of uncollectibles would remain at 16.0 percent of net originated sales.

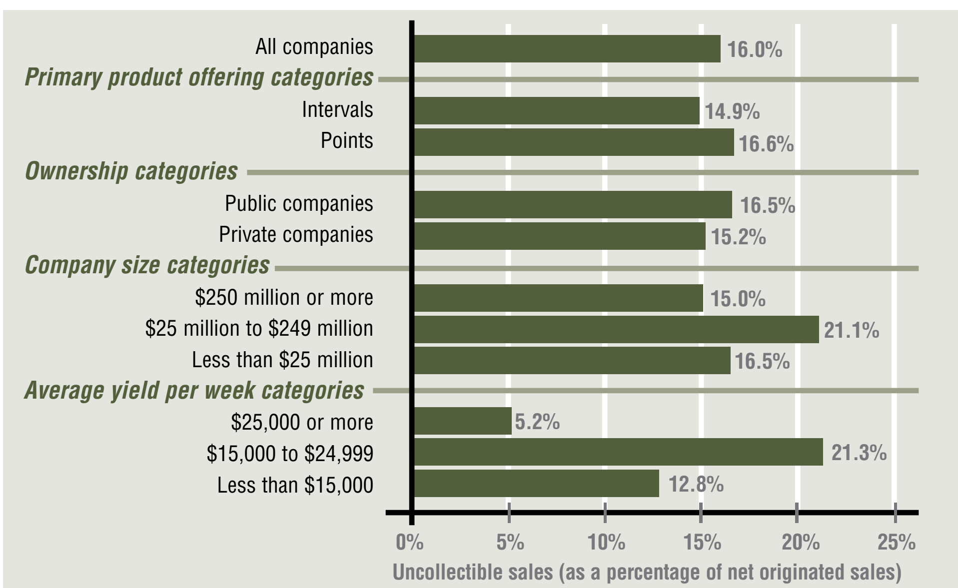
The weighted average estimate of uncollectible sales was lowest for companies with an average yield per week of $25,000 or more (Figure 47). Differences among companies' estimates can result from factors such as contract terms, location of the timeshare interest, collection experience, and other factors.

Figure 46 **Distribution of companies by estimated uncollectible sales (as % of net originated sales), 2012, U.S.**




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

Figure 47 **Estimated uncollectible sales (as a % of net originated sales) by company category, 2012, U.S.**



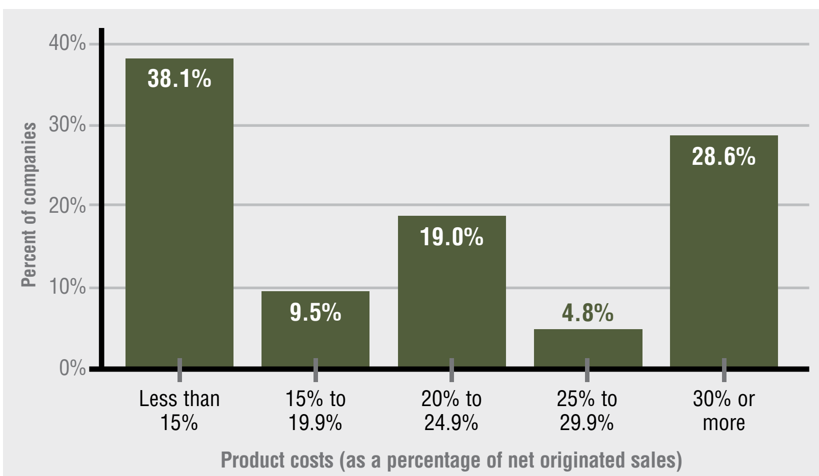

*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

## Product costs

Product costs, or cost of sales, include costs such as land, infrastructure, amenities, buildings, furniture, fixtures, and equipment, as well as soft costs, and capitalized interest. In allocating product costs, companies estimate the total revenue and total costs related to the resort phase, calculate a cost of sales percentage based on total costs divided by total revenue, and then apply that percentage to sales to determine cost of sales during the period. Though changes in the estimated cost of sales are accounted for in each period by applying a current-period adjustment, companies were asked to exclude such retrospective adjustments so as to provide a more stable measure of estimated product costs.

The weighted average product cost, as a percentage of net originated sales, was 18.4 percent in 2012. Respondents reported product costs ranging from less than six percent to over 40 percent. Approximately 48 percent of respondents reported product costs of less than 20 percent and approximately 33 percent of respondents reported product costs of 25 percent and higher (Figure 48).

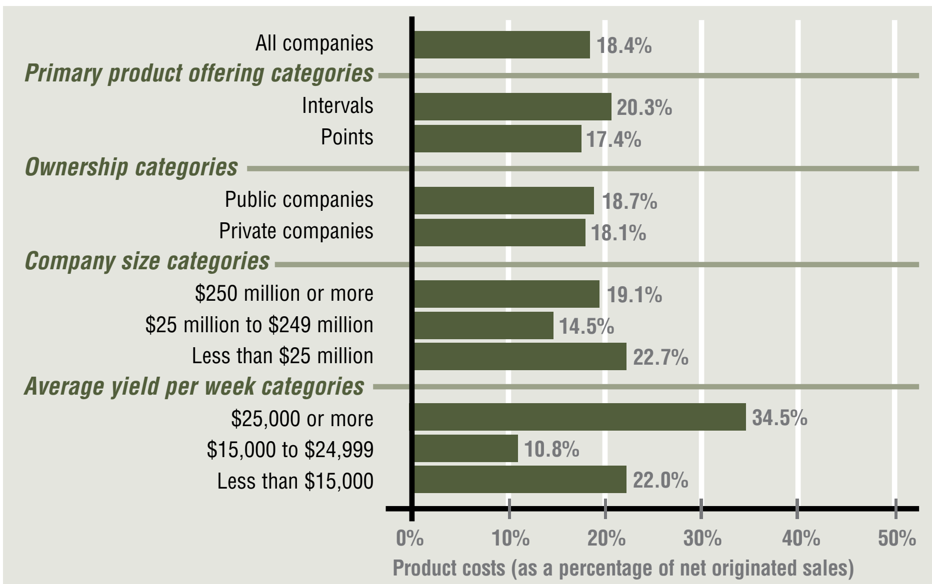
Figure 48 **Distribution of companies by product costs, 2012, U.S.**




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

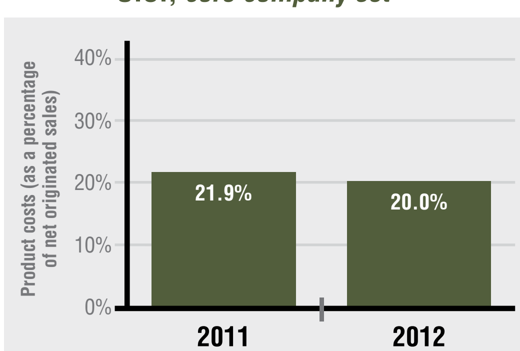
For companies selling weeks at the upper end of the price range, product costs typically accounted for a greater percentage of the selling price. Consistent with this, the companies that reported the highest average yields per timeshare week in 2012 also reported the highest product cost for the category, of 34.5 percent (Figure 49), on a weighted average basis. Companies reporting less than $25 million in net originated sales reported product costs well above the average, while companies reporting net originated sales between $25 million and $249 million reported 14.5 percent, which is well below the average (Figure 49).

Figure 49 **Product costs (as a % of net originated sales) by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Figure 50 **Product costs, 2011 and 2012, U.S., *core company set***



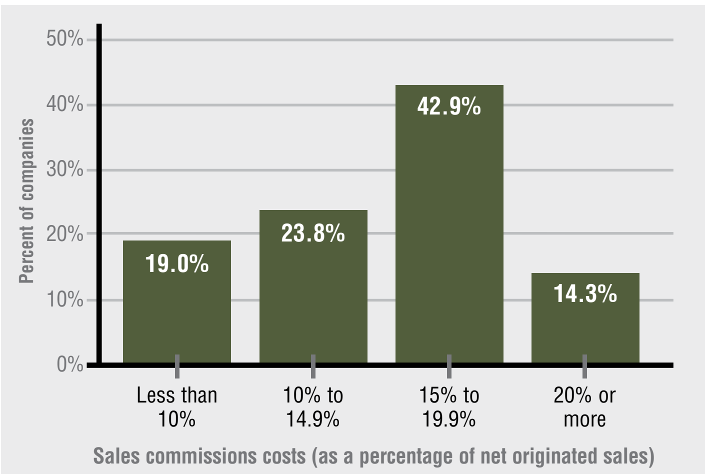

*Source: Deloitte & Touche LLP based on 16 company survey responses.*

For the *core company set*, total product costs averaged 20.0 percent in 2012, down from 21.9 percent in 2011 (Figure 50).

## Sales and marketing costs

In 2012, sales commissions averaged 14.0 percent of net originated sales (Figure 52), while other sales and marketing costs averaged 25.3 percent (Figure 54), for a total of 39.3 percent (Figure 56). Other sales and marketing costs typically include, but are not limited to, the cost of marketing programs, as well as sales and marketing department-specific general and administrative expenses. The following pages provide detail on sales commissions and other sales and marketing costs, followed by summary information on both measures combined as total sales and marketing costs.

Figure 51 **Distribution of companies by sales commissions costs, 2012, U.S.**

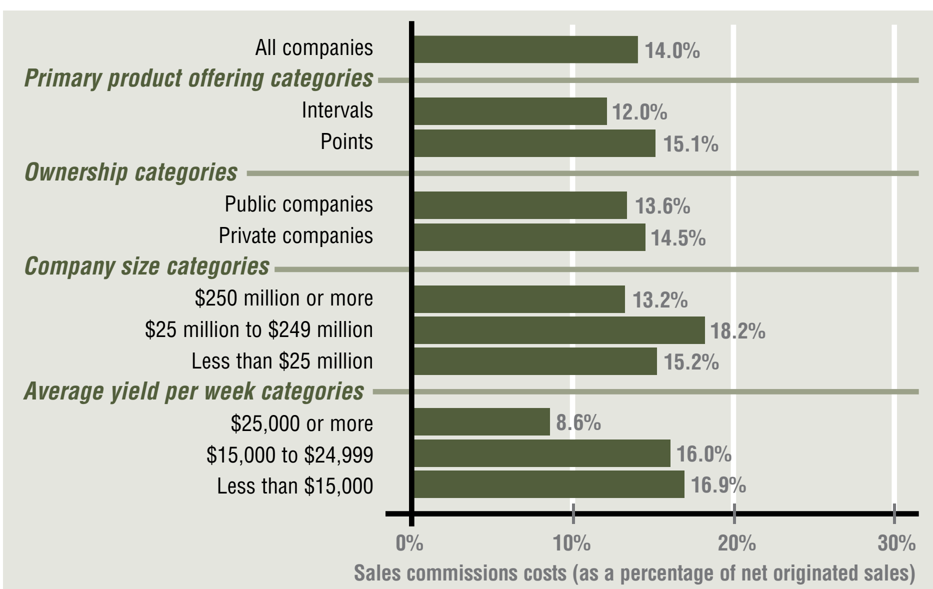



*Source: Deloitte & Touche LLP based on 21 company survey responses.*

Of the 21 respondents, fourteen, or 66.7 percent, reported sales commissions between 10.0 and 19.9 percent of net originated sales (Figure 51).

Respondents with net originated sales of $250 million or more reported lower weighted average sales commissions than companies with net originated sales of less than $250 million (Figure 52). Interval companies reported sales commissions 3.1 percentage points lower than point companies.

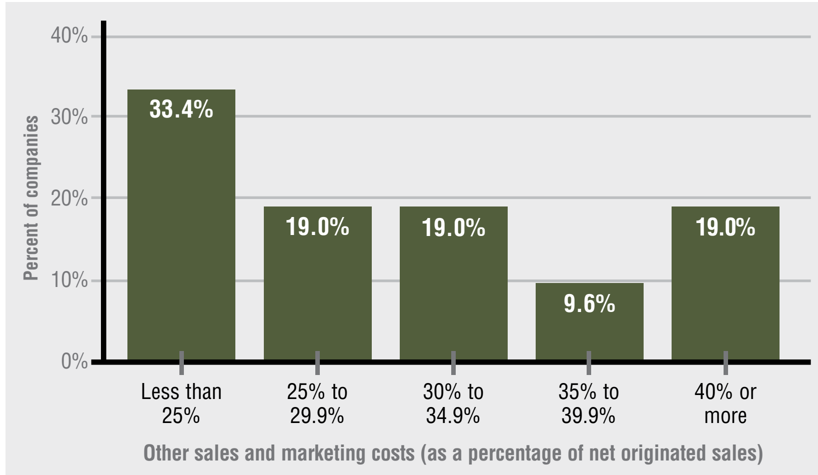
Figure 52 **Sales commissions costs (as a % of net originated sales) by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Approximately 52.4 percent of respondents reported other sales and marketing costs of less than 30 percent of net originated sales (Figure 53).

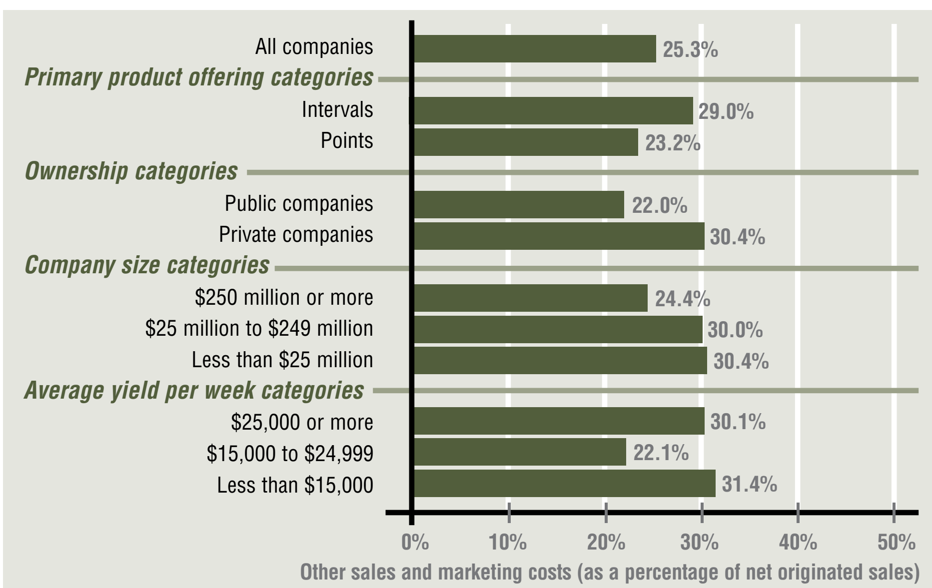
Figure 53 **Distribution of companies by other sales and marketing costs, 2012, U.S.**




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

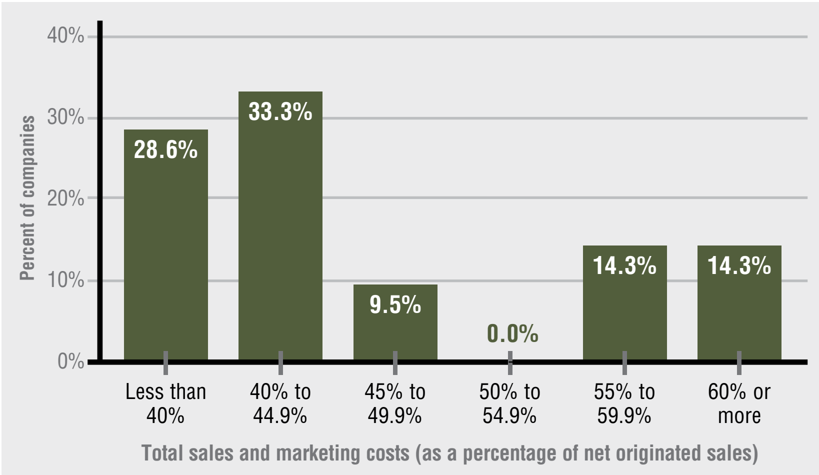
Interval companies reported higher other sales and marketing costs than points companies. This occurred as one major company in the points category reported lower than average other sales and marketing costs, which may in part reflect factors such as the sales and marketing channels and categorization of costs at those particular companies and not be representative of a difference between interval companies and points companies overall. There was one large public company that drove other sales and marketing costs for public companies lower than private companies. Companies with net originated sales of $250 million or more reported lower other sales and marketing costs than companies with net originated sales of less than $250 million (Figure 54).

Figure 54 **Other sales and marketing costs (as a % of net originated sales) by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Figure 55 **Distribution of companies by total sales and marketing costs, 2012, U.S.**

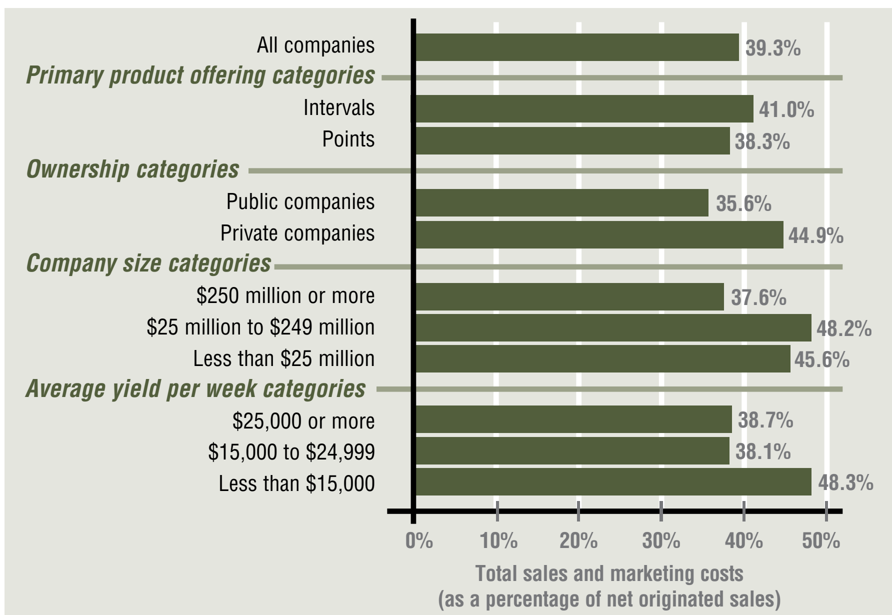



*Source: Deloitte & Touche LLP based on 21 company survey responses.*

Total sales and marketing costs vary across development companies. Approximately 61.9 percent of companies reported total sales and marketing costs of less than 45 percent of net originated sales (Figure 55).

The weighted average total sales and marketing costs for the respondent companies was 39.3 percent in 2012 which was less than the 41.1 percent reported in 2011. Companies with net originated sales between $25 million and $249 million reported higher sales and marketing costs compared to companies with net originated sales less than $25 million and companies with net originated sales $250 million or more (Figure 56). Public companies generally reported lower sales and marketing costs than private companies.

Figure 56 **Total sales and marketing costs (as a % of net originated sales) by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Figure 57 **Sales and marketing costs as a % of net originated sales value, 2011 and 2012, U.S., *core company set***

| | 2011 | 2012 |
|---|---|---|
| Sales commissions | 14.0% | 13.1% |
| Other sales and marketing costs | 25.4% | 23.7% |
| Total sales and marketing costs | 39.4% | 36.8% |

*Source: Deloitte & Touche LLP based on 16 company survey responses.*

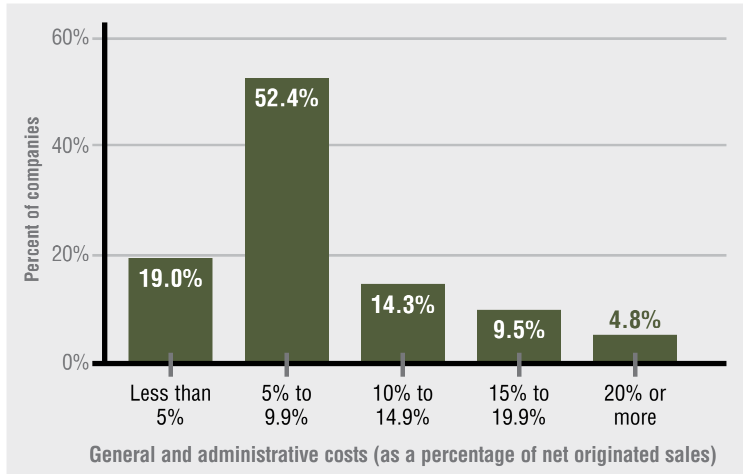
Total sales and marketing costs reported by the *core company set* decreased from 39.4 percent in 2011 to 36.8 percent in 2012 (Figure 57).

## General and administrative costs

General and administrative costs include the salaries and wages of administrative personnel related to timeshare sales operations, but not directly associated with a particular department. Expense items related to the management and operation of the individual properties are also allocated to this category. General and administrative costs related to financing activities, marketing costs, bad debt expenses, and HOA subsidies are excluded.

General and administrative costs, as a percentage of net originated sales, were 6.8 percent in 2012, on a weighted average basis. Overall, these costs vary widely from company to company. Approximately 66.7 percent of respondents reported costs between 5.0 and 14.9 percent (Figure 58).

Figure 58 **Distribution of companies by general and administrative costs, 2012, U.S.**

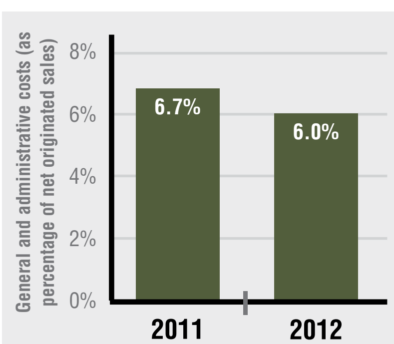



*Source: Deloitte & Touche LLP based on 21 company survey responses.*

The *core company set* reported general and administrative costs of 6.0 percent in 2012, which decreased from 6.7 percent in 2011 (Figure 59).

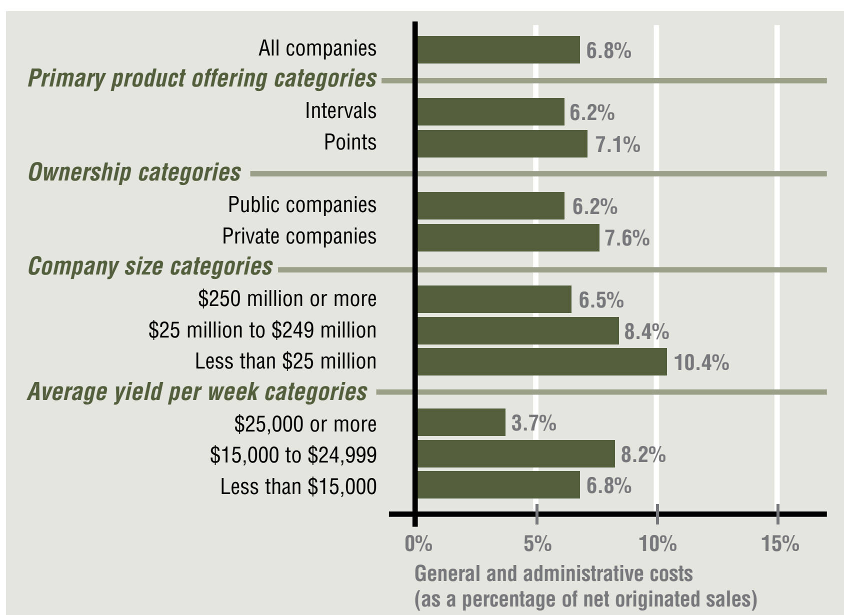
Several categories of companies reported general and administrative costs lower than the average. However, points companies, private companies, companies with net originated sales under $250 million, and companies with average yields per week of $15,000 to $24,999 reported costs above the average (Figure 60), on a weighted average basis.

Figure 59 **General and administrative costs (as % of net originated sales),** ***core company set***




*Source: Deloitte & Touche LLP based on 16 company survey responses.*

Figure 60 **General and administrative costs (as a % of net originated sales), 2012, U.S.**

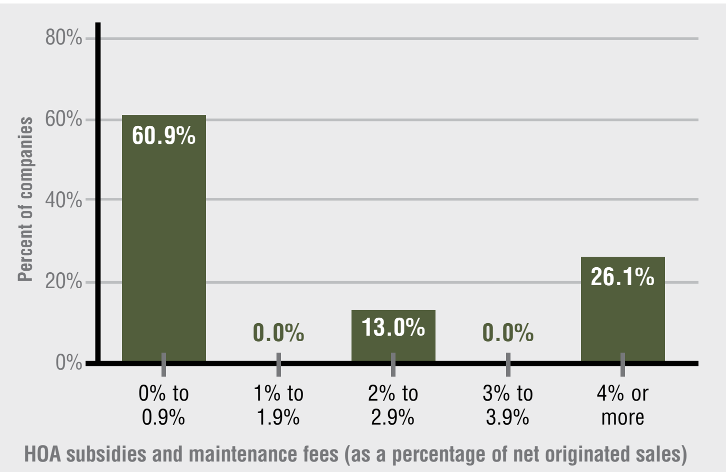



*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

## Home owners association subsidies and maintenance fees

HOA subsidies and maintenance fees incurred by development companies include costs (such as operating, replacement reserve, and property taxes) paid by the resort development company for units that have not sold by a specified date and, in some cases, costs on sold units that a development company may choose to pay in lieu of passing these costs on to owners. Resort development companies may generate revenue from the units that they hold by renting them to potential timeshare buyers, such that HOA subsidies and maintenance fees may be mitigated. Therefore, these HOA subsidies and maintenance fees are net of realized rental revenue.

Figure 61 **Distribution of companies by HOA subsidies and maintenance fees, 2012, U.S.**

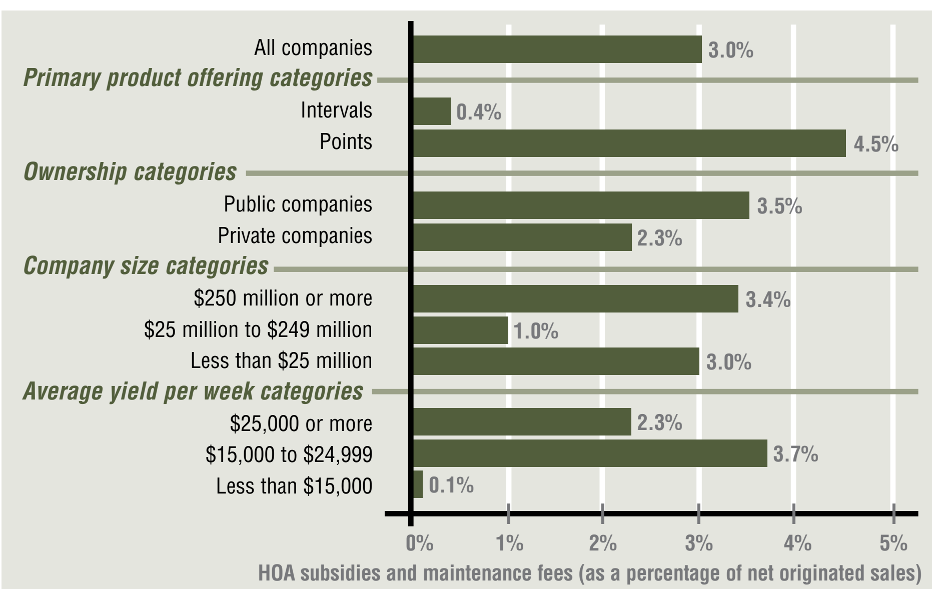



*Source: Deloitte & Touche LLP based on 21 company survey responses.*

HOA subsidies and maintenance fees as a percentage of net originated sales averaged 3.0 percent in 2012, on a weighted average basis. Overall, HOA subsidies and maintenance fees vary from company to company. In 2012, 26.1 percent of respondents reported HOA subsidies and maintenance fees of 4.0 percent or greater (Figure 61).

Private companies, companies that primarily sell intervals, companies with average yields per week of less than $15,000, and companies generating between $25 million and $249 million in net originated sales reported the lowest average HOA subsidies and maintenance fees, on a weighted average basis (Figure 62).

Figure 62 **HOA subsidies and maintenance fees (as a % of net originated sales) by company category, 2012, U.S.**



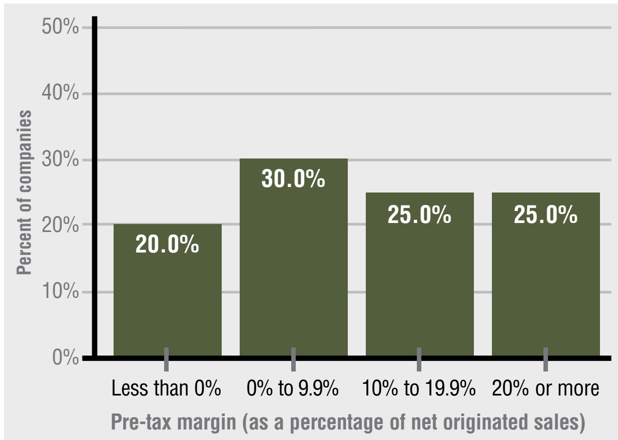

*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

## Pre-tax margin on timeshare sales operations

The key ratios section of the survey collected revenue deductions and various costs as a percentage of net originated sales, as well as an estimate of the remaining pre-tax margin. The pre-tax margin, or operating profit margin, on timeshare sales operations is calculated as pre-tax operating profit divided by net originated sales for the purpose of this analysis. This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components of many timeshare development companies.

For respondent companies, pre-tax margins were 16.5 percent in 2012, on a weighted average basis, an increase of 4.4 percentage points from the 12.1 percent reported in 2011. In 2012, 55.0 percent of respondents reported pre-tax margins between zero and 19.9 percent (Figure 63). As a measure, pre-tax margin is a snapshot of one year, so for smaller companies it may be significantly impacted by the particular timing of sales at particular resorts. 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 pre-tax margin of the business.

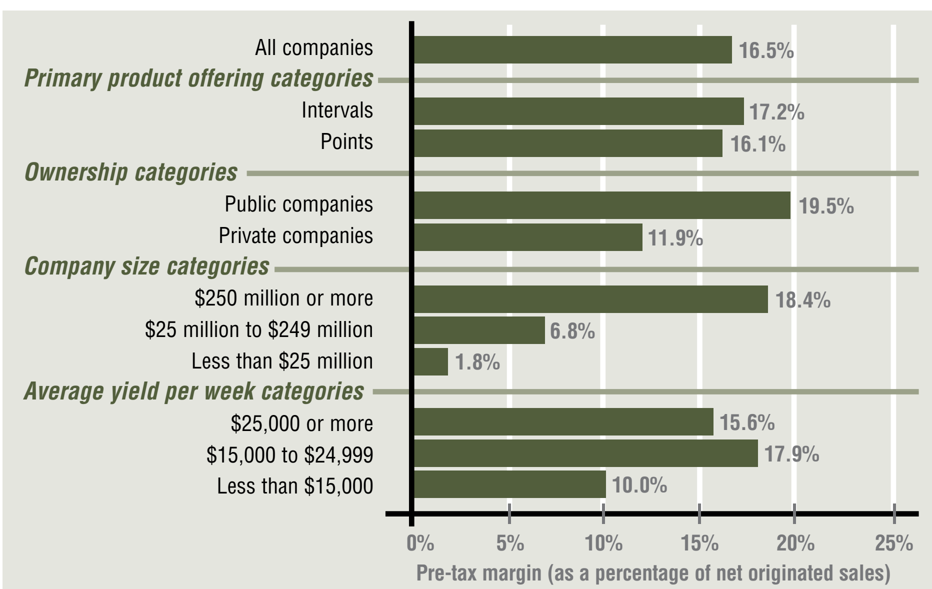
Figure 63 **Distribution of companies by pre-tax margins, 2012, U.S.**




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

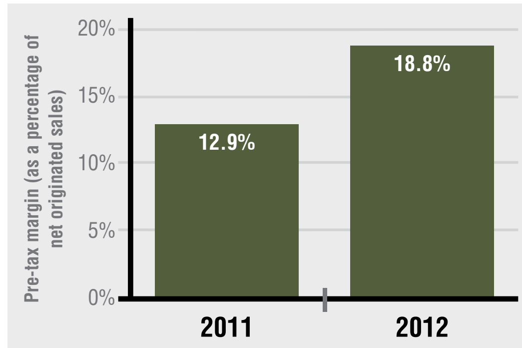
Interval companies, public companies, larger companies, and companies with average yield per week of $15,000 to $24,999 reported higher pre-tax margins, on a weighted average basis (Figure 64).

Figure 64 **Pre-tax margins (as a % of net originated sales) by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Figure 65 **Pre-tax margin, 2011 and 2012, U.S., *core company set***




*Source: Deloitte & Touche LLP based on 16 company survey responses.*

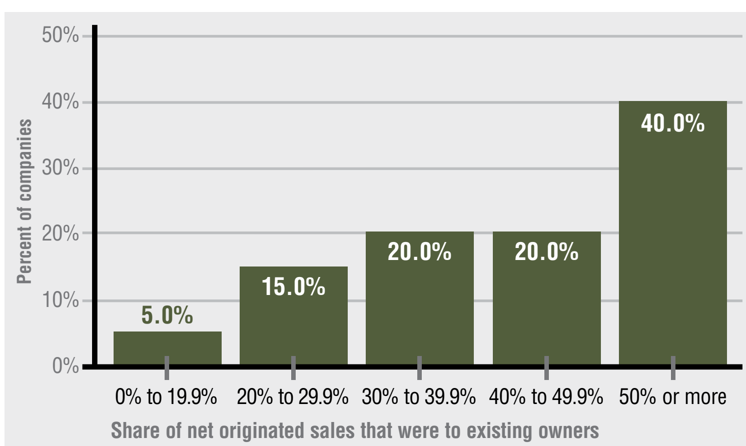
Among the *core company set*, total pre-tax margin averaged 18.8 percent in 2012, up from 12.9 percent in 2011 (Figure 65).

## Sales to existing owners

Timeshare companies have traditionally recognized that existing owners who understand timeshare and who are satisfied with their timeshare purchase have a higher likelihood to purchase additional timeshare products. As a measure to track such sales, respondents provided information on the percentage of net originated sales in which the buyer was already an existing owner of one or more timeshare interests at the company. Each respondent calculated the percentage as the net originated sales to existing owners (including upgrade sales and reloads) divided by the company's total net originated sales.

Respondents reported that 62.7 percent of net originated sales were to existing owners, on a weighted average basis. This reflects the success that companies have in selling to existing owners, and included a range of responses (Figure 66), from ten percent to over 90 percent.

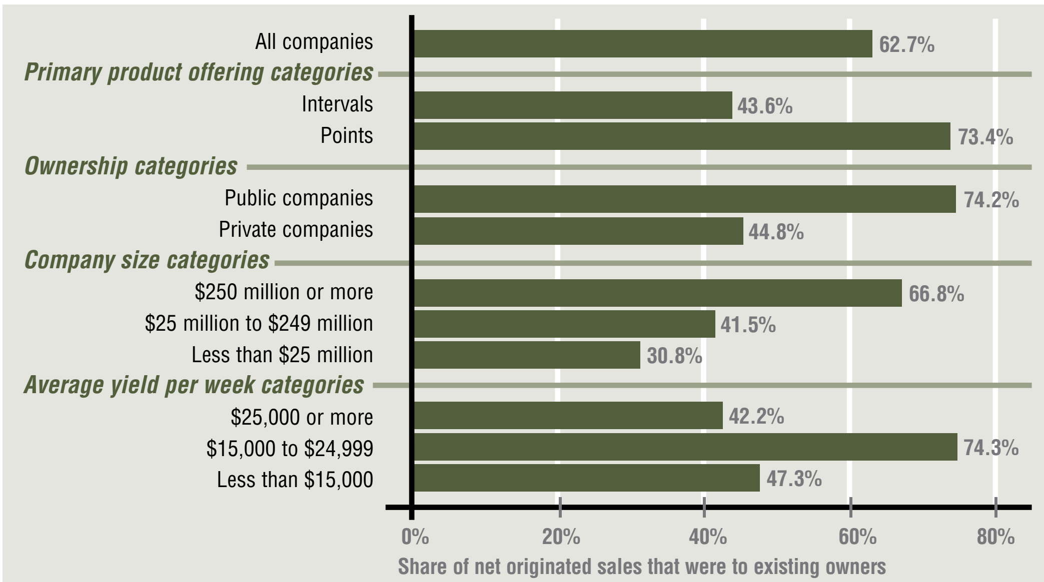
Figure 66 **Distribution of companies by share of net originated sales that were to existing owners, 2012, U.S.**




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

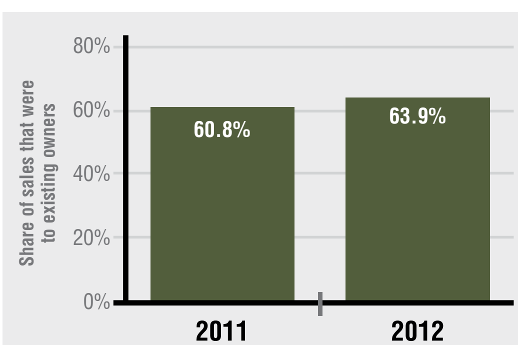
Public companies showed an above average percentage of net originated sales made to existing owners (74.2 percent), while private companies were below average (Figure 67). Meanwhile, points companies and companies with average yield per week between $15,000 to $24,999 reported the highest share of sales within their respective categories to existing owners (73.4 percent and 74.3 percent, respectively).

Figure 67 **Share of net originated sales that were to existing owners by company category, 2012, U.S.**




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

Figure 68 **Share of sales that were to existing owners, 2011 and 2012, U.S., *core company set***




*Source: Deloitte & Touche LLP based on 16 company survey responses.*

Information provided by the *core company set* shows that the share of net originated sales that were made to existing owners increased by 3.1 percentage points from 2011 to 2012 (Figure 68).

# VI. HYPOTHECATION OF RECEIVABLES

## Hypothecated receivables represent the installment sales contracts that are pledged as collateral for debt.

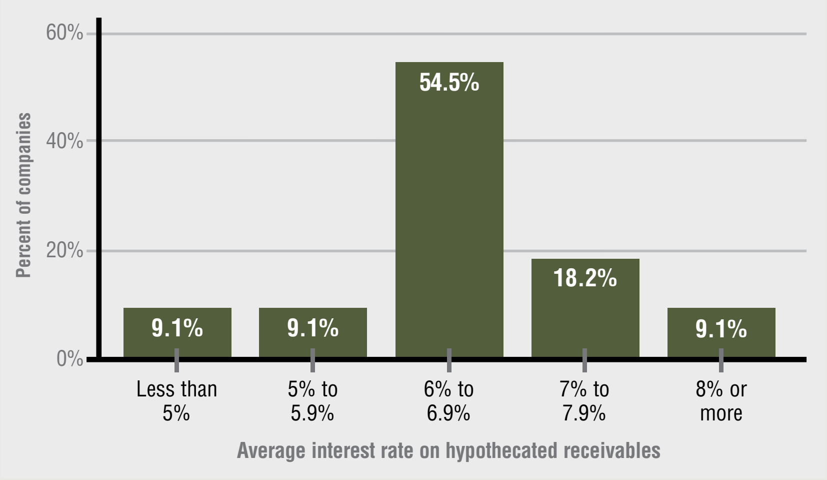
Eleven respondents provided information on hypothecations of receivables that occurred during 2012, totaling $538 million, compared to $669 million in 2011, as reported by thirteen respondents. Respondents that provided information on the interest rate paid reported paying a weighted average interest rate of 5.8 percent in 2012 for funds borrowed against these receivables. This compares to an average interest rate of 5.4 percent paid for hypothecated receivables during 2011 by thirteen respondents, representing a 0.4 percentage point increase in the average interest rate. For comparison, the prime rate averaged 3.25 percent in both 2011 and 2012.[17] Respondents reported a weighted average advance rate of 77.6 percent in 2012, compared to 80.5 percent in 2011, representing a 2.9 percentage point decrease.

Figure 69 **Hypothecations, 2011 and 2012, all geographies**

| | 2011 | 2012 |
|---|---|---|
| Average interest rate paid | 5.4% | 5.8% |
| Average advance rate | 80.5% | 77.6% |

*Source: Deloitte & Touche LLP based on a minimum of 11 company survey responses.*

Figure 70 **Distribution of companies by average interest rate on hypothecated receivables, 2012, all geographies**



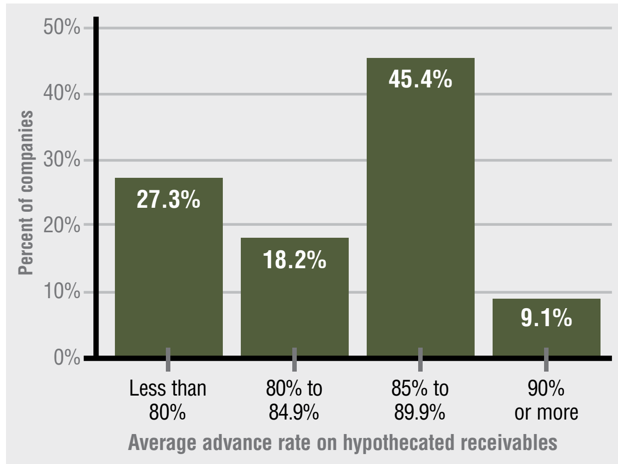

*Source: Deloitte & Touche LLP based on 11 company survey responses.*

In 2012, 72.7 percent of respondents reported an average interest rate between 6.0 and 7.9 percent paid for funds borrowed by hypothecating receivables (Figure 70).

17 Average majority prime rate charged by banks on short-term loans to business, quoted on an investment basis. Bank prime loan rate historical data from the Board of Governors of the Federal Reserve System.

To manage risk in hypothecations, lenders typically advance only a portion of the principal balance of the portfolio. The percentage of the principal balance of the hypothecated receivables funded in cash is referred to as the advance rate. In 2012, five out of eleven respondents reported average advance rates of 85 to 89.9 percent and one respondent reported an average advance rate of over 90 percent (Figure 71). Three companies reported an average advance rate in the less than 80 percent range contributing to the 77.6 percent weighted average.

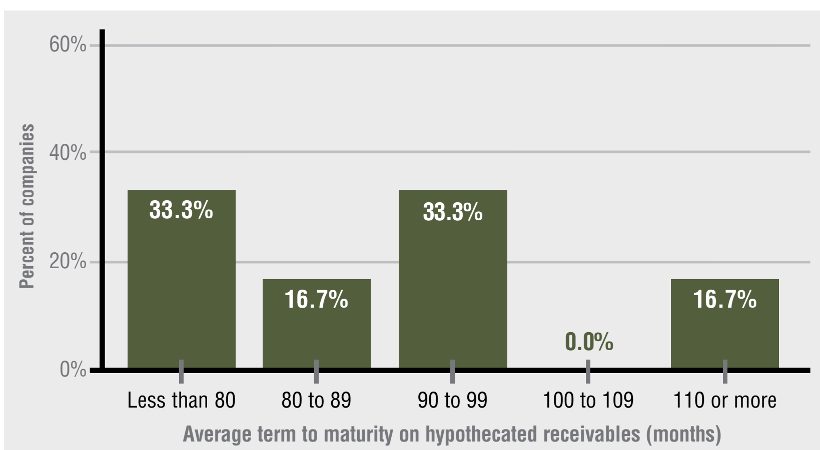
Figure 71 **Distribution of companies by average advance rate on hypothecated receivables, 2012, all geographies**




*Source: Deloitte & Touche LLP based on 11 company survey responses.*

Of the twelve companies that reported average remaining term to maturity on hypothecated receivables at the point of hypothecation for 2012, 33.3 percent reported average remaining terms to maturity less than 80 months in 2012 (Figure 72). The weighted average remaining term to maturity, as reported by twelve company survey responses for 2011 and 2012, decreased from 91.0 months in 2011 to 86.7 months in 2012.

Figure 72 **Distribution of companies by average term to maturity on hypothecated receivables, 2012, all geographies**




*Source: Deloitte & Touche LLP based on 12 company survey responses.*

# VII. PORTFOLIO SALES AND SECURITIZATIONS

Companies can raise cash by selling or securitizing consumer receivables. For the purpose of this study, information was collected on two categories of receivables transactions: portfolio sales in which the transaction occurs with recourse and securitizations in which the transaction occurs without recourse. The data collected related to portfolio sales was not sufficient for accurate analysis; therefore, this section will focus on the analysis of securitization information reported. The twelve separate securitizations transactions reported by six survey respondents in 2012 represented a total value of $2.7 billion, measured as the gross value of the sales contracts securitized.[18] This compares to six separate transactions in 2011 reported by four survey respondents in 2012, with a total value of $1.4 billion.

Among the securitization transactions reported by the survey respondents, several key changes were evident between 2010 and 2011.

- The total value of funding increased from 2011 to 2012 by approximately 98.3 percent.
- One company conducted a securitization in 2011 but not in 2012, while three companies conducted securitizations in 2012 that did not report securitizations in 2011.
- Average transaction size of securitizations decreased from 2011 to 2012 by approximately 0.9 percent for all respondents.
- Average advance rates for all respondents decreased from 2011 to 2012 by 7.3 percentage points.
- The interest rate paid by the development company decreased by 0.1 percentage points[19] for all securitization transactions, on a weighted average basis.

Figure 73 **Securitizations, 2010 and 2011, all geographies**

| | 2010 | 2011 |
|---|---|---|
| Total value of securitizations (millions) | $1,715 | $1,287 |
| Number of transactions | 7 | 5 |
| Average transaction size (millions) | $245.0 | $257.4 |
| Average advance rate | 81.2% | 94.2% |
| Average interest rate paid | 5.6% | 4.2% |

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

For comparison purposes, the companies that reported securitizations in both 2011 and 2012 have been analyzed below. The five securitizations in 2012, conducted by three of the six respondents, represented a total value of $1.5 billion, compared to five securitizations in 2011 with a total value of $1.3 billion conducted by the same three respondents.[20] The weighted average advance rate on securitizations which occurred in 2012, as reported by the same respondents, was 88.8 percent, down from 94.2 percent as reported by the same three respondents in 2011.[21] The weighted average interest rate paid by the seller, the timeshare company, was 3.0 percent in 2012, down from 4.1 percent in 2011.

**18** The gross value of the contracts sold or securitized was further defined as the collateral value or outstanding principal balance on the survey form.

**19** Change in interest rates may not be comparable to changes in market interest rate indexes, such as LIBOR, since information was not available indicating when in the year each portfolio transaction occurred. Also, the financial crisis which continued into 2008 had significant effects on ABS markets during that time. The changes in interest rates reflect the continued improvement in such markets.

**20** Respondents were asked to report on original sales only, thereby excluding securities that had been previously sold, repurchased, and sold again.

**21** Weighted average advance rate calculated as net value of sales or proceeds received for sale divided by gross value of sales contracts sold.

# VIII. CONSUMER FINANCING AND RECEIVABLES PORTFOLIO PERFORMANCE

Companies typically provide financing to a majority of consumers purchasing vacation ownership interests. The survey collected information on the characteristics of new loans (mortgages) and on the performance of companies' outstanding consumer receivables portfolios.

## Consumer financing

Companies reported providing financing for 51.0 percent of the $4.35 billion in net originated sales in 2012, as reported by 22 respondents. The remainder of sales represents cash or cash-out within the first 90 days[22], plus cash down payments. The financed value represents the face value of consumer loans written and is presented as a share of net originated sales.

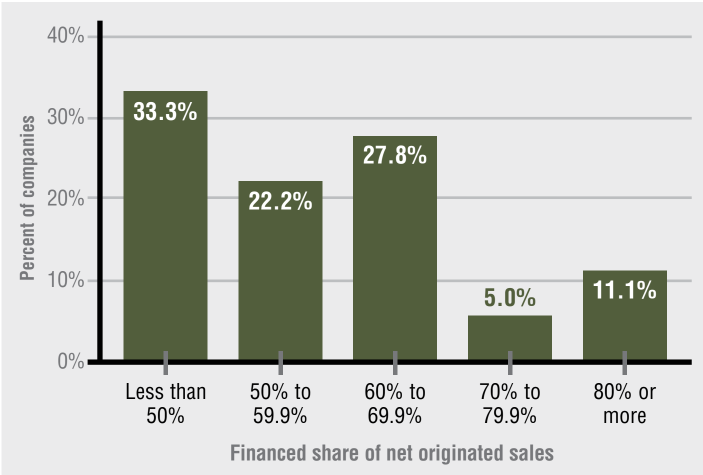
Figure 74 **Portion of net originated sales that were financed by consumers, 2012, U.S.**

| | 2012 |
|---|---|
| Cash or cash-out within first 90 days | 31.4% |
| Cash down payment | 17.6% |
| Financed value | 51.0% |
| Total | 100.0% |

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

**22** Industry participants report that a share of consumers pay off timeshare loans within the first 90 days, using financing as a short-term option. This share is not included in the financed share of net originated sales because it is considered near cash equivalent.

Figure 75 **Distribution of companies by financed share of net originated sales, 2012, U.S.**

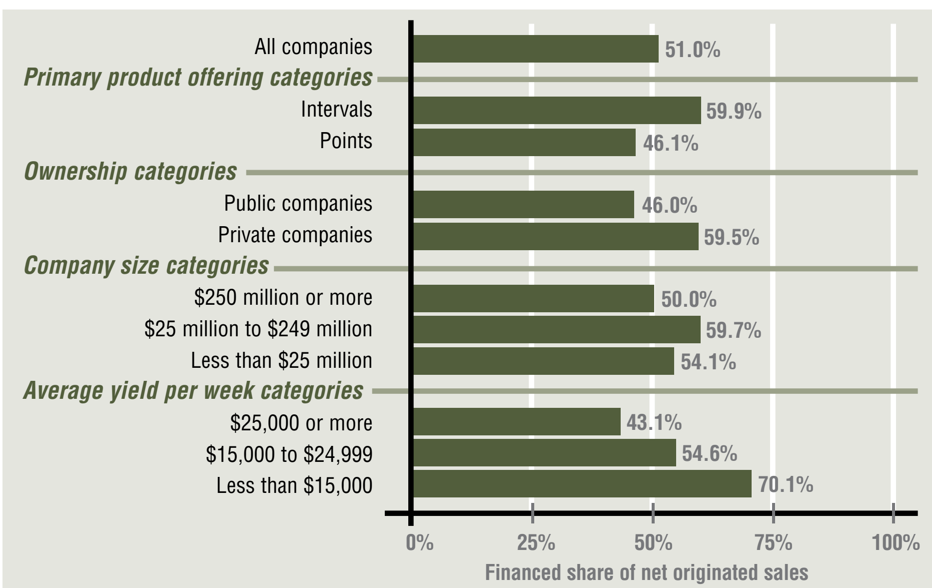



*Source: Deloitte & Touche LLP based on 18 company survey responses.*

A majority of respondents (55.5 percent) reported that their financed share of net originated sales was less than 60.0 percent in 2012 (Figure 75). The amount financed in 2012 by the eighteen respondents totaled $2.2 billion.

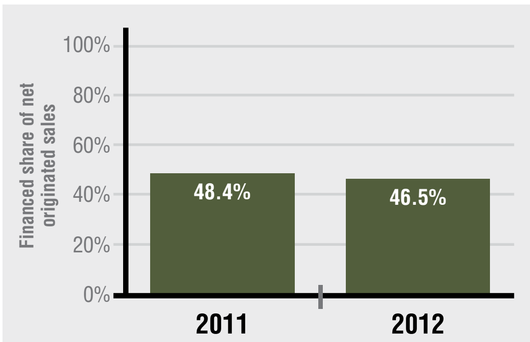
As shown in Figure 76, points companies reported a lower financed share of net originated sales than interval companies. In addition, companies with revenue of $25 million to $249 million reported a higher (59.7 percent) financed share than companies in the other revenue categories.

Figure 76 **Financed share of net originated sales by company category, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 17 company survey responses.*

Figure 77 **Financed share of net originated sales, 2011 and 2012, U.S., *core company set***




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

Respondents in the *core company set* reported a financed share of net originated sales in 2012 of 46.5 percent, compared to 48.4 percent in 2011 (Figure 77).

Survey respondents provided information about the characteristics of new consumer loans; the averages, weighted by net originated sales, are shown in Figure 78. The average consumer loan terms reported ranged from a low of 79.4 months to a high of 127.3 months in 2012, for an overall weighted average term of 113.8 months. The average consumer loan interest rates reported ranged from 12.1 percent to 16.7 percent, for an overall weighted average of 14.1 percent. Average down payments associated with non-upgrade financed sales reported by respondents ranged from 8.3 percent to 33.8 percent, for an overall weighted average of 19.4 percent in 2012.

Respondents were asked to provide the average down payment on upgrade sales separate from non-upgrade sales. This is because purchasers of upgrades can frequently count the equity in their existing vacation ownership interest toward the down payment that they are making on the upgrade interest. As a result, down payments on upgrade sales are typically higher than on non-upgrade sales. The average down payment associated with upgrade financed sales reported by respondents ranged from 8.2 percent to 56.5 percent, for an overall weighted average of 46.1 percent in 2012.

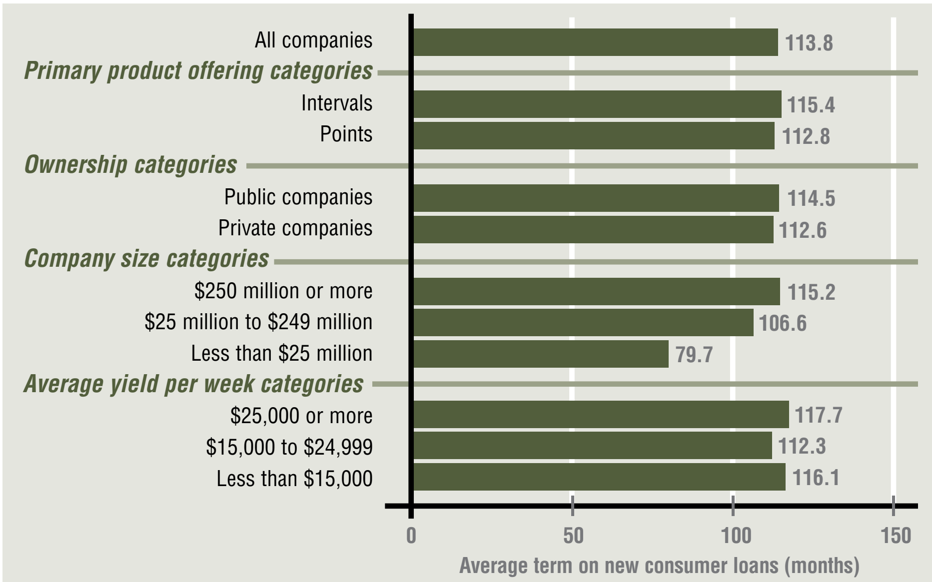
Figure 78 **Characteristics of new consumer loans, 2012, U.S.**

| | 2012 |
|---|---|
| Term (in months) | 113.8 |
| Interest rate | 14.1% |
| Down payment (as a percent of contract price) | |
| non-upgrade sales | 19.4% |
| upgrade sales | 46.1% |

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

The weighted average term on new consumer loans, measured in months, was fairly consistent across company categories (Figure 79). Interval companies, public companies, larger companies, and companies with higher average yields per week showed slightly longer average terms.

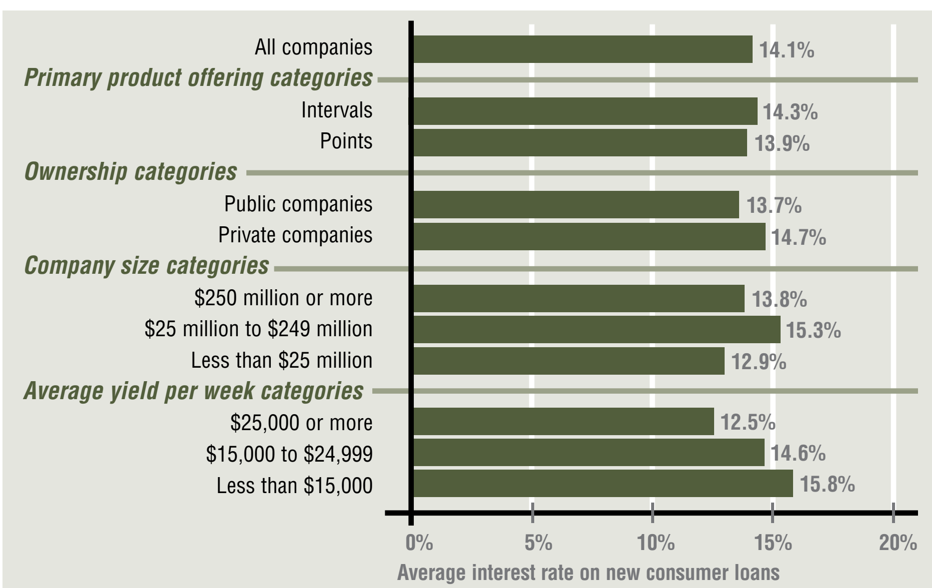
Figure 79 **Average term on new consumer loans (in months) by company category, 2012, U.S.**




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

Companies reported that weighted average interest rates on new consumer loans are lower for public as compared to private companies, and are slightly higher for interval as compared to point companies (Figure 80). Further, companies with higher average yields per week tended to offer lower average interest rates on consumer loans.

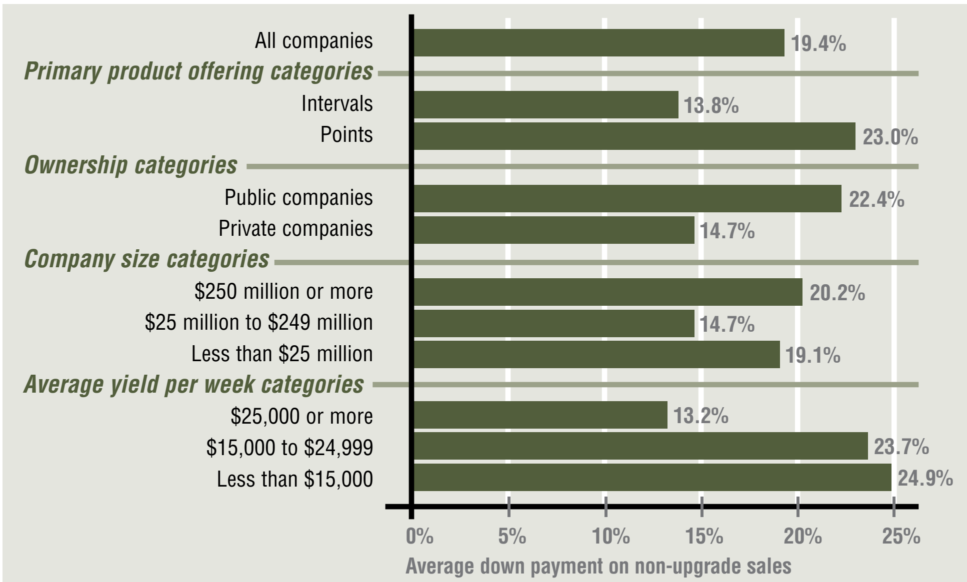
Figure 80 **Average interest rate on new consumer loans by company category, 2012, U.S.**




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

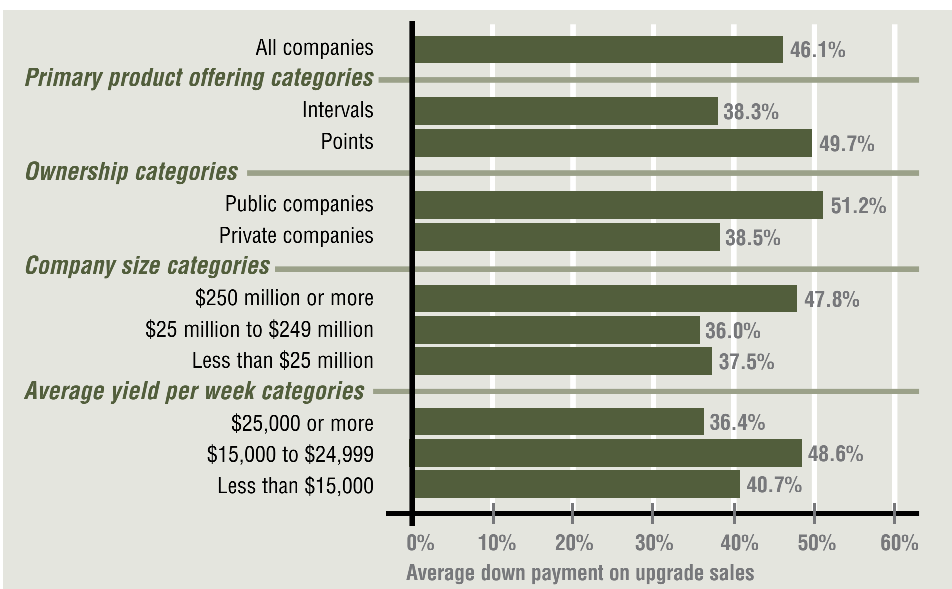
The survey results showed higher weighted average down payments for both upgrade sales and non-upgrade sales for point companies, public companies, and companies with sales of $250 million or more (Figure 81 and Figure 82).

Figure 81 **Average down payment on non-upgrade sales by company category, 2012, U.S.**




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

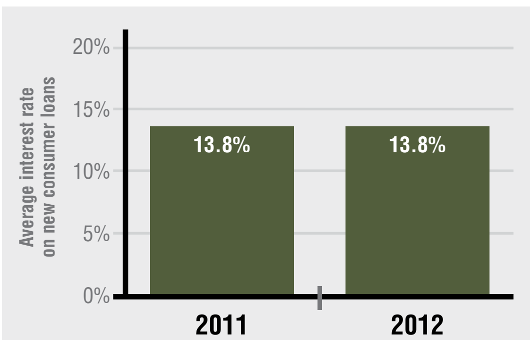
Figure 82 **Average down payment on upgrade sales by company category, 2012, U.S.**




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

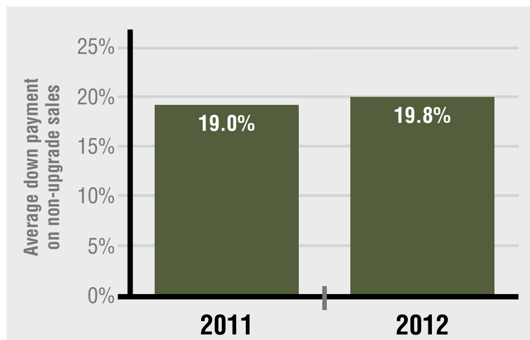
For the *core company set*, the interest rate on new consumer loans in 2012 was 13.8 percent, which was consistent with the 13.8 percent reported in 2011 (Figure 83), on a weighted average basis. Slightly less than three-quarters of the companies in the *core company set* reported receiving the same or higher average interest rate in 2012 than in 2011. 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 (Figure 84). Conversely, the average down payments on upgrade sales in the *core company set* decreased from 50.7 percent in 2011 to 47.0 percent in 2012 (Figure 85). The average term reported by respondents in the *core company set* decreased from 117.9 months in 2011 to 114.9 months in 2012 (Figure 86).

Figure 83 **Average interest rate on new consumer loans, 2011 and 2012, U.S., *core company set***



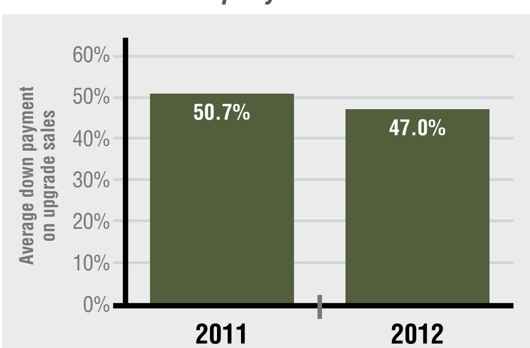

*Source: Deloitte & Touche LLP based on 17 company survey responses.*

Figure 84 **Average down payment on non-upgrade sales, 2011 and 2012, U.S., *core company set***



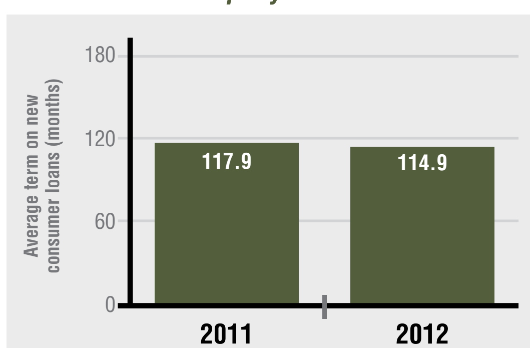

*Source: Deloitte & Touche LLP based on 17 company survey responses.*

Figure 85 **Average down payment on upgrade sales, 2011 and 2012, U.S., *core company set***




*Source: Deloitte & Touche LLP based on 14 company survey responses.*

Figure 86 **Average term on new consumer loans, 2011 and 2012, U.S., *core company set***




*Source: Deloitte & Touche LLP based on 14 company survey responses.*

## Receivables portfolio performance

For the purposes of this report, the receivables portfolio has been defined as the total year-end portfolio of consumer loans held by the company, including securitized and hypothecated receivables. Companies were asked to report the percentages, by dollar value, of their total receivables portfolio that were:

**a)** Current (current or fewer than 31 days delinquent)
**b)** Between 31 and 60 days delinquent
**c)** Between 61 and 90 days delinquent
**d)** Between 91 and 120 days delinquent
**e)** More than 120 days delinquent

Figure 87 **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.*

In total, 22 survey respondents reported aggregate receivables of $11.17 billion in 2012, showing a 1.1 percent increase from the aggregate receivables amount of $11.05 billion reported by the same respondents at year-end 2011. Respondents reported that payments for 90.6 percent of the dollar value of their receivables were current (current or fewer than 31 days delinquent) at year-end 2012, slightly higher than the year-end 2011 percentage of 90.4 percent (Figure 87). On average, 1.9 percent of the receivables were 31 to 60 days delinquent, and 7.5 percent were over 60 days delinquent at year-end 2012, on a weighted average basis.

Thirteen of nineteen respondents, or over 68 percent, reported that they write-off receivables when they reach 120 days delinquent. Assuming that all respondents write-off receivables at over 120 days delinquent, it would be appropriate to look at receivables currency excluding receivables that are over 120 days delinquent. This would result in the 2012 and 2011 currency of receivables to be 95.7 percent and 95.4 percent, respectively. This would indicate that the overall 2012 currency rate for the receivables is slightly higher than 2011. As not all companies responded to this question and only 68 percent of the respondents had the same write-off criteria, the currency amounts in this report do not exclude receivables over 120 days delinquent.

Companies in certain categories revealed trends in the performance of their receivables portfolios at year end 2012. For example, public companies reported higher average portions of their receivables portfolios as current; as well, smaller companies also reported above average currencies (Figure 88).

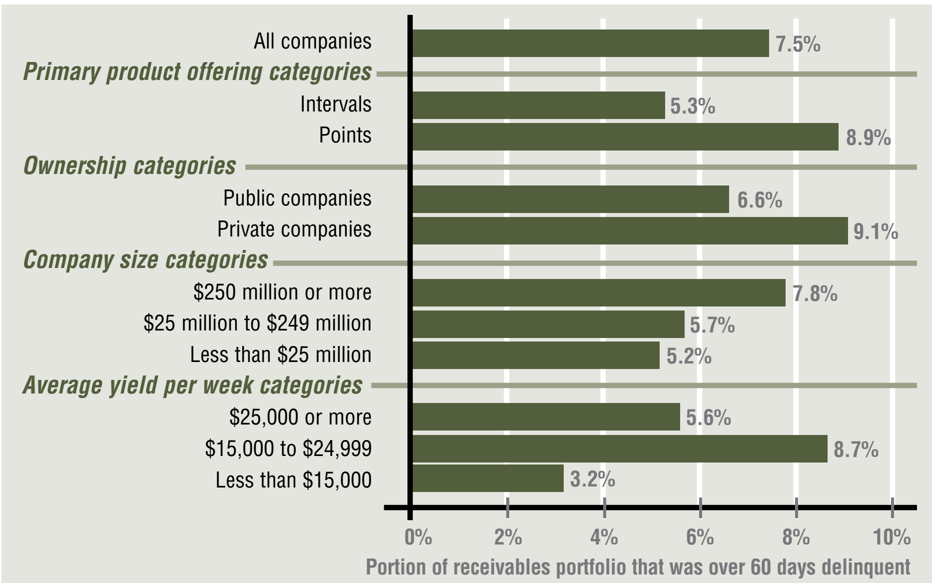
Figure 88 **Performance of consumer receivables portfolios at year-end by company category, 2012, all geographies**

| | Current | 31 to 60 days | 61 to 90 days | 91 to 120 days | More than 120 days |
|---|---|---|---|---|---|
| All companies | 90.6% | 1.9% | 1.2% | 1.0% | 5.3% |
| ***Primary product offering categories*** | | | | | |
| Intervals | 92.6% | 2.1% | 1.3% | 0.9% | 3.1% |
| Points | 89.3% | 1.8% | 1.1% | 1.1% | 6.7% |
| ***Ownership categories*** | | | | | |
| Public companies | 91.7% | 1.7% | 1.1% | 0.9% | 4.6% |
| Private companies | 88.7% | 2.2% | 1.4% | 1.2% | 6.5% |
| ***Company size categories*** | | | | | |
| $250 million or more | 90.3% | 1.9% | 1.1% | 0.9% | 5.8% |
| $25 million to $249 million | 91.9% | 2.4% | 1.4% | 1.5% | 2.8% |
| Less than $25 million | 92.8% | 2.0% | 1.7% | 1.1% | 2.4% |
| ***Average yield per week categories*** | | | | | |
| $25,000 or more | 92.9% | 1.5% | 0.9% | 0.7% | 4.0% |
| $15,000 to $24,999 | 89.1% | 2.2% | 1.3% | 1.0% | 6.4% |
| Less than $15,000 | 95.4% | 1.4% | 1.0% | 0.9% | 1.3% |

*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

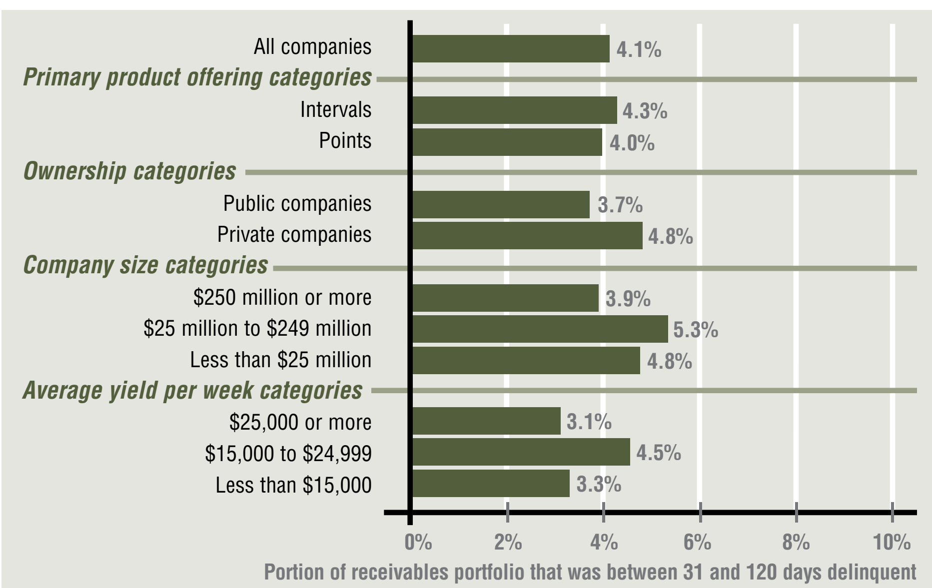
Another measure of receivables portfolios' performance is the share of the portfolio that is more than 60 days delinquent. Of the portfolios held by survey respondents, 7.5 percent of receivables were more than 60 days delinquent at year-end 2012 (Figure 89). This number remained consistent from 2011. Public companies showed a lower percentage of receivables over 60 days delinquent (6.6 percent) than private companies (9.1%). Points companies and larger companies showed higher percentages compared to interval companies and smaller companies, respectively. Companies with average yields per week of less than $15,000 reported the lowest percentage of receivables portfolio that was over 60 days delinquent (3.2 percent).

Figure 89 **Portion of receivables portfolio that was over 60 days delinquent by company category, 2012, all geographies**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Figure 90 **Portion of receivables portfolio that was between 31 and 120 days delinquent by company category, 2012**

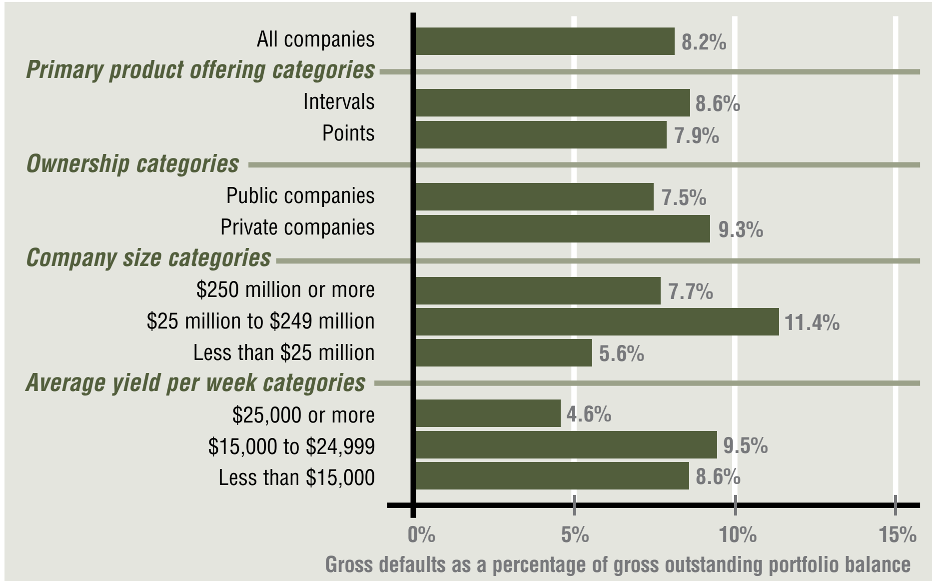



*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Another measure of receivables portfolios' performance may be calculated by looking at the share of receivables between 31 and 120 days delinquent. This measure is useful because it is largely free of the specific charge-off policies within many companies. Thirteen of nineteen respondents reported it was their policy to write off receivables when they reach 120 days past due. Among the respondents, the weighted average share of receivables portfolios that was between 31 and 120 days delinquent at year-end 2012 was 4.1 percent (Figure 90), which is 0.3 percentage points less than the 4.4 percent as reported in 2011.

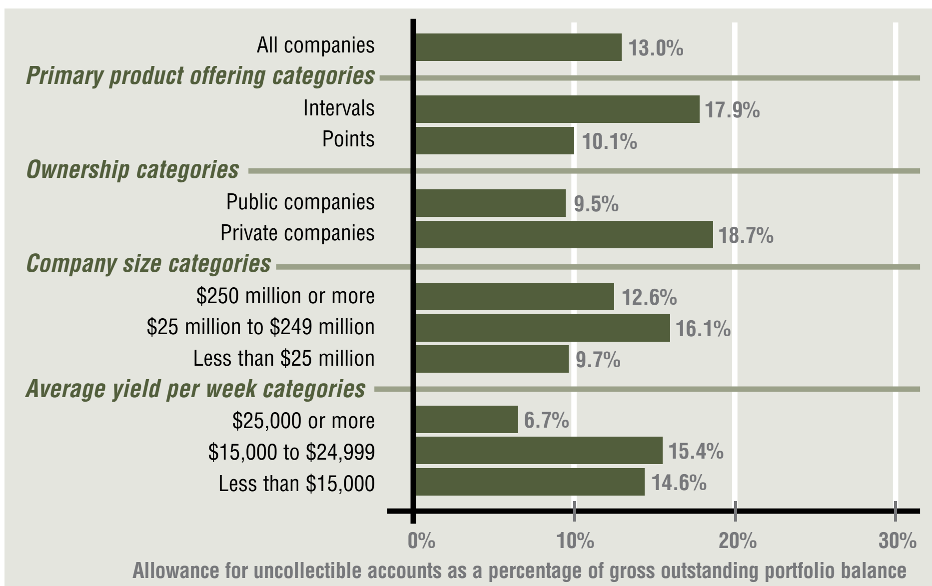
Timeshare companies have different methods of accounting for loan losses. Measuring defaults is one method of comparison, though companies with portfolios composed of relatively mature receivables may experience lower default rates than other companies. Gross defaults, defined as the total amount charged against the allowance for uncollectible accounts, as a percentage of the gross outstanding portfolio balance at year-end, averaged 8.2 percent in 2012 (Figure 91), which is a decrease of 0.1 percentage points from the 2011 average of 8.3 percent. Public companies, when compared to private companies, reported lower levels of gross defaults in 2012. Companies with net originated sales of $25 million to $249 million, companies with average yield per week less than $25,000, and interval companies reported higher than average levels (greater than 8.2 percent) of gross defaults.

Figure 91 **Gross defaults as a % of gross outstanding portfolio balance by company category, 2012**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

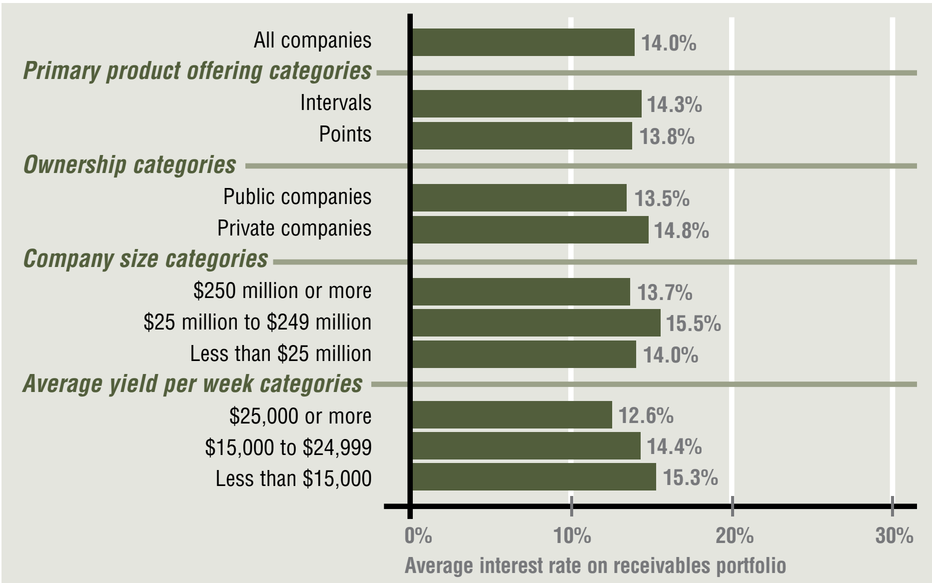
Figure 92 **Allowance for uncollectible accounts as a % of gross outstanding portfolio balance by company category, 2012**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

The weighted average allowance for uncollectible accounts as a share of gross outstanding portfolio balance at year-end averaged 13.0 percent in 2012 (Figure 92). Individual responses ranged from 2.8 percent to 41.0 percent. Companies primarily selling intervals reported higher allowances than points companies, but this was primarily attributable to the low allowance reported by two major points-based respondents. Private companies, companies with between $25 million and $249 million originated sales and companies with average yield per week of less than $25,000 also reported higher allowances for uncollectible accounts than the average.

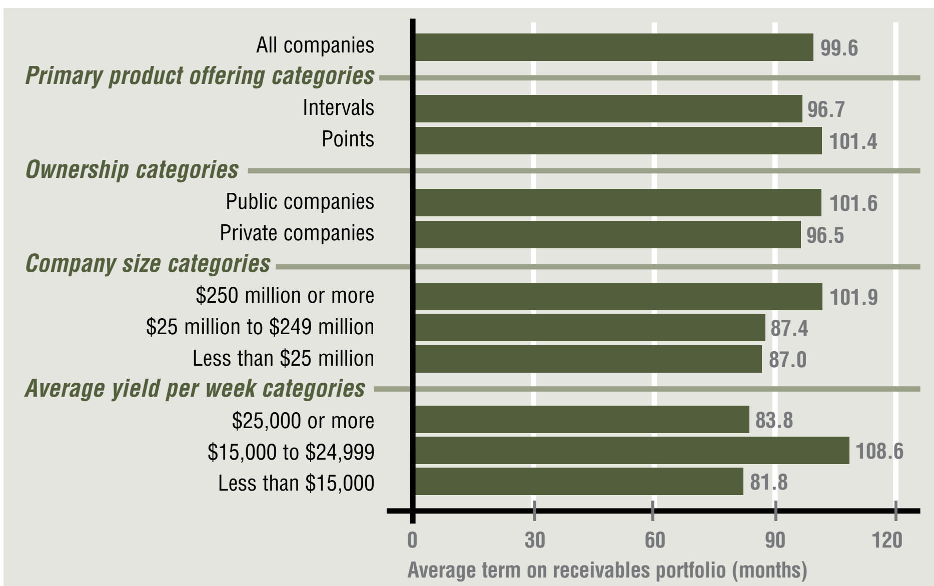
Figure 93 **Average interest rate on receivables portfolio by company category, 2012, all geographies**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

The weighted average interest rate on the loans held in the receivables portfolio at year-end was 14.0 percent in 2012, which is an increase of 0.1 percentage points from the previous year (Figure 93). Public companies showed a lower average interest rate (13.5 percent) than private companies (14.8 percent). Additionally, companies with lower average yields per week tended to have higher average interest rates on the loans held in their receivables portfolios.

Figure 94 **Average term on receivables portfolio by company category, 2012, all geographies**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

The weighted average term to maturity on loans held in the receivables portfolios was 99.6 months among the 22 respondents in 2012, which is 0.5 months shorter than the previous year (Figure 94). Smaller companies had lower weighted average terms on receivables held in their portfolios. Among all responses, average terms ranged from 44.0 months to 120.0 months.

Figure 95 **Characteristics of receivables portfolio, 2011 and 2012**

| | 2011 | 2012 | Change |
|---|---|---|---|
| Gross defaults | 8.3% | 8.2% | (0.1)% |
| Allowance for uncollectible accounts | 13.4% | 13.0% | (0.4)% |
| Average interest rate | 13.9% | 14.0% | 0.1% |
| Average term (months) | 100.1 | 99.6 | (0.5) |

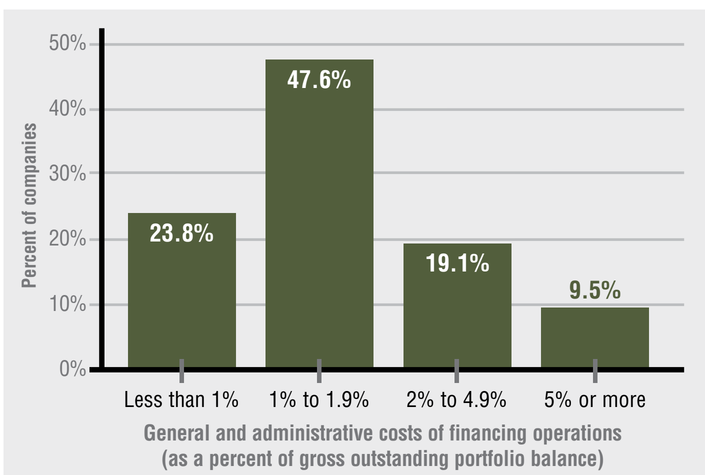
*Source: Deloitte & Touche LLP based on a minimum of 22 company survey responses.*

## General and administrative costs of financing operations

General and administrative costs of financing operations include costs, such as treasury, consumer loan servicing, and collection costs, which are directly related to managing the company's receivables portfolio. Company receivable balances, referred to as portfolio balances, varied widely among the respondents, ranging from less than $3 million to over $3 billion at calendar year-end 2012.

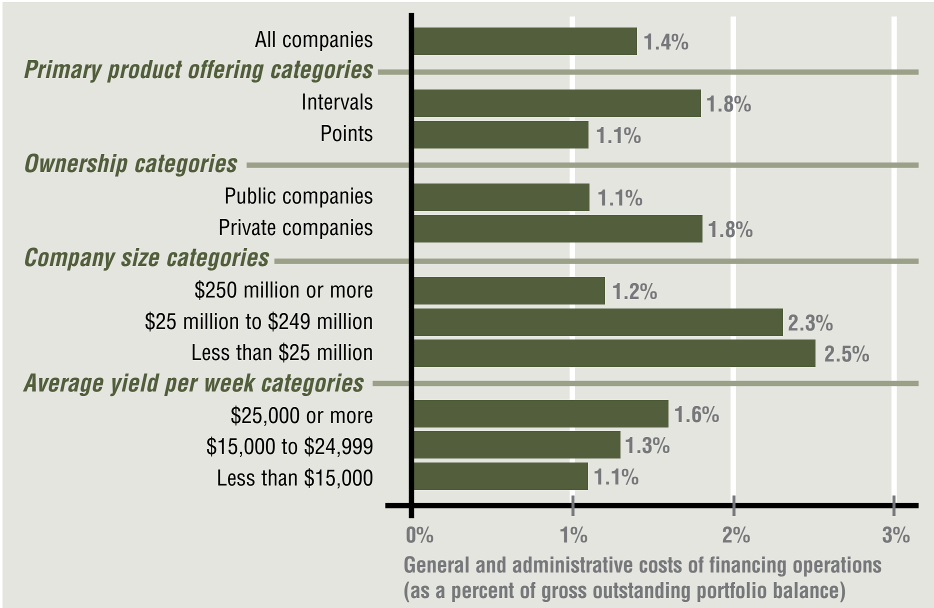
The weighted average general and administrative costs of financing operations for all companies in 2012 was 1.4 percent of gross outstanding portfolio balance, which was 0.1 percentage points higher than 2011. Responses showed that such costs vary across companies, with 23.8 percent of companies reporting costs less than one percent of gross outstanding portfolio balance, and 66.7 percent reporting costs between one percent and 4.9 percent (Figure 96).

Figure 96 **Distribution of companies by general and administrative costs of financing operations, 2012**




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

Figure 97 **General and administrative costs of financing operations, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Points companies reported smaller general and administrative costs of financing operations as compared to interval companies (Figure 97). Public companies reported lower costs than private companies and companies with revenues greater than $250 million reported lower costs than smaller companies. Larger portfolios tended to have lower general and administrative costs of financing operations as a percentage of gross outstanding portfolio balance [average portfolio balances are provided in (Figure 98)].

Figure 98 **Average portfolio balance, 2012, all geographies**

| | Average portfolio balance (in millions) |
|---|---|
| All companies | $507.6 |
| ***Primary product offering categories*** | |
| Intervals | 382.9 |
| Points | 632.3 |
| ***Ownership categories*** | |
| Public companies | 1,146.5 |
| Private companies | 268.0 |
| ***Company size categories*** | |
| $250 million or more | 1,177.7 |
| $25 million to $249 million | 202.8 |
| Less than $25 million | 20.5 |
| ***Average yield per week categories*** | |
| $25,000 or more | 432.9 |
| $15,000 to $24,999 | 907.1 |
| Less than $15,000 | 151.4 |

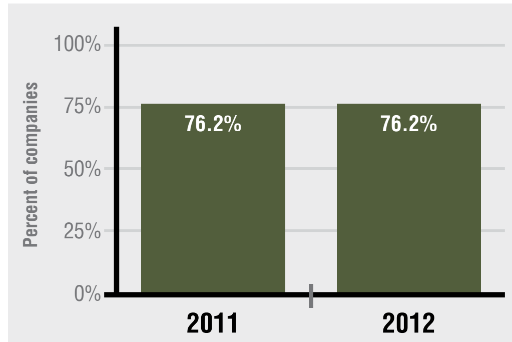
*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses. The results above were calculated using a simple average.*

## FICO scores

Credit risk scores are widely used by major financial service and credit issuing organizations, such as mortgage and auto loan originators and timeshare companies, as one input in making consumer credit decisions. The most widely used credit risk score is the FICO score, which is a three-digit score calculated on a consumer's credit history to rank that consumer on the likelihood that their credit obligations will be paid as expected.

Participants of the survey were asked to indicate whether FICO scoring is a component of their underwriting criteria.

Figure 99 **Utilization of FICO Scoring, 2012**

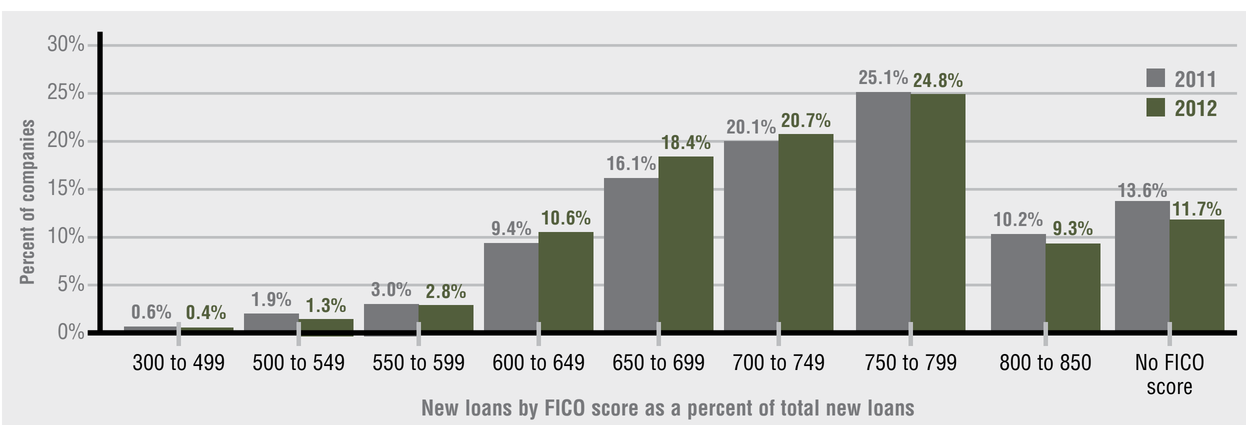



*Source: Deloitte & Touche LLP based on 21 company survey responses.*

A majority of the respondents, 76.2 percent, reported that they utilize FICO scoring, which is consistent with 2011 (Figure 99).

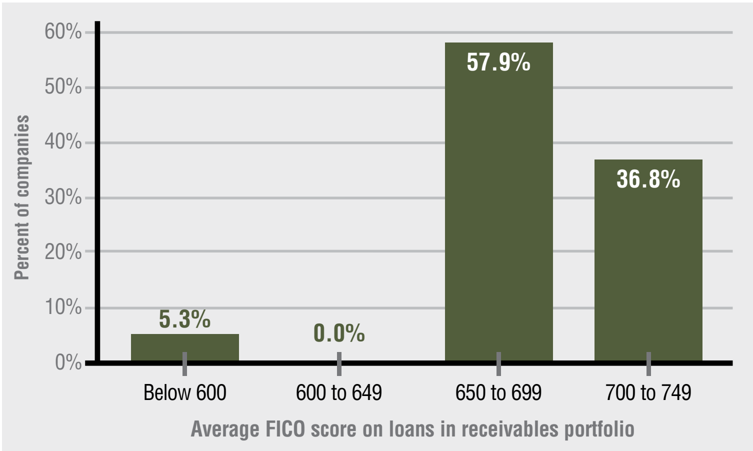
FICO scores are calculated in a range from 300 to 850, with higher scores calculated to represent lower risk. Approximately 63.9 percent of loans issued by respondent companies were reported to be offered to consumers with FICO scores between 650 and 799 in 2012. Increases were seen in the 600 to 649 category, the 650 to 699 category, and the 700 to 749 category.

Figure 100 **Distribution of new loans by FICO score, 2012, U.S.**




*Source: Deloitte & Touche LLP based on a minimum of 20 company survey responses.*

Figure 101 **Distribution of companies by average FICO score on loans in receivables portfolio, 2012, U.S.**

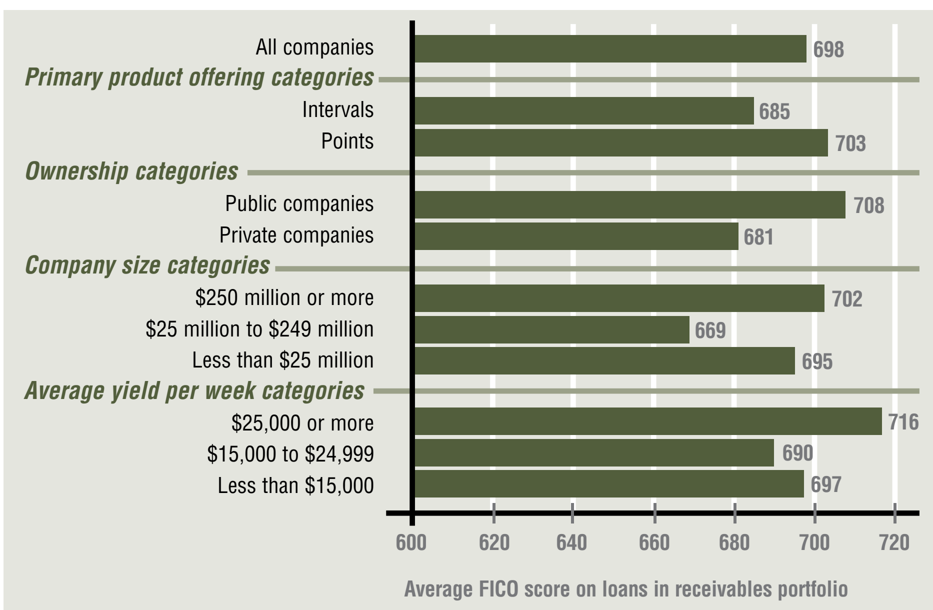



*Source: Deloitte & Touche LLP based on 19 company survey responses.*

Approximately 94.7 percent of survey respondents reported a weighted average FICO score between 650 and 749 on loans held in their receivables portfolios at calendar year end 2012 (Figure 101).[23] At the portfolio level, high FICO scores average against low FICO scores, and only one of the nineteen respondents reported holding a portfolio with a weighted average FICO score that was below 600. Overall, weighted average FICO scores increased four points from 694 to 698.

Survey respondents revealed different average FICO scores on loans held in their receivables portfolios according to company category. Public companies, point companies, larger companies, and companies with higher average yields per week reported higher weighted average FICO scores on loans held in their receivables portfolios (Figure 102). This is consistent with default rates presented in other sections of this report.

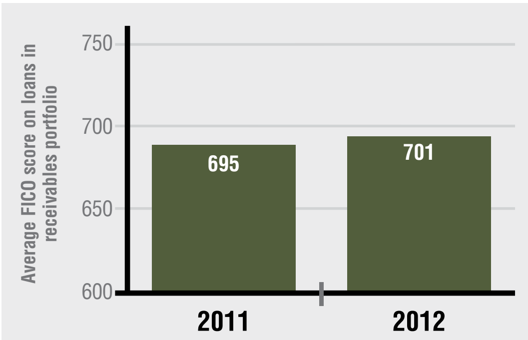
Figure 102 **Average FICO score on loans in receivables portfolio by company category, 2012, U.S.**




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

**23** The FICO score information for loans in companies' receivables portfolios refers to FICO scores at the point of loan origination.

Figure 103 **Average FICO score on loans in receivables portfolio, 2011 and 2012, *core company set*, U.S.**




*Source: Deloitte & Touche LLP based on 14 company survey responses.*

For the *core company set*, the weighted average FICO score for loans held in the fourteen respondents' receivables portfolios at calendar year-end 2012 was 701, representing an increase from the score of 695 at calendar year-end 2011, as reported by the same respondents.

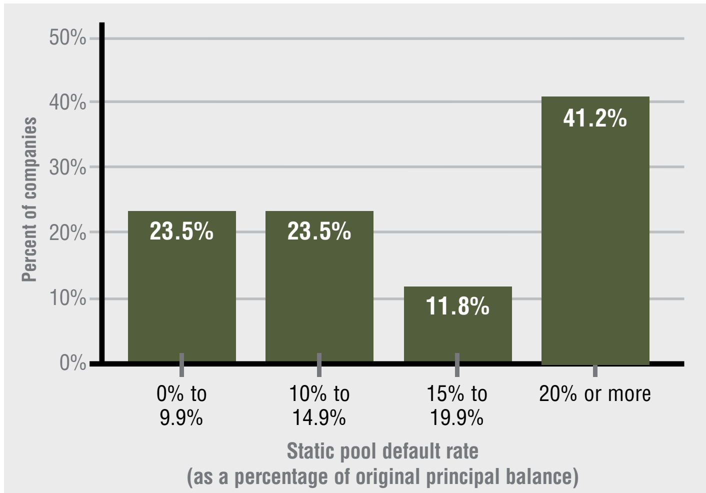
## Static pool default rate

Static pool analyses assist management and underwriters to assess the quality of a company's receivables by providing historical information on default rates of consumer loans. When performing a static pool analysis, a company separates its collectibles into one or more groups or "pools," which share common traits, such as all receivables originated in a specific time period. The pools are considered "static" in the sense that the set of receivables tracked by a pool is kept constant. For example, the set of loans made during the first quarter of 2000 is tracked as a pool so that the company can measure the number of these specific loans that default in each of the quarters through the term of the loans.

Tracking historical performance in this manner can be useful in forming estimates of future default rates. In the survey, companies were asked to provide an estimate of the cumulative principal losses they expect on their receivables portfolio based on static pool analyses that they had conducted. More specifically, the survey asked companies to report the pro forma static pool default rate estimated as the cumulative actual and projected future defaults net of reinstatements, divided by the original principal balance.

In total, seventeen respondents reported static pool default rates for 2012. The reported rates ranged from 6.0 percent to 43.3 percent, with a weighted average of 19.1 percent. This represents a decrease of 4.3 percent when compared to 2011. This indicates that respondents expected cumulative principal losses on the loans in their receivables portfolios to total approximately 19.1 percent, including losses that had already occurred and losses expected to occur in the future. A majority of companies (53.0 percent) reported static pool default rates 15 percent or greater (Figure 104).

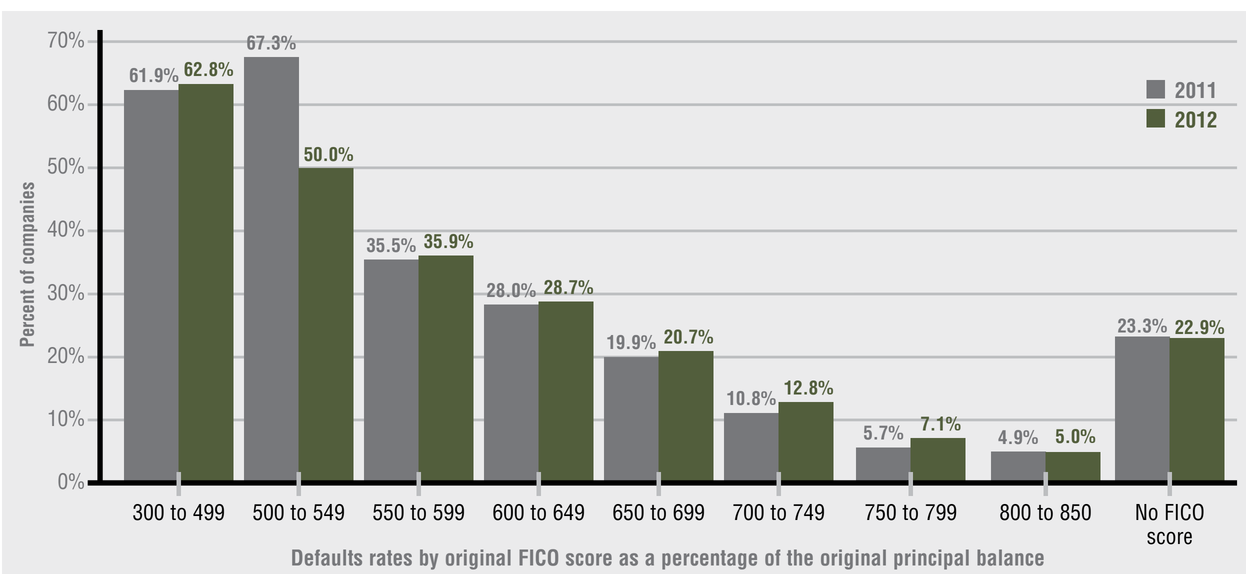
Figure 104 **Distribution of companies by static pool default rate (as a % of original principal balance), 2012**




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

Respondents were asked to provide static pool default percentages by certain FICO score range at the time the loan was made to the timeshare purchasers. The default rate for FICO score ranges remained consistent from 2011 to 2012, thus it is reasonable to assume that FICO scores are a good indicator of estimated defaults. As the FICO score range increases over 700, there is a significant drop in default rates.

Figure 105 **Static pool default rate distribution by original FICO score, 2012, U.S.**




*Source: Deloitte & Touche LLP based on 11 company survey responses.*

## ARDA International Foundation - Financial Performance Survey — Part I - 2013

**Timeshare company:**
**Address:**

**Person coordinating survey response:**
- **Name:**
- **Title:**
- **Phone:**
- **E-mail:**

**Please return completed survey to:** ARDASurvey@delolitte.com

This is Part I of a two-part survey form. Part II is on the next tab of this workbook. The following questions refer to the entire timeshare organization, including all resorts, without separating by geographic region. Please answer all monetary questions in U.S. dollars. Provide data for calendar years 2011 and 2012 in the columns provided. Exclude fractionals, private residence clubs ("PRC's") and whole-ownership units from all parts of the survey. Definitions are provided on the last tab in this workbook. Note: Many questions require answers to be based on financial statements prepared in accordance with Accounting Standards Codification 978 (formerly known as Statement of Financial Accounting Standards No. 152 Accounting for Real Estate Time-Sharing Transactions).

| *General Characteristics* | Entire company, all geographies, calendar years 2011 | 2012 |
|---|---|---|
| 1. Ownership status at year-end (public or private) | | |
| 2. Location of headquarters (city, state, and country) | | |
| 3. Did you complete any acquisitions during the current year? (Business Combinations) (yes or no)* | | |
| 4. What type of products did the company offer during 2011 and 2012? (Note: Interval week programs have been separated into two categories in this question, an additional description has been provided on each timeshare category.) | | |
| **Interval weeks** | | |
| **a. Traditional interval weeks** (yes or no) Refers to ownership of traditional interval weeks. The consumer has purchased a specific type of week at a specific resort. This week may then be exchanged through internal or external exchange systems, either for an interval week-based vacation or in some cases transferred for points, such as in a hotel brand frequent guest program. | | |
| **b. Interval weeks with the ability to use through a timeshare points system** (yes or no) Refers to a points system or vacation club backed by an interval week interest. The legal structure of the consumer's purchase is supported by a deeded week or week-based ownership interest (including right-to-use, beneficial interest associated with trust based vehicles, or other non-deeded week-based interest), but the consumer has the ability to use the interest at its "home resort" or directly through a timeshare points-based system. | | |
| **c. Timeshare points** (yes or no) Refers to pure points systems. The consumer has purchased points or credits backed by a usage right to a club's internal network of resorts. | | |
| d. Fractionals (yes or no) Exclude fractional sales and receivables from all questions in this survey. | | |
| e. Whole-ownership (yes or no) Exclude whole-ownership sales and receivables from all questions in this survey. | | |
| f. Are you performing sales and marketing services on behalf of another developer for a fee ("fee-for-service")? (yes or no) | | |
| g. Are fee-for-service activities being provided by another developer on your behalf? (yes or no) | | |
| 5. Did you have any Goodwill impairment charges during the current year? (yes or no)* | | |
| a. If yes, what was the dollar amount of the Goodwill impairment?* | | |

| *Receivables Portfolio* | Entire company, all geographies, calendar years 2011 | 2012 |
|---|---|---|
| 6. The following questions refer to the portfolio of receivables (including securitized and/or hypothecated receivables), including receivables for sales made in earlier years. Note: All responses related to receivables in the survey must relate to those receivables reported on the developer's financial statements. Do not include receivables that you are servicing for other developers. | | |
| a. Gross outstanding portfolio balance, at December 31 (in dollars) | | |
| b. At December 31, on a contractual basis what percentage of the dollar amount of this portfolio was: | | |
| Current (current or fewer than 31 days delinquent) | | |
| Between 31 to 60 days delinquent | | |
| Between 61 to 90 days delinquent | | |
| Between 91 to 120 days delinquent | | |
| More than 120 days delinquent | | |
| **Total should equal 100%** | **0.0%** | **0.0%** |
| c. After how many days delinquent do you write-off receivables? (i.e., 120) | | |
| d. Gross defaults (total amount charged against the allowance for uncollectible accounts as a percentage of gross outstanding portfolio balance, at December 31. Excludes foreclosure costs, which are included in Question 6f.) | | |
| e. Allowance for uncollectible accounts as a percentage of gross outstanding portfolio balance, at December 31. | | |
| f. General and administrative costs of financing operations (including financial costs such as treasury and consumer loan servicing, collection costs, and foreclosure costs) (report dollar value) | | |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

Part I continues >

## ARDA International Foundation - Financial Performance Survey — Part I - 2013

***Receivables Portfolio — continued***

| | Entire company, all geographies, calendar years 2011 | 2012 |
|---|---|---|
| g. Pro forma static pool default rate. Calculated as cumulative actual and projected future defaults net of reinstatements, divided by original principal balance. Reinstatements refer to receivables that had previously been deemed a credit loss, but which were later deemed to be collectable. Assume no inventory recovery. | | |
| h. Average interest rate (on the timeshare consumer loans in the portfolio at year-end, weighted by outstanding principal balance) | | |
| i. Weighted average maturity in months (average remaining months to maturity of loans in the portfolio at year-end, weighted by outstanding principal balance) | | |
| j. Average FICO score (on loans in the portfolio at year-end, weighted by outstanding principal balance) | | |
| k. Does the Company utilize FICO scoring in your receivables underwriting criteria? (yes or no) | | |

***Hypothecation of Receivables During Year***

7. The following questions refer to hypothecations of consumer receivables during 2011 and 2012.

| | 2011 | 2012 |
|---|---|---|
| a. Value of total fundings (in dollars) | | |
| b. Weighted average advance rate (percentage advanced to developer) | | |
| c. Weighted average interest rate paid by developer for hypothecation loan | | |
| d. Weighted average remaining term to maturity on consumer loans (at point of hypothecation, in months) | | |

***Receivable Portfolio Transactions with Recourse During Year (Portfolio Sales)***

8. The following items refer to sales of consumer receivables during 2011 and 2012. Original sales only (exclude portfolios that had been previously sold, but repurchased, and sold again).

| | 2011 | 2012 |
|---|---|---|
| a. Number of separate sales transactions | | |
| b. Gross value of sales contracts sold (reported as collateral value or outstanding principal balance) (in dollars) | | |
| c. Weighted average advance rate (calculated as net value of sales or proceeds received for sale divided by gross value of sales contracts sold) | | |
| d. Weighted average interest rate paid by seller (timeshare company) | | |
| e. Weighted average expected annual prepayment rate (including upgrades, excluding defaults) | | |
| f. Indicate when recourse occurs (for example, when over 60, 90, 120 days delinquent or at lender's discretion) | | |

***Receivable Portfolio Transactions without Recourse During Year (Securitizations)***

9. The following items refer to securitizations of consumer receivables during 2011 and 2012. Original sales only (exclude securities that had been previously sold, repurchased, and sold again).

| | 2011 | 2012 |
|---|---|---|
| a. Number of separate securitization transactions | | |
| b. Gross value of sales contracts securitized (reported as collateral value or outstanding principal balance) (in dollars) | | |
| c. Weighted average advance rate (calculated as net value of sales or proceeds received for sale divided by gross value of sales contracts sold). | | |
| Weighted average interest rate paid by timeshare company | | |
| d. Weighted average benchmark rate (e.g., 5.2%) | | |
| e. Weighted average spread (e.g., 0.6%) | | |
| f. Total weighted average interest rate (combination of d and e; e.g., 5.8%) (calculated based on formula) | 0.0% | 0.0% |
| g. Weighted average expected annual prepayment rate (including upgrades, excluding defaults) | | |

**End of Part I, continue to Part II >**

## ARDA International Foundation - Financial Performance Survey — Part II - 2013

The following questions require information for U.S. operations only. Please answer all monetary questions in U.S. dollars. Provide data for calendar years 2011 and 2012 in the columns provided. Definitions are provided on the third tab in this workbook.

Note: Many questions require answers to be based on financial statements prepared in accordance with Accounting Standards Codification 978 (formerly known as Statement of Financial Accounting Standards No. 152 Accounting for Real Estate Time-Sharing Transactions).

***Number of resorts***

10. Number of timeshare resorts. Exclude resorts that offer only fractional, private residence club, and/or whole-ownership product. It is expected that all resorts will be categorized in one of the following three categories. Multiple resort phases at a single location would typically be counted as a single resort. Note: Resorts in the survey must relate to inventory that is owned by the developer.

| | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| a. Resorts that were open and in active sales. Include resorts that were in active sales at any point during the year, including resorts that did not have an on-site or proximate sales center, but which were actively sold from other sales centers. Proximate refers to situations in which the timeshare resort is near the sales center, such that buyers can easily visit and/or tour the resort site. | | |
| b. Resorts that were not open but were in active pre-sales at any point during the year. Include resorts that did not have an on-site or proximate sales center, but were actively sold from other sales centers. | | |
| c. Resorts not in active sales at any point during the year. | | |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

Part II continues >

## ARDA International Foundation - Financial Performance Survey — Part I - 2013

| Number of sales centers and sales activity by sales center type | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| 11. Number of active sales centers and sales volume by sales center type. Exclude sales centers that sell only fractional, private residence club and/or whole-ownership product. Report the dollar value of net originated sales, which should be consistent with the total reported in Question 13c if you are not participating in fee-for-service arrangements. Enter "0" rather than "N/A" if answer is zero. Include sales to existing owners and other in-house guests. | | |
| Note: All sales data reported in this question must relate to all inventory that is sold by the developer including inventory sold on behalf of others under fee-for-service agreements. Do not report sales data related to inventory that is sold by other developers on your behalf. | | |
| a. Sales centers located at, or proximate to, one of the respondent company's timeshare resorts that is either open or in pre-sales. Include sales centers that were in active sales at any point during the year. | | |
| a1. Number of centers | | |
| a2. Net originated sales (in dollars) | | |
| b. Sales centers that are located in a hotel but not located at, or proximate to, one of the respondent company's timeshare resorts that is either open or in pre-sales. Include sales centers that were in active sales at any point during the year. | | |
| b1. Number of centers | | |
| b2. Net originated sales (in dollars) | | |
| c. Sales centers that are neither located at, or proximate to, one of the respondent company's timeshare resorts or at a hotel. Excluding telesales. | | |
| c1. Number of centers | | |
| c2. Net originated sales (in dollars) | | |
| d. Centers that conduct telesales activity (completing timeshare sales without hosting customers at a sales center). | | |
| d1. Number of centers conducting telesales | | |
| d2. Net originated sales by telesales (in dollars) | | |
| e. Total of four categories above (calculated based on formula) | | |
| e1. Total number of sales centers | 0 | 0 |
| e2. Total net originated sales (in dollars) | $0 | $0 |
| f. Total net originated sales for non-owned timeshare inventory sold under fee-for-service agreements. (This is the total net originated sales of timeshare inventory sold on behalf of others under fee-for-service agreements) | | |

| Selected sales metrics | 2011 | 2012 |
|---|---|---|
| 12. Sales metrics. Exclude telesales from the following responses. Include sales to existing owners and other in-house guests. | | |
| Note: All sales data reported in this question must relate to all inventory that is sold by the developer including inventory sold on behalf of others under fee-for-service agreements. Do not report sales data related to inventory that is sold by other developers on your behalf. | | |
| a. Number of tours. Represents the number of tours taken by guests in the company's efforts to sell timeshares. Include all tours of sales prospects, whether they occur on-site or at an off-site sales center. | | |
| b. Number of sales transactions (exclude rescissions) (transactions should include: week sales, EOY sales, multiple-week sales, upgrades (that count as zero weeks), points sales, reloads (which should be part of all categories above, except upgrades). Transactions should not include sales of trial membership programs.) | | |
| b1. Number of sales transactions that were not upgrade sales | | |
| b2. Number of sales transactions that were upgrade sales | | |
| c. Close rate (excludes sales that are canceled through rescission, calculated based on formula) | 0.0% | 0.0% |
| d. Net originated sales excluding telesales (expected to be the same as Question 11e2 minus telesales) | $0 | $0 |
| d1. Net originated sales that were not upgrade sales | | |
| d2. Net originated sales that were upgrade sales | $0 | $0 |
| e. Volume per guest ("VPG"). Represents timeshare sales revenue per guest and is calculated by dividing net originated sales, excluding telesales, by the number of tours. (calculated based on formula) | $0 | $0 |
| f. Average transaction value (this is calculated based on net originated sales and excludes any charges not reflected in net originated sales, such as closing costs) | $0 | $0 |
| g. Sales of trial membership programs, also referred to as exit program or sampler. See the definition of trial membership program on the "Definitions" tab. (Report dollar value of sales. If there were no sales of trial membership programs, enter "0".) | | |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

Part II continues >

## ARDA International Foundation - Financial Performance Survey — Part II - 2013

| *Sales revenue* | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| 13. Annual timeshare sales information (in dollars). Include interval week and points sales. Show items that reduce revenue in a given period, such as rescissions, as negative values. Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others. | | |
| a. Gross sales (Sales value before rescissions. Sales value should approximate the amount at which a timeshare interest would be sold in an all-cash sale, without financing or incentives, e.g. net of the fair value of any incentives received by the buyer that are in excess of what the buyer paid. Exclude temporary sales such as trial memberships, exit programs and samplers. Include the incremental dollar value of upgrade sales and reloads, regardless whether the sale represents incremental ownership of time. For example, include the dollar value of upgrades from a biennial to an annual interval, as well as an upgrade from a shoulder season to peak season or an upgrade from a one-bedroom to a two-bedroom.) | | |
| b. Rescissions (Typically this is a negative number that reduces gross sales to a lower value for net originated sales. Depositary rescissions, which are situations in which the buyer has made a deposit but hasn't yet provided the down payment necessary to qualify the transaction as a contract sale, are not counted in gross sales and are therefore not counted as rescissions.) | | |
| b1. Rescissions that were not upgrade sales | | |
| b2. Rescissions that were upgrade sales | | |
| c. Net originated sales (sub-total of a plus b) | $0 | $0 |
| d. Reduction of revenue for uncollectible accounts | | |
| e. Net deferrals for rescission period | | |
| f. Net deferrals for buyer commitment | | |
| g. Sales after reduction for uncollectibles accounts, and deferrals for rescission period and buyer commitment (sub-total of c plus d, e, and f) | $0 | $0 |
| h. Net deferral for percentage-of-completion | | |
| i. Sales revenue according to U.S. GAAP (total of g plus h) | $0 | $0 |
| j. Total net originated sales for owned timeshare inventory sold under fee-for-service agreements. (This is the total net originated sales of timeshare inventory owned by you and sold by others under fee-for-service agreements) | | |

For the following questions, please provide information on the company's interval week sales in Questions 14 to 16, and points sales in Questions 17 to 19.

- These two categories (points and interval weeks) are intended to be consistent with Question 4 in Part I, with Interval Sales referring to products that fit in categories 4a and 4b (traditional interval weeks and interval weeks with the ability to use through a timeshare points system) and Points Sales referring to products in 4c (pure timeshare points systems).
- These two categories are not intended to overlap, and the combined totals should represent the company's net originated sales reported in Question 13c.
- Exclude fractional, private residence club and whole-ownership sales.

| *Interval sales* | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| 14. Annual net originated timeshare sales of intervals (in dollars). (Consistent with definition of net originated sales used for Question 13c). Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others. | | |

15. Quarterly net originated timeshare sales of intervals (in dollars). The total of the four quarters of each year should match the total reported in Question 14.

Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others.

| U.S. sales locations (50 states), calendar year quarters | Q1 (Jan-Mar) | Q2 (Apr-Jun) | Q3 (Jul-Sep) | Q4 (Oct-Dec) |
|---|---|---|---|---|
| a. 2011 | | | | |
| b. 2012 | | | | |

| | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| 16. Number of equivalent weeks sold as interval week product. Include reloads and the incremental annual weeks of use associated with upgrade sales that result in incremental ownership of time, such as an upgrade from a biennial to an annual interval, but exclude upgrades that are only a change in unit type, resort, or season, such as one-bedroom to a two-bedroom. For example, the sale of one upgrade from a biennial to an annual interval would count as 0.5 equivalent weeks sold, while an upgrade from a shoulder season to a peak season or an upgrade from a one-bedroom to a two-bedroom would count as zero equivalent weeks sold. The answers to this question will be used to measure sample set sales volume in weeks, and to calculate yield per interval week based on response to Question 14 above (see "Definitions" tab for explanation of yield per week). Therefore, the figure should be prior to percentage-of-completion adjustment. Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others. | | |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

Part II continues >

## ARDA International Foundation - Financial Performance Survey — Part II - 2013

| *Points sales* | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| 17. Annual net originated timeshare sales of points product (in dollars). (Consistent with definition of net originated sales used for Question 13c).<br>Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others. | | |

18. Quarterly net originated timeshare sales of points product (in dollars). The total of the four quarters of each year should match the total reported in Question 17.

Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others.

| | U.S. sales locations (50 states), calendar year quarters Q1 (Jan-Mar) | Q2 (Apr-Jun) | Q3 (Jul-Sep) | Q4 (Oct-Dec) |
|---|---|---|---|---|
| a. 2011 | | | | |
| b. 2012 | | | | |

| | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| 19. Number of equivalent weeks sold as points product (calculate weeks sold on an implied interval week conversion factor based on internal measures, see “Definitions” tab). Include the incremental annual equivalent weeks of use associated with purchases of additional points by existing owners. The answers to this question will be used to measure sample set sales volume in weeks, and to calculate yield per equivalent week based on response to Question 16 above (see “Definitions” tab for explanation of yield per week). Therefore, the figure should be prior to percentage-of-completion adjustment.<br>Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others. | | |

***Check on totals***

20. The following are calculations based on the answers provided above.

| | 2011 | 2012 |
|---|---|---|
| a. Total net originated sales of interval weeks | $0 | $0 |
| b. Total net originated sales of points | $0 | $0 |
| c. Implied yield per week on interval week sales | no interval weeks sold | no interval weeks sold |
| d. Implied yield per week on points sales | no points sold | no points sold |
| e. Total weeks and points sales | $0 | $0 |
| f. Total net originated sales (should match the amount shown for 13c) | $0 | $0 |
| Check on totals (is the sum of Q14 and Q17 equal to Q13c) | Yes, totals match | Yes, totals match |

***Inventory***

21. Inventory that is currently available for sale. Defined as number of unsold weeks of inventory available for sale at resorts on December 31 (equivalent weeks of unsold inventory of units, including points and interval week products).

Note: The inventory data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory to be sold on behalf of others.

| | 2011 | 2012 |
|---|---|---|
| a. Existing completed inventory available for sale. (Unsold inventory of completed units ready for intended use, including reacquired and unsold product. Units that are ready for intended use but do not yet have a certificate of occupancy should be included in the response to this question as completed inventory.) | | |
| b. Inventory that is currently available for sale but not yet complete. In other words, unsold inventory in phases that are in pre-sales at year-end. Exclude sold units. | | |
| c. Total | 0.0 | 0.0 |

22. Capital expenditures related to timeshare inventory.

| | 2011 | 2012 |
|---|---|---|
| a. Capital expenditures related to the development of timeshare inventory that began construction in prior years. (For 2011, total capital expenditures during the year ended December 31, 2011 to develop timeshare inventory started prior to January 1, 2011. For 2012, total capital expenditures during the year ended December 31, 2012 to develop timeshare inventory started prior to January 1, 2012.) | | |
| b. Capital expenditures related to timeshare inventory that began construction in the current year (new timeshare projects). (For 2011, total capital expenditures during the year ended December 31, 2011 related to timeshare inventory that was started between January 1, 2011, and December 31, 2011. For 2012, total capital expenditures during the year ended December 31, 2012 related to timeshare inventory that was started between January 1, 2012, and December 31, 2012.) | | |
| c. Capital expenditures related to fully completed inventory for the year ended December 31, 2011 and 2012 (e.g. turn-key, Just In Time inventory purchases, buy-backs from Property Owner Associations)* | | |
| 23. Inventory Impairment charges recorded during December 31, 2011 and 2012 (dollar value of inventory impairments). * | | |
| 24. Dollar value of construction costs and undeveloped land included in inventory, but not under current development as of December 31, 2011 and 2012 (i.e. inventory developments where construction has been placed on hold or is inactive). * | | |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

Part II continues >

## ARDA International Foundation - Financial Performance Survey — Part II - 2013

| **Key Ratios** | U.S. sales locations (50 states), calendar years 2011 | U.S. sales locations (50 states), calendar years 2012 |
|---|---|---|
| 25. Express responses to the following items as percentages of net originated timeshare sales during the year as reported in Question 13c.<br>• Because these amounts are being shown as a percentage of net originated sales, they should be before percentage-of-completion adjustment.<br>• Costs should be as applied for the current period, and exclude any retrospective adjustments being made for prior periods.<br>• Report the costs that correspond to sales that occurred at U.S. sales locations (e.g., sales office in the U.S.) in the U.S. sales locations columns, regardless of where the costs occurred (e.g., the product cost of inventory located in the Caribbean but sold through a sales office located in the U.S. should be reported in the U.S. sales locations columns).<br>Note: All sales data reported in this question must relate to inventory that is owned by the developer. Do not include inventory sold on behalf of others for the responses to this question. | | |
| a. Estimated uncollectible sales (expected to be consistent with the value shown in Question 13d) | | |
| b. Cost of sales, also referred to as product cost (including land, infrastructure, amenities, buildings, FF&E, soft costs, capitalized interest, capitalized maintenance fees, etc.) using the relative sales value method. As with the other items in this question, express as a percentage of net originated sales. | | |
| c. Sales commissions (gross, including taxes, benefits) | | |
| d. Other sales and marketing costs to sell timeshare intervals or points. Include general and administrative costs associated with sales and marketing, and include closing cost expenses. | | |
| e. General and administrative costs related to timeshare sales operations (excluding marketing, bad debt, HOA subsidies and G&A costs of financing operations, which are covered in Question 6f). Overall general and administrative costs should be allocated across the various revenue centers so that only the approximate portion of general and administrative costs related to timeshare sales operations are reported in this line. The method used to allocate G&A costs should be determined by the respondent. One example would be to allocate by revenue share, so that if timeshare sales operations account for 80 percent of total revenue, 80 percent of G&A costs would be allocated to this line. | | |
| f. HOA subsidies and/or maintenance fees (operating, replacement reserve, and property taxes) paid by development company (including costs that the development company elected not to pass on as increased costs to owners in a given year), net of realized rental revenue. | | |
| g. Pre-tax margin of timeshare sales operations | | |
| Total (it is expected that this total will equal 100%) | 0.0% | 0.0% |

| | U.S. sales locations (50 states), calendar years 2011 | U.S. sales locations (50 states), calendar years 2012 |
|---|---|---|
| 26. Percentage of net originated timeshare sales in which the buyer was already an existing owner of one or more timeshare interests at the company at the time of sale (do not count ownership of a trial membership as ownership of a timeshare interest at the company). Calculate as the dollar value net originated timeshare sales to existing owners (including upgrade sales and reloads) divided by the total dollar value of net originated timeshare sales reported in Question 13c.<br>Note: All sales data reported in this question must relate to all inventory that is owned by the developer. Do not include inventory sold on behalf of others. | | |

| **Consumer Financing** | U.S. sales locations (50 states), calendar years 2011 | U.S. sales locations (50 states), calendar years 2012 |
|---|---|---|
| 27. The following items refer to new financing provided to consumers at the point of sale during the period. Include telesales in the following responses. For upgrade sales, use the characteristics of the new loan. For example, if an owner with $4,000 of equity and $6,000 principal balance outstanding on an existing loan purchases an upgrade vacation ownership interest with a stated sales price of $20,000, and uses the equity in their existing interval as the down payment, resulting in a new loan with a principal balance of $16,000, use the interest rate and term of that $16,000 loan.<br>Note: All responses related to receivables in the survey must relate to those receivables reported on the developer's financial statements. Do not include receivables that you are servicing for other developers. | | |
| a. Ratios to total originated sales value plus closing costs. Consider the following example: 100 sales occur at an average price of $10,000 and average closing costs of $200 ($1,020,000 of total originated sales value plus closing costs); 10 were cash or cash-out within the first 90 days ($102,000 cash), 10 were upgrade sales for incremental sales revenue of $10,000 and closing costs of $200 in which there was no cash down payment ($102,000 financed), while $9,180 was financed on each of the other 80 sales ($81,600 cash down payment, $734,400 financed). In this example, a1 would be 10.0 percent ($102,000/$1,020,000), a2 would be 8.0 percent ($81,600/$1,020,000), and a3 would be 82.0 percent (($102,000 + $734,400))/$1,020,000). | | |
| a1. Cash or cash-out within first 90 days | | |
| a2. Cash down payment | | |
| Sub-total (a1+a2): Cash sales and down payments | | |
| a3. Financed value | | |
| Total should equal 100% | 0.0% | 0.0% |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

Part II continues >

## ARDA International Foundation - Financial Performance Survey — Part II - 2013

***Consumer Financing — continued***

| | U.S. sales locations (50 states), calendar years 2011 | 2012 |
|---|---|---|
| b. Average interest rate. Calculate as the weighted average for financing provided on financed sales each year, using the stated interest rate on the notes. For example, if 10 loans with an original principal balance of $9,000 carried a stated interest rate of 15 percent, and 20 loans with an original principal balance of $8,000 carried a stated interest rate of 13 percent, the weighted average would be 13.7 percent. | | |
| c. Average term (in months). Calculate the weighted average on financed sales following the example for Question 27b. Exclude sales that are cash or cash-out. | | |
| d. Average down payment (as a percentage of stated sales price on financed sales). Calculate the weighted average for financed sales only. For example, if 100 sales occurred at an average price of $10,000, and 10 were cash or cash-out within the first 90 days, 80 were financed with a $1,000 down payment ($80,000 down on $800,000 of sales) and 10 were financed with a $1,500 down payment ($15,000 down on $100,000 of sales), then the average down payment was 10.6 percent of the stated sales price on financed sales ($95,000 down on $900,000 of sales). Exclude sales that are cash or cash-out. | | |
| d1. Average down payment on non-upgrade sales (as a percentage of stated sales price on financed sales) | | |
| d2. Average down payment on upgrade sales (In calculating the down payment on those sales that were upgrade sales, calculate the down payment as any cash down payment plus the amount of equity in the owner's existing vacation ownership interest, as a percentage of the stated sales price of the new (upgrade) vacation ownership interest.) | | |
| e. Distribution of new loans by FICO score (not weighted, simply the percentage of total new loans made to buyers in each FICO score range) | | |
| e1. 300 to 499 | | |
| e2. 500 to 549 | | |
| e3. 550 to 599 | | |
| e4. 600 to 649 | | |
| e5. 650 to 699 | | |
| e6. 700 to 749 | | |
| e7. 750 to 799 | | |
| e8. 800 to 850 | | |
| e9. No FICO score | | |
| Total (calculated based on formula, should equal 100%) | **0.0%** | **0.0%** |
| f. Weighted average FICO score (on new loans, weighted by original principal balance, exclude buyers without FICO scores) | | |
| g. The Pro forma static pool default rate by FICO band. Calculated as cumulative actual and projected future defaults net of reinstatements, divided by original principal balance. Reinstatements refer to receivables that had previously been deemed a credit loss, but which were later deemed to be collectable. Assume no inventory recovery.The figure should NOT total to 100%. | | |
| g1. 300 to 499 | | |
| g2. 500 to 549 | | |
| g3. 550 to 599 | | |
| g4. 600 to 649 | | |
| g5. 650 to 699 | | |
| g6. 700 to 749 | | |
| g7. 750 to 799 | | |
| g8. 800 to 850 | | |
| g9. No FICO score | | |
| Total | **0.0%** | **0.0%** |

* Indicates a new question or questions that reflect changed wording from 2012 survey form.

**End of Part II, end of survey.**

# GLOSSARY



***Terms defined in ASC 978 (SOP 04-2)*** The following are terms that are used in this survey that have the same meaning as defined in the Statement of Position 04-2 Accounting for Real Estate Time-Sharing Transactions (SOP 04-2) released by the American Institute of Certified Public Accountants (AICPA) in December 2004. The definitions provided below are abbreviated from SOP 04-2 for the purpose of this definitions page and do not represent guidance by Deloitte for any other purpose. Readers should refer to the full SOP 04-2 for reference.

**Downgrade**
A transaction under which, as a result of credit concerns, the holder of a timeshare interval returns it to the seller in exchange for a lower-valued interval.

**Full accrual method**
A method of recognizing profit for timeshare transactions under which profit is recognized in full provided the applicable criteria are met.

**Percentage-of-completion method**
A method of recognizing profit for time-sharing transactions under which the amount of revenue recognized (based on the sales value) at the time a sale is recognized is measured by the relationship of costs already incurred to the total costs already incurred and future costs expected to be incurred.

**Recourse**
The right of a transferee of receivables to receive payment from the transferor of those receivables for (1) failure of debtors to pay when due, (2) the effects of prepayments, or (3) adjustments resulting from defects in the eligibility of the transferred receivables.

**Reload**
A transaction whereby a customer obtains a second interval from the same seller but does not relinquish the right to the first, for example, obtaining an additional unit, an additional interval, or additional points.

**Rescission**
Statutory right of the buyer to cancel a sales contract within a certain defined time period and obtain a return of all consideration paid to the seller.

**Relative sales value method**
A method of allocating inventory cost and determining cost of sales in conjunction with a timeshare sale. Cost of sales is calculated as a percentage of net sales by applying a cost of sales percentage, determined as the ratio of inventory cost to total remaining estimated timeshare revenue to be collected from sales of the inventory.

**Sales value**
A calculated amount that approximates the amount at which a timeshare interval would be sold in an all-cash sale, without financing or incentives. Sales value is determined by adjusting the stated sales price to the present value of the receivable, adding fees paid by the buyer that are unrelated to financing, and subtracting the value of incentives and services provided to the buyer (to the extent the fair value of the incentives or services exceeds the amount the buyer pays for the incentives or services).

**Trial membership program**
A marketing program under which a timeshare developer offers a customer, who has previously toured one of the development company's projects, a stay at one or more of the development company's projects for an upfront fee that reflects a reduced rate. In exchange, the customer agrees to take another, subsequent tour under the trial membership program during the customer's stay at that project. If the subsequent tour results in a sale, the developer may allow the customer to apply some or all of the amount paid for the trial membership toward the purchase of a timeshare, and/or as a part of the down payment. Also referred to as an exit program or sampler.

**Upgrade**
A transaction whereby a customer relinquishes the right to a currently held timeshare interval and obtains a higher-priced timeshare interval from the same seller.

***Terms not defined in ASC 978 (SOP 04-2)***

The following are terms that are not defined in SOP 04-2 and are provided here for reference in completing the survey.

**Default**
Occurs when a loan is declared in default or when payments are more than 120 days delinquent.

**Delinquent receivable**
Results when a defined payment has not been received as specified by the loan documents. The delinquency period is defined as the number of days subsequent to the prescribed payment due date.

**Discount rate**
The interest rate used as one of the key assumptions in the valuation model to value the retained interest in a securitization transaction.

**FAS 152 (ASC 978)**
Statement of Financial Accounting Standards No. 152, *Accounting for Real Estate Time-Sharing Transactions an amendment of FASB Statements No. 66 and 67*. Accounting Standards Codification (ASC) 978, Real Estate – Timesharing Activities.

**Fractionals**
Ownership interest that is either a shared equity or club interest representing a time period of not fewer than two weeks but usually three weeks or more. Fractional ownership typically offers additional services, amenities, and flexibility relative to timeshare, so that a bundle of timeshare weeks would not be considered a fractional interest. Fractional sales and financed notes should be excluded from totals and averages reported in this survey.

**Hypothecated receivables**
Represents the installment sales contracts which are pledged as collateral for debt.

**Interval week conversion factor**
Points-based developers may calculate weeks sold on an implied interval week conversion factor based on internal measures. For example, one approach may be to divide the number of points redeemed during the year by the number of unit weeks occupied. Or, developers that assign point values to unit inventory may calculate the implied interval week conversion factor for the system overall.

**Prepayment rate**
The rate at which loans are paid off before the end of the note term. This is a key assumption used in the valuation model used to value the retained interest in a securitization model.

**Rescissions**
Sales contracts that are executed and for which the timeshare company has received valid funds in accordance with the sales contracts, but which do not close escrow within 30 days. Contracts that fail to have adequate funds should be viewed as pending contracts and should not be recognized as either gross sales or rescissions. Deeds in lieu of foreclosure and/or contracts obtained by the developer through foreclosure proceedings should not be reflected in the rescission amounts. Depositary rescissions, which are situations in which the buyer has made a deposit but hasn't yet provided the down payment necessary to qualify the transaction as a contract sale, are not counted as part of gross sales, and therefore are not counted as rescissions.

**Securitization**
The obtaining of funds through the issuance of securities backed by a pool of mortgages or mortgage-related securities without recourse.

**Static pool default analysis**
Static pool analysis is used to measure the performance of a grouping, or pool, of receivables. This method analyzes performance by tracking credit losses or other variables throughout the duration of the pool. 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.

**Whole ownership**
Vacation product in which each unit has one owner. Whole ownership sales and financed notes should be excluded from the totals and averages reported in this survey.

**Yield per week**
Net originated sales divided by number of equivalent weeks sold. It is the same concept as the average price per week measure that was calculated in previous editions of the Financial Performance Survey, but has been relabeled to reflect that upgrade sales revenue is included in the numerator of the calculation even though upgrade sales do not result in the net absorption of an additional equivalent week and therefore do not impact the denominator.

***Terms defined in ASC 805 (FAS 141(r))*** The following are terms that are used in this survey that have the same meaning as defined in the FASB Accounting Standards Codification (ASC) 805 Business Combinations. The definitions provided below are abbreviated from ASC 805 for the purpose of this definitions page and do not represent guidance by Deloitte for any other purpose. Readers should refer to the full ASC 805 for reference.

**Acquirer**

The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

**Business**

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants.

A self-sustaining integrated set of activities and assets conducted and managed for the purpose of providing a return to investors. A business consists of all of the following:

1. Inputs
2. Processes applied to those inputs
3. Resulting outputs that are used to generate revenues

For a set of activities and assets to be a business, it must contain all of the inputs and processes necessary for it to conduct normal operations, which include the ability to sustain a revenue stream by providing its outputs to customers.

**Business Combination**

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations.

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