Financial Performance

2015

A SURVEY OF TIMESHARE & VACATION OWNERSHIP COMPANIES

EXECUTIVE SUMMARY

2015 EDITION
PREPARED BY Deloitte.

AIF

Sales activity

- **Net originated sales excluding fee-for-service increased 6.3 percent, while net originated sales including fee-for-service increased 7.6 percent.**

  In total, the 19 respondents that provided sales information reported $5.624 billion in net originated timeshare sales (excluding fee-for-service) in 2014. The overall percentage change in net originated sales between 2013 and 2014 was an increase of 6.3 percent, based on comparable information for 2013 and 2014 provided by the 19 respondents. Total net originated sales including fee-for-service arrangements increased 7.6 percent from 2013 to 2014, increasing from $5.850 billion to $6.292 billion.
- **Points sales represented 63.1 percent of the $5.624 billion of net originated sales excluding fee-for-service.**

  Of the $5.624 billion of net originated sales reported by 19 companies in 2014, $3.548 billion (63.1 percent) was classified as points sales, while $2.076 billion (36.9 percent) was classified as interval sales.
- **The amount of U.S. net originated sales that were sold on behalf of others under fee-for-service arrangements increased from $561.3 million in 2013 to $667.9 million in 2014.**
- **Quarterly net originated sales compared to the previous year were greater in total for the first three quarters for the *core company set*.**
- **Net originated sales at U.S. locations averaged $38.0 million per resort in active sales.**
- **Unsold weeks held in inventory increased from 1.60 years in 2013 to 1.85 years in 2014, on a weighted average basis, for the *core company set*.**
- **Capital expenditures related to timeshare inventory increased by 8.6 percent from 2013 to 2014.**

  Total capital expenditures related to timeshare inventory increased from $707 million in 2013 to $768 million in 2014. Capital expenditures related to the development of new timeshare inventory decreased while capital expenditures related to the development of existing projects and capital expenditures related to completed inventory increased. The largest percentage increase in capital expenditures came from completed inventory.
- **The average yield per week increased 5.4 percent in 2014, with a weighted average yield of $28,931**.

  The *core company set* reported an average increase in the weighted average yield of a timeshare week of 4.9 percent from 2013 to 2014, increasing from $27,954 to $29,317.
- **Sales tours, average transaction value, and volume per guest increased and net close rate decreased from 2013 to 2014.**

  In 2014, respondents reported hosting 2.39 million sales tours, compared to 2.27 million sales tours in the previous year. Respondents achieved a weighted average net closing rate of 15.4 percent, which was 0.1 percentage points lower than the 15.5 percent reported for 2013. During the year, weighted average volume per guest increased from $2,697 in 2013 to $2,703 in 2014, and weighted average transaction value increased from $17,631 to $18,222, respectively. Respondents reported that the average transaction value for non-upgrade sales was $18,743, and for upgrade sales was $17,928 in 2014. The *core company set* also reported a weighted average decrease in net close rates from 15.5 percent in 2013 to 15.3 percent in 2014.
- **A lesser share of net originated sales, by dollar value, was attributable to upgrade sales than in 2013.**

  Upgrade sales accounted for 42.1 percent of sales volume at U.S. locations in 2014, compared to 42.6 percent in 2013.
- **Rescissions, as a portion of gross sales, increased 1.3 percentage points in 2014.**

  Respondents reported a greater reduction of gross sales for rescissions, which averaged 14.4 percent in 2013 compared to 15.7 percent in 2014. There was an increase in rescission rates for upgrade sales and for non-upgrade sales for the *core company set* from 2013 to 2014.

SALES TOURS METRICS BY COMPANY CATEGORY, 2014, 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	2,390,825	1,911,751	464,729	14,345	1,444,500	691,963	254,362
Number of sales transactions	360,982	289,789	69,042	2,151	189,236	121,698	50,048
Net close rate	15.4%	15.4%	15.6%	15.0%	13.6%	18.4%	19.5%
Net originated sales excluding telesales (mill)	$6,020	$5,089	$908	$22	$3,917	$1,538	$565
Volume per guest ("VPG")	$2,703	$2,796	$2,208	$1,591	$2,884	$2,408	$2,252
Average transaction value	$18,222	$18,771	$15,329	$10,674	$21,156	$13,142	$11,708

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

Key ratios

- **Estimated uncollectible sales, as a portion of net originated sales, averaged 12.9 percent in 2014.**
- **Product costs, as a portion of net originated sales, averaged 15.9 percent in 2014.**
- **Costs related to sales and marketing increased, averaging 41.6 percent of net originated sales.**

  Total sales and marketing costs reported by the *core company set* increased from 39.8 percent in 2013 to 40.4 percent in 2014.
- **General and administrative costs, as a portion of net originated sales, averaged 8.0 percent in 2014.**

  General and administrative costs reported by the *core company set* increased from 6.7 percent in 2013 to 7.5 percent in 2014.
- **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 2014.**
- **Operating profit margin on timeshare sales operations increased from 16.3 percent to 18.6 percent.**

  This margin represents only timeshare sales operations, and excludes profit generated by the consumer financing and resort management components. Approximately 10.5 percent of respondents reported negative pre-tax margins, which may reflect short term timing impacts, the impact of slowing sales pace, or other factors that do not represent the long-term stabilized profit margin of the business. The operating profit margin reported by the *core company set* increased from 18.5 percent in 2013 to 20.2 percent in 2014.
- **Respondents reported that 54.2 percent of timeshare sales, by dollar value, in 2014 were to buyers who already owned at least one timeshare interest at the company.**

Hypothecation of receivables

- **The average interest rate and advance rate remained consistent when compared to 2013.**

  Ten respondents provided information on hypothecations of receivables that occurred during 2014, totaling $629.3 million. The average interest rate remained consistent at 5.2 percent for the period ended 2013 and 2014. The average advance rate remained consistent at 81.0 percent.

Portfolio sales and securitizations

- **For respondents that reported securitizations in both 2013 and 2014, the average transaction size of securitizations increased, while average advance rates and interest rates decreased.**

  For those respondents that reported securitizations in both 2013 and 2014, the average transaction size of reported securitizations increased 13.1 percent from $248.8 million to $281.5 million; the average interest rate decreased 0.2 percentage points from 4.0 percent to 3.8 percent; and the average advance rate decreased 1.5 percentage points from 93.0 percent to 91.5 percent. The nine separate securitization transactions reported by survey respondents in 2014 represented a total value of $2.534 billion, measured as the gross value of the sales contracts securitized.

KEY RATIOS AS A % OF NET ORIGINATED SALES VALUE, 2014, U.S.

	All respondents	Interval companies	Points companies	Public companies	Private companies
Estimated uncollectible sales	12.9%	16.3%	11.1%	9.7%	20.3%
Cost of sales, (product cost)	15.9%	17.4%	15.0%	16.5%	14.5%
Sales commissions	15.1%	13.0%	16.3%	14.1%	17.3%
Other sales and marketing costs	26.5%	28.8%	25.2%	26.4%	26.7%
Sub-total: Sales commissions and other sales and marketing costs	**41.6%**	**41.8%**	**41.5%**	**40.5%**	**44.0%**
General and administrative costs related to timeshare sales operations	8.0%	8.3%	7.8%	8.0%	7.9%
HOA subsidies and/or maintenance fees	3.0%	0.8%	4.2%	4.1%	0.4%
Pre-tax margin of timeshare sales	18.6%	15.4%	20.4%	21.2%	12.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

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

www.arda.org

Consumer financing and receivables portfolio performance

- **Of the $5.076 billion of net originated timeshare sales in which respondents provided financing information, $2.739 billion was financed by respondents.**
- **Average down payments on non-upgrade sales, interest rates, and term increased in 2014, while down payments on upgrade sales decreased for the *core company set*.**

  For the *core company set*, the interest rate on new consumer loans in 2014 was 13.9 percent, up from the 13.8 percent reported in 2013, on a weighted average basis. As a percentage of contract prices, average down payments on non-upgrade sales in the *core company set* increased from 17.2 percent in 2013 to 17.5 percent in 2014 while average down payments on upgrade sales in the *core company set* decreased from 51.0 percent in 2013 to 49.6 percent in 2014. The average term on new consumer loans increased from 117.3 in 2013 to 117.5 in 2014, on a weighted average basis.
- **Current receivables remained consistent from 2013 to 2014, while those more than 120 days delinquent increased by 0.3 percentage points.**

  The share of current receivables (current or fewer than 31 days delinquent) was 89.8 percent in 2014, while the share of receivables more than 60 days delinquent was 8.3 percent.
- **Gross defaults, as a portion of the gross outstanding portfolio balance at year-end, averaged 6.3 percent in 2014, which is a decrease of 0.4 percentage points from 2013.**
- **The weighted average allowance for uncollectible accounts, as a portion of gross outstanding portfolio balance at year-end, was 15.1 percent in 2014.** This was an increase of 0.1 percentage points as compared to 2013.
- **The average interest rate on loans held in portfolios remained consistent from 2013 to 2014, while the average remaining term increased by 1.0 month.**

  The weighted average interest rate on timeshare consumer loans held in portfolios at year-end was 14.0 percent in 2014; and the weighted average term to maturity for loans held was 100.0 months.
- **The weighted average general and administrative costs of financing operations, as a portion of outstanding portfolio balance, was 1.5 percent in 2014.**

FICO scores

- **The use of FICO scoring as an underwriting component remained consistent in 2014 at 84.2 percent.**
- **The weighted average FICO score on loans held in receivables portfolios at year-end, as reported by respondents, increased 3 points from 698 in 2013 to 701 in 2014.**
- **The weighted average FICO scores on new financings increased from 720 in 2013 to 721 in 2014.**
- **The static pool default rate by FICO score (the static pool default percentages by FICO score range at the time the loan was made to purchasers) decreased across several bands from 2013 to 2014.**
- **The weighted average static pool default rate decreased 0.4 percentage points to 18.1 percent in 2014, as reported by seventeen respondents.**

PERFORMANCE OF CONSUMER RECEIVABLES PORTFOLIOS AT YEAR-END, 2013 AND 2014, ALL GEOGRAPHIES

	2013	2014
Current	89.8%	89.8%
31 to 60 days	2.0%	1.9%
61 to 90 days	1.1%	1.1%
91 to 120 days	1.0%	0.8%
More than 120 days	6.1%	6.4%
	100.0%	100.0%

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

MEMBER $25 | NON-MEMBER $50