

Hilton Grand Vacations Inc.
Second Quarter 2024 Earnings Call
Thursday, August 8, 2024, 10:00 A.M. Eastern

CORPORATE PARTICIPANTS

Mark Melnyk – *Senior Vice President, Investor Relations*

Mark Wang – *Chief Executive Officer*

Daniel Mathewes – *President and Chief Financial Officer*

PRESENTATION

Operator

Good morning, and welcome to the Hilton Grand Vacations Second Quarter 2024 Earnings Conference Call.

A telephone replay will be available for seven days following the call. The dial-in number is 844-512-2921, and enter pin number 13743187.

At this time, all participants have been placed in a listen-only mode, and the floor will be open for your questions following the presentation. If you would like to ask a question, please press star, one on your touchtone phone to enter the queue. If at any point your question has been answered, you may remove yourself from the queue by pressing star, two. If you should require Operator assistance, please press star, zero. If using a speakerphone, please lift your handset to allow your signal to reach our equipment. Please limit yourself to one question and one follow-up to allow the opportunity for everyone to ask questions. You may then reenter the queue to ask additional questions.

I would now like to turn the call over to Mark Melnyk, Senior Vice President of Investor Relations. Please go ahead, sir.

Mark Melnyk

Thank you, Operator, and welcome to the Hilton Grand Vacations Second Quarter 2024 Earnings Call.

As a reminder, our discussions this morning will include forward-looking statements. Actual results could differ materially from those indicated by these forward-looking statements, and these statements are effective only as of today. We undertake no obligation to publicly update or revise these statements. For a discussion of some of the factors that could cause actual results to differ, please see the Risk Factors section of our SEC filing.

We'll also be referring to certain non-GAAP financial measures. You can find definitions and components of such non-GAAP numbers, as well as reconciliations of non-GAAP and GAAP financial measures discussed today in our earnings press release, and on our website at investors.hgv.com.

Our reported results for all periods reflect accounting rules under ASC 606, which we adopted in 2018. Under ASC 606, we're required to defer certain revenues and expenses related to sales made in a period when a project is under construction, and then hold off on recognizing those revenues and expenses until the period when construction is completed. For ease of comparability and to simplify our discussion today, our comments on Adjusted EBITDA and our real estate results will refer to results excluding the net impact of construction-related deferrals and recognitions for all reporting periods. To help you make more meaningful period-to-period comparisons, you can find details of our current and historical deferrals and recognitions on Table T-1 of our earnings release, and a complete accounting of our historical deferral and recognition activity can also be found in Excel format on the Financial Reporting section of our Investor Relations website.

In a moment, our Chief Executive Officer, Mark Wang, will provide highlights from the quarter, in addition to an update of our current operations and Company strategy. After Mark's comments,

our President and Chief Financial Officer, Dan Matthews, will go through the financial details for the quarter. Mark and Dan will then make themselves available for your questions.

With that, let me turn the call over to our CEO, Mark Wang. Mark?

Mark Wang

Good morning, everyone, and welcome to our second quarter earnings call.

Reported contract sales in the quarter were \$757 million, and EBITDA was \$270 million with margins of 22%, which were below our expectations. We had a solid start to the quarter, carrying in momentum we've built as we exited Q1 and saw trends in both April and May improve from the first quarter. As we moved into June, however, we experienced a broad-based pullback in consumer spending behaviour. This shift was evident across all our brands and customer segments, but it was particularly acute in our new buyers segment. We've noted on several prior calls a perception of increased consumer hesitancy, which continues to influence purchase decisions, and there's no question this played a role in our results.

In addition, however, we also faced some execution challenges during the quarter. As part of the integration process with Bluegreen, we just completed an extensive restructuring of our sales and marketing organization to increase the flexibility with our new scale and improve our execution in two key areas: regionalization and staffing.

Regarding the first area, while we'll continue using HGV's more centralized marketing approach to large destination markets hosting multiple HGV properties, we've also moved to empower those smaller, regional markets with additional tools and resources to optimize their sales and marketing efforts at the local level, which we believe will generate both additional tours and improved VPGs.

In addition, over the past year, we've been keenly focused on driving new buyer tour flow, which creates significant lifetime embedded value for HGV. As part of our recent organizational design efforts, we've also reevaluated optimal staffing levels to allocate additional resources to our new buyer sales lines, which should enable them to more effectively handle the current and future tour volume.

While we can't control the macro spending environment, we've moved quickly to address those execution issues as part of our new organizational design we rolled out across the business in June. These changes will take some time to flow through our business, however, which, when combined with the quarter's result and more challenging macro environment, led to us lowering our guidance expectation for the year.

Now let's turn to our operational performance during the quarter. Contract sales in the quarter were impacted by a year-over-year decline in both tours and VPG. Looking at our tours, our Owner segment remained a relative bright spot, with consistent positive low single-digit growth in each month of the quarter, supporting owner sales that remain 15% ahead of 2019 and demonstrating the resilience of our Owner channels.

Our new buyer tours remain lower as we rebuild our Tour pipeline following the adjustments we made at the end of last year, in addition to seeing softer local marketing trends. New buyer tours from direct marketing packages will improve in the back half as the teams have done a great job rebuilding and activating the pipeline, but we also expect pressure on local marketing tours to continue in the back half as our recent operational adjustments work through the organization.

VPG for the quarter was just over \$3,300, or 10% ahead of 2019 levels. Both legacy HGV and Bluegreen posted similar mid single-digit declines versus the respective prior-year metrics. On a consolidated basis, we also saw similar levels of year-over-year decline from both our Owners and new buyer channels, owing to the combination of factors we talked about earlier. But with the operational changes we made, we still expect to maintain the low end of our target range of 10% to 15% ahead of 2019's VPGs.

Looking at our forward demand indicators, occupancy in the quarter was in line with last year, at 83%. Our marketing and rental arrivals on the books look strong for the back half, particularly in the fourth quarter. As we've seen for a number of quarters, travel intentions remain strong among consumers, and we're focused on improving our ability to convert those tours into transactions.

Moving to our non-real estate segments, our Financing team continues to do a great job managing through the higher rate environment and meeting the strong ABS investor demand with several well-subscribed note offerings. Our Rental segment also continues to see healthy demand from travelers, and in our reoccurring Club and Resort business, we ended the quarter with over 720,000 owners and NOG of 1.7%.

I also think it's important to highlight our cash flow generation. This quarter, we produced \$370 million of adjusted free cash flow, so despite some of the near-term challenges, our business is still able to produce a significant amount of cash. We're using that cash to support our commitment to capital returns, repurchasing 2.3 million shares of stock during the quarter for \$100 million.

Turning next to our integration efforts, we'll start with an update on Diamond. Through the end of the second quarter, we rebranded 40 properties, representing 9,800 keys, and we remain on track to rebrand another eight properties this year for an additional 1,300 keys, bringing us to 70% of our targeted total. We also continued to integrate and enhance our technology platform, and have launched two major improvements this year, benefiting our consumers and team members.

We recently combined our legacy HGV and Diamond customer-facing member websites into a unified experience, simplifying the bookings process and management of their member points across our brands. And, we launched an integrated sales tool that is now being used across all of our sales sites, enabling our sales teams to more seamlessly sell both Deeded and Trust products from a single platform.

On the partnership front, we've had strong traction with Great Wolf out of the gate. We've already seen a number of our members using their points for stays with their families at Great Wolf resorts. On the marketing front, early signs indicate strong interest in our vacation packages, like Great Wolf guest, across call transfer, digital and on-property ambassador programs.

Turning to Bluegreen, we continue to make good progress. The teams have now integrated into our corporate workflow, and we're tracking ahead of our scheduled synergy realization, as Dan will cover shortly. There's a lot of anticipation among the Bluegreen member base and sales force about the launch of HGV Max, and we're working hard to get everything in place for the rollout. Recall that until the launch of Max, we'll continue to run Bluegreen sales organization in

parallel with ours, which is also why we think that addressing these execution challenges now will be key to ensuring a smooth sales integration during our rebranding.

While this has been a difficult quarter for us, we're maintaining our long-term perspective on the business while acting with a sense of urgency of what we can control in the near-term. Despite these challenges, I'm confident that we've identified the issues and are working diligently to address them, and I'm optimistic that we'll improve from here. Above all, I remain confident in our future path. We have a much stronger business model than we've ever had. We have our best product offering, we've got more geographic diversity, we have a larger member base, and we're generating more free cash flow than ever before.

With that, I'll turn it over to Dan to walk you through the numbers. Dan?

Daniel Mathewes

Thank you, Mark, and good morning everyone.

Before we start, note that our reported results for this quarter included \$13 million of sales deferrals, which reduced reported GAAP revenues, and were related to presales at our newest phases of our Maui Bay Villas and Ocean Tower projects. We also recorded \$5 million of associated direct expense deferrals. Adjusting for those two items, with increased EBITDA reported in our press release by \$8 million, to \$270 million.

In my prepared remarks, I'll only refer to metrics excluding net deferrals, which more accurately reflects cash flow dynamics of our financial performance during the period. I'd also note that our results today also include a full quarter of financial results for Bluegreen, which we closed on January 17.

Turning to our results for the quarter, total revenue excluding cost reimbursements in the quarter was \$1.1 billion, and Adjusted EBITDA was \$270 million with margins of 24%, excluding reimbursements. EBITDA included \$14 million of Bluegreen cost synergies recognized during the quarter, or a run rate of \$71 million annualized, on target with our plan for \$100 million of cost synergies within 24 months.

Turning to our segments; within Real Estate, contract sales were \$757 million for the quarter, with Bluegreen contributing \$189 million of sales in the quarter. New buyers comprised 31% of contract sales in the quarter, improving over 300 basis points from the first quarter level.

Tours for the quarter were over 226,000, which was slightly below the prior year's pro forma level, and Bluegreen contributed just under 66,000 tours for the quarter. Our Owner Tours had low single-digit growth in the quarter, and remain at levels over 15% ahead of 2019, demonstrating the continued resilience of our Owner channels that want to explore our expanded resort network and benefits of HGV Max. However, as Mark mentioned, new buyer tours remain pressured, as we're continuing to work to rebuild our new buyer tour pipelines, along with making operational adjustments to improve local marketing.

VPG for the quarter was \$3,320, which is just over 10% ahead of 2019 levels. Our Owner and new buyer of VPGs declined by a similar amount, and both core ACV and Bluegreen saw slight deterioration in the year-over-year growth rates from Q1, owing to slightly lower close rates from the macro and execution factors that Mark mentioned earlier.

Cost of products was 14% of net VOI sales for the quarter, and our provision for bad debt as a percentage of owned contract sales was just over 15% in the quarter.

Real estate sales and marketing expense was \$375 million for the quarter, or 49% of contract sales. Real estate profit for the quarter was \$128 million with margins of 22%.

In our Financing business, second quarter revenue was \$102 million and segment profit was \$58 million with margins of 57%. Interest income and segment profit for the quarter were impacted by a \$28 million contra revenue for the amortization of the noncash premium associated with the portfolio of receivables that we acquired from Bluegreen in the acquisition, coupled with the noncash premiums still being amortized for the Diamond transaction. These items will continue to decline over time as our acquired portfolio pays down, but to more clearly distinguish them from our core underwriting business, we've updated the tables for our Financing business in our press release. Excluding the temporary impact of these adjustments, the core underwriting business had interest income of \$116 million and margins of 68%.

Going forward, we expect the noncash premium and amortization of these portfolios to continue to create some noise in reported financials, but the core business remains steady with the originated weighted average interest rate of 15.21%, up slightly from the first quarter. Additionally, the recent easing of benchmark rates should help reduce some of the interest cost pressure on the new ABS issuances.

Combined gross receivables for the quarter were \$3.85 billion, or \$2.84 billion net of allowance. Our total allowance for bad debt was \$1 billion on that \$3.85 billion receivable balance, or 26.2% of the portfolio.

Our annualized default rate for our consolidated portfolios, inclusive of Bluegreen, stood at 9.68% for the quarter. Our provision was 15.4% as a percent of contract sales in the quarter. This is consistent with the expectations of steady-state provision level in the range of mid-teens. Currently, we expect the provision for the year to remain in the mid-teens, with sequential uptick in the third quarter followed by a sequentially lower provision in the fourth quarter due to seasonal trends. It is important to note that this assumes similar levels of new buyer and Owner mix. Recall that new buyers carry our higher provision levels than Owners, which can impact provision levels in any given quarter.

Digging deeper into the drivers of our provision, generally, the HGV underwritten Deed and Trust books are holding steady. Within the Bluegreen portfolio, we've seen higher losses from some originations that were underwritten prior to our integration, and have increased our provision accordingly. While we've addressed much of this in our opening balance sheet process, we do expect some headwinds in the near-term while we work through consolidating and aligning underwriting procedures, sales practices and risk-based pricing, much like we did for Diamond.

In our Resort and Club business, our consolidated member count was 720,000 and our NOG was 1.7% at the end of the second quarter. Revenue was \$171 million for the quarter, and segment profit was \$123 million with margins of 72%.

Rental and ancillary revenues were \$195 million in the quarter, with segment profit of \$7 million and margins of 4%. Revenue growth was driven by higher available room nights, offset by slightly lower RevPAR. Expenses in our legacy business continued to be elevated due to the

impact of additional inventory on developing our maintenance fee expense, along with the inclusion of Bluegreen's much lower margins Rental business.

Bridging the gap between segment Adjusted EBITDA and total Adjusted EBITDA, JV EBITDA added \$5 million, offset by G&A expenses of \$44 million, license fees of \$40 million and EBITDA attributable to non-controlling interests of \$4 million.

Our adjusted free cash flow in the quarter was \$370 million, which included inventory spending of \$86 million. Our cash flow conversion rate exceeded 130% this quarter, owing to the timing of inflows from our two recent ABS deals. For the year, we anticipate that we will be able to maintain a conversion ratio that is roughly in line with our expectations, as well as last year's conversion in the low 50% range.

During the quarter, the Company repurchased 2.3 million shares of common stock for \$100 million, and due July 31st, we repurchased an additional 1.1 million shares for \$46.3 million, leaving us with \$114 million of remaining availability under the 2023 repurchase plan. We also received approval from our Board of Directors authorizing us to repurchase an aggregate of \$500 million, which is in addition to the remaining amount of our 2023 authorization. We remain committed to capital returns as our primary use of excess free cash flow and will maintain our existing pace of approximately \$100 million per quarter in share repurchases.

Turning to our outlook; as Mark mentioned, owing to the more challenging quarter and outlook, we are lowering our guidance for Adjusted EBITDA to a range of \$1.075 billion to \$1.135 billion, or \$125 million lower than our prior guidance, owing primarily to the pressures that we've mentioned on our VPG and Tour trends, and to a lesser extent, the continued headwind from bad debt normalization that we have mentioned on prior calls.

As of June 30th, our liquidity position consisted of \$328 million of unrestricted cash and \$446 million of availability under our revolving credit facility. Our debt balance at the quarter-end was comprised of corporate debt of \$4.9 billion and a non-recourse debt balance of approximately \$1.7 billion. At quarter-end, we had \$750 million of remaining capacity in our warehouse facilities, of which we had \$647 million of notes available to securitize, and another \$324 million of mortgage notes we anticipate being eligible following certain customary milestones such as first payment, deeding and recording.

From a timing perspective, we anticipate coming to the market with another ABS deal this coming fall, which should provide incremental adjusted free cash flow in our second half. As I mentioned, we still feel comfortable with our prior assumption around our Adjusted EBITDA to our adjusted free cash flow conversion ratio.

Turning to our credit metrics; at the end of Q2, and inclusive of all anticipated cost synergies, the Company's total net leverage on a TTM basis was 3.67x as we continue to make progress towards our target leverage range of 2x to 3x, while still repurchasing shares. I'm also happy to report, we successfully re-priced our 2031 Term Loan B from a spread of 275 basis points to a spread of 225 basis points, generating nearly \$5 million per year in cash and interest savings.

We will now turn the call over to our Operator and look forward to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

We will now be conducting a question-and-answer session. We ask that all callers limit themselves to one question and one follow-up. If you have additional questions, you may requeue and those questions will be addressed, time permitting.

If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Thank you.

Our first question comes from the line of David Katz with Jefferies. Please proceed with your questions.

David Katz

Hi, good morning, everybody. Thanks for taking my questions.

Two for me, please. I mean, with respect to the guidance adjustment, and isolating the discussion around execution issues, can you just talk a bit more about your comfort that you've sort of got your arms around it, and the question we'll all have is, have you taken out enough, right? How do we get comfortable that there isn't more?

The follow-up is, I'm not sure if you updated or touched on Maui, and I'd love a little more update on what you're seeing and feeling there. Thank you.

Mark Wang

Yes, David, it's Mark. Look, I think obviously we've spent a lot of time going through the—from a bottom-up, on the components that are going to drive the rest of the year's performance. When you think about guidance, we expect the continued macro pressure on the consumer in the back half of the year, as we're competing for their discretionary dollars. Given the outlook and the second quarter's performance, the pullback in the guidance really reflects lower contract sales versus what our expectations were. When you look at the guidance, what's really been pressuring us has been our new buyer close.

For the top two-thirds, and we look at the data constantly, when you look at the top two-thirds of our new buyers, that VPG has stabilized. I'm talking about looking at it from a net worth cohort. But the bottom third continues to underperform, and we've seen more variance than we've seen in quite a while between the top two-thirds and the bottom third. We expect pressure on new buyer close rates. As far as Tour flow goes, we're expecting flat new buyer Tour flow, as we continue to ramp-up our direct marketing. Though direct marketing, we're going to see growth in the back half of the year, but it will be offset by some softness in our local marketing.

From an Owner perspective, the business, again, is intact and it's performing well. When we look at Owners on the books, we feel pretty good about the arrivals there. Though we're seeing a normalization in Owner conversion rates versus our prior expectations, and it's still above 2019, so still outperforming what we saw in the past. Our Owners are intact and doing well. But ultimately, we see pressure on contract sales on the new buyer side.

I don't know, Dan, if you want to cover off on any additional components around the bad debt piece of it?

Daniel Mathewes

Yes, no, David, it's a great question, and especially the logical one being is, have we de-risked the guide to the extent that we need to? I think just from a modeling perspective, the way to think about it, when we were looking at it and the pullback, it was the majority driven by VPG, and as you know, that has a high level of flow-through to the bottom line. Tours, from our previous expectations, did have a minimal impact. Then, the fact that we're pulling back contract sales, that will obviously have an impact to revenues associated with financing.

Bad debt is a piece of it. As we talked about, we've seen some increase in defaults, delinquency rates, most notably on the Bluegreen side, and have upped that provision accordingly. I would say that is consistent where we ultimately always thought we were going to end up, in that mid-teens range, but obviously accelerated. We previously thought that we'd probably exit this year and go into next year in that mid-teen range, and we're there today, so a bit of a pull-forward on that front. There's a little bit of savings on COP.

But just generally speaking, if you were to look at the pull-down in guide, it's effectively 80% associated with contract sales, most notably on the VPG side, and 20% associated with bad debt, with some offset from a lower cost of product. But, we clearly tried to de-risk this guide, based on everything we are seeing as of today, of course.

Mark Wang

David, on the Maui update—so first of all, it's hard to believe that today is the one-year anniversary of the tragic wildfire in Maui, so still a lot of recovery happening there. On the positive note, both our resorts are fully operational. Now, that being said, a lot of our new buyer Tour generation were locations that were, for all intents and purposes, are shut down, and those won't be reopening anytime soon.

But the Owner business has come back; it's still lagging where we thought it would be, pre-fire. But part of it is, from a sales and marketing standpoint, some of the pressures really related to rehiring of staff as housing on Maui is challenged, especially for our property that's in West Maui near Lahaina. But I would say, on the other side of the island, in Kihei, Maui Bay Villa is where we're building new product there, that project is performing well, and not only in Maui, but also selling well throughout our network.

David Katz

Thank you very much.

Operator

Our next question comes from the line of Patrick Scholes with Truist. Please proceed with your questions.

C. Patrick Scholes

Hi, good morning, everyone. A number of questions here; I'll actually start out with, potentially, a positive one, then I'll move into some other questions.

Mark, what are your thoughts with the Japanese yen now strengthening? When might you expect to see that show up in increased demand to your Hawaii product? I know certainly, yes, the yen having gone the other way for a year or so, or is a big headwind, but really has changed directions. What's your thoughts on that and the possible impact? Thank you.

Mark Wang

Yes. Well, first of all, it's nice to see the yen strengthening, right? It's been quite a challenging period from a currency standpoint for our Japanese members and for Japanese tourism overall for Hawaii. Now, the good news is our members, the timing was really good for us when we opened our property in Sesoko in Japan, and Owners are traveling there and using the property. We have very, very high occupancies there.

I think there will be a lag effect as far as the yen strengthening, but hopefully—where we're really off on the Japanese business is the new buyer Japanese business from the tourism that's coming into Hawaii. Our Owners have come back and they've actually come back faster than the general population that's coming back to Hawaii, and that's really because of the commitment level they've made in being an Owner with us. But overall, we're hoping that this improvement in the yen will strengthen that part of the business.

C. Patrick Scholes

Okay. We will see. My next question, with bad debt, you already had talked about a sales reorganization. Can you give us some more colour on that? What is that about, and where within sales—is that more on the middle senior level, or is that specifically in some of your acquisitions, which tends to happen when you purchase companies? So more colour, please. Thank you.

Mark Wang

Yes, sure. There was quite a bit of disruption in the quarter as we're integrating Bluegreen. A very positive outcome of that is, we spent a significant amount of time in the quarter restructuring our sales and marketing organization, and it's really restructured for the next wave of growth. Importantly, with the acquisition of Bluegreen, we're a much larger company with a much broader sales and marketing footprint.

Just to give you a little historical data here, if you look at us historically, we were very centralized. In '19, we were doing \$1.5 billion in contract sales; 20% of that was outside of our five core markets, so it was really five smaller distribution centers out of our five core markets. Today, we're \$3 billion in contract sales, with 40% of our volume outside of that, what we would call big destination markets. Those destination markets have grown. The 40% represents a move from five sales centers to about 44 sales centers, on a regional basis.

Our footprint and the makeup of our business has changed materially. To support that larger destination market, and to support those smaller regions, we went from two regions to five regions and multiple sub-regions. We strengthened our mid-level leadership to really increase focus and execution, and to create better oversight for the sales and marketing activities out there. We also named a new Chief Sales and Marketing Officer, Dusty Tonkin, who was leading Bluegreen's operations. Dusty has a great background, great experience running large organizations.

All in all, a big move; it did create quite a bit of disruption, as you can imagine. We rolled out the new structure in the middle of June, but happy to say that the work has been done. I'm very confident, as Dusty is our new leader, and I'm very confident this new structure will improve our execution going forward.

C. Patrick Scholes

Okay, thank you.

I'll ask one more question here before I get back in the queue.

A question for Dan, when you're taking your percentage up on those loan loss provisions, and maybe this is getting into the weeds and sausage-making, but I think it's important. Why do you—if you were to take the percentage up going forward as opposed to doing what your competitors did this quarter and a couple quarters ago, as opposed to increasing your sales reserve or taking a charge, or however you want it, what's the decision-making and thoughts around all of that? I hope that makes sense. Thank you.

Daniel Mathewes

Yes, no, that all makes sense. I think when we're talking about the bad debt provision, I mean, we could go into a lot of variables. I'll try to keep it as simple as I can.

First and foremost, what I would tell you is, we have not fully integrated Bluegreen yet. Bluegreen is operating as a separate entity. The Bluegreen credit process is not fully integrated into the legacy HGV/Diamond process yet. We are also still in the realm of purchase accounting.

But to put things in perspective, just as a level-set, when you look at when we acquired Diamond, they had a reserve on their books that was roughly 30% of their portfolio. Once we completed our due diligence, acquired them and then applied fair value to their portfolio, that reserve went from 30% to 37%.

Similar, on Bluegreen, their reserve was post their last audit before we acquired them, which, as you'll recall, was early January. Their reserve was roughly—well, it was just under 30%, it was about 28%, 29%, and doing the same exercise that we did with Diamond, their reserve is now, of that acquired portfolio, is right at 36%, so very consistent with Diamond. You have that component.

The other thing I would tell you is when you look at how we run our bad debt provision, and I don't have insights to any of our competitors, but our bad debt is based off of a very robust static pool model that utilizes in excess of 15 years of historical loss data that takes into consideration bi-loans, FICO, (audio interference) levels and even country of origin. Those loss models are updated on a monthly basis, and any changes that occur this month are applied to the previously originated loans, and then also on a prospective basis, that helps to capture current trends quickly and mitigates wild swings in the provision, to the extent we can.

Then in addition to that, we account for various easing items like prepayments, and even later-stage defaults. That's the third bucket that goes in, and again, this is done on a monthly basis.

Now, when it comes to Bluegreen, we alluded to it in our prepared comments, but the movement in Bluegreen, they've been upgrading, in 2023 and 2022 to some extent, they were upgrading their Owners a bit quicker than they were previously, their balances were getting larger. We knew those defaults and the delinquencies would increase; I think that's true for any timeshare operator, whenever you upgrade people faster and increase loan balances, you can expect an uptick in delinquencies and defaults.

I think it got here sooner than we originally expected, but we still anticipate that long-term run rate in the mid-teens percentage. But that did, obviously, impact our expectations for this year, because we're there sooner than we expected.

That was a very longwinded answer, but I think I captured everything you were looking for.

C. Patrick Scholes

I appreciate it. I know somehow they've gotten into the weeds on such things, and I appreciate you keeping it high level.

I'm going to jump back into queue with some more questions. Thank you.

Operator

Our next question comes from the line of Brandt Montour with Barclays. Please proceed with your questions.

Brandt Montour

Good morning, everybody. Thanks for taking my question.

Mark, if we could just go back to the beginning of the year when you were exiting '23, the tone and the message was that you guys had sort of overwhelmed the sales resources and manpower at these smaller sales centers that were concentrated in the legacy Diamond footprint. We can sort of bridge that adjustment you made at year-end going into '24 with this adjustment now. It seems like it's sort of an extension of the same problem, maybe compounded by a deterioration in the lower third, in terms of purchasing propensity. Is that how you would characterize it, or is it sort of a different element of the resources and understaffing of those sales centers?

Mark Wang

Yes, Brandt, I think that characterizes it pretty well. I think, as I mentioned from a previous answer, we went through this re-org, right, and the performance was impacted by this integration work. We worked through the quarter, we completed the redesign, we rolled it back out in June. This process, unfortunately, distracted a lot of our Leadership teams until the final structure was rolled out. As you can appreciate, a lot of people on pins and needles trying to figure out whether they were going to be on the team or what position they were going to play and where they're going to be living here. You have that.

Then, from a staffing standpoint, it was kind of a knock-on effect from the disruption, because it did lag in some of the hiring of sales and marketing staff, which then had a knock-on effect and limiting Tour slot availability. Really, this disruption, we've identified what the issues are, and quite frankly we're just behind on staffing, we're behind on hiring, we're behind on recruiting, but we have now got the organization and the structure to go fix those things.

Then on top of that is just, coming out of last year, we did see stabilization from a customer standpoint for new buyers, other than the bottom third. But the bottom third of the new buyers have just fallen apart for us, and we've seen a lot of pressure there. We're seeing more variability in that performance on the bottom third than we've seen in a long time.

Now, good news is we saw some stabilization, and as it relates to July performance, VPG and contract trends stabilized in July, more in line with what we saw in April and May. I think once we got this re-org past us, it helped stabilize some of what we were seeing from just the disruption standpoint. But there is pressure on the consumer, pressure to make commitments at the level of discretionary spending required to be part of our club. In talking to the Sales teams, there's just increased customer hesitancy. I think people are taking a more wait-and-see approach.

But that being said, we continue to work hard and I think we've identified some of the issues, and we're going to improve them. But with the current macro situation, we've just felt it was important to bring our guidance down for the rest of the year.

Brandt Montour

Okay, thanks for that.

That's actually a good segue into my next question, which was just really a follow-on to David's question earlier. When you look at the second half guidance for VPGs, but what I'm really trying to get to is close rates, are you assuming something similar to what you saw in that July level, or did you bake into that back half VPG something more conservative?

Daniel Mathewes

With regards to the guide, the back half of the year takes into consideration the VPGs that we had been experiencing. It didn't assume uptick and outperformance. Let me say that a different way, it didn't nullify what we saw happen in Q2, so it does take risk into consideration.

Brandt Montour

Okay. Thanks, everyone.

Operator

Our next question comes from the line of Ben Chaiken with Mizuho. Please proceed with your questions.

Benjamin Chaiken

Hey, thanks for taking my questions.

Sorry, there's a lot going on this morning, so I want to clarify something. For the guidance cut, did you provide a mix between macro and execution issues?

Then, on the execution side, I guess I don't totally follow the sales and marketing adjustment commentary. Is the point simply that you're a bigger Company today and need to align the sales force accordingly to maximize efficiency? Then, just one follow-up.

Daniel Mathewes

Yes, with regards to the guidance cut, we did not break it down between macro. I think we've referenced it as disruption on the salesforce. Ultimately, there's macro pressures, and it's clearly difficult to estimate specific amounts that are built-in just because of macro.

Ultimately, I think you probably heard us say, just from a breakdown, it's driven primarily by VPGs. That has a high flow-through to your bottom line, and to a lesser extent bad debt, with a little bit of offset on COP. The breakdown that we want to talk about is really the 80/20 split between contract sales, notably VPG, and the 20% being bad debt, a little offset on COP.

Mark Wang

Yes, Ben. On the execution side, we restructured the org, number one, to prepare ourselves for the next wave of growth, but importantly, to really improve the overall execution. When you look at our business, again, I talked about our big destination markets; they're outperforming the regional markets. Again, we went from five regional markets, five regional sales center markets in 19, to 44 today. I think we've learned over the last couple years, and also looking at

Bluegreen's model, that we needed to reinforce, in our critical mid-level leadership areas, we needed more dedication and greater oversight on these smaller sales centers. We also made the decision to realign all of our sales organizations under one leader.

Part of the execution problem was disruption because of all the noise around the restructuring, but part of it was also around just lagging in certain key areas that are important for our sales organization, our marketing organization to perform well, and that's around staffing levels. We got out of sequence on our ratios and we lost efficiency, and so those are things that we identified and we're working on. I think some of the miss there and the missteps that occurred there will not occur with this new structure, because now we have the proper oversight.

Benjamin Chaiken

Okay, and I guess related, sorry, was this restructuring planned and the rollout was choppy, or was this something you noticed intra-quarter and then needed to kind of scramble and react to? Sorry if you already covered it.

Mark Wang

Well, this was a, "Let's put a number of people in a room for 90 days and figure this thing out," so it was planned. We spent a lot of time, there was a lot of thoughtful work that went into this. There were a lot of leaders that were not focused necessarily on the execution while we were going through this, because it took a lot of discussion and a lot of work to get to the optimal design.

I would say, again, April, May were decent; June just kind of fell apart. The re-org was announced, I think, on June 11th, and again, we saw a bounce back in July. Actually, July, from a sequential standpoint, was as good a month as we've had, so we feel good about that. Now, that being said, we're still being pressured on the new buyer side, with, particularly the lower wealth cohort that's out there.

Daniel Mathewes

Look, just to add something to that, just some additional colour, I think it's also worth contrasting methodologies compared to Diamond. When we acquired Diamond and we closed on Diamond, we did a restructuring literally on day one. We had the Sales leaders picked out, we had the headcount picked out; everyone knew where they stood on day one.

With the acquisition of Bluegreen, to Mark's earlier point, there was a team that, to oversimplify, they sat in a room for 90 days to identify the right talent and the right leaders for the right region. Now, what that does is it's a bit of a distraction, as Mark alluded to, but ultimately, you should end up in a better-run business because you've identified, clearly, the right talent to run the consolidated entity. I don't know if I would call it choppy. I would say, hey, this was a more thoughtful process. But when you run thoughtful processes, sometimes you have a bit of disruption as you complete those.

Benjamin Chaiken

Then, really quick follow-up; so it sounds like you've got some new leadership and some new mid-managers, if I interpret you correctly. What does the ramp-up of those positions look like? Is this something that's going to percolate through the rest of the year or into '25, or any colour? Thanks.

Mark Wang

No, everybody's been named, and we do have some people that are still dealing with U-Haul getting stuff moved; there's relocation that's involved here. But most of the people that have been identified and put into new positions are in place. There's still a little disruption with their family moves and stuff like that, but for the most part, that's all behind us.

Benjamin Chaiken

Thank you.

Operator

Our next question comes from the line of Chris Woronka with Deutsche Bank. Please proceed with your questions.

Chris Woronka

Hey guys, good morning. Thanks for taking the questions.

I was hoping maybe we could spend a minute talking about kind of the buyer behaviour on the Financing side. Obviously, it's generally more a question about first-time buyers. Are you seeing any change there? Are you trying to alter your strategy? Are you offering lower initial deposits or anything like that? Trying to figure out, is this trying to get someone over the finish line, or are they not getting anywhere close to the finish line and the financing incentives aren't—they'll matter, definitely?

Daniel Mathewes

Yes, it's a great question, Chris. From time to time, and I would say it's fairly routine where we'll run various promotions to see if it moves the needle. Sometimes it helps, sometimes it depends on which sales distribution center you're looking at, if one promotion works or one doesn't. I'd say when it comes to the new buyer, that the financing element has worked in some cases and hasn't in others. It's not a definitive answer.

When it comes to deposits, really do not drive a lower deposit required, because we definitely want our Owners to have a level of equity that's meaningful as they step into ownership. It also has implications for rev rec, because our internal policies, we defer rev rec until 10% is down. We always look for that bare minimum. When it comes to upgrades, there's different metrics we'll run as well, just from a potential where existing Owners might not have to put additional equity down, depending on how much equity they've built, etc.

I don't think that is the definitive solution to uptick new buyer close rates, but from time to time, we run them and they can be helpful.

Chris Woronka

Okay, that is helpful. Thanks, Dan.

Then, just I guess as a follow-up, do you think, as you evaluate all these changes you've made in the sales centers, kind of post-Bluegreen, and obviously there's a little bit more you want to do. But does it make you think you need a new product for this current environment, whether it's kind of something that fits into a smaller budget, or implicitly kind of a shorter vacation, which we hear from other travel companies, is something like that on the table if we're going to be in this environment for a while?

Mark Wang

Well, actually, Ben, I think the acquisitions that we made actually really puts us in a great position. We've widened our product offering—or Chris, I apologize, Chris. We've diversified our product, right, and we've widened our scale. I think we're in a really good place, from an inventory standpoint and our brand offerings, and we've got a broader customer base. Importantly, we've diversified our lead flow with some of these world-class partners out there.

I do want to make a comment on the new buyer side, that the new buyers, that the top third of our cohort is still performing well, and the middle is performing okay. If you look back, we've been taking pricing on this. Our average transaction price for a new buyer today is 19% higher than it was in 2019, so it's not like the new buyer is falling apart, and the top cohort is still intact. Really, the biggest challenge has been that bottom third. When the bottom third falls apart, it makes it challenging.

We are looking at ways to adjust our product to meet that bottom third, but right now, we believe once we get the Bluegreen system in our overall system and we roll out Max, that will make a big difference, because there is some hesitancy on the Bluegreen business right now, as they're waiting for communications from us on what this means, what this acquisition of Bluegreen means. At this point, of course we're communicating to them, but there is a process that we have to go through, and that introduction will probably not be made until we get toward the end of the year, as we've got a number of legal steps that we have to walk through, and we have a number of other considerations that we have to walk through to make this a successful rollout.

Chris Woronka

Okay, that's great. Appreciate all the perspectives. Thanks, Mark.

Mark Wang

Thank you.

Operator

Our next question is a follow-up question from Patrick Scholes with Truist. Please proceed with your questions.

C. Patrick Scholes

Great, thank you.

I do have a number of follow-up questions here. Can you talk, Mark, again a little bit more about some of the demand in local markets, or if you've seen—is some of this related to local market softness? If so, how does the reorganization address that? Thank you.

Mark Wang

Yes, no, that's a really good question, Patrick. We've talked a lot about our Owner business, our Owner pipeline and what we see on the books. We talk about our direct marketing pipeline, and our direct marketing pipeline is related to new buyers. Well, 40% of our Tour flow for new buyers actually comes through local marketing, and we have seen a pullback there. I think it's less about the current macro and more about some of the execution challenges we've had. This is an area that we can do better and we're very focused on right now.

Just to give you a definition of what local marketing is, it's our guests that are Rental guests staying on the property, it's guests that are frequenting the markets that we're in. This is an area that we saw softness in the first half. We've identified it, and as I talked about, we've been lagging on some of our hiring. But, all of those hiring agendas are in place, so we believe we'll

get that turned around as we move into the back half of the year, but it will take a little bit of time.

C. Patrick Scholes

Okay, thank you.

I do have three more questions here. First one, from a high level, any initial indication what maintenance fee growth might be for next year? The reason I bring this up, your competitor had a very large maintenance fee increase for this year, north 15%-ish, and some resorts over 20%. I've sort of come to a belief that when you put a very large, surprising maintenance increase in, it's going to cause a certain number of customers to just quit, quit your product, and result in loan losses and shocks and surprises. Any initial indication what yours might be? Would you expect it's sort of just the normal, mid single-digits next year? Thank you.

Mark Wang

Yes, we're expecting normal mid single-digits. I'm not sure what the competitors are doing, but we consistently utilize, even during the pandemic and during COVID, we continued to move our maintenance fees up, kind of that mid single-digit. There's no catch-up requirement now, so we're not going to be surprising anybody with anything more than a mid single-digit increase this coming year.

C. Patrick Scholes

Okay, good. Then, two more questions here. You talked about the bottom third really not doing well. Does this unfortunately imply that your underwriting for Bluegreen is tracking behind, initially, at this point? Related to that, where do you stand with your synergies versus your targets for that acquisition? Thank you.

Mark Wang

Yes, so I'll take the front end of that and I'll let Dan talk to you about the synergies. Looking at our KPIs and VPGs across all the brands, HGV, Diamond, legacy, everything has moved down on a similar basis. There's really no discernable difference or declines across any of the businesses.

I would say that there is some pressure on the Bluegreen customer; I think I just mentioned that a few minutes ago, around just kind of waiting and seeing what HGV is going to roll out that's going to benefit the Bluegreen members, and that we'll be announcing later this year.

As far as synergies, Dan, maybe you can take him through a ride on that?

Daniel Mathewes

Yes, no, absolutely. When it comes to cost synergies, we are right on track from our original expectations. We're at a run rate of \$71 million-ish, \$70+ million on run rate from cost synergies as of today. That includes the primary item that you think of when you think of cost synergies, headcount reduction, etc.

For the balance of the year, I don't expect that run rate to materially change. We'll be driving towards that \$100 million, more in 2025 when we consolidate such items as health benefits, as when you start realizing the savings from consolidations of office space, things like that, but that's more of a '25 issue.

From a revenue synergies perspective, keep in mind we have yet to even start rebranding any sales centers or resorts at this point, which is in line with our original expectations. Although it's a zero, it's in line with expectations. I think we're on track, and actually in a good place from a synergies perspective as of today.

Mark Wang

Then, Patrick, I'd just add on that, first of all, we feel really good about both deals that we did, and the long-term benefit that it's going to provide the Company. We've talked about our ability to leverage our brand across these non-branded resorts. When you think about—I talked about just the scale of our distribution network, how much larger it's become, and importantly, how much we've diversified our lead sources, especially with the Bluegreen acquisition and Bass Pro, and the partners there.

We feel great about these acquisitions. We've tripled our resort size; we've got all this built-in demand. We've got 700,000 members, over 700,000 direct marketing packages. We've increased our reoccurring EBITDA from 42% to 57% today, and as you know, our free cash flow conversions moved from 15%, above 50% today. Ultimately, we feel really good that this really supports a great return of capital to our—this additional cash flow is going to return a lot more capital to our shareholders throughout the cycle.

C. Patrick Scholes

Okay, thank you.

Then, one last question here, and I'll preface this with, it's a question I don't think I've ever quite asked before on an Earnings Call, but I have received a number of inbounds regarding this topic this morning. This really is around questioning the qualifications and experience of that new Board member announcement this morning. How would you respond to those concerns?

Or alternatively, was that person joining your Board really not in your control? Thank you.

Mark Wang

Well, at the end of the day, Apollo has the rights to have two Board seats, and we believe, and we did the background check, and we believe that the new Board member that we just announced this morning is more than qualified. She has been a strong leader within Apollo, but importantly, she was very active in the Diamond deal, understands our business. We had our first Board meeting with her yesterday. She was in her first Board meeting with us yesterday, she was very thoughtful in her approach and, quite frankly, very up to speed on the business. We think Apollo made a really good choice.

C. Patrick Scholes

Okay.

Daniel Mathewes

Yes, and I can only echo the sentiments. I mean, I think just to add a little bit more, we have known her even going back to 2019, so she's been involved in the industry for a number of years. She's very much engaged, so we're excited that she's on the Board.

C. Patrick Scholes

Okay, thank you. That's good to hear. I think that'll alleviate some of the folks that reached out to me this morning with those concerns. Thank you.

Operator

Thank you.

Before we end, I will turn the call back over to Mark Wang for any closing remarks. Mr. Wang?

Mark Wang

All right, well, thank you.

Before we wrap up, I'd be remiss not to acknowledge that today is the one-year anniversary of the tragic wildfires in Maui. As we mark this somber occasion, I'd like to thank all of our team members for their hard work and service to the community, to our guests and to one another. They showed tremendous courage and resolve as we worked through the initial tragedy. But we know that it will take time for West Maui to fully recover, and we will be there to support our teams and the local communities for the long-term.

Again, thank you for joining us today, and we look forward to speaking to you soon. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.