Selling the Spin-Off

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Hilton Grand Vacations (HGV) marked its official spin-off from Hilton Worldwide and transformation into a full-fledged timeshare company earlier this month with an initial public offering.

Executives from the company were on hand to ring the bell on January 4 at the New York Stock Exchange as HGV began trading at slightly better than $25 a share. HGV was formed in 1992 and has grown to include some 47 resorts with more than 260,000 members.

Mark Wang—who first joined the company in 1999 and has been at the helm as president and CEO since 2008—talked about the benefits of the spin-off and IPO. “It’s really going to allow us to fully activate the business and accelerate our growth. We’ve had some great growth over the last seven or eight years. I think with our dedicated strategies and dedicated capital this should help us unlock and provide a full range of opportunities to accelerate our growth, so we’re excited about that,” he said.

Wang continued, “We’re excited to join the few others that are pure play or stand-alone timeshare companies out there. Our business is fundamentally very strong and set up for success,” he said.

While HGV is no longer part of Hilton Worldwide, it has inked a 100-year licensing deal with its former company, which Wang noted is “really going to power our business going forward.”

He acknowledged that being part of Hilton offered the company certain advantages, such as synergies and efficiencies, but Wang believes HGV now has the best of both worlds. “The license agreement really captured most of those synergies. At the end of the day we believe that those synergies still sit right in front of us. The agreement is for 100 years and provides the ability to still access the customers and work within the marketing channels. It also provides access to Hilton.com, so our inventory will still be rented off of Hilton.com. So we think we’re really going to have the same type of relationship that we had before.”

He also touted the strength of a “much more capital-efficient model” adopted several years ago by the company, which markets and sells vacation ownership intervals and manages the resorts.

“We started back in 2010 and we introduced what’s called a fee-for-service model. Similar to what Barron Hilton’s decision was back in the mid-70’s that he couldn’t grow a worldwide hospitality company using their own balance sheet. We started sourcing inventory with world-class developers and we provide the branding, sales, marketing and management for the property for a fee. That’s really allowed us to accelerate our growth of supply into our system.

“We basically have doubled our inventory over the last five years using this method and it has allowed us to move our return on investment capital from 12 percent up to close to 40 percent,” said Wang, adding the company does still develop and acquire some of its own inventory.

Wang also emphasized the company’s ability to build up its customer base as a key differentiator. “We’ve been sourcing new customers at a 3 to 9 times faster rate than our competitors. This has allowed us to generate 23 years of consecutive net owner growth. If you look over the last five years we’ve increased our member base by 41 percent, so our base of owners continues to grow and that’s important I believe for the long-term health of the business,” he said.

Meanwhile, Wang referred to HGV’s pipeline as being “really strong,” while pointing out the company now has some five-and-a-half years of inventory going forward. As a point of comparison, HGV had two years of inventory in 2010.

In the fourth quarter of last year, HGV opened up resorts in Hilton Head, SC and Washington, DC.

The latter opening adds to the company’s lineup of major urban locations, which includes a “large footprint” in New

York City as well as a presence in Miami, according to Wang. On the company's wish list within the U.S., Wang specifically cited west coast resort markets like San Francisco, San Diego and Arizona, as well as Caribbean markets on the east coast.

He also mentioned that the company is poised to announce a pair of projects in Japan, which has been an important market for HGV. "That's another key differentiator for us from our competitors. About 20 percent of our sales are being sourced out of Japan. We're mainly selling Hawaii product to them. But we now have 60,000 members and they're asking for inventory closer to home," he said.

There has been much talk throughout hospitality about the impact of online home rental companies like Airbnb and the sharing economy, particularly in terms of their impact on vacation rentals. While Wang acknowledged that presence, he was quick to point out that the company's Q2 and Q3 sales were up 13 and 15 percent, respectively in 2016.

"We believe we're catering to a different customer…When I've talked to our front-line sales associates they're saying it's just not part of the conversation. I think it's a great platform, but I think the families and type of people we're catering to appreciate what we have to offer," he said.

Wang remains especially bullish on one particular segment of its customer base. "Our millennial generation is growing faster than any other generation. We think that really aligns to the fact that 94 percent of our members own homes and there's a lot of household and family formation happening with millennials," he said.

Wang noted the company was "very pleased" with how HGV, which he described as a mid-cap stock, performed during the IPO and immediately following. "To date we feel really good about the response we've gotten from the investment community," he said.