Diamond Resorts International, Inc. NYSE:DRII

Analyst/Investor Day

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Call Participants

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Chief Financial Officer and Executive Vice President

David F. Palmer
Chief Executive Officer, President and Director

Frank Acito

Michael Flaskey
Chief Sales & Marketing Officer and Executive Vice President

Ronan O'gorman
Senior Vice President of Resort Operations

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Presentation

Frank Acito

All right. Welcome, everybody, to Diamond Resorts' first ever Investor Relations Day. We've been talking about this for many years, and so appreciate you guys taking the time to come down to Orlando. I know it's a busy time of year with earnings and other companies, so it's not easy to get out of the office, but I hope that you'll find this to be educational as well entertaining. We've got a couple of speakers lined up for you guys today. You'll be listening to David Palmer, our CEO, as you guys know quite well. And then we've got -- let me bring out the slides there. There we've Al Bentley also presenting, who you've heard. But then you'll get to meet other members of our team, Mike Flaskey, our Chief Sales and Marketing Officer, will be here to discuss some of the sales and marketing initiatives that we're doing. Ronan O'Gorman, our Head of Resort Operations, will be handling a lot of the presentation on that. Brian Garavuso is going to talk about our technology.

And so before we get started, I have to do some housekeeping here and talk about little safe harbor language. So today's presentation may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, including statements about the company's expected future financial performance. These statements may be affected by many factors, including those listed in the company's SEC filings and in today's Investor Day presentation. As a result, the company's actual results may differ materially from the results we discussed or project today. We will not publicly update any forward-looking statements, whether as a result of new information, future events or any other reason. We will also discuss non-GAAP financial measures today. We reconcile each non-GAAP measure to the most comparable GAAP measure in our exhibit in the appendix of today's presentation. And we also ask you to refer to the non-GAAP financial discussion in our 10-K. Cue the video.

[Presentation]

David F. Palmer

Chief Executive Officer, President and Director

Well, welcome, everybody. I'm David Palmer. I met many of you before, but we also have some new faces today. So we're going to bring people through some slides that you've seen and some new slides, and more than anything we want to have everybody here ultimately understand who and what we're all about as a company. So this is an internal slide. This is a slide that really show the investor community, but I think it's time that you understand on our home turf what we're all about and the passion of everybody in this room. And every day that we wake up, we believe in what these words say. Diamond Resorts, we believe in the power and value of vacations to create lifelong memories and nurture our humanity. They are essential to well-being. That is our organizing principle. The people that you'll meet, both onstage and in the reception, dinner reception tonight, wake up every morning believing that we're out to touch people and to impact their lives and to make their lives a happier, healthier place by being on vacation with us at Diamond Resorts. You're going to see a number of presentations today about how we bring that to bear and create a company that's based on experience. We are an experience-based company helping people have and nurture those lifelong memories. So I'm going to come back to this sentence a number of times throughout the day. The reason why we brought people here is so that you can feel how we actually translate this into products and services that we offer to our consumers.

You've all seen this slide. I'm going to start the presentation with this to level-set the playing field. 93 resorts under management worldwide, about half of those are in North America, the other half are in Europe. We sell a subscription, a prepaid subscription in the form of points to our consumers. That subscription allows them to access our 93 resorts under management and over 200 affiliated resorts and cruise itineraries worldwide to give them our own product club network for them to choose their vacation experience. We also have a consumer finance in operation. Al Bentley will talk about that in more detail later in the presentation today. We see where we sit in the industry under managed resorts. We sit second to Wyndham. If you look at our resort network, we actually have the most diverse resort network assembled in the industry.

One of the things we like to talk about is what have we done since the IPO. I think it's important that we always set the financial aspect of our business and then we'll talk about how we're able to achieve this. Since the IPO, we've been pretty busy executing and performing well. So the number of tours up 9% since the IPO. Average transaction size up 34%, just under $19,000. You saw in the fourth quarter we actually eclipsed the $20,000 mark. The VPG up 33% since the IPO. Our Hospitality and Management revenue up 24%. Sales and marketing up 61%. You're going to see why we we're able to do that by the end of the presentations today. Consumer finance revenue up 29%. Interest expense down 48% because of the refinancing of the bonds or bank deal. Adjusted EBITDA up 120%. Our net leverage down 3 full turns to 0.6. Cash generated $216 million since the IPO. That gives effect for the $16 million of stock purchased in the fourth quarter. And our market capitalization up 150% since the IPO. So we've been busy executing against the vision that we set forth, and many in the room we talked to you at the IPO, and we hope that you've been pleased with the performance we've been able to achieve thus far.

So I think it's important we understand from where did we come and how did we get here and where are we going. So this slide, to give you a sense, in 2007 when we brought Sunterra and brought it private. It was a traditional kind of old school timeshare company. There was no real focus on the guest experience. There was no real brand experience. There was no consistency. No hospitality standards, as a matter of fact. It was basically a room that was being provided at a price. Three different reservation systems, 2 different fiscal year ends, September in the United States and December in Europe. Two different Oracle implementations. So we actually had to do basically a gut rehab of this business. So we spent 2009 really doing that. We introduced this concept called The Meaning of Yes. It was sort of put in place the hospitality standards to be able to run a business that was focused on the guest experience. That started in 2009, in the middle of the recession. When most of the hospitality industry was running away from the guest, we transformed our business. So we started in 2009 by putting this philosophy in place and our brand standards in place. We actually raised maintenance fees 24.8% in 2009 to make sure there was enough funding in place to fund those subscriptions. And remember, in subscription-based business, you have to assume that you have occupancy year-round. We're going to talk about that throughout the presentation about how a subscription-based business is great for you as investors because it provides highly predictable free cash flow for you as investors, but also for our consumers. It allows us to program out all kinds of hospitality events. So what we said is we're going to lead with hospitality, and we started it when the hospitality issue ran away not only from this industry, but from consumer services, in general. We said we're going to give you value and we're going to start programming out experiences that are meaningful to you, started in 2009. 2010 to 2013, we really started to refine that core hospitality experience. We also were very acquisitive. We had to put those scalable systems in place. You'll hear Brian Garavuso talk later about our IT systems and how we were able to actually assimilate 6 companies during that period of time and actually have our G&A go down and still focus on the hospitality experience. The processes that you see evidence today started in this time frame, the thought process. When I first recruited Mike Flaskey back in 2010 to come on and reenergize our sales and marketing platform, we sat in a hotel room in Miami and talked about how we're going to reinvent the sales process by injecting hospitality into it. And I talked a little bit at lunch today and, hopefully, by the end of the next few days, you're going to see how we actually took a business model and reinvented it. We pulled it apart and we turned the sales process into something that actually was integrated into the hospitality experience. And nobody in the industry has thought about that. The seeds of that started back in this time frame. End of 2010, we started with the concept. So we started to experiment, sort of testing through that time frame. And then in 2014, you saw us roll out the full implementation of that vision with our Stay Vacationed idea. That's our Northstar. That's we want people to feel embraced in their membership, buy us 365 days a year. We want them mentally [ph] stay on vacation. It not just a physical vacation, but it's planning the vacation, how we engage that consumer prior to taking the vacation and how we engage that consumer after they've taken the vacation. So they think of Diamond Resorts 365 days a year as their provider of memorable vacations experiences. Vacations for Life is what we renamed the product that we sell. It's actually a play on words. It's not just that we're selling a lifetime subscription, but we're actually helping to improve your life.

So if you look at our umbrella now, we have the Stay Vacationed concept. We're selling Vacations for Life. I put back here the meaning of what we're doing that we believe in the vacation. We believe that it helps nurture your humanity and we believe that it's essential to your well-being. And if that is your organizing principle, every day we wake up, 365 days a year, we're choosing a path to help our guests have a better life through the power of vacations that we absolutely passionately believe that. So now we've transformed ourselves into an experience-oriented hospitality company that's rooted in the power of vacations. We're not here selling real estate. We're not selling space. We're not -- we are selling a membership, an experience that's rooted in vacations. The subscription-based business model is something I've talked to all of you about a number of times. You're going to see how that translates not only from your free cash flow and the predictability of free cash flow that U.S. investors want to invest in, but how we can take that predictability internally to our consumers and deliver middle-class consumer a superior vacation experience, something that you can't get -- I'm going to give you an example. Ronan is going to talk about this more in detail. But think about the Hampton Inn. We love Hampton Inn. They do a great job for the middle-class consumer, but the Hampton Inn's are owned by 10 or so different REITs, maybe 20 or so different families. You have a disparate ownership base. And they're in the RevPAR risk business. So when you're in a $129 a night RevPAR risk business, difficult to plan out 26 global food events and guest experience events, which Ronan is going to talk about. Difficult to plan out the DRIven to Fun event, which we did 6 weeks this past summer. Had 82,000 of our people participate with 300,000 pieces of collateral that we produced for that. That's all built into the budgets upfront in hospitality, maintenance fees that we charge our guests, so we know that the cash is there. We know that the expense structure is put in place in advance of their occupancy. And we can create a better superior vacation experience for the middle-market consumer. That's what the synergy of this business is about, creating predictable free cash flow to our investor community and creating a superior vacation experience for our guests every day. So now our hospitality delivery experience is ingrained in our guest experience on resort. And our sales and marketing process has become truly integrated into the guest experience, the hospitality portion of it. We purposely invited you to Mystic Dunes to experience an event of a lifetime, so you're getting a slice of it, where we really focused on the EVENTS OF A LIFETIME attributes. So this is not a big broad brush about the business. This is a kind of a focused effort here. So you can see one of our principal marketing channels at work and how it's become integrated into the entire experience of the guest. We've taken what was really a despised part of the on-boarding process of timeshare companies of yore that used to have a horrible experience of on-boarding guests and selling them some form of the membership. We've turned that into a desired, sought-after vacation experiences integrated into the process and being on vacation. You've seen the efficacy of that in our financial performance. By the end of today, we hope you'll have experience with Reggie Jackson at dinner. Reggie will be at dinner tonight and only tonight because tomorrow he's taking -- I'm sorry, he's taking our guests to see the New York Yankees, Tampa Bay game tomorrow, watching the game with them. So we have a really interesting program tonight with Reggie, and then tomorrow John Cook. And I do encourage you tomorrow, since part of tomorrow's presentation is exactly what we do with our guests. It's going to be on the golf course, you'll see John do a clinic, and then if you want to play golf afterwards, you can come dressed casually. It will be a little bit warm [indiscernible] the 80s. So you don't have to wear suits and ties, you will be toasted out there, particularly the pale-faced New Yorkers that we see out there who haven't seen sun in a while. So please come prepared for a relatively warm day. We're going to do the sales presentation in the morning and then go out on to the golf course right out here in the afternoon. Part of what we're going to try to do is seed our message because we truly believe that Ronan is a higher mission. We truly believe that we're out here, put in the universe, something that's good, something that's necessary, something that's essential to people's well-being. So we started to see this message this past year. And some of you actually saw this -- actually received some emails from Sydney this past year saying, "We're really happy to see you take this higher message out to the world." So we did -- vacations are vital distribution in August, total reach of their audience was 100 -- over 100 million people. That was our -- I don't know if you have seen the little plan [indiscernible] vacation is vital, some of the research that we do with Nielsen, talking about how important vacations were from productivity, health, happiness, from a relationship standpoint. Stay Vacationed announced it was distributed this December 19. Again, the total audience reached about 70 million people. We had a New Year's resolution announced that we reached about 72 million people. And these were the periodicals that picked this up. A lot of you picked up and saw the New York Times piece -- op-ed pieces written by John de Graaf with a hyperlink to our vacations are vital sign. That was a thing that really powered our messaging quite a bit this past year. So this year in 2015, we're going to be taking a leadership position in vacations in the country and making sure that we are keeping the dialogue about vacations and their essential aspect to our well-being and have the Diamond Resorts wrapped around that conversation. So we did enlist 2 individuals to help us with that. Dr. Lee had been a core. She's an emergency room physician. What she saw through her treatments, and she actually became very passionate about how vacations are going to actually help the healing process for people who've gone through trauma, and we actually have gotten involved with a number of those efforts nationwide with people who have gone through various levels of trauma and that how vacations could actually really help heal. So she got there on her own. We found her, and she actually did an interesting promotion for us on the Meredith Vieira Show, about 1.6 million viewers watched. We actually gave away vacations for a period of time. We had, again, 1.6 million people picked up. And then we did a satellite media tour that bought about 40.5 million impressions that was based around the benefits of vacationing, and Dr. Lee was our -- we call her our vacation doctor. We also started partnership with John de Graaf. John is a founder of Take Back Your Time. It's an organization. That was really challenging, more at a legislative level the time poverty, the lack of vacations in this country and also that the balance sheet issues a lot of companies have the accrued vacation that was -- and John is kind of -- he's a real thought leader in this. You see him quoted all the time. If you see -- [indiscernible] New York Times, if they need a quote about the value of vacations, John is the go-to guy. Well, he saw what we were doing. He's actually the guy who wrote the op-ed piece, without even with us known. He hyperlinked our vacations that is vital piece in the New York Times. And that's how we got to John. He actually kind of found us. And we now have a partnership with him. And he is going be doing some satellite radio and social media tour for us also this year and talking about a couple of initiatives we're coming up. So this vacation commitment initiative has developed awareness around vacations, and we're going to be a thought leader with John in this. So the Take Back Your Time organization, we're one of the presenting sponsors of this initiative. And you're going to see this promoted, this vacation commitment and how is it going to be promoted. Well, the debut of this is going to be coming up on March 17. There's going to be a program launch. There's a future of work forum that's being held, 120 of the top corporations of the Fortune 500 attend this conference every year with other top HR professionals. John is the keynote presenting speaker at that conference about the importance of vacations, and Diamond Resorts is the presenting sponsor of John. There is a whole press package that you'll see. That's going to be announced actually this week for this event, but the whole idea here is to get corporations, Diamond Resorts included, to have much more proactive engagement with their team member population about how important it is to take vacations. So we've created a toolkit that will go not only to the CEO, but the head of HR about how to create planograms that will help people understand that taking vacations is a vital part of their happiness and their health. And therefore, there will be a more productive overall work environment. So this launch is this month. It's going to culminate, as I said, March 31 with a media tour. This is the type of media that's already been lined up to follow the vacation commitment day that's been announced at the summit. So the idea is to make sure that we have about 6 to 8 companies that come out of this summit that really commit, that they're really going to start to focus their team member population on the importance of vacations. And again, Diamond Resorts is the presenting sponsor of this. But we're just the presenting sponsor. We really like to be in organic dialogue with these companies.

And then there's also going to be a follow-up vacation summit. The United States Travel Association has been very progressive at doing research about the importance of vacations. And they saw what we had done and they came to us. They said, "We have a major study that we're going to release in June, and we like Diamond Resorts and the USTA to actually present that together to the media." So there is going to be an event in New York City, where we present the research findings of the United States Travel Association. It's a two-pronged research paper that they've done, one is on the health benefits of vacationing and that is an expansion of the research that we had done with Nielsen a year ago. And the second is balance sheet management for the Fortune 500. There is many, many millions of dollars of accrued vacation time that sits on the balance sheets of corporations, and they need to have their team members take that vacation, so that they don't end up having to turn that into a cash payment upon that team member leaving. So there's kind of a two-pronged approach that USTA is taking, and we are the presenting sponsor. And there's a lot of media that's been lined up around that, including some very interesting keynote speakers. Before bringing Ronan O'Gorman on stage to talk about our hospitality, I want you to note that Ronan comes from the hotel industry, and a big part of his team is from the hotel industry. We purposely brought people in from the hotel industry, but what we've done was kind of really liberated Ronan. He is going to talk a little bit about that. When I met Ronan, he was a pretty stiff guy because he was really worried about -- he was -- Ronan came out of the Four Seasons and then out of Red Rock Hotels and Casinos. And Ronan was worried about RevPAR management, and therefore, his occupancy management, and really couldn't think about long-term managing the experience. And a lot of what we're doing right now with Ronan is taking that creativity and unleashing it on an environment where you don't have to worry about the RevPAR part of our business, right? Because we charge a maintenance fee that includes and basically assumes that we have 52 weeks of occupancy. That is our obligation as a manager of these properties to assume that our timeshare -- our membership shows up. So he's focused on guest arrival. He's focused on making sure that the grounds are in decent shape. He's focused on all the aspects and attributes of great hospitality and guest journey and programming out all these global events. And we don't have to talk about in our dialogue, we have our management meetings, what was the RevPAR this past month? So you're seeing a liberated Ronan O'Gorman, and I'm delighted that he's on our management team. So Ronan, please come up and talk about your business for a bit.

Ronan O'gorman

Senior Vice President of Resort Operations

Well, good afternoon, ladies and gentlemen. I'm Ronan O'Gorman. I'm Senior Vice President of Resort Operations, and I've been with Diamond 3-plus years, 35 years in the business. [indiscernible] 10 years with Four Seasons Hotels in Boston, Los Angeles, Chicago and New York. And I spent about 13 years in Las Vegas. Six of those years with Caesars Entertainment on the Strip and 7 at Red Rock Casino Resort and Spa.

So I'm going to share with you what the scope of operation is for resort operations. As David mentioned earlier, 93 resorts, pretty evenly divided across North America and the EU. The resorts in the EU are very small and much smaller scale. Therefore, the majority of the revenue is driven by resort operations come out of North America. In the EU, the predominance of resorts are in the U.K., Spain, some in Ireland, some in Italy. And here in North America, we have resorts as far as Hawaii, 2 resorts there. Saint Martin, in the Caribbean. We have Mexico. And then, here in the U.S., we are dominant in the Orlando area, in Florida, Arizona and the West Coast. And when I consider the West Coast, I'm saying Nevada and California.

We have a total of 11,000 suites globally, 36,000 beds, 3,400 team members and 3.6 million global room nights. I'm going to share with you the 5 fundamentals of resort operations, and it's what guides us every day. First one is providing world-class service from arrival to departure. Yes, I have been liberated. I can now say that I have all the time in the world to focus on the guest experience, and most importantly, on execution of our team to meet the needs and the standards that our guests require. Secondly, establishing financially healthy HOAs. So important. It is the cornerstone of our operating budgets and provides us the capital in our -- the revenues in our capital reserve spend. Third, is we're very focused on well-maintained and continually refurbished resorts. We have developed, as is part of the culture of our company, very strong partnerships within -- across the organization. We do not believe in silos. And I think probably the greatest example of that is our relationship with sales and marketing. We have been able to ensure that hospitality is infused into the sales experience. We, along with club operations, deal with all of our guests' needs, and I will be addressing with you how we partner in handling our guests and our members and our owners.

And lastly, employer of choice. We provide real opportunities for our team members to grow, and we have a very attractive culture that is here to attract the best and the brightest in the hospitality business. So David has mentioned the prepaid subscription-based business. What does it do for us? It takes the risk out of what we do. And when we look at how our maintenance fees are used, I'll take you through some examples of some of the amenities and attractions that we have added. But it all starts with the arrival. We have something from IT called clarity, and that allows us to engage with our members, our owners, our guests, upstream. We send them an email in advance of their arrival. And in that email, we are able to tell them about what is happening in the resort the week that they're here. And a lot of our guests stay a lot longer than a typical hotel or resort. So they're very interested in the activities that are occurring throughout the week. Also, we share with them, and they have a link to some activities in the location that they're going to, whether it be in the city. So they are able to come to the resort prepared to enjoy everything that is available, not only within the location, but also within the resort itself. In the stay itself, we are able to provide amenities, and one of these amenities are 26 global food days and holidays. What does that look like? Chocolate Day, Pancake Day, Waffle Day, St. Patrick's Day, Valentine's Day, all of these are events that draw a large number of our guests to come and to congregate, meet, exchange thoughts and ideas and really enjoy being in the resort, meeting the resort team, meeting fellow guests, and we provide food and beverage, we provide activities. And what's important here is that everything is generated through our creative services department. They generate all of the brand and materials. So if you're in Portugal and it's Pancake Day or you're in Sedona, you get the same look and feel and experience in either resort. And this is all part and parcel of what we are able to budget forward in the year.

We also have Monscierge. Monscierge is a technology that allows us to provide information to our guests on what's happening within the resort and what's happening within the location that they have chosen, whether it be Orlando or Scottsdale. And it also gives us an opportunity to handle any of their special requests. It's available in the lobbies of our resorts and also in an app format. David touched on DRIven To Fun earlier. DRIven to Fun originally was an idea that came out of the Olympics being in the U.K. And they wanted to have an Olympic-style activity for our guests. And so they developed a program, which we quickly adopted, and it is a 6-week program that occurs basically July and August, 4 days a week. It starts with an opening ceremony. Food is served. And what's really important here is that our sales team and our resort leadership team all come together with our guests. We celebrate the opening of what's called DRIven to Fun. We have food. We share. We tell them about the events that are occurring in the next 4 days. They sign up for them, and there are events that are -- and activities for all ages. Everything from bingo, watermelon eating, to doing the limbo. And all of us participate in that with our guests. And so they sign up. Then we have a medal ceremony. Every event has a gold, silver, bronze. We have a podium. We have a backdrop with Diamond Resorts on it. And this has created an amazing opportunity for photographs that are shared on Facebook and social media. And in our first global DRIven to Fun, we had 84,500 participants in 2014. So when our guests leave, we have a very rich and robust departure survey that I'm going to take you through.

So when we're looking for guest feedback, we are looking for it in 2 ways. We're looking for evaluation of the guest experience. And we do it through guest feedback, which is through the post-departure survey and through quality assurance, which is completed by a third-party and a recognized audit company. Let me take you through the post-departure survey. Staggering number of 565,000 post-departure surveys were deployed globally in 2014 with a 30.5% response rate. Those are real-time available to our general managers on their desks, but we aggregate them and we send them to them once a week. In there, they are able to see what the scores were for particular parts of the stay. And there is also a narrative. And in that narrative, a lot is said about the guest experience, positive and negative. It is expected that within 24 to 36 hours our general managers reach out to those guests and resolve those issues so that when our guests come back, they know that we have generally addressed their issues. There are 61 questions in the post-departure survey. And within that, there are about 12 or 13 segments. We have taken 6 of those that we call the vital few. And we measure, report, score and we link the success of a resort to the General Manager's compensation by the scores in those post-departure surveys.

Quality assurance. Quality assurance, QA audits. This week we started our seventh QA audit in 3 years. The cycle is 2 per year. And on those QA audits, what is most important is they are independent. It is done by a world-class auditing company. It is unannounced. And when they show up, there is a questionnaire between 900 and 1,300 questions. And it depends on the amenities that are in the resort. The General Manager -- the person comes in the night before, audits the resort then shows up in the General Manager's office the next day, and she sits down with the individual and spends the entire day going through the remainder of the audit. The great thing about having 7 audits under our belt is we see patterns. We see where we have challenges. We see where we have weaknesses. We also see where we have strengths. And so it allows us and our team, and we have an audit team in our corporate office that's specialized in distilling the information down and feeding it back to the resorts. But if you were to approach any of our general managers, they would be able to tell you what the weaknesses are and those things that they are working on. And the QA is a huge component of standardizing the guest experience and focusing in on those things that we need to do to improve. So when you take the post-departure surveys, which there are 6 vital few components, 2 QAs, 4 training goals and a financial goal. We have about 14 metrics that we measure our general managers on, and we link it directly to their compensation. We measure it, report it, score it and we recognize it also when we're looking at our resorts of the year, which is our recognition tool.

I mentioned establishing financially healthy HOAs, how important that is to us. With the prepaid subscription model that we have, the assessment, the maintenance fee, the planning for them, we're able to understand how much money we have to spend. So therefore, we're able to plan for and budget for all these activities that I just told you about. It removes the risk from us from our operations. It allows us to focus on execution. It allows us to enhance the guest experience. Somewhat top-down guidance is given to the resorts that are given a range. We have a 5-year look-back at key metrics, those key metrics that drive costs. So for instance, labor cost, benefit cost increases, are all built into this as we make our assessment. But if we have some special needs, let's say we have a market where we're finding it particularly difficult to find a skilled trade, we can then at that time plan to increase our rates. And it's all part and parcel of our budgeting. Our budgeting then is -- then taken to the HOAs. Our general managers do their budgets. It's run through finance. And then finally, we take it to the HOA where the board approves the budget for the year. That, in combination with limiting our bad debt, which finance help us with and collecting of the maintenance fees, that shows us what our total income is for HOA to spend in the year. And as I said, takes the risk out of the equation and helps us focus in on the guest experience and the execution of that.

Employer of choice. Starts with training. We have a global guest experience training, 5 modules developed, branded and unique to Diamond Resorts. It's aligned with our goals. It's aligned with our brand. It's aligned with our beliefs. I'm proud to say that 90%-plus of our team members have all been through that in 2014. Our goal is always 100%. And we have continuing education for our general managers. Our company in the development department has something called University of Excellence. We have over 1,000 courses in there. We collectively, at the higher end, we will choose a number of courses, and all general managers take the courses throughout the year, one a month, systematically. The end of the month, we all gather the North American operation and split into 4 regions, and each region hosts a conference call where the general managers share the learnings from their e-learning day, as we call it. We also have team member succession plans. We do these 2 to 3 times a year. And we go all the way through our organization, all the way through the ranks, right through the supervisor, as we look at who we can grow within our company. Last year, resort operations had 21 leadership opportunities and changes, 19 of them came from within, and 2 we attracted talent from the outside.

As David mentioned earlier, we've attracted a lot of people from outside of the traditional timeshare environment. And our team is growing with individuals who see opportunities to grow their careers and really gravitate and like the culture that we have provided, which is very transparent and is easy for them to understand, and we are able to paint a picture of success for them. So people joining us have an opportunity to be successful.

We have a global team members survey. We are measuring team members satisfaction. We had over 86% participation globally. And when we deploy the survey, and whether it was in Spain or in California, it was exactly the same survey. We asked exactly the same questions. And when it came back then, the development department pulled together the trends and the ideas and the themes that came out of the survey. And then we handed back to the GMs and we say, "Okay, get with your teams and let's sort this on. Let's see what are the barriers or what are the challenges or the problems that the team members are having, helping us to help them with the guest experience." We do that about every 18 to 24 months. And then lastly, we have a robust management training and college recruiting program. We talk about strong partnerships. And we've mentioned a number of times before, but I'm going to do it again, and that is our relationship with sales and marketing. It is unique. We partner together to make sure that hospitality is infused throughout the entire sales experience. We believe that, that experience enhances the sales program. We also have with club operations a wonderful relationship where we side by side address and deal with guest issues, whether they be special favors or whether they be guest complaints or whether they be needs. When Club operations gets a request, it goes straight to the General Manager, and there is a 24-hour turnaround. And the percentage of completion is very high of dealing with guest issues that come through the club.

Lastly, revenue management. As David mentioned, we have a very predictable model here. We have very strong occupancies. So we and resorts are not worried about the ebb and flow of occupancy. We know it's very predictable, and we're very much focused in on the experience. But we're also focused in on partnering with revenue management to grab those opportunities where we can increase revenues through increasing average rate on occupancy. So where does that take us? When we look at all of -- we do and delivering on the fundamentals, this prepaid subscription-base model basically allows resort operations to focus on the guest experience. Our #1 goal is to deliver on the promise made by sales. And every day, we're focused on our execution of that plan. When that happens, we have multiple purchases from existing members, additional purchases from our traditional owners, and we have a timely and predictable pattern of maintenance fees paid.

Thank you. And with that, I'm going to invite up Mike Flaskey.

Michael Flaskey

Chief Sales & Marketing Officer and Executive Vice President

Thank you. Nice job. Are we live here? Good afternoon, everyone. How are you? We appreciate you taking the time to come down and learn more about what we do here at Diamond Resorts and experience first-hand our beautiful Mystic Dunes property. My name is Michael Flaskey. I serve as the Chief Sales and Marketing Officer for Diamond Resorts International. I'm proud to tell you that I've been in this industry since 1992. I started in 1992 on the tables as a sales associate for a company called Fairfield Resorts. I was able to grow in that company into a leadership position in 1995. I started serving as the Senior Vice President of Sales and Marketing for Fairfield Resorts, at which time we also IPO-ed as a public company. I believe we were one of the first, if not the first standalone, pure play timeshare company that was public. In 2003, we sold the company to the Sinnett Group, a large conglomerate. It is now broken up into several pure play companies. And I transitioned over and was recruited by Starwood Hotels and Resorts to come in, and I led the sales and marketing at Starwood Hotels and Resorts in the eastern part of the United States for just under 4 years. I think that has proved to be a very interesting background for me and a great learning or set of learnings that I brought to Diamond Resorts. We at Fairfield Resorts were very focused on executing the x's and o's of the business and the P&L. Our leader was a CFO by trade. And we got a great fiscal background. When we transitioned or I transitioned over to Starwood, it was really all about the plan and all about the culture. And so here at Diamond Resorts, I think what we've implemented is we've implemented a little bit of both of those, and that is the success that you all have experienced as investors today.

Another piece of my background that I would like to add is I transitioned over to a company called Land Resource. I was recruited out of Starwood and I became the Chief Executive Officer there in late 2006. Land Resource was a second-home recreational community developer that sold homesites from $150,000 to $3 million. This gave me an experience of what it was like to deal with a higher-end product and a higher-end consumer. Therefore, you'll see throughout my presentation today where we've integrated that into what we do here at Diamond and why we are one of the leaders in average transaction size. What you'll see on the next slide here is you'll actually see -- sorry. You'll actually see a breakdown of North America. We have 25 sales centers in North America and 2,250 team members. In North America, we have 5 primary markets that are driving revenue. We have Orlando; Williamsburg, Virginia; Arizona; Las Vegas; and Hawaii. In Europe, we have 28 sales centers, much smaller, and 280 team members. And we have 4 primary markets. We have the U.K. We have Spain. We have the Canary Islands and we have the Greek islands, the Islands of Crete and Rhodes.

Some of you may be familiar with this next slide. This is really kind of the key metrics or the algebraic equation that drive the sales and marketing business. We've broken this down to try to make it very clear and concise for you, and show you what these levers are. And it's simply our tour flow, our closing percentage, times our average transaction size equals the key that we run our business by on a day-to-day basis, and that is volume per guest. If you look closely at the slide, on the tour flow piece, you will see that over the course, I joined the team in December 2010, from that period to the end of '14, you'll see a 15% compounded annual growth rate on tour flow. What we want you to understand about tour flow is it's very prescribed. We know ahead of time exactly how many tours we're going to grow, how we want to grow and where we're going to grow. And in some cases, we may choose to cut back and we may choose to focus on EBITDA. And we may call out tour flow that is not as profitable. And in other cases, we'll grow tour flow where we think we have the opportunity. But the key there is that our associate team members that take these tours and sell them on a day-to-day basis are prescribed and given 2 tours a day. And so everything is driven by the staffing in the field. And we think it's a critical that they do not get more than 2 tours per day or we think we don't get the quality presentation that we normally would get. One of the things, if you look at closing percentage and I'm very proud of, is that we've actually maintained closing percentage flat over the 4-year period of time, while we have actually grown transaction size at 22%. And if you look at that 22% growth in transaction size, I'll tell you a little bit more in just a bit as we go through the presentation exactly how we do it, but the one important piece that I'll point out to you is that we have a merchandising program called Diamond Dream Holidays that makes this process very succinct and it not only motivates the consumer to buy more, but it also motivates our sales team members to sell higher packages in a way that it is designed.

The last point I'll make is our volume per guest. And if you will -- to simplify the volume per guest column for you, if you took the volume per guest and you multiplied it by the tour flow, in essence, what that would tell you is every tour that walks through the door of one of our sales centers on a daily basis is worth, in 2014, $2,732 to Diamond Resorts in the form of revenue.

You'll notice during this period of time that we've actually transitioned our average sales and marketing costs down. You'll see that 54.4% in 2014 is where we leveled out. We anticipate that as we continue to add new member tour flow in here that this is probably going to level out. That's where we expect it to stay. We think, David I know has talked during the conference calls that as a part of our focus of infusing new members into the system, we probably could even feel a little bit of uptick in this category. This slide is basically talking about how we have transformed the sales and marketing process into hospitality-driven process. We're going to get into the details and tell you some cool things today about exactly how we do that. And clearly, as David has told you, it increases our VPGs, it increases our revenue and our net operating income, which is ultimately EBITDA and what you guys and ladies care about. And it ultimately differentiates us from the rest of the industry. And frankly, we're very proud of that. We're very proud of what we've accomplished by being the thought leader. Now how do we do it? First of all, we have a pre-tour engagement. If I can tell you a little bit about how we generate our tour flow, it will help you understand this piece. We have 2 -- we bifurcated into 2 areas. The first area is the local marketing. The local marketing are our hotel guests, our owners, people that come to the local community that may be staying at Universal -- or Disney, Universal Studios. And we have a concierge in Universal Studios at the casinos in Las Vegas and that local team focuses on booking those guests into our sales centers as well as serving through a concierge and ultimately getting our members and our hotel guests to come through for a member update presentation. Then we have our national marketing arm. Our national marketing arm is really twofold. We have a team that is out in the field at PGA Tour events. They're out in the field at shows, and they're selling mini vacation packages, which ultimately build a pipeline. And this pipeline is a critical element because it's very predictable. And as we want to open the pipeline up to drive tour flow, we can do it in a controlled, measurable fashion. Now this pre-tour engagement piece is designed to contact these people that buy a mini vacation package. Hypothetically, they may buy it at Bay Hill this week at PGA Tour event. They'll pay $299 for a 4-day, 3-night visit to come back to one of our Diamond Resorts sites. Pre-tour engagement, we're contacting these people the minute they get home, we're sending them newsletters. We're communicating with them over the web. And ultimately, during that pipeline period, from the time they purchased the package until the time they come back and take their presentation, we will have made them feel like an existing member. So that's what our pre-tour engagement is. It's got over 30 touch points that we utilize throughout that pipeline period. So basically, prep them and make them come in a position where they feel like they're already family. Then you have a VIP check-in. VIP check-in was one of the great innovations that we rolled out in 2012 here at Diamond. And what VIP check-in simply is you went through it. You checked in. You saw our specialty check in area here at Mystic Dunes. At our primary large resorts, we have developed those sorts of environments for our guests that come in and check in. And what actually happens is, is that our concierge reach out 2 to 3 weeks ahead of them coming in on their vacation. And they actually serve as a concierge to them. They actually figure out what shows they want to see, what parks they want to go to, where they want to eat dinner. And they handle those in an upstream engagement fashion. And basically, they become their personal concierge. They then set a specific time for them to meet with them individually, the person they've known for 3 weeks. And they -- when they come in and check in where you all did, they personally walk them to their condominium, go through to a 10-point check with them to make sure everything in their condominium is exactly the way we would want the guest experience to be. Once they sign off on that, we simply ask them, "When would you like to do your membership update? Tomorrow morning at 9? Or would you prefer the afternoon at 1:00?" And in that environment, we penetrate a significantly higher percentage of people than we do through our traditional penetration process through concierge and so forth. So VIP check-in was a branded element that we infused. It is something that has paid huge dividends to the company and adds to the guest experience.

EVENTS OF A LIFETIME. I'm going to tell you there's actually a slide about EVENTS OF A LIFETIME and we're going to get into the detail of that. But quite simply, you're going to experience an event of a lifetime while you're here, those of you that are here in person. Those of them on the webcast, I'll tell you a little bit about it. Tonight, we have Reggie Jackson, Mr. October, that is going to join all of us for our cocktail reception and dinner. You're going to have an opportunity to do a live Q&A with Reggie. There'll be no media. There'll be no video. You can ask any questions you want. Reggie is like family. He's a great brand ambassador. And you're going to have an experience, frankly, that money can't buy. And that's what our owners get. Tomorrow, as David said, Reggie is actually going to host 12 couples over in Tampa, and he's going to sit in the suite and watch a 9-inning spring training game with those folks. Tomorrow, you're going to have an opportunity to experience John Cook, 21-time PGA Tour winner. John is going to come up. He's going to make a few remarks. Again, you're going to have full access to Q&A with John. And then as a part of the event, we're all going to go out on the driving range, and he's going to do a live clinic demonstration. That's going to one of the coolest things you've ever seen in your life. And this is what we give our members and our guests and our hotel guests. This is what we give them the opportunity to experience and it prepositions them to come in for their membership update or their tour in a totally different fashion. And in 2014, we actually had over 15% of our tour flow that actually -- excuse me, of our revenue, that actually went through an EVENT OF A LIFETIME platform. So our goal is to continue to grow that, and we think that there is a lot of meat left on that bone.

Diamond Dinners. When we did our acquisitions, as they've indicated to you prior, there were 6 of them that were done over the last several years. One of the strategies that we employed after we started this EOL process we said, "There's roughly 100,000 owners as a part of the Pacific Monarch acquisition. They don't all travel at the rates we like them to travel. So how can we strategically get a team, infuse hospitality into the process? And how do we go to them in the markets where they live?" So what we did was we started Diamond Dinners. And Diamond Dinners very simply goes to the member in the market that they live in, and we do a wonderful dinner party with them, give them a chance to break bread with our team members. And we have an amazing success rate through that Diamond Dinner program at converting those numbers into a full Diamond Club member, which is beneficial for many different reasons.

Our new member orientation. Our new member orientation is another innovation that we rolled out. Basically, when a new member purchases with us here at Diamond Resorts, we invite them back within the first 90 days. Not for sales presentation. We invite them back for an owner education. We want them to know we're serious as a company about them understanding what they bought and about them knowing how to maximize it. And what we do when we bring them back is to basically put them through an EVENT OF A LIFETIME. And believe it or not, the conversion rate, you wouldn't believe the people that raise their hand and say, "We want to buy more. We should have bought more. If we had known this at the beginning, we would have bought more. And now we're comfortable and we see that you all are truly a hospitality company, we'd like to go ahead and move up to that gold level or the platinum level." Only 90 days since they made their initial purchase. It's amazing.

Now what I want to talk to you about, this is our EOL platform. As you see at the top, in 2014, we did over 1,300 of these EVENTS OF A LIFETIME. David and my goal is to figure out how we can get as many of these infused into the system as possible. That's what our goal is. But I want you to understand the different EVENTS OF A LIFETIME that we actually do. The traditional event of a lifetime is where we'll reach out through one of our contact centers. We have 5 of them close to 800 seats throughout Nevada, California, Florida, et cetera. And we invite them on the special opportunity to come down. I'll use Bay Hill as an example because it's coming up, and you're in Orlando. Brian Gay is one of our Diamond Resorts ambassadors. We'll talk about that later. But the offer would be something like this. Mr. and Ms. Flaskey, we'd like you to come down as Diamond's guests for 4 days and 3 nights to Orlando. We'll put you up at our beautiful Mystic Dunes Resort. You're going to get a once-in-a-lifetime experience. You're going to get an opportunity to have dinner with 4-time PGA Tour winner and Diamond ambassador, Brian Gay, on Wednesday night. You'll have 2-hour meet-and-greet, all-access Q&A with him. Then, the next day, we're going to provide hospitality for you on the golf course. And you'll get a chance to go out and you'll get to see Brian actually play his first competitive round on the PGA Tour at Bay Hill after you've had dinner with him the night before. Our members and guests go crazy over this. It's the most unbelievable thing you've ever seen. They love it because they feel like they know them. They made a friend, right? And then what we do, okay, they [indiscernible] in the game. They actually pay. I mean, they'll pay anywhere from $199 to $399, depending on the event. But as a part of this, they agree on their way out of town to stop by and meet with the team member and get a member update. So that's our traditional EOL process. Out of that spawned Club EOL, another innovation, really cool innovation. Now think about this. You have your contact center reaching out to your member base, trying to book these EOLs. You're trying to get people to travel and do an incremental trip, which is awesome because it is just that, incremental, okay? But we have thousands and thousands of Diamond Resorts owners, members and guests already coming to us every week, staying in one of our resorts, right? So we said, "If it works through the traditional EOL process, what about if we actually bring them in when they're already planning on staying on-site through upstream engagement like VIP check-in, we reach out to them and say, "By the way, Mr. and Mrs. Flaskey, while you're going to be Orlando, we want to tell you about something really cool going on. Wednesday night, you have a chance to go to an EVENT OF A LIFETIME with the PGA Tour winner Brian Gay. You get to go to Bay Hill. The same basic hospitality and experience that was in the incremental outbound phone call bringing someone in, we now are offering to the people that are traveling through our system using their points. Therefore, there's no lodging costs. Well, guess what? The same thing proved out to be true. The lift in efficiencies that we got through the EOL platform in the traditional fashion played into the Club EOL. And that's how we were able to grow this thing and how we'll continue to grow this. I've already mentioned Diamond Dinners, which is the last bullet point. But the third bullet point I want to make mention and that is our DDC, we call that. If we have a club member or an owner or a member that is staying 3 nights or less, it is incredibly difficult to get that guest to give us a couple of hours of their time to go through a membership update. So what we have done is we have created on-site dinner parties like our Diamond Dinners that are articulated that we do in the marketplace, we've created them on-site. And amazingly, when we offer their family the opportunity to come to a great dinner on-site and have some hospitality, we are able to start catching those 2 and 3 night stays that ordinarily wouldn't take time out of their day. And as a part of that dinner, they also agree to give us time and allow us to share with them all of the current updated things going on in the company and it is not only an increased our penetration rates, but also our conversions. So it's something that we are very proud of and something that we believe, it frankly, is a game changer. Now I mentioned to you the brand ambassadors, and David mentioned to you about how we're starting to take our brand on a big platform and really get our stay vacation messaging out there. We actually have done some amazing grassroots brand-building marketing here at Diamond Resorts. These brand ambassadors are very unique. I think we have 9 of them now. Unlike most traditional companies that you see that pay for a brand ambassador like a billboard, if you will, we do things totally different at Diamond Resorts. We can actually ROI every one of these brand ambassadors, and we can look you in the eye and tell you that it's one of the most profitable ventures that we do in our marketing budget. What we do with these folks is they have the opportunity, if they're a Diamond brand ambassador, to do a set number of these appearances, like you'll experience tonight with Reggie Jackson, like you'll experience tomorrow with John Cook. And what we do is we take the marketing spend that we would allocate for a traditional timeshare presentation, and a part of that is simply this brand ambassador and the conversion rate when we infused that level of hospitality into the experience is so high, it has a percentage of marketing as a percentage of sale, it's significantly less than the traditional marketing methodologies. So when you take a Brian Gay or a John Cook, they do 8, 10 appearances a year for us throughout the PGA Tour where it intersects, where we have sales centers, right? But guess what else they do? As a part of the agreement with Diamond Resorts, they wear our hat on the PGA Tour 31 weeks a year, on the Champions Tour, 31 weeks a year. So really, the branding element of our Diamond ambassadors is a by-product of the EOL, and it works amazingly well. Because you'll experience it firsthand, it's something that is really, really special. And I tell you a funny story. We signed Brian Gay. It was our first. I think I signed Brian in late 2012. The second week that Brain wore our hat on the PGA Tour, he won at the Humana out in Palm Springs. Fast forward to 2014, we signed John Cook in early 2014. And I think the fourth week John Cook wore our hat, he won at Pebble Beach the Nature Valley event that is on the Champions Tour. Now Mark Rypien, who you'll know as the quarterback -- former quarterback of the Washington Redskins, Super Bowl MVP, he plays the Celebrity Tournament Circuit and the American Century Celebrity Invitational, which NBC owns in Tahoe is a huge event televised by NBC, Mark actually wore our hat and shirt for the first time in that event and won it in 2014. So sometimes, it's better to be lucky. And I can tell you that we've been very blessed that our ambassadors have done quite well. In fact, I get agencies that call me all the time saying, "Hey, can our young touring professionals that no one knows yet, can they just kind of wear a Diamond hat because it looks like maybe it will help them win." So anyways, it's kind of interesting what we've built here with our stable of Diamond ambassadors. And this year, we've just ventured into the music industry. You see Joe Don Rooney with the pop country act Rascal Flatts. He wears our stuff. He's a avid golfer and will have appearances that Joe Don will do preshow meet and greets. And then as a part of that, we'll take our guests to see Rascal Flatts. And then we have a country act called Colt Ford. And in fact, I'll tell you an interesting point about Joe Don and Colt, you'll see the bottom left picture up on the screen here, that's at the Pebble Beach. The AT&T Pebble Beach. Just to show you how the by-product of this branding element works, 3 or 4 weeks ago, whenever the Pebble Beach Tournament was, we know on Saturdays, CBS focuses their coverage on the amateurs. They probably get 75% of the airtime. And then on Sundays, it's back exclusively pretty much to the professionals. But they set up on a hole 17, the par 3, if you've ever played it, at Pebble Beach. They set up Jim Nantz and Nick Faldo. And as the amateurs come through and hit their shots, they do the [indiscernible] swing beers and Peter Kostis breaks the swing down, and then they'll bring the amateurs in and they'll sit with them and kind of go through and break down their swing. Well, Colt Ford, that's the bottom picture there, Colt Ford sat in that booth for about 4.5 minutes live on CBS front and center Diamond Resorts hat, shirt, everything you can put on him, he was wearing it front and center, okay? He went on to make birdie on the hole. The next group was Joe Don Rooney, on the bottom right-hand picture there, and he sat in the booth for 3 minutes. So we actually had almost 8 minutes of live branding on CBS through those 2 brand ambassadors, who basically we don't pay to get on television. We pay to do the EVENTS OF A LIFETIME. So that's the model. The other piece that I want to talk to you about with our brand ambassador that we're very proud of is we do a fundraiser every year. We just finished our second year. It -- the beneficiaries is the Florida Hospital for Children here in Orlando. We host it right here at Mystic Dunes. We had over 40 celebrities come out. It's a celebrity amateur event. The Golf Channel covered about 4 hours of it last year. They had their morning drive show set up on the driving range. The first year we did it, we raised just over $400,000 net that we wrote a check to the Florida Hospital for Children for. And last year, that number was over $800,000. So in the first 2 years of our event, we've been able to give back over $1.2 million to the Florida Hospital for Children. And we're very proud of that. Finally, the last piece of this brand-building exercise with these brand ambassadors is social media. As a part of our agreement, many of these are my personal friends, but as a part of the agreement, they agree to basically promote Diamond Resorts on their social media accounts. And as an example, we announced the Colt Ford relationship earlier this week, and Colt put in on his Twitter, and I want to say they were like 30-some retweets and almost 100 likes. So it's just another way of getting it out there and having it manifest itself and being strategic about it. And there's the Brian Gay piece that I was just speaking to. Now I want to talk you a little bit about our DDH and how that works, our merchandising program. I told you as a part of my opening remarks that I spent a few years at Starwood Hotels and Resorts leading the sales and marketing on their vacation ownership side. In 2005, I was blessed to receive, they have one award they give away globally, and it's called -- or they give away more, but this particularly, they give one a year, and it's called Innovator of the Year award. And it's probably in my professional career something -- probably the most proud of it this point. Because we pride ourselves on innovation. And when David and I met in that hotel room that he was talking about in Miami in late fall 2010, that was one of the things I told him. I told him that I had a compilation of learnings that I felt like I could bring to the table here that could make us the thought leader. And one of those things is the Diamond Dream Holiday merchandising program. The first thing that we did was we created a silver, gold and platinum level membership loyalty benefit. And this doesn't come without a great partnership, with my partners Sarah Hulme, in our club operations. Sarah is amazing to work with. She has a great ear toward sales and marketing and how we need this product to be developed to best drive EBITDA. We created these loyalty levels. What it is basically, and I'll make it as simple as I possibly can, if you're sitting on tour with your presentation tomorrow, and you decide to purchase 7,500 points, which the sales person and you're incented to do through interest rates, the sales person through commissions to sell a higher point package, at that level we give you matching 7,500 points. And that matching 7,500 points will make you a silver loyalty level person recipient out the door. So you have for 2 years, even though you only bought 7,500 points, you have the ability to use and get all of the benefits associated with the silver membership. Now you say, well, how does that work? Well, the 75,000 additional points that we give them in the matching bonus point format, they pay us the carry cost on those. So what we're actually doing is we're actually incentivizing them, they love it, it's a huge benefit, in turn, we're filling developer unsold inventory. They're paying us the carry cost to come stay there, and the final piece, which is the best piece, this is the single highest close in VPG guest we have in the system when they come back and travel on this Diamond Dream Holiday program.

So one of the key elements of this is we come back about every 6 months and re-energize it with new benefits, we. Partner with Sarah and we roll new benefits out. An example, the Diamond Luxury Selection. At Diamond Resorts, you've heard David say it, one of our taglines, affordable luxury. Many people we sell our product to, this is affordable luxury to them.

We also have some very high net worth individuals that come through our sales centers. We also have people that have amassed large number of points through years and years of additional purchases with us, right? So what we did was we went out and we found a company, and we partnered with this company and they were in the business of curating, packaging and basically, renting very high-end homes, condominiums. And these are 5-star, best-of-the-best, $15,000 to $30,000 a week type properties. They provided the back of the house, again, staying consistent with our asset-light model, they paid the money to go out and wrap our skin basically on their system.

So if our Gold or Platinum owner, which has the ability to use the Diamond Luxuries program, they go into our website, it looks like it's 100% Diamond Resorts, they go in, they look at these beautiful homes, they call 1 (800) number, they get a line, they transact directly with our club, it's seamless to them, they take these points and they have the opportunity to go on these once-in-a-lifetime vacations if they want to do a family reunion or they have points to burn or frankly, they walked in the door and they weren't necessarily interested in affordable luxury, but they wanted affluent luxury.

So now our product spans from affordable to affluent luxury, and our sales team members, 20 plus -- or 2,000 plus sales team members across the globe, depending on who they have set in, in front of them, they have a product offering that will match anyone, really a cool, cool program. And it has had a significant EBITDA impact on the company.

Diamond Club Combinations. What Diamond Club Combinations is, is another innovative program whereby if someone comes in the door and they own Marriott, they own Wyndham, they own Starwood, they own Orange Lake, it doesn't make any difference. We have a chart that gives them a point allocation. And on an annual basis, they pledge that inventory to us. We give them Diamond Resorts points to add to whatever they buy for that week on an annual basis, which allows them to count them towards their loyalty levels. And I have a great partner named Jason Toste, who is in our Monetization department, and he is responsible for filling our heads and beds across the system. And Jason takes this inventory that they pledge to us and he turns around and monetizes it and turns it into cash and therefore, from a company standpoint, we have partnered, once again, to bring an innovative solution to the table that allow us to be the leaders on the sales and marketing forefront.

And then finally, the other thing that we rolled out most recently is our National Marketing team, led by Rob De Jesse, partnered with Barclays. And we now have a co-branded Diamond Resorts MasterCard, that is at a point-of-sale. It has a 5 minute or less approval process and it is something that not only adds credibility to our company because we actually have that co-branded piece, but it is also something that they can take the rewards from that card and they can use them for things like their annual fees or to do almost anything you would want like any other credit card would allow. And that recently rolled out along with the ability to take their points and use cruises, which we've always had. This is just a very high-end cruise selection or opportunity.

And then finally, we have curated key hotels that we thought were at least at the level of our brand standards, and we allow them to utilize their points to travel to these hotels as a part of our loyalty program.

So that's kind of a look into what we have going on in our DDH program. So you say, Mike, tell me a little bit about, you mentioned this kind of employer of choice, I've heard David mentioned this employer of choice thing. This industry, okay, is incredibly, incredibly hard to find the top talented people that can sell the product at the level we sell it and we demand it to be sold and do it the right way.

Our compliance here at Diamond Resorts is the best I've ever experienced. Dave Womer and his team have quality assurance folks at every one of our sales centers. They're completely separate from our sales and marketing arm. They make sure that when they go through and they close, the underwriting is done in an incredibly, high-proficient level. And those kind of sales people are hard to find. So what we've done here is we've created a culture and we talk about this on a regular basis. And this is something that I believe our leadership team has perfected, and that is we simply create an environment where the top talent wants to live and work everyday. And you say, that sounds like a cliché. But we live it, we eat it, we drink it, we believe it and we know it's a fact. In the results that you saw from the 22% compounded annual growth of VPGs in one of the early slides I showed you is not by mistake. It's because we have the top talent in the industry working at Diamond now, and they love it. And not only that, we have the top product in the business and not only that, we infuse hospitality in the sales process at the highest level. And that, I'm very proud of and that, you should be proud of as investors.

Now you look at compensation plans. From the very top of our organization, starting with me, we're compensated on net operating income, which translates into EBITDA. Every leader I have across the globe is compensated on that. Every site level marketing leader and every site level sales leader is aligned with driving EBITDA. Very important. We have a great recognition program here at Diamond Resorts. In fact, David mentioned, we just came back from Hawaii, we had about 400 people that earned the right to our Chairman's Club. David and I hosted that, it was an incredible time. It's something that you can't put a price tag on. We saw parents with tears in their eyes with their children that had never stepped on the Island of Hawaii, that had an opportunity to come with their child who has much success in their professional career and all of a sudden, they bring mom and dad to Hawaii and they're 75, 80 years old, thought they'd never be there. You want to talk about something cool? That's cool. That's what we're doing. That's who we are.

So I'll close with reiterating something that you've heard from my partner Ronan and you've heard from David, our leader, and that is everything we do here at Diamond Resorts is through internal partnerships. It's something that we don't take for granted. We don't have silos, we partner, we work together and the success that you see on the financials is a collective team effort.

So with that, I thank you for allowing me to come up and present to you today. And it's my pleasure now to welcome up Brian Garavuso, our Executive Vice President and Chief Information Officer. Brian?

Brian Garavuso

Thanks, Mike. Again, I'd like to welcome you. I'm Brian Garavuso, Executive Vice President, Chief Information Officer. I've been with Diamond since April of 2008, so almost 7 years. I was CIO for Hilton Grand Vacations prior to Diamond for almost 5 years. And I had a long career with Interstate Hotels and Resorts. I was the CIO with Interstate and ultimately, with all of its predecessor companies, MeriStar Hospitality, MeriStar Hotels and Resorts, Capstar and a long time with South Seas Resorts, which was an acquisition that came up through all that. So I've been in the hospitality industry my whole career, primarily, long time on the technology side.

I'd like you to get out your paper and pens, we're going to go to a really deep dive into the virtues of Java programming. So I know this is going to be a riveting 1, 1.5 hours for you right now. I'm going to take about 15 minutes and kind of take you through a glimpse into our technology.

David presented early in the presentation about our kind of our company-wide, [ph] right, and that we're really focused on driving vacations and getting the worldwide to understand the power of vacations. Somewhat, we have a [indiscernible] within our technology. We absolutely don't focus on cool technology for the sake of it being cool. We focus on technology that's going to drive revenue, maximize efficiency or enhance customer service. And if it's not going to do one of those, then it's not worth doing at the end of the day. Of course, we have infrastructure and things we have to do. But for the most part, all of our initiatives each year, I develop, we develop a strategic IT plan for the following year. All of those initiatives are based on the business needs of the business leaders, of -- with Mike's team and Ronan's team. And you've heard about Sarah, who runs our Club operations, or Jason leading [ph] management and revenue management team. It's all based on the needs of the business and what we need to do, again, to accomplish those 3 factors that I talked about: revenue, efficiency and customer service.

We look real close at if we're going to spend capital dollars, where's our ROI on it, again, what's it going to do to enhance the business. It's really not about the sake of the technology at the end of the day.

We have a -- I'd take you a little bit into some of our core technology. Clarity, as you heard, is our proprietary core operating system. What's unique about it is it's one system that meets the needs of the entire organization, from tours to sales, to resort management, to reservations, to billing, collections, all of that is one integrated system. What's unique about that, particularly compared to other timeshare companies, is a lot of them have disparate systems that meet all of those needs and they are loosely tied together through interfaces. We have one complete system.

So when you make a reservation, it's live into the system, we'll talk a little bit about that. It's highly scalable. It truly is -- I know it's kind of a coined phrase, the best in the industry. We've looked at what's out there, we know what our systems can do comparatively and that is truly our competitive advantage, if you will, in the market space. And it's all enabled to meet the needs of the business.

Let me give you a little bit of glimpse into Clarity. So one of the things we've done is we've really put the information that's needed by our team members at the fingertips of the team members. It's all security-based, based on what access the data you need to know. But a lot of systems, in order to get the customer information, you have to go into one part of the system and then if you want to look up how they've been marketed to in all their touch points, you have to go somewhere else, and their financial information's in a different login or different menuing system.

We've combined it all into one system. If you'll notice, across the top, the little brown tabs, with the right security level, you can get a complete 360-degree view of the customer transactions, the customer interaction throughout their lifetime with us. We have a single image record.

So if you stay with us, if you're a member or even a hotel guest, we know every time you stayed with us, all your reservations because there's one member profile, one member profile globally, and that's really one of the key factors.

One other thing, so all systems have somewhat of a customer profile. But we want use that data, and this is a small example of how we're doing it, to really enhance the member experience. It's really, again, it's all about the member experience. And this came -- this kind of additional feature which we added came from a live example. How many times have you stayed in the hotel, and you may have stayed there numerous times, you walk in and they have no idea that you've stayed with them before.

So -- and there's a lot going on when a reservation -- when you're checking in, obviously, the goal is to get you through the check-in process as quickly as possible. So we prompt our front desk agents with a message saying, "Welcome them back, they've been here 10 times. Ask them how their stay was at Sedona while you're checking into Mystic Dunes," because we have all that information.

So we look for ways to take what we know and give it to our employees in a way that's not intrusive and without extra keystrokes and it's just integrated into enhancing that customer experience. Again, another pop-up, and I think have an example of it here, but I will later, is if you're on our birthday and we know that, right? We can say, oh, we see you're here for a celebration, happy birthday, happy anniversary, whether it's you or your spouse or your children.

Reservations screen. Every system has a reservation screen. What's unique here is, again, because it's one system, if you book -- if you're sitting in the parking lot, example, call a call center or get on the web and book a reservation. Get out of your car and walk in the front desk. The front desk is immediately going to have that reservation because it's one system, it's all instantaneously. If you call most of the major brands and you do that exact example, it has to go through an interface and get into their property management system and that reservation, most of the time, is not there, not if you do it literally standing outside the doorway. We don't have that problem. Reservation can be booked in Greece and you can check into Hawaii if you could transport yourself there immediately, it doesn't matter, one system across the whole enterprise.

There is no technology at the property level. We have everything above property, sitting in one data center. So we're able to do that and be highly efficient about doing it and really minimize the amount of staff that we have at the -- in the field level as a way of doing that.

Here's an example, again, calling out a little, what we consider a differentiating factor, is that we are asking why are you booking this trip with us, right? Think about that, we can use that information in a couple of ways. One, if we get -- if they go on a sales presentation, we can use that as information during the sales presentation. We know why you're here, we know -- and we can celebrate that. Resort operations as well, if they're on a special anniversary, we could put a nice card in the room, maybe a welcome gift, celebrating the information that we know to enhance their customer experience.

Can I have an IT presentation while talking about security and infrastructure, but I'll make this as painless as possible. Again, single image database, sitting in a highly secure colocation facility in Vegas with a complete redundant operation here in Orlando -- I'm in Orlando right now. So we have complete instantaneous backup, duplicate systems, we're all virtualized in our technology and highly secure. And we're audited, we provide third-party services to -- for loan servicing, so we're audited by the institutions that we serve, Sarbanes-Oxley, internal audit, financial audit, and then we do continuous vulnerability testing. So with all the recent breaches target and the other companies, we've opted to do continuous [indiscernible]. So every day, part of our system is being tested for illegal penetration testing. So rather than doing it, simple companies do it quarterly or annually, we're doing it on a daily basis.

And then a little bit, lastly, talk about -- so as been mentioned, we've assimilated 6 acquisitions and we have a unique strategy to do it, and that is we basically go in and in a short period of time, we eliminate all their technology. It doesn't matter what they had. When we bought this resort, they were running for one resort, massive financial system, SAP and we're not going to convert away from our own technology, it's highly efficient. What I'm proud of is we, in all the acquisitions, we've only had to maintain about 10% of the cost structure from the companies that we've acquired. So we were able to reduce 90% of the cost of their IT infrastructure as part of the acquisition.

Our systems are highly scalable and give us lots of growth into the future with no additional cost. So we convert all the data, we are able to maintain all the financial information, all the customer information, all of that gets brought into our existing system. We -- sometimes, we have to add a few features and functionality based on the rules and regulations of the timeshare regime. But other than that, we want to make sure we're maintaining the customers. But everything else then follows our own standard operating procedures, which brings a high level of efficiency.

So just a quick overview for you. And I'd like to bring up our Chief Financial Officer, and I'm sure most of you know, Al Bentley. Thanks, Al.

C. Alan Bentley

Chief Financial Officer and Executive Vice President

Well, welcome, everyone. As Brian said, I know many of you from personal visits at various locations or conferences that you've attended. And I think the piece that I want to cover today is really pulling together what Brian just spoke about, what Ronan spoke about, what Mike has talked about. Because as you guys historically have met with us, we've talked about all these numbers. And so partially, what we wanted to do today was piece together for you how, what they do, results and the financial, results that we deliver to our investor community. And so as we do that, again, some of these slides you've already seen, and as you've also heard me speak from our recent earnings calls and things of that nature, you'll know what these are. So I'm going to highlight a few things here.

One is if you look at the right-hand side of this screen, we'll see the 2014 operating summary. You see, we had $845 million in total revenues. And that's comprised of $199 million, which comes from our hospitality management group, and $644 million from vacation, interest sales and financing.

Now as you guys remember, as we completed the acquisition of the PMR service companies and Item 1 in July of 2013. So in 2014 was our first period of time that we've actually anniversaried those transactions. But if you look at that, you'll see that, particularly the VOI side, is we had a $91 million increase in revenue between 2013 to 2014. And of that amount, $67 million of that comes from our sales and marketing programs and then another $11 million from our financing side of the house, which we'll talk about a little bit more as we go through here.

From an adjusted EBITDA perspective, as you guys note, is we have hit a total of $319 million in consolidated EBITDA in 2014. That compares to $220 million from 2013 and $113 million in 2012. So significant increases there.

And I want to focus here, if you look at the cost structure here, you see the one that says Corporate and Other. And tying back to what Brian was just speaking about, is we've been able to integrate these transactions such that we've achieved significant increases in our sales and marketing, our VOI sales and marketing, our increase in our management business. But we've done that with actually a reduction in cost at the G&A line item level. So you've got material increases in the margin level, and we've been able to do that while holding our cost structure not only even, but actually down a little bit. And one of the things, as you guys know, is we, of course, expense deal cost as they're incurred, which we have historically done. So those numbers would include the costs associated with these transactions that we closed from 2010 through 2014.

Not a lot of comments on this, this pre-tax income slide is -- the big thing I note here for those of you that have looked at the financial statements in detail is you'll see that there is a, obviously, a large increase in pretax income. But I also note for you here that there's some significant charges that we took in both of these 2013 and 2014 relating to the refinancing of debt. As you recall, when we went public in 2013, we paid off a portion of our high-yield bonds with about $50 million in proceeds of that IPO. And then of course, when we refinanced the bonds completely in 2014, then we took about a $46 million charge, which was $16 million noncash and $30 million of which was a bond premium that we paid and, of course, refinanced as part of the bank deal.

So when you look at these and say, I'm going to adjust that out, as well as stock compensation, which had a, again, a noncash charge that we took in 2013 was the material portion of that. But when I look at those, excluding those 2 items, effectively, what you're looking at is pretax income, about $173 million before those items in 2014 versus $67 million in 2013. So material improvements at the pretax level as well.

Now one of the things I get asked about a lot is cash. Okay, you guys have generated a lot of EBITDA, how do you convert that EBITDA to cash? And this slide was one of which that Frank Acito and I worked on some time ago, because the financial statements that we prepare, as every company does, is we have a GAAP-based cash flow statement, which breaks our operations down into operating activities, investing activities and financing activities. And one of the key things that we'll go into a little bit later here is how we finance our loans in more detail. But we found this to be a graphic representation that we'll walk through here, that really gives you a better idea of how we generate cash and where that cash is used from.

And so what you'll see here, just looking at this chart, is we start with net income of $59 million last year. And the big blue chart in the middle there or the big blue block bar at $319 million, is how do we build up to adjusted EBITDA of $319 million? Well, obviously, the big items that you see there is the income tax provision, the corporate interest expense, things of that nature, noncash charges, all build up to the adjusted EBITDA of $319 million. Then the way that we use that cash, first of all, is, of course, is interest expense where we had $49 million in 2014 in corporate interest expense.

Now a couple of things to note there is we have, as you know, refinanced those bonds and that number, there will, of course, decline again, and when we talk about the guidance in a few minutes, we'll speak directly about that. But that number has -- will decrease by another $20 million or so in 2015 from the amounts you see there.

We also spend cash to buy inventory. And as you know, in calculating our adjusted EBITDA is, which by the way, is a way that we measure our debt covenants as well under our bank financing agreement. But you see that we add back vacation interest cost of sales, that's $63 million, and we've had a lot of discussions about that over time as to why we have that part of that transaction. And as you know, it's very volatile for us. And so what we do is we add it back consistently every quarter, as you'll us add that piece in there. And then we give you the cash component of what we spend on inventory.

So one of the items you see is a buildup to adjusted EBITDA, as you see, an add back of $63 million relating to the cost that we took relating to that, which by the way, is noncash, right? We're not writing a check for that. What we are writing a check for is the $44 million over there that we actually spent on acquiring that inventory in 2014.

Also, as you know, we have capital expenditures. I do remind everybody that capital expenditures for us is the capital that we spend at the corporate level. So any improvements, you would see a resort like here, if there are remodels that takes place or refurbishing at a room level, at a common area, that is paid for by the Homeowners Association. We pay Homeowners Association fees, just as any member does, so when you see our financial statements and you see a category called vacation interest cost of carry, that is our payment of the management fees. That, by the way, is in that net income number, right? We expense that as we incur it. And so we paid our portion of the maintenance fees just as any member has. So the capital charges that we spend, the capital expenditures relate predominantly to technology, and to improvements in our sales centers. So as you've heard Brian go through and talk about the things that we do to drive efficiency, and I really applauded that, by the way, Brian, when you said, it must pass the test, that it has to be -- it improves customer service or it improves the efficiency, reduces cost. And so we look at that and we do deploy capital in that form of technology improvements.

Of course, the other thing that we do is improvements of our sales centers, and that maybe things just as improvements to the physical appearance of it, or it may be things like developing a VIP check-in area, where we're able to drive a higher sales efficiency through that number. But in 2014, we spent $18 million in capital expenditures corporately.

The next item you'll see there, and I'm ongoing to put more detail on these items in a little bit. But the financing of our portfolio is -- you see here, we've generated $26 million in cash, net cash receivable received on the -- from the financing portfolio. Now we'll tell you that is really rolling in a portion of 2013. If you recall, at the end of last year, 2013, we had about $23 million of -- in the pre-funding account. So effectively, if you adjust out that $23 million from our financing, we basically were at a breakeven level. So that sets it up, all the loans that we've generated this year, that we were able to monetize those and bring cash into the business. And I'm going to specifically cover the asset-back side of the business, because I know a lot of people have questions on how we do that. But we did generate $26 million in cash this year from that process.

By the same token, as part of the refinancing of the debt, we did that in May. Prior to that period of time, we had made various amortization improvements on our existing debt because what we refinanced in May was not only our outstanding corporate bonds, but also, we had about $20 million worth of inventory loans that we had assumed as part of the acquisitions that we had done. So the refinancing, basically, took us to one piece of corporate debt and you see that we spent $10 million last year in amortization of the debt prior to the refinancing.

And just in case anybody's curious, our current requirements on the debt is that we pay $1.1 million per quarter in amortization of that principal balance, as well as we do have an excess cash flow requirement that we'll talk about here in just a second and how that impacts us in 2015.

The other significant item that I'll point out here is that, in total, we've generated -- our cash at the end of the year was $242 million. We've generated $207 million worth of cash last year. That's after we spent $16.1 million in share repurchases. As you know, our board authorized a $100 million share repurchase in October of 2014. So through the end of the year, we had spent $16.1 million of that and then as many of you know, is -- when we did our year-end call, is, at that point in time, we announced that we had spent up to $25 million. So we spend additional $9 million post year-end. And then, of course, as you all know, we completed a secondary offering just last week. And as a part of that, we acquired $50 million worth of that share repurchase as well. So $16 million through the end of 2014 and now, roughly $59 million through 2015 here today.

So that's the component of how we built the cash, where did it come from and where we spent it. There was some other miscellaneous changes in working capital and so on as you would expect that you would see.

Okay now, one of the objectives here was to focus on stuff that we have worked on to do today than what we may have had in the past. And so what we're looking at here and many of you have questioned in the past, is when you guys generate these receivables, how do you monetize those? How does that turn from a receivable into cash on your balance sheet?

Now the first thing that we do is about 80% of our sales transactions include a financing component. So 20% of our customers pay us cash on the table and the other 80% of those were, in 2014, we provided a financing component to that. Now you noticed, I said the financing component. That doesn't mean that we financed 100% of that transaction. It means that we made available financing for that customer who, on average, paid us a down payment of just shy of 20%. So we, of course, report that in our statistics as an 80% financed, 20% down payment.

The loan that we generate, we have always followed a -- well, not always, but say, over a decade, a credit underwriting format. Now what does that mean? Well, many of you have met Dave Womer and those that have not, will do so. Dave is sitting right over here to my right. And what we implemented many years ago was a process that says, if a loan is going to be generated, we have to have the ability to know that the customer has that capacity to repay. It sounds really basic, right? But 15 years ago, that was not the case. I mean, there was a lot of people who basically, as I put it, if you could pass the fog the mirror test, right? If you have a pulse, they will give you a loan. The ability to repay it was never a big question.

We have underwritten loans for more than a decade, and we do that in a very expeditious manner. Now when Mike and his team over here at Mystic Dunes or any of the other locations, when they're meeting with a customer that we're providing financing for is the customer completes a worksheet. Yes, I'd like to finance that transaction. That worksheet is transmitted to us in Las Vegas, where all the underwriting is done and return to that sales center in less than 15 minutes, in a lot of times less than 10 minutes. And what takes place with that is we check the customer's credit scores, we're checking the customer's credit files for bankruptcies, judgments, outstanding, things such as that nature and determining whether or not we will make a loan to that customer. It's a risk-based model. So what we do with that is literally a grid. And if a customer falls within a FICO band, we look at the FICO band, we look at the amount of the down payment that they're making and determine the amount of the interest rate that, that customer is qualified to receive.

Now we look at this and say, people would say, well you don't want to turnover a sale, right? Our marketing costs are already involved. We've already spent that number. But we also look at this and say, we do not write bad paper. And so if a customer has of FICO score of less than 600, that customer is in all-cash transaction. And so obviously, we'd sell him cash, but it is not a case where we would provide financing to that consumer.

Now a couple of things here that I think is important as well. When we write that loan is -- and we're going to talk about how we securitize that, how do we get money out of it. But the thing, a couple more points here is, our average FICO score since 2008 is 757. So it's a very high FICO customer that we're writing. You also see here that from financial reporting purposes, we writeoff of all loans that are over 180 days past due. So if that loan hits 181 days, it's written off for financial reporting purposes, right?

We take that -- you'll see we have the big reserve. That reserve is over $125 million. It's sitting on our balance sheet today. That reserve is built up because we take that charge in the quarter in which the loan is originated. And so it's not like that we just wait and say, oh my gosh, this is the aging of the portfolio. But part of Lisa Gann's job is that every quarter is, we look at the loans that we write that period, we look at the FICO band that, that customer falls in and we look at the amount of financing that we're providing and we reserve for at that time.

So when we talk about net VOI revenue, we're speaking of revenue that is net of the bad debt provision. And so when that loan reaches 180 days past due and is charged off, we're not taking a P&L hit for that, right? We've already done it. We've already taken that reserve. It's charged against the reserve. Now we continue to service that loan because we do have a certain amount of recoveries. And so we will continue to service that loan and sometimes, people actually get habitually just late, right? They're behind and they never get caught back up again.

Well, what we do with a loan like that is if the customer is performing but substandard, is we do not put that loan back on the books until such time as the customer becomes current and stays current for at least 6 months. And so to the extent that if a customer is making payments, if you look at the footnotes to the financial statements, you'll see in our roll forwards that one of the things that we provide is the amount of recoveries that we receive. And so we do receive several million dollars a year from customers whose loans have been written of, but yet we still continue to collect on those loans. But we do, in fact, charge them all.

It's also interesting here, when you look at this chart on the left, well, you see that the percentage of our total portfolio is 97% of our on-balance sheet portfolio is less than 60 days past due and of course, the vast majority of it is current. And so those customers are paying regularly and making their payments as they're scheduled to do. And again, you go back to us, they're over 700 average FICO scores. And so it is a customer in which they are continuing to pay on schedule.

And on the right-hand side is you just see that the allowance for ultimate writeoffs for bad debts is $131 million. So a significant reserve that we maintain.

The last point here is when we you that -- we service both the active and inactive loans, I know some of you have had questions in the past on what we've disclosed in our 10-K. We hopefully clarified that for you this year is that the loans that we service include all of the loans, including loans that we have acquired. So for example, if we acquired loans as part of the transaction when we bought Tempus, then that loan never was a loan, we never initiated, it may have been in default at the time that we bought it. It still sits in our loan portfolio, not as an asset, right? Because it's been written off, it's over 180 days past due, but it sits there until such time as we recover it. And so one of the things that, I think, I've tried to make sure that people focus on is that's really our opportunity to recover that inventory at a very low cost. That inventory may be as [ph] piece of inventory, but it as effectively something that when we acquired these assets is we took that, because it is an asset, right. It's our ability to obtain what is effectively a week equivalence worth of inventory for less than $1,000 per week. So it's really a nice long-term pool of inventory for us to pull from.

Okay, we talked about we generate the loan. If I use an example that the customer did a $20,000 transaction with us, they've made a 20% down payment, which means we did a $16,000 loan. Now you also saw where Mike Flaskey was speaking about the fact that our sales and marketing costs are at 50%. Well, that 50% is on the $20,000 transaction, right. So you look that and say, " Okay, you got -- you did $20,000 deal," you've got $10,000 out of pocket because you're paying for your marketing costs, you're paying for your sales commissions, et cetera. So that part's out-of-pocket. So effectively, you're upside down. Remember, so you got $4,000 down got $10,000 out-of-pocket.

So how do we monetize that and get the cash? During the quarters, what we will do is remonetize that by placing those receivables into a conduit facility. Now that conduit, of course, is we have a $200 million facility and that $200 million conduit facility is we will quarterly place those receivables into that conduit, for which we receive an 88% advance rate, right. So we get that cash back at that 88% level on that -- on the conduit.

Now historically, we've done one securitization a year. Those that you -- that follow that part of our market is we did a securitization in November of 2014 for $260 million, I believe, it was. You see it over there on the right, $260 million securitization. And effectively, what happens at that point in time, we take all the loans that are in the conduit, now keep in mind that over the course of the year, customers are making payments. So even though we've put that loan into the conduit, every month, there's 2 things that happen, right? Is the customers make payments on those loans and we generate new loans. And so the conduit, because sometimes, you start doing the math and [ph] wait a minute, you guys are doing $600 million in sales, and you got a $200 million conduit, you just tell that 80% finance, so does that math work? Well, it works because of the fact that the consumer is making those payments throughout the year as well.

Historically, as I said, we take those receivables then. And once a year, we have put those into a securitization facility. We anticipate that coming forward in 2015, we'll be doing those securitization twice a year. Because you see that our size is getting sufficiently bigger. So as that $260 million level as our sales grow, we'll start pushing into that $300 million plus of securitizations we do per year, so you'll see us moving into multiple securitizations per year. As what you see some of our other rather industry do multiple securitizations.

Now the interesting thing about this is and many of you that I've talked to is that when we securitized that debt, first and foremost, both the securitizations and the conduits are nonrecourse facilities. Okay, so when you see them sitting on our balance sheet, we still record the receivables and we record the debt. But if you look at the debt footnote, you see that we segregate those out between the corporate debt and the debt that is our securitized facilities, right. So what is paying the payments on those is the cash flow that comes off of the facility is paying down that debt.

Now these are basically 10-year facilities, right. Because it's the paper that we would write is a 10-year piece of paper. Our experience is that, that our facilities would stay outstanding 3 to 4 years. Why is that? Well, it's a 757 FICO score customer, who on average, our interest rate is about 14.9%. And so the customer has the capacity and they pay down their debt. And so effectively, every -- between 3 and 4 years, we'll call each of these facilities because it will have reached the point that it's basically paying down below the call level.

Now the -- a couple of things here, one is you see that the advance rate on our last facility was 96%. We heard -- you heard me say that in the conduit, it was 88%. So effectively, in this case, at the end of the year, what we did was we put these into a securitization and we released cash. So if I had $100 million worth of receivables that I was getting an $88 million advance rate. When I securitized those, I moved into a $96 million worth of cash. So I pick up cash whenever I do a securitization because of the fact that I have a higher advance rate in the securitization than we do in the conduits.

And it's really important to note here, too, is that Diamond has the highest rated securitizations in the marketplace. And another fact that we're quite product because we underwrite and we service those loans. So the servicing component of what we do is again, under Dave Womer's department. And so a servicing means not only do we collect the payments and apply the payments, right. So that if you look at the monthly reports that we submit to the investors in those securitizations, they can see all the cash that came in, they can see what was principal, what the interest, what was other fees, et cetera. But the thing we also do is that customer is a Diamond customer and we service that customer. So it is Dave Womer's team that is reaching out to that customer if they are delinquent in their payments.

And so we -- going back to that receivable schedule, where you saw the aging, our clear goal is to prevent that customer from ever reaching that 180-day category. So we service those customers by collections and those collections include anything from, "Hey, here's a reminder letter, we haven't got your payment," up to phone calls and things of that nature to try to work with the customer to ensure that we are paid.

You can see there the ranking or the rating of these securitizations, everything from AAs to A tranches. Frankly, the rates on these are inexpensive enough that even though we would qualify for a AA is that the financing percentages don't really justify the cost, if you will.

But what we'll end up doing here, and I think this is important, if you recall and I'd look at the revenue slide, I told you that we did $11 million increase in total financing revenue, right? So that's interest income, of which, we did about $68 million in 2014 of interest revenue and our net interest margin so on what we see securitize these was about $50 million. And so as part of that $319 million in our corporate EBITDA, about $50 million of that comes from our financing business. So you can see why -- it's not our primary focus, but it is what we do to provide assistance to our customers, to drive that number and VOI revenue and at the same time, generate a nice margin for the company on that side without a tremendous amount of risk.

So that is how we monetize and that's how we bring cash into the system relating to our loan portfolio. And I think one of the confusing things, as you see this note down here at the bottom, so for GAAP purposes, we show the changes in the receivables portfolio in operating cash, right. So if you look at the

-- remember I said there's 3 sections: Operating, financing and investing. So if you look at the operating section, you'll see that if we increase the size of the portfolio, that, that is included in operations. But the financing component of this or the monetization of these receivables is included in our financing section. So in order to match apples-to-apples, if you will, that's one of the reasons that we give you that graphic on that cash flow bridge, so you can see, here's what we again, what we generated, how we generated it and where the cash went to go through there.

Okay. So going forward then you look at this and say, "How do we -- our free cash flow drivers? What have we done?" And of course, many of us have been through this before. But if you look at what a couple of items here is the way that we acquire inventory. Now we've had a lot of conversations about that, we look at the recovery of inventory, again, tying back to what Ronan was speaking about this morning is that our inventory recovery process is something that we contractually agree with, with the homeowners associations to acquire inventory where the homeowner has defaulted on the maintenance fee. So we basically step in and fund that maintenance fee on behalf of that homeowner and we can take control over that piece of inventory. We've all talked about that at some level that we do feed in other inventory means, which we'll talk about here just a second in capital allocation. But this continues to be a key item for us and our primary source of inventory as long as we're at that $800 million, $850 million of revenue and below.

We also did the refinancing of the bank facility. You'll see again here that we saved $22 million reduction in interest cost relating to that with the further reduction coming this year for the full year effect of that refinancing.

And then a lot of you have asked me questions before about our tax position. As you'll notice, when we looked at that cash flow slide, you didn't see an item on there that said cash taxes. And so even though we started with net income and there was a large amount added back for income tax provision, just right here, you'll see that the second category here was an income tax provision at $50 million. But you don't see it over here on the used side, cash going out, you don't see a cash tax outflow. So the question is this, "Well, how does that work?" And the way that, that works is really 2 primary attributes, one of which we use the installment method of accounting for tax purposes. What that means is that we pay tax on money that we received from customers when they actually pay us under that receivable, remember 80% of our customers take financing from us. And of that 80% that take financing, we get an average down payment of 20%. So you do that math, and it says, well, there's a material amount of that sale process that the customer has not yet paid for. So for income tax purposes, we enjoy the benefit of recognizing that on the installment method, which means that if it's a 10-year piece of paper and that customer actually pays along the terms of that note, then we would recognize income on both the interest income and the principal over the course of time that the customer actually makes that payment. So there's a big deferral is what that basically builds up, right. So as long as our revenue is increasing and our financing percentage remains consistent, we are, in effect, this year, we will pay tax on what we've received from receivables we wrote in the past, but what we write this year will be deferred until we actually get that payment. So it's a very nice attribute.

And, of course, the other thing is as you've heard us talk about as well is that from our acquisition of Sunterra Corporation, we do have a net operating loss carryforward, that is available for our use. It is limited, however, under the Section 382 rules which is basically saying well, there is a limitation on what we can use because of the changing control. And so as a part of that, we do have that limitation, but it is about $30 million a year that we can utilize for the purposes of calculating our cash tax payment. So we benefited nicely from that in the past few years.

Okay. So capital allocation. You looked at this and said, we had $242 million on our balance sheet at the end of the year, we generated $207 million in cash last year, including the $16 million that we paid to repurchase our own shares. Well, clearly and we're going to talk about what the guidance that we gave for 2015 was, but we'll continue to generate substantial amount of free cash flow in 2015.

Now the obvious question is what are you going to do with that? Where is that cash? What are you guys going to deploy that for? Well, if we kind of walk through this list, one of the things here you see is that we have an excess cash flow payment. Now you heard me say that about a minute ago about the debt, it says, we had $1.1 million quarterly amortization, which is relatively small. By the way, at the end of the year, our corporate debt was $443 million, in case somebody wanted to look at that. $443 million, we have an excess cash flow payment which when we calculated it this year and gave notice on this it was just last week, it was an excess cash flow of $30.3 million was the required payment that we had. Now that excess cash flow payment it's a leverage test of adjusted EBITDA to our outstanding debt. It basically says that we pay an excess cash flow payment equal to 25% of that calculated number. And of course, like I said there's different leverage ratios. But where we are right now is at 25%.

The interesting thing there as you said, "Well, okay, you've got $18.1 million of the chart, why is at?"And that's because some of our lenders declined to take the payment, is our debt payment is our debt is actually trading above par and so of the $30.3 million calculated $18.1 million of it accepted that payment and the other ones elected not to receive the payment on that debt.

So when you think about that, that number will, when you see our first quarter results, you will see that, that amortization payment is reflected in the first quarter.

Now going forward, what does that mean? Well, it means that we will continue to have that excess cash flow payment until such time as our ratio of adjusted EBITDA to our outstanding debt becomes 1:1, we'll you can also do that math too, right? As you can see an increasing EBITDA and a decreasing debt. So that depending upon the number of people that accept our excess cash flow payment, potentially will be at that 1:1 ratio at the end of next year, frankly, is when we make the payment for 2016.

After those 2 numbers come together, [ph] 1:1 ratio, there is no further amortization of our corporate debt required.

Okay. What else are we doing with cash? Well, you'll see we filed an 8-K back in the first of the year, where we were talking about that we did the acquisition of certain rights and contractual relationships with our Chairman, Stephen Cloobec. So we spent $16.5 million in January relating so that. As many of you know, in addition, just as a side note here, is we have consolidated HMCS, which was our management company. It was acquired by Diamond and now is a wholly-owned subsidiary. So people may have had questions about how we account for that, it is a wholly-owned subsidiary of Diamond. We have been able to maintain our structure with the HOA, so that we continue to allocate cost as we had wanted to, but also from the perspective, it is now a fully consolidated subsidiary. And we did use $16.5 million to basically acquire the marketing rights at the Hawaiian Village, which is adjacent to our Polo Towers property as well as purchase the remaining term of Stephen's contract.

Okay. Other anticipated uses of cash. Well, first and foremost is you heard me say that we did $100 million share authorization back in October. And again just to reiterate those, through the February, we had acquired $25 million. And then, of course, we just acquired $50 million of that last week. And so that in 2015, there would be that $50 million plus the $9 million that we had spent to date so far. So we'll continue to evaluate our share repurchase program what the board has approved.

You'll also see here where it says investing approximately $27 million in projects relating to our Cabo Azul Resort and other strategic investments. We acquired Pacific Monarch Resorts in 2012. And as a part of that acquisition, a resort in Cabo -- Cabo Azul was partially constructed. So the resort was originally intended to be approximately 300 rooms, about half of which were built out at the time that we acquired the company. Now the interesting thing part was that the part that was not built wasn't just a raw piece of dirt, it was partially built and it ranged everything from the superstructure being up with no walls to being buildings that were completed, but the interiors had not been completed.

So one of the things we did over the last few years since we acquired the company, was to build out the exterior of the building, right. Is to build that out so that the guest experience would be not negatively impacted in some of it frankly, we didn't really need inventory, but this construction in progress was sitting on our balance sheet. So again, if you look at the footnotes to the financials, you'll see that in inventory, it also includes a line item for construction in progress. Well, that's where that inventory was sitting, right, because it was partially built.

So upon the acquisition, it moved into that category. So we're deploying a capital in Mexico to finish off the development of that property, which will basically double the size. Now you look at that and say, well, okay, from an ROI perspective, what you basically achieved is the initial structures were already purchased. So the money that we're spending here effectively builds out the interior of those buildings, it allows us to increase our management fee revenue, right? Because the size of the property increases and so therefore, our management fees will go up.

And, of course, the other thing it does is it brings twice the number of people onto that property so that Mike's team and the sales group will have twice the number of people to talk to. So remember that majority of our sales take place on property. So effectively, we believe will give a, say, superior return on investing this money to complete the -- that Cabo Azul Resort this year.

Okay, and then as you guys know, and I'm sure that people will ultimately talk to about it is we also look for other ways to maximize returns, including what we've, for example, in 2014, we bought a building that was part of the Island One, things of that nature where we have an ability to acquire very strategic assets, which we think will give us a superior return.

Okay, guidance. And what I'm going to do I'm going to reiterate the guidance that we gave in just a couple of weeks ago. So we're not updating the guidance or opining to it but just reiterating the guidance that we gave as of February 18. But if you will notice here, just kind of walking through it is we gave pretax income of $159 million to $191 million. And then we give you a whole bunch of other numbers here, right? Corporate interest expense, vacation interest cost of sales, depreciation, amortization and other noncash items.

So again going back to that cash flowchart, right. What I'm -- what this really is giving you is the components to be able to build up that says, "Well, okay, how much is the company going to generate in adjusted EBITDA?" Because these are the components that get you there.

And so this year, in 2015, again I said pretax income of $159 million to $191 million, corporate interest expense in the range of $26 million to $28 million, vacation interest cost of sales at $63 million to $73 million; depreciation, amortization of $36 million to $38 billion and other noncash items, $44 million to $47 million.

If I look at all those in totality, when you add those up you're going to see that, that gives you a range of adjusted EBITDA of $245 million to $260 million for 2015. Again, the actual results for 2014 was $319 million. So that gives you the range of that we -- I beg your pardon?

Sorry, correct. Is that when you look at the adjusted EBITDA numbers for this year, upwards of $345 million to $360 million. Okay, so significant increases there, now the other components of cash items that we give you guidance on, right. Is we give you the information on inventory, how we spoke earlier about how inventory is a cash item that we give you, you'll see the cost of sales number there. And we give you a range of cash that we will spend to acquire inventory, in the $50 million to $55 million range. You also see that we're doing capital expenditures of $25 million to $30 billion. And a new item that you see there for us this time is cash taxes. So remember, I just talked about the fact that there weren't any in 2014, but you'll see that in 2015, we expect a range of cash taxes at $17 million to $23 million. And of course, keep in mind that, that is again the deferral of the relating to our portfolio as well as utilization of the NOL. But it's a high cost problems to have because effectively, what it is, is our earnings are reaching a level we're not able to offset all of that number.

Okay. And effectively, then there's a bunch of stuff in the Appendixes, which basically won't -- not going to go through in detail, but if there are things there that are questions about, then we'll certainly be prepared to answer them.

So David, that concludes the financial overview and I'll turn it back over to you.

David F. Palmer

Chief Executive Officer, President and Director

Thank you, Al. So we're going call the presenters up on stage, we're going to do a question-and-answer. While they're coming up, they will bring some chairs, I believe, also.

Just a couple of housekeeping items, when you ask a question, because this is actually being broadcast in the Internet, we need you to stand up and say your name and the company that you represent so the viewers can see you and they can hear the question, because we need the microphones so the cameras will pick you up. So we can also publicly flog you for asking the question.

So as one of the rules, we're going to do Q&A, we have about 45 minutes allocated for Q&A. And then after that, we're going to go to a resort tour for those of you who desire to do a resort tour. Many of you have been here, but there's also a host of you who have not been here. So we'll be departing shortly after the Q&A session to do a resort tour.

So I guess, I'll sit right here. All right. So will just -- again, open to anything, you like to have us answer. And again just please stand up and so we can have, I think, is this mic the mic that's going to pick them up? Mic is okay. So Erica has a mic, so she'll bring the mic to you and so and [indiscernible].

Question and Answer

Anto Savarirajan
Goldman Sachs Group Inc., Research Division

Anto, Goldman Sachs. When you spoke about capital allocation, one of the things that perhaps you didn't touch upon a lot was acquisitions. And if you could talk about what is out there? What you're seeing in terms of the pipeline, regional operators, where their health now stands? And when you go to the table, what kind of discussions are you having? And if you could just talk about the pricing environment, that would be great. And second, going back to the hospitality-infused sales process, what now is the barrier to others replicating that or essentially how does Diamond stay ahead of the game?

David F. Palmer
Chief Executive Officer, President and Director

Sure. So on the acquisition front, as you know, we have been a highly acquisitive company, we've done 6 transactions over the last few years. And we've also proven that we know how to assimilate just as Brian said, you will be assimilated with a very specific strategy and how we do our acquisitions and that is -- there has to be 2 synergies that we see, there has to be a synergy, while those are the -- really 2 value-creating events. One has to be purchased at a discount to our trading multiple, and we have to have a path, a clear path forward to create synergies by combining the operations. So Anto, when we go to look and the conversations we're having at the table, first and foremost, is an honest conversation but relative value. The small regional players that are out there, we're very, very particular in saying, you can't access the type of valuations at a national company that has a diversity of cash flow has like we have. If you're looking for our -- a pairing in market multiple, we're not going to be interested in that conversation, that's clear up front. The good news is that a lot of tertiary players that are in the marketplace understand that they have good advisers. And we can actually have that initial conversation. We are participating in a few processes, again, you can't predict but this is an industry where only the top players really only manage 16% of the total vacation ownership operators globally. So we think there's still the fragmentation that exist at the tertiary level of the industry who provide continued opportunity for us. And also, the top level of the industry, we think there's really 6 big players. But the industry really only serves $0.5 million total transactions a year. So we think that duplication of cost structure that's part of the regulatory nature of our business, all of us have -- they've compliance departments, all of us have licenses to be able to sell in multiple states. Doesn't need to be duplicated [indiscernible] . So we think there's going to be opportunities both for consolidation at the top end of the food chain and also the tertiary part. And we are continuing to participate in that process. And on the synergy side of the equation, we are known -- we are empirically known for eliminating the G&A structure. So we do look for that and that's a very honest part of the dialogue from Day 1. We do not make promises that the G&A cost structure of the target will survive. You have to be disciplined about this. This is a business that has tremendous opportunity for scale, particularly with the robust IT system that we have in place. We've demonstrated, we've been able to plug and play 6 acquisitions increase on overall cost structure. So we look for and have an honest dialogue Day 1 about the opportunity to eliminate the entire G&A cost structure. If you look at this [ph] Resort, which is the Tempus Resorts acquisition. Had $17 million of G&A that was here because they run an SAP system, they're running licenses in multiple states to be able to do sales and marketing and we eliminate the entire G&A structure when we bought this enterprise. Regarding the hospitality part of the sales process, a couple of things. First of all, I would embrace, I would hope that the industry follows our lead. I think that this industry is ripe for all of the players acting in a way that focuses on the guest experience as opposed to the pocketbook maybe of the team members. There has to be focused on the guest experience. So we welcome the industry. Now, there are certain structural changes that need to be made. This does not happen [indiscernible] you think about the construct of what Mike talked about and the percentage, now we're going to do over 1,300 of these events of a lifetime, think about the traditional way that you sold this product. You did a sales presentation that took a couple of hours. So your sales team member did 1 presentation for 2 hours, they did 2 presentations per day. We're now asking that same team member to do an Event of a Lifetime. An Event of Lifetime is a welcome reception, Day 1, which is in the evening, multiple hours. Day 2, they're going to a dinner and an event, that could be between 2 and 5 hours long. And then Day 3, there is a get together where they're sharing their stories, and then a sales presentation, which is now another 2-plus hours. So we're taking that sales individual and them to go from 2 hours in the presentation to somewhere between 6 or so hours. So the type individual when, Mike talked about the type of talent that we need to have in this organization, it's really changed. You'd have to have hospitality-driven division, engaging, articulate, can have dinner, can make people feel comfortable, it's a very, very different type of individual. Ultimately, so it's going to take the industry time, I think, to get those so we have the structural advantage, we've been at it for a few years, we know have a program for 1,300 events, we also know how recruit and train individual to be to staff those. And I'll tell you, which first introduced your first Event of a Lifetime, we have difficult time staffing it, right. Because the industry wasn't used to it, we had to first show the empirical, I think, I've heard about our one for many innovation cycle we test with 1 site, first, And actually you're hearing the hotbed as some of our tests center. Mystic Dunes is a very interesting test, center for us because this is a microcosm of old school timeshare with innovation injected. And then when you walk around here, you'll see this literally when you walk in that sales center, it was old school that has cavern very, very large, we're doing things actually innovate around that. So there is a substantial kind of headstart that we have, we know how to program it out. I mean, the program [ph] turn of events. Do you heard about the sports things, you didn't hear about the food and wine and the entertainment and the excursions and all of the other types of EOLs that we do sort the of programming. The type of train that we do, clearly we have kind of first what we call first mover. But I will hope that Marriott, I hope at Wyndham, I hope at Starwood, Hilton follow that lead. I'll like to have the entire because what you have is you have an industry that now sits out and faces on social media. And one consumer complaint about a bad sales process coming in on-board at Hilton, could impact the rest of the industry. So we actually want the industry to adopt what we're doing here. And that's one of the reasons why took the risk of exposing ourselves. We know right now we have our competitors are logged on exactly who's log on and to every single word that we're saying. So I ask our competitors who are on the phone and on the right now, don't tap what we're doing, we think it's the way forward in doing business.

Unknown Analyst

Scott [indiscernible] from Billings Capital, and I have 2 quick questions for you. The first is more of a competitive question as it relates to your inventory recapture methodologies. And I think as you guys are undoubtedly aware, some of your competitors choose to repurchase at you're not inconsequential sum the inventory that's no longer wanted by their customers. Diamond, however, waits for an inventory development and then recapture it that. Is that a sustainable model? Or is it going to get to a point to where in order to close business, people are going to expect some sort of buyout. And how do you think about that? And the second question as it relates to your agreement with the HOAs to repurchase defaulted inventory, how long do you allow that inventory to go defaulted before you agreed that inventory and pay the maintenance fees? I think in your former 10-Ks, you released that something like 12% of annual maintenance fees were delinquent at least. How do you think about that pool relative to your agreements to repurchase that inventory?

David F. Palmer
Chief Executive Officer, President and Director

Sure. I'll start that and then have Al, add some additional specificity. So it is true that the entire industry has some repurchase mechanism in place. It's really a win-win for the paying consumer and the companies that actually entering those agreements, so let me bring you through that. So the homeowners associations, financial obligation is to budget, bill and collect. And part of that cycle is to figure out what their bad debt is. So bad debt expense is actually borne by all of the people who pay their fair share of the HOA budget for the year. So we go in and we've systematized and we actually say to the HOA board, and then we'll buy all of your bad debt for somewhere between $0.50 to 100 cents on the dollar, so they can actually budget a specific dollar amount in. So the consumers who are part of that underlined that HOA, like it because the bad debt expense is reduced substantially. So the overall, for our industry practice, we went out and very explicitly talked about the practice, what Wyndham has a methodology of how they buy bad debt, we have our specific these annual agreements, we enter [indiscernible] Marriott, does the same thing. So from an industry standpoint, it's not only accepted, but it is really beneficial to the industry that keeps the homeowners association healthy, so you will see continued receptivity from the Homeowners association for those types of arrangements. Regarding where that capacity allows us to grow the business and I've publicly stated, we think that in the current pool, assuming that we have a static environment, we don't acquire any new inventory, new resorts, we can fuel our sales platform up to about $850 million in sales based on the current level of paid owners in our system and the average default rate that we see. And once we get to that $850 million level, we'll have to start to add in inventory to the system. And we've also committed that we'll add the inventory in on what we call an asset-light basis. Actually, one of the reason why you're here, you are actually in the birthplace of the asset-light model for this industry. So when we did the acquisition for Tempus Resorts, we partnered with Guggenheim. And Guggenheim actually purchases asset in a subsidiary. We then sold the inventory and then paid Guggenheim on a flow basis for the delivery of the inventory or systems. So they then took that, productized it, brought it to Wyndham. They did the Alex Hotel deal in New York and the Real Suites deal in Las Vegas. And then Host came in and did the Hyatt deal in Maui. So the industry is kind of gravitated towards an asset-light delivery, contractual delivery of inventory. So we started that innovation, that financial innovation here at Mystic Dunes. And that's what we would do to add new inventory to the system. We're also announcing in our last earnings call that prior to the $850 million level, we would entertain doing an asset-light deal for incremental inventory. And we said, "Wow. Well, now we're in the business, we're in the business of allocating free cash flow." And if you think about the macroeconomics of bringing on a new piece of inventory or system, well, right now, that inventory costs about $1,500 to bring it on board and then lets you know somewhere between 1 and 2 years is where we decide to bring that inventory in to spend an option. We'll talk -- Al can talk about the economy of that in a second. We bring an inventory in a $1,500 per week equivalent and we sell it out at $27,000. It costs us about $13,000 to market and sell that. So net cost, $13,000, $14,000 of contribution against $1,500 cost of inventory. So that's what we have been able to really generalate a lot of this free cash flow. We'll continue to pursue that. And so the first $850 million of our sales volume is going to be supplied by that inventory, right? Same thing with Wyndham. Wyndham has about a $2 billion sales platform. We still plan a big chunk of that sales platform with inventory. It's costing about $1,500 per equivalent. So phenomenal free cash flow yield. You're getting $13,000 of about -- I'm sorry, about $12,000 of net yield on a $1,500 investment. Well, new inventory, we can contract for, call it, $8,000 to $10,000 per week equivalent, cost of maybe $400,000, $500,000 to build a new unit equivalent of inventory. Divide that by 51 or 52 weeks and you get that $8,000 to $10,000. So we still sell that for $27,000. This has cost us about $13,000 or so dollars to sell that. So about $14,000 of contribution on an $8,000 to $10,000 investment. You're still getting north of a 40% free cash yield on that new inventory plus the management fee in, let's say, a typical resort has a $3 million or so management fee. So let's say we capitalize that conservatively at 10x cap rate. So that's a $30 million of pickup in market capitalization, ended up paying a premium for it. So those have a very attractive way for us to allocate capital. If we think about allocating capital, we're looking at buying our shares, we're looking at dividend policy, we look at acquisitions and we look at these asset-light acquisitions of inventory really on the same platform. And can we take that cash and invest it with very high free cash flow yields to create value for our shareholders. So Al, do you want to add anything about the specificity of this question?

C. Alan Bentley

Chief Financial Officer and Executive Vice President

Sure. The second part of your question really was when -- how do you treat that from an accounting perspective when you bring it on once you gets capitalized? And how does the HOA actually have a bad debt for a period of time? And you really have to break each property down into its individual components. And effectively, at what point in time do we acquire the property? So for example, we bought Mystic Dunes in 2011. Of the entities that we have purchased, a big -- in fact, substantially everything, had a policy, is if there was a default is they didn't step in and pay for it. And so what was happening is that the homeowners associations for those acquired entities had larger defaults because effectively, if you had 3% this year and 3% next year and 3%, and then those compound on you, right? So there was -- it was the default level that those individuals that were owners there were having to step in and pay. This particular property, for example, was a fixed-week property, meaning that was not in under -- or a points base. It literally was you have a deed. And when we acquired that, there was a certain number of those that were in default, like you heard me talk about the loan defaults that there were and so on. So those that weren't in default is, in this particular case, Tempus was not stepping in and paying those fees, and predominately because they didn't have the capacity to monetize it, like what we do. And so we came in and for all of these is we'll put that RIAA agreement in place. We don't do it necessarily the first year. So if you look at all of the existing Diamond properties since -- that were at the core going back to

2007, they all have an RIAA agreement in place. And -- but as we've made these additional acquisitions, is we brought them in over time. So that we had the ability to basically be in a position to monetize that as opposed to us just stepping in initially and taking all of that inventory. Now the way that we do that, because you said, "Well, how long does that take?" So once we enter into an RIAA agreement, we pay that year's maintenance fees for those customers that default. So that if we entered into one in 2015 and that bill went out in January -- or probably in last November, October, November, due in January, ultimately, for 2015, for those customers that don't pay subject to an RIAA agreement, we will pay that maintenance fee for that HOA. Now traditionally, we would negotiate different amounts. So somebody may get 100% payment or we may say, "You know what? We're going to range anywhere from 50% to 100% that we actually step in and pay." So let's say we're doing an 80% reimbursement, then we would calculate in the initial budget how much we thought that default number would be and we would write a check for that amount. Writing that check gives us the control of the inventory. That control means we have the right to take it back. We have the right to use it because keep in mind, a customer, if they've not paid the maintenance fee, does not have access to the inventory. So by entering into that RIAA agreement, it gives us the right to take control of that inventory. And the reason I separate that is because on a property like Mystic Dunes, that is a deeded, underlying deeded property. The recovery process takes longer. So we may use the inventory, but it may take 12 or 18 months or even 24 months for us to complete the recovery process. So the timing of when we actually take it back legally and when we can take control are 2 different things. We take control of it in the period in which this customer defaults. And we recover it over a period of months, depending upon whether it's a points-based product or which can be just be canceled through a series of communications with the customer, giving the customer the opportunity to pay. But if the customer doesn't pay, then we can take a points-based product back very quickly, but a deeded product may take several months because it literally can be a real estate foreclosure that you have to go through. Accounting-wise, it ultimately gets capitalized as inventory on our balance sheet. And of course, it's lower cost to market. And so that we would put it on our balance sheet at what it cost us to bring it back.

Bradford Dalinka

SunTrust Robinson Humphrey, Inc., Research Division

It's Brad from SunTrust on Patrick Scholes' team. I was hoping you guys could talk a little about the rentals part of your business, both as the source of tours and the carry cost.

David F. Palmer

Chief Executive Officer, President and Director

Sure. So on our P&L, under Vacation Interest cost of carrying net, that is basically the net of the gross cost for us to carry our unsold inventory net of any hotel rental program that we have put in place. So we have been one of the -- again, the thought leaders in the industry about doing that. So we actually have a robust revenue management side of the business run by Jason Toste. You heard his name mentioned earlier. And Jason's job is actually to yield, manage, in partnership with Mike, a guest into that room that will pay us a good combination of both ADR to help us mitigate our carry cost, but also give us a good prospect, to whom Mike can offer a marketing program. So we do have a marketing-specific program to our hotel guest. We actually have a program that allows them to use a portion of the amount that they pay us in hotel rental. He uses part of the discount on the purchase of points, not on the downpayment, but on the discount and the portion of a points purchase. So it's a robust channel for us. We do -- you heard, Mike also mentioned that we also have programs for them to participate in some of our EVENTS OF A LIFETIME. I would say it's a burgeoning channel for us. I think that traditionally, this industry has been very -- they've really had kind of kept their distance of having both the hotel guest and a member on proper at the same time we found, and this is actually -- is an example of this resort right here. I can give you an example of how robust it can be. When we bought Tempus, there was a belief, call it, more like folklore, that people didn't want to be at this resort in January and February. Well, I said, "Well, geez." Now people in Boston and Minneapolis and Chicago, they think that January in Florida is really a great place to be, right? But there was this belief, because the owner bookings into this resort were relatively low in January and February. Well, we did an experiment 2 years ago. Most of you guys have heard me talk -- no, I'm heavily into the scientific method. We design specific experiments and we see the efficacy of those experiments. So we loaded up this resort with hotel guests and Groupon guests, the leper of society, the Groupon guests, right? Everybody's all nervous about it. So I didn't tell anybody, just Jason and I call it. We didn't tell the folks in sales and marketing. So we went and see what happened on the sites when we just experimented with a very large mix of hotel guests. And I think -- is Tom Savino here?

C. Alan Bentley
Chief Financial Officer and Executive Vice President

He is.

David F. Palmer
Chief Executive Officer, President and Director

Tom, just would you just say, tell the folks what happened during that January and February sales when we actually had hotel guests exclusively staying here?

Tom Savino

We did very well with that program. It turned out to be a rousing success for us. For those 2 months in the past few years, we hadn't done well at all. And the hotel guests then, for those 2 months, we filled all the rooms, and sales did very well with the numbers.

David F. Palmer
Chief Executive Officer, President and Director

And since Tom's been coached not to give you any numbers, I'll actually give you a little anecdote. Thank you. You passed the test. We told Tom we would throw a pot of flowers -- that if he said a number. But we actually doubled -- we doubled the revenue. I won't give you the specific. No, we actually doubled the revenue of the sales center during that month. So a hotel guest can be a very, very important part of the overall equation. I'd say the industry in general and even our company had a particular aversion to marketing, to hotel guests, but what we have found is that hotel guests can see the value proposition. I think there's actually a couple of gentlemen here, actually a gentleman here from Chicago, who I think for the first time saw the value proposition. If your young family and you're coming, you're used to getting 2 hotel rooms, it's a relatively miserable experience. So you have young kids and you come here. And so we want to encourage those families to come and touch us as a hotel guest. First of all, they're paying us to be here, right? So there's already a desire to be in the location. There's desire for them to be on property with us, and has specific marketing programs that are targeted to them we found. So to us, I think it's worked well so far. I don't think we've optimized it by any sense. We are that great at our hotel guest channel right now. That's one of the opportunities that we have going forward. Please.

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Yes, I would just add to that question that we use a metric called -- Jason uses a metric called volume per arrival. And then the yield management that David spoke to, it always makes sure that we have the highest and most profitable guest in the unit taking into account seasonality. So it's -- they really do a nice job. And it's a partnership looking at a big matrix and planning out in advance. But Jason and his team do a wonderful job.

David F. Palmer
Chief Executive Officer, President and Director

Yes, this is -- what we hope that you all get a sense of that on a sense of partnership. This is a disciplined machine. When it comes down -- so measure that VPA, we're looking at every bed in the system and trying to yield the right person depending on seasonality down to the week. So this is a committee that meets twice a month to make sure that we're looking at every single arrival. And so if we think that we want to have more hotel guests in a particular window of occupancy, we'll make sure that we do the right promotion on Expedia. Expedia's one of our largest OTA partners. So that yield process is a discipline that we've had for a number of years here. And Jason does a phenomenal job partnering with Mike in putting the right guest in to whom he can market.

C. Alan Bentley
Chief Financial Officer and Executive Vice President

And David, I'd add one more point, too, which is when you look at the -- our financial statements. And you'll see that VICC, that vacation interest cost of care, you actually see a reduction between 2013 and 2014. And -- but yet it's not 0. And as I commented in my portion of the presentation, where I said, "Well, we pay maintenance fees just like anybody else does." And the portion that's not covered by the rental guest, right, because that's net, is effectively because we provide a lot of marketing stakes. And so the marketing guest may either be paying, for example, a low cost. You heard Mike also refer to that on a program where maybe the guest is paying us from $1.99 to $4.99 or $5.99, but they're paying less than the standard maintenance fee that would be associated with that night. And so what we try to do is maintain or decrease that cost, right, is we manage what our inventory is on our balance sheet because we're paying management fees or maintenance fees on that portion of it. And we also look to offset what we can through that yield process that they're speaking about. But at the end of the day, what we've been successful between 2013 and 2014 is actually driving that cost down even though we had a higher volume of people through.

David F. Palmer
Chief Executive Officer, President and Director

Are we really going to make Robert stand up because he's in a crutch? Sorry, Robert.

Robert A. LaFleur
JMP Securities LLC, Research Division

Robert LaFleur of JMP Securities. A question about the cash inventory spend this year. The guidance you gave is $50 million to $55 million, substantially higher than it's been. Is that delta all just the Cabo property or you're ramping up spending through the IRAAs?

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Yes, the Cabo property, that $27 million I referred to there, is not included in that $55 million. So that $55 million is a separate capacity from the $27 million. So it's an addition, too. The $55 million includes not only what we're doing to the IRAAs, Robert, but it also includes what we may be doing in regards to recovery through bulk inventory purchases and things of that nature. Effectively, we do guide and look at that as a percentage of what our revenue is and what our expectation is, is that we will need to bring back either inventory through the RIAA or other acquisitions. You heard us refer to on the call that we did in October about some things that we were doing in Hawaii to bring back inventory. So that is our total cost, of which the substantial portion of it is RIAA. But there is other components that we bring inventory back through other methods as well.

Robert A. LaFleur
JMP Securities LLC, Research Division

Then the RIAA year-to-year is relatively stable or is that growing?

C. Alan Bentley
Chief Financial Officer and Executive Vice President

As a percentage, right? As the base gets bigger, then your percentage, there's more of it that comes back. But yes, as a percentage, there are not significant changes in the default rates or things of that nature. But as the base gets bigger, then there is more individual components in that picture.

Robert A. LaFleur
JMP Securities LLC, Research Division

And in the past, you've said you've always managed that recovery to kind of the 3% to 5% range. And that's still -- but you'd said that if you wanted to, you could press that.

David F. Palmer
Chief Executive Officer, President and Director

We could press it harder, right.

Robert A. LaFleur
JMP Securities LLC, Research Division

It doesn't sound like you're doing that.

David F. Palmer
Chief Executive Officer, President and Director

Right. So Anto, you would just smile because you're not going to turn it back, to alter our revenue growth for the year. We're not going to guide to that. But I saw a big smile on his face just now. So -- but no, we're keeping the recovery mechanism in that 3% to 5%. So the growth in there obviously is driven by the growth in overall, what we believe our sales revenue's going to be.

Robert A. LaFleur

JMP Securities LLC, Research Division

And then the last question leads to that. You cut me off. So you're getting more inventory. I assume there's some need for that inventory. So there's an implied ramp-up of sales. What's the lag time between ramping up inventory acquisition and actually seeing that manifest itself in...

David F. Palmer

Chief Executive Officer, President and Director

Well, really, it's really the opposite. Remember, as Mike described, we build that matrix first -- our sales budget is set first, and we supply inventory to the matrix, right? So if you think about how we run the business, and I've actually talked about this quite a bit on the road. So Womer really -- where's David? Just raise your -- there. So just everybody know this is David Womer. We keep mentioning him, but he's sitting back there. And by the way, he's flanked by our chief accounting -- no, that's not Lisa. That's Kenisha [ph]. I'm sorry, Kenisha [ph].

C. Alan Bentley

Chief Financial Officer and Executive Vice President

Lisa's at the back.

David F. Palmer

Chief Executive Officer, President and Director

Lisa's back there. Lisa Gann, our Chief Accounting Officer, is here also. If you want to hear about the RSV mile and want to blow your brains out, you can talk to Lisa. And then Lian Lou [ph], our treasurer, is sitting here also. So we do have some people that I know you all have wanted to meet over time. So they're here today for you. But David really is the yield, in effect, that from his collections area the amount of inventory we want to supply into the sales matrix. So Mike also has budgeting process in the early fall, and we locked that down during the course of the fall. And then David knows how much inventory he needs to yield into that matrix during the course of the year. So we're not ever -- I think this is a mistake that the industry used to make. That's why they ended up over-inventoried, right? If you look at some of the sins of the past, they would kind of -- they'd set inventory and then try to sell to the inventory yield. We just won't -- we won't do that.

C. Alan Bentley

Chief Financial Officer and Executive Vice President

And the other piece of that, too, Bob, which is when you look at our balance sheet is you'll see the last couple of years as we work down inventory, which as you know was one of our goals to do. So that, as we've taken some inventory off the balance sheet, and it completely corresponds with -- remember, just a second ago, when I said that the ICC was down. And the components of that, of course, is what your actual maintenance cost is, how much you own, and what the rental revenue that we receive. So you'll see some takedown of the balance sheet accounts as well, which is intended to be that way.

Alex R. Lieblong

Key Colony Management, LLC

Alex Lieblong of Key Colony. What's the -- what do you think is the proper leverage ratio to run the business at?

David F. Palmer

Chief Executive Officer, President and Director

Thank you for that question, and thank you for coming. He's -- he comes in all of our events, and I really appreciate you traveling from -- I think you came from Oklahoma probably? And we obviously want to keep flexibility in our capital structure. Right now, we're only 0.6x levered, which is a pretty low leverage rate. And what we're trying to indicate to you is that we feel that there's still ample opportunity for us to look at some acquisitions. So we're trying to keep capacity available, but what we won't do is on cash.

So if those acquisitions don't come to fruition, you'll see us alter our dividend policy or share repurchase policy to make sure that the cash should be returned to the shareholders. If we can't find the proper channel for us to reinvest that cash and get it -- the free cash flow yields that create shareholder value, we'll make sure that we buy stock or do some type of a dividend. So we're not going to be -- going to sit on cash since we're sitting on cash. I do feel however, that as an industry, we should be a low-lever industry. I think that this is an industry that there's enough kind of shareholder concern out there that we don't need to try to optimize and leverage ratios. You see Marriott also runs a very, very low leverage. Wyndham really runs really low leverage. I don't -- I'm not a big believer in doing a dividend recap. We're using leverage. I think it's actually -- kind of a one-time pop. I think we have to have a consistent allocation strategy. We're returning cash consistently to or consistently reinvesting that cash and opportunities. They give a yield then create shareholder value for you. So you'll see leverage come up potentially if we do an acquisition because I think doing a levered acquisition. But right now, if you look at our credit agreement, we can -- we have capacity. We go to 2x without going back for a bank amendment. So I don't think you'd see us ever kind of press ourselves much beyond that.

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Right. And the question's at 1.4:1 now is...

David F. Palmer
Chief Executive Officer, President and Director

The 0.6 is on a net basis with our cash.

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Right, the 0.6 is the net basis. But just on a pure debt basis, which is how the leveraged ratio that he was referring to is measured, is we're at 1.4:1. And as I had said it earlier, is the expectation would be, is if you look at the amount of EBITDA that we generate and the requirements because the loan requires us to lever down to 1:1, which is potentially depending on what we do with our cash this year on a net basis. We literally could be at a 0 net debt basis by the end of the year.

David F. Palmer
Chief Executive Officer, President and Director

You can ask us anything. Anto? Do you need to repeat the step-up again for the broadcast? I just want to make sure we're following the rules. Okay.

Anto Savarirajan
Goldman Sachs Group Inc., Research Division

Anto, Goldman Sachs. Given the topic of rising interest rates, can you talk to us about what kind of lag effect do you see on your portfolio when interest rates go up in terms of the net spread that you earn? And typically, what period of time can you make that back? And how should we think about the credit spread that you earn?

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Yes. If you look at it today, is you heard me comment a minute ago that our net interest margin spread was a little over $50 million. And the key points to that is our interest rates to the consumer have not gone down during the period of time when rates have gone down. So our spread has improved, obviously, as rates declined. And so you saw up there also on that financing slide, where we were looking at the securitizations, what we're arranging in that 2.3%, 2.5% per facility. So it's a large spread. Keep in mind that every one of those facilities are set, right, is that if rates increase, that is a fixed rate. That is not going to change. So really, if you look at it, so well, if rates did increase, how does that impact this year? Well, effectively, what you see is it's only this year's production because of all of the facilities that are already securitized, that number sits as it is. And so to the extent that -- kind of again doing the math is, is if we were to finance $300 million this year or more, but whatever. If it's $300 million, just making that math easy, you're looking at a 1% rise in rates, would be a $3 million change in our net interest spread, right, because we don't envision that there's room for us to go up on our interest rate. But the vast majority of what we already have is already securitized, which we do routinely in the market. You also heard me say that it's likely that we're going to do 2 securitizations this year, which even further derisked that model, but not having everything riding on one securitization. The other piece that, at least for some period of time, is as some of our older securitizations roll off, those were at higher rates, too. And you can see that, Anto, when you go actually look at the financial statements, that footnote, you'll see in there the actual rates that are charged. And so you'll see that -- the first thing that's going to happen is the overall interest is going to go down because as those facilities roll off and we replace them with a lower cost facility. But we're relatively insulated. I mean, it can be impacted, but it's not a huge amount. Now the other thing, of course, is as revenue increases, then as long as we maintain our financing percentage, they were doing a larger number of loans, which means we generate higher interest income. So what I was really responding to was assuming that the number of production remains static. But that's the way to look at it, is really what the current year's production would be.

David F. Palmer
Chief Executive Officer, President and Director

So it's really important. Everything is securitized right now. If it's not securities, it sits in a conduit. The conduit is also nonrecourse. So we are very disciplined about making sure that we match. We don't want any type of risk to mismatch, right? So the securities are locked in. We know exactly the spreads. And so it's really the production for this year. And since Al now and Lowell are going to be going out twice a year, you're really talking about 6 months of production. And so the question is what do you think the yield curve is going to do the next 6 months? So really minimal, but remember, we still mitigate that by dumping into the conduit along the way. So we really are very focused in making sure that the shareholders in this company don't have any real interest rate exposure.

Scott Biliings

Scott again from Billings Capital. Just a quick question about the finance business, the provision and the allowance, and I just want to understand a little bit better. But relative to roughly $600 million of gross VOI sales last year and financed at a roughly 80% basis of your financing, something like [indiscernible]. It may be a little bit less than you provisioned, nearly $60 million. So that implies something like a 12% or 13% default rate. And that's on -- I guess that's a cumulative default rate since you provision upfront for one year of sales, and then this have around a 4-year average life. And then -- but then in light of that, you also have a 20%-some-odd allowance size, which has, relative to a normal financial institution or bank, those would be very large figures. So I'm just curious if you can maybe go on to that in a little bit more detail.

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Sure. First of all, is the way that we provision it is based upon -- just as you said, is what we financed that period of time. And every loan has a provision that's assigned to it individually. So that as when we go through and we look at the provision for that quarter, we're actually taking not just an average of, okay, we generated this many loans this quarter, but we actually take the specific loans. We look at what FICO band that customer falls in and the propensity of that loan to default. Well, now clearly every loan that we have doesn't default, right? So effectively, that's how you do the provision, is add a -- and it's actually about closer to 10%, I think, about the average of total provision if you look at gross VOI. So if you look at your gross sales, and then it's roughly 10%, that's the bad debt provision. But you're right in the fact that on the balance sheet, it's closer to 20%. And that's because we provision for every loan that we write regardless of the fact that some of those obviously will be fully performing loans. The majority of them will. But periodically, what we have to do also is to say "Well, okay. That's the process that we go through." But you also have to evaluate the loan loss reserve just make sure it makes sense, right? That is not either over-reserved or under-reserved. And so that we could catch up the reserve one way or the other, either provide additional or reduce the amount of the provision. But effectively, we have a very healthy reserve that sits on our balance sheet. As you noted, it was like $131 million as of the end of the year. But the calculation itself is actually done on an individual loan basis. The cumulative defaults will, of course, run on a higher level. If you actually look at one of our securitizations, you'll see that cumulative defaults would run more in the 18% to 20% kind of range. But on an annualized basis, is we'll provide that provision is running about 10%.

David F. Palmer
Chief Executive Officer, President and Director

One of the things you want to make sure is that we rarely have the investor community with their operating folks, who said, "Don't be afraid to ask operating questions." because I know that it is a financially-driven community here. But we wanted to make sure that Mike and Brian and Ronan were available to the investor community. So you -- if you want to know things about the operation side of the business, be more than happy to ask those questions also.

Alex R. Lieblong
Key Colony Management, LLC

Alex Lieblong from Key Colony again. On your exit interviews, net with your 3% here, have your scores been going up, flat, down or...

David F. Palmer
Chief Executive Officer, President and Director

Yes, so we exit everybody. Actually, I'm glad you brought that up. We are a very measurement-driven business, right, across the enterprise. We mentioned we brought Ronan in. That was one of big first things we wanted to do because there was, I think, a belief in this industry, the vacation ownership industry, that you really couldn't be metrically-driven. So we tied it to compensation, and every single individual that stays with us is a post-purchase survey. The same thing in Mike's business. I think there was kind of a resistance to measurement. And my view is that if you -- you have to measure it. So you see that. So we've had -- I asked Ronan or I can give you the specific percentages right now. I'm going to give you the directional percentages because it's been a very interesting 3-year journey of Ronan and his measurement. And Mike uses measurement for 2 reasons not only to measure satisfaction, but also get product design feedback back. So as both of you -- if you, gentlemen, just talk a little bit about the measurement and how it's changed the way you manage your business.

Michael Flaskey
Chief Sales & Marketing Officer and Executive Vice President

From the general manager's compensation, the direct guest experience that is measured by the post-departure surveys that I discussed, those 6 metrics within the post departure surveys plus the 2 QAs a year, represent about over half of the general manager's compensation on the bonus. And so that is directly given to us by the guests on the post-departure surveys and by the independent auditor on the QA of the guest experience.

David F. Palmer
Chief Executive Officer, President and Director

And then what we also do as part of that, Ronan, why don't you talk about -- Ronan is very good at continuing to set the bar higher. So if you're talking about the progression of how from their compensation standpoint, you -- they have to achieve a higher level of satisfaction.

Ronan O'gorman
Senior Vice President of Resort Operations

So we do not use a single metric for all resorts because of the level of capital that has been put into the resorts over the year. So what we're looking to do is move the large part of the bell curve. And so we set goals for each resort in the post-departure survey again, which is the 30% response rate on over 500,000 deployed. We set those as a year-over-year improvement, and we set a higher standard to be achieved in those that are scoring lower. And as we move up the -- through the bell curve, those are the higher end. They're both incented to -- they can make more of their incentive by overreaching on their goals. Also, on the QA, the quality assurance, with 7 of them behind us, we've been able to -- we had a sea -- a floor that was in place 6 audits ago, 5 audits ago, this year, that is probably up 20 points. And so the minimum acceptable to start being considered for your
[Audio Gap]
under management. So we took a resort that was highly troubled. And just a year later, she won Resort of the Year.

Michael Flaskey
Chief Sales & Marketing Officer and Executive Vice President

And I think it also speaks a lot to how we're able to use our talent. As we took over a resort in 2013, and she came into the resort and we were able to quickly bring in our system, our processes and our measurement. And there's -- the minute we got a resort, as soon as the cycle of quality assurance audits are in place, they're included whether they've been opened or we've taken them over a month, 2 months, 3 months, they're included in. And it's seen as a learning.

David F. Palmer

Chief Executive Officer, President and Director

Now one of the things that -- before Mike talks about sales and marketing. Every Sunday evening, Ronan and I get what we call a hotspot report. So every single survey that's sent to the consumer, so there's probably a 30% engagement. Sunday evening, Ronan and I get the scores from that week of every single result and we hotspot it. So I see the trend lines. I see we have red and green arrows, and I can see what resorts are trying in particular directions. So we can see very, very quickly big broad trends of the business. And then on Mondays, when Ronan actually has to review with his team, they actually go through this on a weekly basis. So it's not just doing the way we compensate individuals, it's the fabric of the way that we're actually getting feedback and managing the business and the resort experience every single week. And that is transparent, meaning I don't just get those. Every single resort manager on our Internet has the ability to look at what other resorts are doing, right? So we want transparency of data in our system. So everybody in the system -- the same thing with Mike, his sales performance, every single evening, every single sales center is measured, everybody gets to see that information. We don't hide information from our team. We just want to empower them to know, well, what's that resort doing? And then maybe why are they scoring so? We encourage and foster the sharing of best practices across the system. The only way you can do that is by not hiding behind the data. Transparency is the way we started about 3 or 4 years ago, and we'll continue to do that. And first, there was a little bit of resistance. They want to kind of keep what they're doing. But now, I think at this point, it's become part of the fabric of how we manage business. Mike, you want to tell about your business?

Michael Flaskey

Chief Sales & Marketing Officer and Executive Vice President

Yes, I'll just add to the question David mentioned. It's a great indicator on new product development. We have a great R&D team that's out ahead. And I think someone asked the question about our competitors, and we really have no concern about being able to stay in a first-mover position because we are analyzing this data on a regular basis from each tour that comes through. But it addition to that, I also want to add that we also use a survey to also evaluate our leadership. And so our team members that are on the sales and marketing side have an opportunity to also twice a year evaluate their leaders. And I talked about the critical element of the culture and create an environment where top talent wants to live. And we use that tool to make sure that our leadership is basically creating the culture that we want so that we can continue to be the employer of choice.

Scott Biliings

So this is Scott again. This is, I guess, more of a strategic or philosophical question because I agree with you. I think all of the shareholders want this to be a really valuable proposition to their -- to consumers, and obviously makes the business more fundamental and more valuable. When I look at some of the data, for example, the information used to release like 12% of maintenance fees are delinquent or a default rate on loans that is 10% of gross, but more like 12% of net, so to me, is it accurate to say that implies a use of product of sort of like 8% or 10% or 11 years or something like that? It seems to me that the product is more valuable the longer people hold it obviously. The breakeven, I think, you guys say is about 10 years anyways. And how do you -- is that a metric that you manage towards getting people to stay in the properties for longer as they can get more value out of their timeshare?

David F. Palmer

Chief Executive Officer, President and Director

This is definitely a use -- the value, the utility of this increases over time. If you think it's about around that 10-year mark, we really become monetarily and economically quote in the money. Obviously, there's the intangible portion of it. I think some people realize for the first time, the intangible portion of having the separate bedrooms and the living and the dining area. Actually, there's a tremendous amount of additional, what we call, lifestyle intangible value. So we do -- the reason why -- it's kind of interesting. Since some people -- if you look at just the construct of our economic relationship with a consumer, you could actually take -- and I think this industry actually had a problem. The reason why it was so cynical is that you have a cost-plus contract, right? So why don't we spend all this time? And I mean, you can see we are a bunch of maniacs about customer service, so why, right? Because this is cost-plus, so you can't really be removed as a manager. This -- the construct is actually, the reason why in this industry I think was so cynical for such a long period of time is that it didn't really have a motivation for there to be anything other than that relationship because you don't really have to do much, right? So we do, do this because we do want people to stay in the system and continue to pay there. There is a lifetime value to that customer, the same thing on sales and marketing. We know that if you look at the way the industry was constructed, I mean, for 20 or 30 straight years, using those traditional methods, we can produce a particular return for our shareholders. We felt we can actually -- when Mike and I first set in that hotel room in Miami in 2010, I said, "We have the opportunity to totally revamp and restructure the industry and create better free cash flow for our shareholders, but also a better overall experience for the consumer." Which means that they should hopefully transact more with us. We want to get ultimately more wallet share with them and have them stay in the system longer. So right now, I think the industry was probably at an 8 to 10-year construct, and then it really necessarily care. We like to see people ultimately be in there longer. But there is the economic realities. Once people actually get to that level, both the economic value and the intangible of that tend to converge. And if they do abandon the product at the 10 or 11 or 12-year mark, they still feel they've got tremendous utility. That's why our internal satisfaction scores are very, very high. Actually, if those of you who actually followed our research, this industry actually enjoys as an industry, like an 85-plus percent satisfaction rate once you're in this system. So it's not just us. We obviously -- we enjoy the same benefits. So we have a desire to have people stay in it longer because we feel that by having that additional wallet share, the additional economic relationship, it creates better returns for our shareholders. But it's also, I think, it helps that consumer get in that mission that we're on to make sure that with absolute authenticity, we can say we care about taking care of you for your life and your children's life that they feel that there's real authenticity to it. There is going to be a natural churn rate in this industry because of the lifetime subscription nature of this part. And any time a subscription business has a churn rate, this business has the same level of churn. So will you get a microphone here?

Unknown Analyst

It's Ben Glaze [ph] from Natorum [ph]. I had a quick question for Mike. Just if you could give us some context for the various sales channels and how you think about cost of acquisition, and then average transaction size and close rates? I don't know if they're any metrics can give us, but it'd be helpful to know kind of existing customers versus new customers, how you think about the profitability.

David F. Palmer
Chief Executive Officer, President and Director

He won't give you a lot of specifics on the channels, but he can probably talk about it, yes.

Michael Flaskey
Chief Sales & Marketing Officer and Executive Vice President

So in general terms, I was talking in my presentation about global marketing and national marketing. And we really break it down into 4 categories. We have a mini-vacation. We have what we call an OPC, off premises contact, that we're intercepting someone else's customer that may be in the marketplace, and we bring them over for a preview. And then our own properties, we have the hotel guest that we've spoken about, that David has spoken about. And we have our owners and then we have exchange guest that own that with our competitors that are exchanging in. Typically, from a cost construct, clearly, the on-site people that are staying in your hotel, they're cheaper, they're less, they're staying on-site, and it's easier to acquire them and get them to come in to a presentation. We really can't talk about forward-looking things, but I think that I made it clear and David has over the last several conference calls that we are looking to add new member acquisition. We have -- we're out ahead of that from a pipeline standpoint. And I think that the ASM, as you see it, is probably in the ballpark of where it's going to be because of the nature of mix, we would call it, adding that additional mix.

David F. Palmer
Chief Executive Officer, President and Director

One of the things that this industry -- Mike hinted at it, and I hope you get the sense of the level of willingness of this management team to actually destroy folklore. We're in the -- we don't believe it.

We are storytellers, but we don't believe in storytelling when it comes to playing with shareholder money, right? We have to experiment with it properly. But one of the things that we're actually right now destroying is the preconceived notion that a mini-vac doesn't have a particular type of a relationship. Mike talked about this pre-tour engagement. The traditional mini-vac that we sell thousands every year, and Wyndham and Marriott sell tens of thousands a year, has been a relatively straightforward construct for 20 years. It was you who led with the discount, right? Here comes David in Las Vegas for $129 for 2 days and 3 nights. And there's very little that occurred in the acquisition of that customer because you can't put a lot of money into that channel. They're only paying $129. You don't want to put a lot of money in that because we know exactly what their conversion rates look like. So Mike touched on the pre-tour engagement channel that we're doing right now. We have over 30 touch points. So what we did say, what we learned in EVENTS OF A LIFETIME, we learned VIP concierge. We learned that the hospitality upstream engagement of a customer prior to their visitation to the sales center drives higher conversion and ultimately, therefore, drives better absorption of your marketing dollars. You can actually spend a little bit more. So how can you take the learnings from that and then apply it to a mini-vac acquisition, which is a very specific construct. Mike comes at NOI. He doesn't make much money if he's blowing dollars, right? His entire organization is compensated that way. So in order for -- to work in a mini-vac and for this organization to generate the proper NOI, we have to figure out how to digitally leverage and in fact create a digital analog to the VIP process. The VIP process is people calling you 3 weeks in advance. They become your entire concierge. Well, we've created an effective digital level of that. For somebody who -- they even aren't a member in our system. They just bought a $129 package from us, and how we embrace that customer bringing in and bringing through a series of communications that makes them feel, as Mike said, like they're already our member, and educates them. We have all kinds of video clutter that we just got through shooting and see what to expect on your preview tour when you come visit. Let's take the mystery out of the whole equation. I mean, there's -- all this is -- I bought a mini-vac. Teasing [indiscernible] I have to go on a tour. What does that mean? And so we're going to give them the tools when they show up. We want to deliver them in a plus 1 or a plus 2 in their experience with us as opposed to a neutral to a negative. So we're going to change the paradigm on the cost of that channel. Now the good news is when we guide, we don't assume that we have any success there. So we guide to the old historic cost structure, right? And what we're doing internally is that we put that out of our minds because we know we can do that. We've been it for 20 years in this industry, but we're -- how do we change the paradigm, how we engage that person, and when we say change the cost structure, if we can get them to engage and transact at a higher level, that drives the cost structure down, right?

C. Alan Bentley
Chief Financial Officer and Executive Vice President

Yes, and I was just going to add to your question, it may be helpful, what you really want to look at is the marketing cost as a percentage of sale, not the dollar amount per prospect. And that's what we continuously test because what we learned in our EOL platform is, in some cases, we may spend twice on a tour than we would normally, but we know that we're going to outrun that on the back end.

David F. Palmer
Chief Executive Officer, President and Director

Oh, right. It's time for the tour. I couldn't -- I mean, hand gestures, the lights are blinding me. So that is going to wrap up our Q&A. We do have golf carts, and Vic, are you ready to go? So we're -- if those of you who want a property tour, we're going to take you into our back part of the operations. Victor, who's the tallest resort manager in the history of the world, right here in the purple shirt, is going to lead. I think, Eddie, you're going to take people also? Okay. So Vic and Eddie are going to take whoever wants. I'll actually join you on that tour. And -- oh, right here. Okay. And also, if you haven't checked in your unit, we actually have your room keys for you here. You don't have to go through the VIP check-in process. So again, you don't -- you need to go on the tour. If you don't want, if you want to do phone calls and whatnot, then we reconvene here at 6:30 to have cocktail reception with Reggie Jackson and then a dinner with Reggie.

Unknown Executive

And Tom and Kurt are going to lead a sale center tour as a part of the tours.

David F. Palmer
Chief Executive Officer, President and Director

Right, right. So you will be seeing our sales center. I do encourage further because that really is an old-school sales that are married with new school innovation. So again, Vic and Eddie and Kurt and Tom will leave you with some golf course about the back door. Thank you very much for today.

C. Alan Bentley

Chief Financial Officer and Executive Vice President

Thank you. Thank you.