

AP CAPITAL RESEARCH

M&A Deal of The Week

HILTON GRAND VACATION



BLUEGREEN VACATIONS



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Executive Summary

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Deal Summary

- On the 6th of November, Bluegreen Vacations (BVH) announced that it has entered into a definitive agreement to be acquired by Hilton Grand Vacations (HGV) for \$75 a share, a premium of 111% based on Friday the 5th's market close in an all-cash deal, representing a total enterprise value of \$2.05 billion. Following the announcement, BVH stock rose 110% upon market opening.
- According to Hilton Grand's CEO, the acquisition of Bluegreen Vacations represents a quality strategic opportunity. It offers prosperous growth opportunities and will help boost Hilton Grand's property portfolio from 150 to nearly 200 resorts globally.
- This acquisition is expected to close during the first half of 2024 and is estimated to increase Hilton Grand's memberships to more than 740,000, up from 525,000. The deal will help increase Hilton Grand's East Coast presence in the US, add several outdoor and ski destinations to its extensive portfolio, and lead to approximately \$100 million in run-rate synergies.
- Shares of Bluegreen Vacations (BVH) rose 110% to close at \$73.45 on Monday 6th, while Hilton Grand (HGV) stock closed 8% lower at \$34.25
- Bluegreen Vacation's current market capitalisation is \$1.52 billion, while Hilton Grand's is \$3.81 billion.

Deal Advisors

Hilton Grand Vacation:
Lead Advisor: Bank of America

Blue Green Vacation:
Lead Advisors: Credit Suisse
Secondary Advisor: Wells Fargo

Key Figures

- | | |
|-------------------------------------|--|
| • HGV Market Cap: \$3.81 Billion | • BGV Market Cap: \$1.52 Billion |
| • HGV EV/EBITDA: 7.49x | • BGV EV/EBITDA: 6.5x |
| • Offer premium: 111% [\$75/share] | • BGV Enterprise Value: \$2.05 Billion |
| • Expected Synergies: \$100 million | • BGV P/E ratio: 19.86 |

Company Information

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Hilton Grand Vacations

- Founded in 1992, Hilton Grand Vacations is a division of Hilton Worldwide that offers high-quality timeshare opportunities globally but mainly focuses on the US. They sell vacation ownership interests (timeshares) and use a points-based system that allows clients to redeem their points at other resorts in the Hilton Grand Vacations portfolio.
- Hilton Grand also offers food, drink and leisure services at these various resorts. Its focus on providing high-quality services is one of the reasons why its year-over-year revenue has grown threefold over the last decade, from \$1.125 billion in 2013 to \$3.5 billion in 2022.
- HGV's 2023 Q3 earnings equalled \$92 million with an EPS of \$0.98, which beat analyst expectations of \$0.93 by 5% but was down 39% compared to Q3 2022 earnings. Their 2023 TTM EBITDA is \$987 million, yielding a P/E ratio of 11.2x with a forward P/E of 8.3x (2024). Compared to other firms in the industry, this is in the 60th percentile.

Bluegreen Vacations

- Bluegreen Vacations is a vacation ownership company that markets and sells vacation ownership interests to consumers. Founded in 1966, BlueGreen is mainly focused on the east coast of the US and is currently headquartered in Boca Raton, Florida. They have grown organically over the last few decades, building up to a customer base of more than 200,000 members.
- BlueGreen also has an exclusive ten-year marketing partnership selling timeshares with Bass Pro Shops, a major US outdoor retailer, until November 6, 2033. This is significant to BlueGreen as from 2016 to 2018, nearly 15% of the timeshare company's revenue came from the retailer, so this acquisition has great revenue synergies opportunities for HGV, as mentioned in a shareholder PowerPoint.
- Their current Q3 2023 earnings are \$20.65 million in net income, which yields an EPS of \$1.30. However, this is down 10% from 2022 Q3 earnings. Their 2023 EBITDA is \$145.6 million, up 18% from 2022, and their current P/E ratio is 18.9x with a forward P/E of 13.2x (2024). However, the P/E ratios are significantly inflated, as their stock has more than doubled in the past weeks.

Deal Rationale

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New Markets and Demographics

- The acquisition of Bluegreen Vacations will add 48 new resorts to the Hilton Grand Portfolio and expand the company's presence into 8 new states in the US, four of which are on the East Coast, doubling its current presence there. This will help expand HGV's presence across the US.
- This acquisition will also help HGV expand into new age demographics, as 75% of BlueGreen's members are aged 40-55, compared to HGV's target demographic of 55+. The Bluegreen acquisition will assist HGV in expanding its market share in the tourism industry, domestically and internationally.
- BGV's strategic partnership with Bass Pro Shops has been crucial to Bluegreen's growth. Expanding their current partnership to the remainder of HGV's resorts in the US would create a new avenue for growing HGV's revenue.

Other Benefits

- This acquisition will allow Hilton Grand to leverage its recent strategic investments, including the successful launch of its Hilton Vacation Club. The integration of the brands will lead to higher brand awareness.
- The acquisition will expand and diversify HGV's lead flow through BVH's global partnerships.

Results of the acquisition

- As a result of this acquisition, HGV is predicted to experience run-rate (cost-saving) synergies of \$100 million over a 24-month period.
- HGV is expected to generate future revenue synergies of \$75 million to \$100 million due to increased market share.
- This acquisition is expected to be accretive to EPS, with increases in net income growth expected in late 2024- early 2025.
- Opportunity to offer owners and members access to more vacations and experiences, including more resorts and across an even larger portfolio.

Risks

- For Q3 2023, BVH had a total debt of \$941.1 million, which is in the 86th percentile compared to other firms in the tourism industry. This means that even a small change in interest rates will significantly increase interest expenses for BVH, impacting their bottom line and potentially increasing their credit risks.

Final Thoughts

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Samuel Thompson

The acquisition of Bluegreen Vacations offers Hilton Grand an opportunity to consolidate its market share in the tourism industry. BVH's current DCF value is \$102.41 a share, meaning it is 28% undervalued, so it represents a good strategic decision for long-term profitability, growth and domestic market penetration.

My one concern with this acquisition is the amount of debt that BVH currently holds. If macroeconomic conditions do not improve and the FED continues to keep interest rates high, then there will be a fall in consumer spending over time, affecting domestic revenues for firms such as BVH, which would be bad as BVH relies heavily on its US sales. Furthermore, rising interest rates will increase costs, as mentioned in a HGV shareholder PowerPoint stating that pro forma leverage will be 3.4x, 36% above target levels of 2.0-3.0x. However, this is expected to reduce to normal levels in approximately 18 months, but this will impact EPS and P/E in the meantime. BVH's 2022 Debt/Equity ratio is 2.99, and this shows that they are highly leveraged, which may increase the risks of financial distress and complications in the future, especially in this high-interest rate climate.



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