



InterContinental Hotels Group PLC | BofA 2025 Gaming & Lodging Conference | September 4, 2025

Muneeba Kayani:

Thank you, Sean, for that introduction. So as Sean said, I'm Muneeba Kayani. I cover the leisure and transport sector for Bank of America and based in London. Delighted to be here today. This is my second time joining the Lodging conference in New York, and it's our first time hosting Elie here at this conference. So, Elie, thank you for joining us today. So we just have 35 minutes, so I'm going to dive straight into the, what's I think on people's mind is the demand side of things. And when you reported your 1H results, your RevPAR in 2Q was slightly positive. I think you said in the earnings call that 3Q demand trends are similar to 2Q. Can you talk about what you're seeing in your key markets?

Elie Maalouf:

Sure. Well, first of all, great to be here and a beautiful day in New York. My first time at the BofA Conference, so pleased to be here with you. I'd say that if you were going to put one word on demand around the world on average, I'd say it's just pretty steady, pretty steady. What we reported at the half was a 1.8 global RevPAR. That was 3.3 in the first quarter, 0.3 in the second quarter. Then there were some parts and pieces to that, which we talked about the Easter moving, which was part of it that moved the business up into Q1 a little bit, mostly in the United States for groups and business travel.

And then you had the whole March through early May, what I call turbulence of tariffs, of rates, of stock market drops around the world, bond tensions. And what we said in May, and we said again in August after our half-year results that we believe that was peak turbulence and that we've been coming off that turbulence since then we've been getting steadier, that trade tensions are turning into trade deals, that rates have stabilized and financial markets have recovered are really almost either at or almost at a record in all major indices around the world. So we think that that's put the demand side into a more steady, more stable view.

Now if you look at the industry data, we don't give guidance, and I'll try to do that for as long as I possibly can. It's just much easier on life. And we obviously don't give mid-quarter updates, but if you look at industry data from major markets, whether that's US, Europe, China, it would suggest that the same trends you saw in Q2 are continuing into Q3. That's just the very short term, but you've heard me say before, I'll keep repeating that our focus, while we observe the metrics in the short term and the data in the short term and everything that's happening short term, this is a long-term business.

We're an asset light compounding business with a global presence that's indexed to structurally positive growth drivers of middle class population growth, of GDP growth around the world. So there will be highs and lows, and this industry will make highs and lows as economic cycles make highs and lows. But the trend is always upwards and you make higher highs and higher lows. So yes, we watched this quarter and last quarter, we don't stress out about it as much because we make higher highs and higher lows, whether it was post the pandemic, whether it's post GFC, was it post 9/11, whether it was post anybody's anxiety of anything this April of 2025 when people thought that due to changing tariff policies and rate policies that we were reaching some form of climax.

That's not where we look at it today. Things have steadied much better and we just have that confidence and investors in IHG, our long-term investors, have that confidence.

Muneeba Kayani:

Maybe we could then talk about some of the key markets and starting from the US.

Elie Maalouf:

Sure.

Muneeba Kayani:

If you look at the industry data for July and August, the US is tracking minus one RevPAR. We are seeing the luxury chain scales doing better. So from your side, what are you seeing? And on the US consumer, are you seeing any difference between the high end and the low end of that?

Elie Maalouf:

We've seen the industry data for a couple of years now showing that the upper end, the real upper end, not just upscale, but the luxury side has disaggregated itself from the rest of the economy. And that makes a lot of sense when you think about the amount of wealth that's been created, not just in the US by the way, Europe, Asia, Middle East, in the ultra-high net worth, it's just staggering amount of wealth.

I was at dinner last night with a major global hospitality developer and they develop in resorts around the world, you'd know the name, I'm not going to name them, but they were telling me in one of their global resorts, they're selling branded residential at 5 to 20 million USD for apartments and for people that are going to use them once or two weeks a year. It doesn't make economic sense in the way we would think in terms of replacement costs.

Of course, that's not how people are figuring things. And so that ultra-high net worth has really separated itself. Markets could be down 20%, they won't be happy. It ain't going to change their spending habits. And so that's on one end of the barbell. On the very other end where we don't participate, the economy segment has not been doing well for over two years now. We don't participate in economy and budget for a reason. It's highly economically sensitive. And today, with inflation that's happened over the last several years, that segment's feeling pinched. We're in sort of midscale and upper midscale and above, really the heart of our business is from upper, midscale and above.

And so if you look at our US performance in the first half, yes, our luxury brands were in the four to 5% RevPAR. But our upper midscale brands and our midscale brands were still over 1% RevPAR. We saw positive growth in every one of our segments across the world. Each one of our brands have positive RevPAR growths. Yes, it was a higher performance in the upper end, which is what we expect given the strength of the ultra-high net worth customer.

But we saw steady performance also in our everyday travel brands, whether it was Holiday Inn, Holiday Express, Crowne Plaza, our Essentials and Suites brands, every one of them. And now, quarter over quarter, those things will change. But also you have to think about the resilience of the everyday brands, of our mainstream Essentials and Suites brands and the value they bring. And in the pandemic, when demand went to almost zero around the world, Holiday Inn Express occupancy never went below 50% in United States, never went below 50%.

So those hotels were cash flowing for owners and making money for IHG. Our Extended Stay brands never went below 60% occupancy. Candlewood Suites never went below 70% occupancy because there's a level of essential travel, essential travel that will continue into these brands no matter what the

conditions are. So yes, on the one hand we are growing more in luxury and lifestyle because there's an ultra-high net worth customer there that is resilient to economic downturns. But on the other hand, our Essentials and Suites brands are resilient also in the sense that there's a very high floor, there's not an infinite ceiling, but there's a very high floor.

Muneeba Kayani:

In the US, can you remind us what's your exposure to the US government and what you've seen in that sector?

Elie Maalouf:

For our US business, total government travel, which is federal, state, local, and remember for... I mean those of you here in the room are mostly US based, understand that state and local government is not an inconsiderable amount of the bureaucracy. The total government's 5%. Federal we think is around 3%.

So yes, you would not be surprised that given all the government efficiency and cost measures that government travel is down, it was down mid double-digit, 15% or so, and we expect that to continue to stay down. But we'll be lapping over that pretty soon, but that's 15% from less than 3%. In the scheme of things, it wasn't material. One thing to keep in mind though, is that even before government efficiency program, the government is actually very efficient on its travel spending. They were not a very high-rated traveler. I mean, government per diem rates are pretty low.

So yes, we're happy and we're happy to take government business, but it's not a very high-rated business. So actually on a comparable revenue impact, it is less than the percentage because we've been able to replace, not all, but we were able to replace some of that government travel with higher-rated, either leisure or corporate travel. So we think that that's a segment that is going to be always for the foreseeable future or subdued, but we're replacing it with other segments. And we look at the totality of things, our exposure to so many different industries in the United States that are doing quite well, the surge in technology spending that you're seeing, strength in retail, strength in manufacturing, the super cycle of CapEx investment that is underway, not just tech investment, but also the infrastructure investment that is following that.

Even if they spend only half of the trillions that they say they're going to spend, that's still a really impressive amount of capital that we're not distributed only to the white-collar professional services people like us that travel New York, London, L.A., Miami. Most of our distribution is to the heartland of the country where we benefit from that.

Muneeba Kayani:

If you can switch gears and talk about China, so there we've seen those negative RevPAR trends for quite a while. It's minus 3% in the first half. You've talked about easing comps. How are you thinking about the RevPAR trajectory in China? When does it start getting flat or positive even and the industry supply demand balance in China? How are you thinking about that?

Elie Maalouf:

I'll try to keep it brief because we can talk about China for a very long time, and it's a very important topic. Look, we've been in China more than 50 years now. We celebrated 50 years in China in January. I was there. We opened our 800th hotel. By early next year, we'll open our 900th. By the year after, we'll open a thousand hotels, we got over 650 hotels or so under development. So it's a very big business and

we think we have the leading business of all international companies in China given our experience there.

And so I've been saying now for over a year that China is bottoming out and that's happening. Q2 RevPAR was better than Q1 RevPAR, Q2 RevPAR this year was better than Q1 RevPAR of last year, and we expect that the second half this year will be better than the second half of last year.

It's not turning around in a v-shaped recovery. It's a very, very big market, but it's bottoming out. And so the drop in RevPAR is really all rate. Our occupancy has been steady. Flat really over the last two years, flat in the first half of the year to last year, which shows you that demand is still growing because we're growing our system at record rates actually. You had almost 9% system growth. We have a very strong pipeline. We had record signings and openings in the first half of the year in China, and we're holding occupancy. So we're absorbing demand that is growing and we're not building into declining demand whatsoever. And demand is growing to fill the supply that we're bringing. And that's a feature of developing markets like that. Supply will grow usually ahead of demand for a while.

That has been the feature of the Chinese market for 50 years, and people have been worried about oversupply in China for 50 years and for 50 years we've held occupancy. So it shows you that demand has been growing. I think that you have to look at the Chinese economy in a way, the way you look at the US economy. And there are only two economies that are in the 20 trillion dollar GDP range in the world. There's US, there's China and then there's everybody else. If you come from everywhere else, please don't be offended, but that's just a reality. Everything else just drops off the scale. It's still very attractive to us. We're in a hundred countries, but you have US, China, everybody else.

China's a highly diversified economy. So yes, the residential real estate sector has been under pressure. It's still under pressure. It's being digested. The oversupply is being digested. That's one thing to watch. Prices keep coming down, which is good. Sales have moved up, which means that the market is clearing, but it's a messy digestion, which is similar to the messy digestion of the overbuilding of residential that we had here in the US during the GFC. I was here and it was awful. It took five years to digest that overhang, but they got digested and they're letting the market clear. They're not really supporting prices, which is what you need to do.

At the same time, the residential real estate sector is not all the Chinese economy, the Chinese economy is very diversified. After the US where we have a super cycle of infrastructure investment driven by AI and technology, China's the other place where there's AI infrastructure being built and technology infrastructure being built, and that is driving that side of the economy. They're leaders in EV technologies. They're leaders in battery technology. And I mean, you saw their second quarter GDP over 5%. Second quarter exports grew 7% despite export tensions with the US.

So I think that there's a very diversified economy that finds ways to grow, a middle class that's doubling over the next 10 years. And you asked about its supply, well, if you look at the penetration of rooms in China per capita, it's somewhere between a fifth to a 10th, depending on whose analysis you look at, a fifth to a 10th of what it is in the US. Well, that gap is just going to keep tightening as the economy matures. So we're in China for the long haul. RevPAR is bottoming out, our occupancy is flat. We're growing our system at record rates with the highest quality estate we think of the industry. So we're very optimistic about the future there.

Muneeba Kayani:

And if you can wrap up with the rest of the world, as you were talking about.

Elie Maalouf:

Rest of the world is a lot.

Muneeba Kayani:

It is a lot, which goes into your EMEA segment and Europe specifically, we had some high comps, we had the Olympics, Euros, all of that going on. So maybe specifically in Europe, what you're seeing from a demand perspective and any other regions you'd kind of-

Elie Maalouf:

Pretty steady. It's the same theme I said earlier. It's pretty steady after very high comps from last year, which yes, it was event-driven, but not only event-driven. There's a lot of tourism into Europe. Americans have been going to Europe with strong desire for the last couple of years. This year, the projection is still somewhere between five and 10% increase by the end of the summer of Americans going to Europe despite a weaker dollar, despite whatever atmospheric issues, still packed with Americans in Europe and paying strong rates. And we've seen a resurgence of Chinese travelers to Europe, and I'll come back to Chinese outbound in a minute. So Europe has been pretty steady despite the high comps, and that's been good. And as you start to move east from Europe, the rates of growth are higher.

Middle East, mainly in the Gulf where we're very present, we've been there over 60 years. It's been a steady year and pretty strong. As you move into Southeast Asia, we've had double-digit growth for a second year in a row. A lot of it driven by Chinese outbound. So Chinese outbound is one of the reasons, by the way, why RevPAR in China has been down because the high-net-worth and upper-end of the Chinese market has been traveling outside of China because of the visa-free restrictions. And most of you may not know that in China, you actually need a visa to leave the country, not just to enter a different country, but they have made a lot of arrangements with neighboring countries and even some European countries to where it's visa-free in and out for Chinese travelers. So you've seen a surge of Chinese travelers to Japan, South Korea, Vietnam, Indonesia, Thailand, and so forth.

And we benefit because we're in all these markets and at high rates, by the way, with IMF managed properties. And so we've benefited from that surge of Chinese outbound. So Chinese outbound has been helping Southeast Asian growth, has been helping European growth, and that's a long secular play for us. India's been good for us. It's a long way away from being as strong and profitable as China is, but it's an emerging market for us. Saudi Arabia's been strong for us, so has Japan. So we think that it's been steady and a little bit better as you go further east.

But I step back again and talk about the long term. What you see in Southeast Asia, you see in the Middle East is a huge market, by the way, over a billion and a half people, excluding India too. It's three and a half billion people if you throw in India, two and a half billion if you throw in India. And I think that younger population, higher rates of GDP growth, stronger middle class growth, add on top of that, the highest growth of aircraft orders and airline development networks.

So we know what happens when airline networks, especially low cost networks collide with population, middle class growth and GDP growth. You get travel, right? This was the phenomenon we saw in the US in the eighties when Southwest really expanded its network. And you see that in Europe. Despite flat population growth, you see travel growth because there are so many low cost carriers. And that's what's happening in Asia.

The biggest aircraft orders are in India, they're in Malaysia, they're in the Middle East, and that's building that network. So you got to think out long-term to the structural drivers of this industry and where the growth's going to come. And you can look at this quarter and that quarter. But if you're a long-term investor looking for a compounding business like ours, that's what you have to focus on.

Muneeba Kayani:

And so as you speak to the hotel owners, what are you hearing from them? Maybe if you can start talking about in the US, right? With all the macro and tariff uncertainty, have you noticed any change in behavior or the interest?

Elie Maalouf:

Well, going back to that April through May period, there was a change in behavior in everybody, right? Everybody kind of took a pause. What does this mean? What's going to happen? Is this a whole new world? We now know that it isn't. It's just some different trade arrangements. If there's going to be inflation driven by that, we haven't seen it yet. We're not saying it won't happen, but we haven't seen it yet. And so past that turbulence, people have relaxed.

I'll just give you an anecdote. The same development group I was having dinner with last night here in New York, they're a very large US and global development company, hospitality and leisure development company. Everybody here would know them. And so what are their reflections, which are similar to those of many others. The first interesting thing they say is that credit is incredibly available, that borrowing is available to strong players, which are most of the developers that we work with.

There's this sort of interesting situation where there is very strong demand for credit today driven by private credit investors, driven by banks willing to make credit available. And so really tightening of spreads in all segments. So for an industry that likes to borrow 65, 70% of project cost, that's a favorable thing. And they've got a lot of equity investors interested. They're looking for product, they're looking for ideas, looking for investment opportunities. And so they're generally in a constructive mode. Yeah, they want their returns to work, but they've also recognized that the days of getting 20% IRRs on everything, those are gone because interest rates aren't 2% anymore. Interest rates are four to 5% on the benchmark, although spreads are tight, but the benchmark is higher. Forget the spread. At some point you're paying what you're paying. So I think that they've adjusted their expectations from everybody's got to get always 20%, which we know nobody always got anyway, but it was sort of an idea out there.

And so I think that the market is converging. The bid ask is converging in the market, and we're seeing our owners moving forward. You look at the first half of the year, we had record openings around the world. Our own room openings around the world were up 75%. Even if you strip out the Novum deal, which was a franchise deal, but it was a big lump deal, that was still 57% year-over-year growth in openings. Our signings were up 15% year over year. And that wasn't just conversions, which were 57% of our signings and openings, but it was single high digit growth in new build.

So there is confidence. We're not back to the same levels of new build signings and openings that we had before the pandemic. I think we're just grinding our way there. I would hope it would happen sooner than later, but we're grinding our way there. But our owner community, hotels are cash flowing credit is available, equity is available. They're concerned about cost, obviously labor costs and material costs, but that seems to have steadied, so I think they're in a constructive place.

Muneeba Kayani:

So with that, your own net system growth, it was 5.4% excluding the Venetian in the first half. How should we be thinking about it in the medium term? Is it a 5% handle now going forward?

Elie Maalouf:

I would say that the way to think about it is within the growth algorithm that we set out when I took over in February 2024, which is our aim is fee growth. Our investors want fee growth. And so our aim is fee growth through net system growth and through RevPAR growth and some combination of those two around the world, which will vary from time to time. Clearly the more of either is better, but sometimes they don't coincide.

The important thing is that not all system growth is the same. We want system growth that brings fee growth, not just hollow system growth. That's why in China, our business is fully controlled by us. It's not partners, it's not master franchise, and we keep all the economics. That's why we look at transactions on a rigorous basis to make sure that they're accretive, some more some less than others. There's always a strategic element, but we look for things that drive fee growth, not just things that drive system growth.

Notwithstanding in the 10 years to 2022, our system growth averaged 3% at IHG. Since then, we've done better. We've been over 4% and accelerating every year since then. And consensus this year is for 4.4. Next year is for 4.5. We're comfortable with both. We can do better. We know we can. We don't put out guidelines, we don't put benchmarks out there as we don't give guidance for anything. We are very ambitious.

Look, we have 34% of our open system, which has now reached over 1 million rooms, we have 34% of that under development. 34% in the pipeline, which means that even if we didn't sign another hotel, we have one third of growth already happening. And so yes, there is fuel in the tank to do what we're doing continuously and even more. But the key thing is we're looking at it within that equation to make sure that it's driving fee growth, driving EBIT growth and driving EPS growth because ultimately that's what we deliver to shareholders.

Muneeba Kayani:

And within that China, you mentioned your pipeline, that's about 35% of your pipeline. So what's your exposure across the tier one to four cities in China and the environment there?

Elie Maalouf:

Yeah. Well, first I'd say that our pipeline is one of the healthy aspects of our pipeline. It's pretty equally distributed. America's a third, EMEAA a third, and China a third. So our pipeline isn't just China. Our pipeline, two-thirds of it is outside of China and equally distributed around the world, which is strategic. It's not accidental. We didn't just land there by throwing darts on the wall. That was strategically because we are strong believers in these three major economies and three markets.

And in China, if you talk about tier one through tier four, in tier one, we might have 10% of our pipeline. And tiers two to three, you might have 50%. Tier four, by the way, is another 10, 15%. Tier four isn't the lowest thing. Tier four is resorts, which end up being high RevPAR. But let's put tier two and tier three in perspective for a moment. China has 100 cities with a population over a million. The US has 10. China has 18 cities with a population over 10 million. The US has none. I'm a US citizen, proud and happy to do business here, but I'm just putting in perspective that a tier two, tier three city in China is not a small village with people on horses and carts.

It can be up to 5 million people with an industrial base and a growing economy. I just want to put in perspective, Stuart and I were talking on the way over that I wonder how many people know how many people live in Manchester. It's not even a million in the UK, right? There are only two cities of the population in the UK that are over a million. And we're listed in the UK and we're proud to be there, but only two cities, London and Birmingham. Everything else is under a million. These aren't small villages. And so when you start tier two, tier three, we would not relegate them in our mind to backwaters. These are economic powerhouses and emerging ones.

I think that, again, when you look at the long-term of China, at a diversified economy, at the industrial sector, the technology sector, the manufacturing sector, the middle class growth, you have to push up against a lot of gravity. A lot of gravity to believe it's not going to be the largest domestic hotel market in the world and the largest outbound market in the world. And let's not forget the outbound, how important it is. What's important for our global network is we're strong in domestic markets that also feed our global network. We're strong in the US. There's also today the biggest outbound market in the world. We're strong in Europe, which is a strong domestic market, but also a very large outbound market. Germany alone is 80 million outbound visitors every year.

China is third competing with Germany. You have to believe China will surpass Germany, right? It just will and will be even larger than the US. It happens. Nearly a hundred million outbound today, it's going to be over that. And India, eventually, will be a very, very large outbound market. You can't just look at these very large markets as confined to themselves. It's what is the power they bring to our global network? And it's measurable.

Muneeba Kayani:

Let's talk about your credit card agreement. You signed a new one at the end of last year and you're starting to see that contribution coming through in EBIT to this year. What's been feedback from your credit card partners, and how are you thinking about rolling out co-branded credit cards in other geographies?

Elie Maalouf:

Look, we've had a long and very successful relationship with Chase and with MasterCard. After a competitive overview and process, we renewed with them for another long period. And we're very pleased with it. I think I know they're very pleased with the progress we're making, and you can see the progress we're making. Five years ago we had 100 million members in our loyalty plan. Today we have 145 million members in our loyalty plan. Five years ago our contribution globally from our Loyalty Rewards members was 46% every night. Today it's over 65% globally. The fastest growth of any major player. And it's over 70% in the US. That has built a power base underneath our credit card program. Keep in mind that the credit card program is really going to live off the strength of your loyalty program. Yes, others will join the credit card that are non-loyalty member. But by far your most prolific pool of customer candidates comes from your loyalty plan.

With a stronger loyalty plan, with a growing loyalty plan, we also have a growing credit card. That's why we did give guidance in this aspect, which is not a habit we'll make. But in this aspect, we said that our credit card fees would double this year from 2023, and we're on track for that. And that they would triple by 2028, and we're on track with that. And then continue to grow. So there's no ceiling. We haven't set a ceiling that we think if there is a ceiling, it's very, very far from where we are today. But we're on track with that and I think it shows.

The strength of the partnership with Chase and with MasterCard, the strength of our loyalty plan, the strength of our brand portfolio, which now not only is strong in Essentials and Suites brands like Holiday Inn, Holiday Inn Express, Staybridge Suites, but also very strong in Luxury & Lifestyle with Six Senses, Regent, InterContinental, Kimpton. I think all of that is powering the system in a strategic manner. I think ultimately it's delivering value for shareholders.

Muneeba Kayani:

Maybe if you can go back to your growth algorithm. And starting on the margin side you had 390 basis points margin expansion in the first half, which is actually well ahead of what you've laid out in your

growth algorithm of 100 to 150 per year. Even your EPS growth was higher than your target in the first half. Can you help us think about how you're thinking about, firstly, the second half of this year? I know you don't give guidance, but how do we think about that? And then the medium term within your growth algorithm?

Elie Maalouf:

Yeah. We've said in our growth algorithm that we target the 100 to 150 basis points of margin accretion every year from operating leverage. And we think that the nature of our business, which is asset light, global, heavily franchised, just by adding more hotels as we do every year, just by RevPAR growth, which plus or minus and by different markets, continues every year. That in and of itself drops above the cost base to margin accretion.

Then beyond that, we have a philosophy of running the company efficiently, investing in the business, adding resources where we need, leveraging technology, putting the right infrastructure, but making sure that our cost base is growing at a materially lower gradient than our revenue, than our fee revenue. We think that the scalability of our business allows for that and we think we have a discipline to continue that. What you saw in the first part of this year, part of that is that philosophy of applying technology, processes, centralized centers, new designs, to continue building an infrastructure that is efficient, that contains cost, that bends that curve of cost. Doesn't necessarily always reduce cost, but bends the curve of the cost growth well below the fee growth.

That is a compounding business and that's what's going to continue to drive in our view the 100-150 basis points. Then on top of that, because we've got the 390 basis points in the first half of the year, which I would not pencil in for the continuous future, but we had the step-up in ancillaries. Which was the credit card fees and the points sales, which are doing very well too. And so you had the combination of those two drive through 190 basis points. Consensus for the year, which we're comfortable with is for 250 to 300 basis points. So you're going to see, of course, some re-balancing of that for the second half of the year. The step-up in ancillaries will continue, but the year-over-year change in cost structure won't, so you'll end up still at a healthy, we think 250, or consensus is 250 to 300.

And from there, we're comfortable with the 100 to 150, but it's a combination of things. One is, yes, there was a step-up in ancillaries, but that philosophy of running the business efficiently, leveraging technology. And it is giving us many more ways to do it today, including artificial intelligence. Which I'm not going to major on here, as many others would drop it in many different ways. But we are leveraging new technologies like that to reduce cost and be faster processes and take care of customers better, and support owners better. And do everything better and cheaper, but also centralize centers. And new process design is going to continue bending the curve.

Muneeba Kayani:

Great. Well, I think we'll wrap up on that note. Thank you, Elie, for joining us. And thank everyone for listening in.

Elie Maalouf:

Well, thank you, Muneeba. Good to be with you.