Industry overview

We operate in an industry with high growth potential, underpinned by strong long-term fundamentals.

The global hotel industry continued to strengthen in 2023, benefitting from further consumer appetite for leisure stays and a robust return of business demand, which together drove record RevPAR levels.

The $700 billion hotel industry has compelling structural growth drivers, underpinned by factors including the inherent needs and desires to travel for business and leisure purposes, population growth, and an expanding middle class in emerging markets with increasing disposable incomes. Spend on travel continues to be among the most resilient of discretionary areas for consumers, while demand for business travel remains robust, with hotels adapting to support flexible working trends in the post-Covid-19 environment. Although there are uncertainties within the wider economic outlook, we anticipate a number of tailwinds persisting through 2024, including further progress in returning to pre-Covid-19 levels of demand for group travel to meetings and events, as well as the ongoing recovery of travel demand to and from Greater China as international flight capacity continues to increase.

In what is a relatively fragmented sector, with 56% of rooms affiliated with a global or regional chain, competitor pressures in the branded space remain intense as all major players pursue growth strategies through a combination of organic growth, partnership arrangements and acquisitions. Branded hotel penetration has steadily increased as a long-term trend, with this expected to continue to grow as consumers look to trusted brands to meet their evolving expectations, particularly when it comes to state-of-the-art technology and the skills, scale and resources required to provide guests with enjoyable, effective and sustainable stays.

While there have been short-term challenges impacting the completion and opening of new-build hotels, primarily driven by the cost and availability of financing, there remains a long-term need for new hotel supply to satisfy the demand drivers previously mentioned. Global hotel room net new supply increased at a CAGR of 2.4% over the 10 years from 2013 to 2023, with industry forecasts showing a similar rate across the next five years.

Cost remains a significant barrier to building a scale position in the global hotel industry, whether that's due to investment to build and maintain the properties, establish strong loyalty programmes and technology platforms, or to develop and market leading brands. Hotel owners affiliated with a major global brand and enterprise system also tend to generate higher returns.

The hotel industry is cyclical: long-term fluctuations in RevPAR tend to reflect the interplay between industry demand, supply and the macro-economic environment. At a local level, political and economic factors, as well as those such as terrorism, oil market conditions and significant weather events, can also impact demand and supply.

While the potential for macro-economic challenges from factors such as persistent inflation, higher borrowing costs and geopolitical flashpoints create some ongoing uncertainty in 2024, the attractive industry fundamentals that led to the sector outpacing global economic growth in 19 out of 24 years between 2000 and 2023 remain very firmly in place for the long term.

As a global business, with a footprint in over 100 countries, operating in the midst of change and uncertainty is something IHG is very used to and it continues to be one of our greatest strengths. Our strategy of developing a strong brand portfolio and an industry-leading loyalty programme, together with our fee-based income streams and prevalent midscale positioning, means we remain resilient through varying economic cycles.

The hotel industry has attractive tailwinds...

US disposable personal income grew on average by

1.6%

per annum between 2000 and 2023

Source: Federal Reserve Economic Data (FRED)

Globally, middle income consumers spent

$44tn

in 2020, with this expected to increase to

$62tn

by 2030

Source: The Brookings Institution

Global hotel room net new supply grew

2.4%

per annum between 2013 and 2023

Source: STR

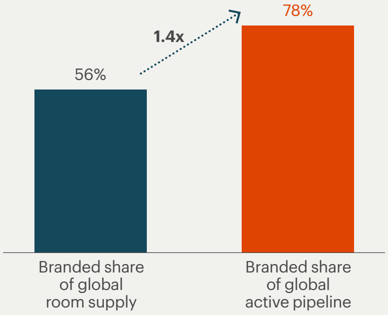
with significant barriers to entry…

The top five hotel groups[a] have increased their market share
Share of top five branded hotel groups as % of global rooms supply

[a] Includes IHG, Marriott International, Inc., Hilton Worldwide Holdings Inc., Wyndham Hotels & Resorts Inc., Accor S.A.

Source: STR

With share expected to further expand
Branded share of global industry supply and share of global industry active pipeline



Source: STR

Consumers value loyalty membership, which requires a large-scale enterprise to deliver

76%
Of consumers are more likely to recommend brands with good loyalty programmes

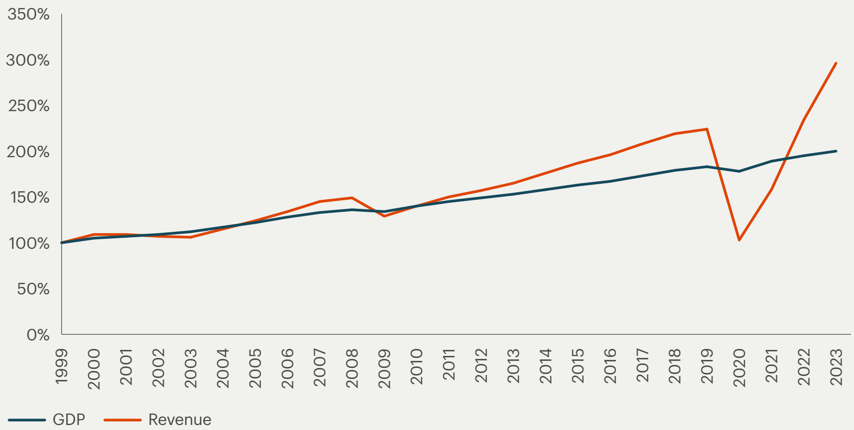
Source: Bond, in partnership with Visa

81%
Of consumers are more likely to use a brand if they are members of its loyalty programme

Source: Bond, in partnership with Visa

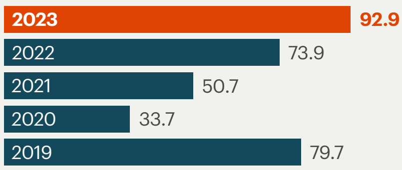
and a track record of growth

Global hotel revenues have outpaced GDP growth, and are now ahead of pre-Covid-19 levels
Global industry revenue vs global GDP, indexed to 1999



Source: STR

Global industry RevPAR ($)
RevPAR movements are illustrative of lodging demand



Source: STR

Global rooms supply (m rooms)
Supply growth reflects the attractiveness of the hotel industry

Source: STR

Branded hotel business models
There are two principal business models:

- A fee-based, asset-light model:
  - Franchised: owned and operated by parties distinct from the brand, who pay fees to the hotel company for use of its brand.
  - Managed: operated by a party distinct from the hotel owner. The owner pays management fees and, if the hotel uses a third-party brand name, fees to that third-party, too.
- An owner-operated, asset-heavy model:
  - Owned: operated and branded by the owner who benefits from all the income.
  - Leased: similar to owned, except the owner-operator does not have outright ownership of the hotel but leases it from the ultimate owner.

Asset-heavy models generate returns on the real estate and centralise control over operations. Asset-light models typically enable faster growth and generate higher returns. This model tends to present lower risk to fluctuations in the economy.