# Our business model

We predominantly franchise our brands and manage hotels on behalf of third-party hotel owners. While we will continue to have a weighting towards Essentials, our pipeline shows an increasing proportion of growth in the Premium and Luxury & Lifestyle segments, as well as a more even geographical spread.

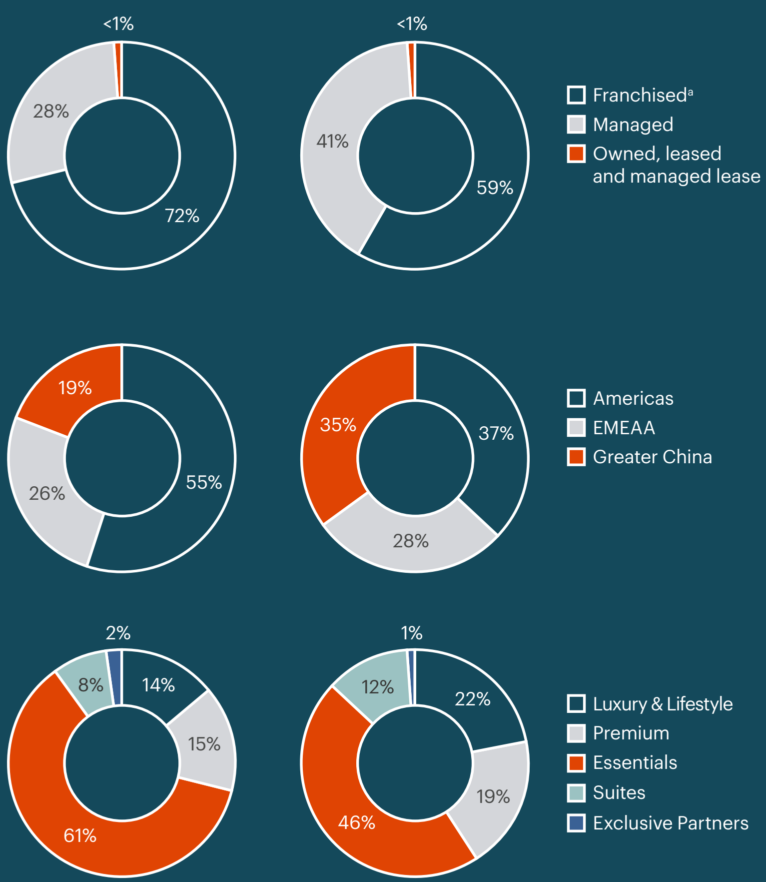
**Total system size**

946,203 rooms

**Total development pipeline**

296,954 rooms

**Composition of rooms** | **Composition of rooms**




[a] Includes Iberostar Beachfront Resorts, which joined IHG's system and pipeline as part of a long-term commercial agreement.

**The growth of our business relies on two fundamental drivers: increasing revenue per available room (RevPAR) and expanding the number of rooms in our system. RevPAR indicates the value guests ascribe to a given hotel, brand or market, and grows when they stay more often or pay higher rates. Room supply also reflects capturing structural growth drivers of increasing demand to travel and experience, as well as how attractive the hotel industry is as an investment from an owner's perspective.**

To drive growth, we have a portfolio of 19 brands across more than 100 countries in the Luxury & Lifestyle, Premium, Essentials, Suites and Exclusive Partners categories. Supported by a leading loyalty programme and powerful technology, our brands meet clear guest needs and generate strong returns for our owners, which in turn attracts further hotel investment and grows our system size.

IHG is an asset-light business, and our focus is on growing fee revenues and fee margins, which we can do with limited capital requirements. This enables us to grow and invest in our business while generating high returns on invested capital and strong cash flow.

We generally franchise or manage hotels, with the decision largely driven by market maturity, owner preference and, in certain cases, the particular brand. Hotels in the Essentials category tend to be franchised, while Luxury & Lifestyle hotels are predominantly managed.

Our broad geographic spread and weighting towards essential business and domestic leisure has driven comparative resilience during times of economic downturn. Although this continues to be a core component of our business, we have made excellent progress in expanding our presence in the Luxury & Lifestyle segment, which generally generates higher fees per room. This category is currently 14% of IHG's system size, though comprises 22% of the future growth pipeline.

Our asset-light business model means we do not employ colleagues in franchise hotels, nor do we control their day-to-day operations, policies or procedures. That being said, IHG and our franchise hotels are committed to delivering a consistent brand experience, conducting business responsibly and sustainably so that we deliver our purpose of providing True Hospitality for Good.

## How we generate revenue

### Third-party owners pay

**Fees** to IHG in relation to the licensing of our brands and, if applicable, hotel management services.

#### IHG fee revenue

**2023:**

**$2,164m**

**Franchised hotels**
We receive a fixed percentage of rooms revenue when a guest stays at one of our hotels. This is our fee revenue.

RevPAR X Rooms X Royalty rate

**Managed hotels**
We generate revenue through base management fees and incentive management fees.

Fixed % of total hotel revenue as a management fee and typically a share of hotel gross operating profit after deduction of management fees

**Exclusive partners**
We receive marketing, distribution, technology and other fees for providing access to our enterprise platform.

Fee streams similar to our asset-light model

Revenue attributable to IHG comprises:

- Fee business revenue from reportable segments:
  - Franchise fees
  - Management fees
  - Commercial agreement fees
  - Central revenue (principally technology fee income)
- All revenue from owned, leased and managed lease hotels.

→ See page 85 for more information.

**Assessments and contributions** that are collected for specific use within the System Fund, as well as reimbursable revenues.

#### System Fund and reimbursable revenues

**2023:**

**$2,460m**

**System Fund**
IHG manages a System Fund for the benefit of hotels within the IHG system and their third-party owners, who pay contributions into it. This includes a marketing and reservation assessment and a loyalty assessment.

The System Fund also benefits from proceeds from the sale of IHG One Rewards points under third-party co-branding arrangements.

Given the significant scale of the System Fund, IHG can make substantial investments in marketing brands, creating a leading loyalty programme and powerful technology, including revenue management systems, thereby strengthening the IHG enterprise.

The System Fund is not managed to a profit or loss for IHG over the longer term, but for the benefit of hotels in the IHG system, and comprises:

- Assessments and contributions paid by hotels.
- Revenue recognised on consumption of IHG One Rewards loyalty points.

**Reimbursable revenues**
In a managed property, the Group typically acts as employer of the general manager and, in some cases, other employees at the hotel, and is entitled to reimbursement of these costs. The performance obligation is satisfied over time as the employees perform their duties, consistent with when reimbursement is received.

→ See page 66 for more information.

### Owned, leased and managed lease hotels

For the small number of hotels (representing <1% of our system size) that we own or lease, we record the entire revenue and profit of the hotel in our financial statements.

# Our business model continued

## How we drive operating profit

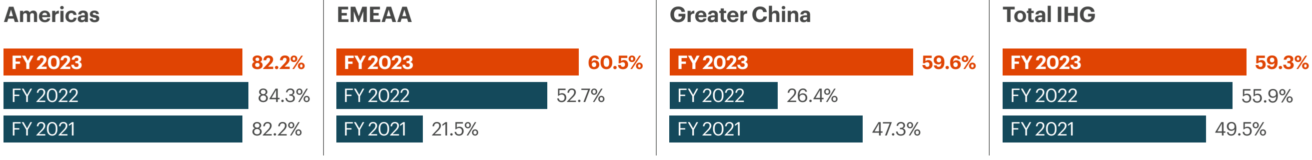
Our asset-light business model requires a limited increase in IHG's own operating expenditure to support our revenue growth, which delivers operating profit and fee margin growth.

The benefit of operational efficiencies, along with brands and markets becoming more mature, supported fee margin expansion of around 130bps a year between 2009 and 2019 in total for IHG.

For franchised hotels, the flow through of revenue to operating profit is higher than it is at managed hotels, given the fee model and our well-invested scale platform where limited resources are required to support the addition of an incremental hotel. This is most evident in our Americas region, where fee margins are the highest, reflecting our scale and over 90% of our hotels operating under our franchised model.

Across our managed hotels, the flow through of revenue to profit can be lower, given higher operating expenditure on operations teams supporting the hotel network.

**Fee margin[a] by region**



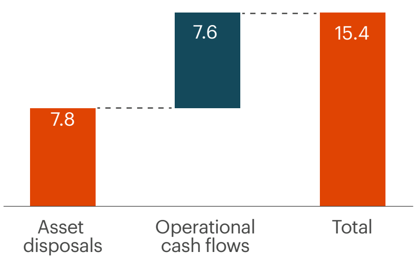

[a] Use of Non-GAAP measures: In addition to performance measures directly observable in the Group Financial Statements (IFRS measures), additional financial measures (described as Non-GAAP) are presented that are used internally by management as key measures to assess performance. Non-GAAP measures are either not defined under IFRS or are adjusted IFRS figures. Further explanation in relation to these measures can be found on page 84 to 88 and reconciliations to IFRS figures, where they have been adjusted, are on pages 226 to 231.

Our owned, leased and managed lease hotels tend to have significantly lower margins than our fee business. This is because we not only record the entire revenue of the hotel, but also the entire cost base, which includes staff and maintenance of the hotel.

## Capital allocation and dividend policy

**Consistent uses of generated cash**
Our priorities for the uses of cash are consistent with previous years and comprise three pillars:

**Shareholder returns (2003-23) ($bn)**
Source of returns




**1**
**Invest in the business to drive growth**
We look to strategically drive growth, while maintaining strict control on investments and our day-to-day capital expenditures.

**2**
**Target sustainable growth in the ordinary dividend**
IHG has a dividend policy where we would look to grow the ordinary dividend each year, while balancing all our stakeholder interests and ensuring our long-term success.

**3**
**Return surplus capital to shareholders**
The Board expects our asset-light model to provide the opportunity to routinely return additional capital to shareholders such as through share buybacks.

## Capital expenditure

Spend incurred by IHG can be summarised as follows:

| Type | What is it? | Recent examples |
|---|---|---|
| **Maintenance capital expenditure and key money** | Maintenance capital expenditure is devoted to the maintenance of our systems and corporate offices, along with our owned, leased and managed lease hotels.<br><br>Key money is expenditure used to access strategic opportunities, particularly in high-quality and sought-after locations, when returns are financially and/or strategically attractive. | Examples of maintenance spend include investment in corporate technology and software, as well as office refurbishment and maintenance. Across our owned, leased, and managed lease hotels we invest in refurbishment of public spaces and guest rooms.<br><br>Examples of key money include investments to secure representation for our brands in prime locations. |
| **Recyclable investments to drive the growth of our brands and our expansion in priority markets** | Recyclable investments are capital used to acquire real estate or investment through joint ventures, equity capital, or loans to facilitate third-party ownership of hotel assets. This expenditure is strategic to help build brand presence.<br><br>We would look to divest these investments at an appropriate time and reinvest the proceeds across the business. | Examples of recyclable investments in prior years include our EVEN Hotels brand, where we used our capital to develop three hotel properties in the US to showcase the concept. These hotels were subsequently sold and now operate under a franchise agreement. More recently, recyclable investments have included the initial purchasing of sites for the Six Senses brand to be developed in key markets in the US. |
| **System Fund capital investments for strategic investment to drive growth at hotel level** | The development of tools and systems that hotels use to drive performance. This is charged back to the System Fund over the life of the asset. | We continue to invest in a range of upgraded technology solutions, including the ongoing development of IHG's mobile app and IHG One Rewards loyalty evolution. |

## Dividend policy and shareholder returns

The Board consistently reviews the Group's approach to capital allocation and seeks to maintain an efficient balance sheet and investment-grade credit rating. IHG has an excellent track record of returning funds to shareholders through ordinary and special dividends, and share buybacks. The ordinary dividend paid to shareholders increased at an 11% CAGR between 2004 and 2019, and at a 10% CAGR after resuming dividend payments at the end of 2021.

Our asset-light business model is highly cash generative through the cycle and enables us to invest in our brands and strengthen our enterprise. When reviewing dividend recommendations, the Board looks to ensure that any recommendation does not harm the sustainable success of the Company and that there are sufficient distributable reserves to pay any recommended dividend. The Board assesses the Group's ability to pay a dividend bearing in mind its responsibilities to its stakeholders and its objective of maintaining an investment-grade credit rating. One of the measures we use to monitor this is net debt:adjusted EBITDA and we aim for a ratio of 2.5-3.0x.

$500m of surplus capital was returned via a buyback programme announced in August 2022 and then a further $750m via a subsequent programme over the course of 2023. The highly cash-generative nature of our business model means we expect to have substantial ongoing capacity to return further surplus capital to shareholders, such as through share buybacks, as we look to move leverage into our target range over time.

The Board intends to continue sustainably growing the ordinary dividend and to typically pay dividends weighted approximately one-third to the interim and two-thirds to the final payment.

In February 2023, IHG's Board proposed a final dividend of 94.5¢ in respect of 2022, representing growth of 10% on that for 2021. The proposal was subsequently approved at the AGM and paid to shareholders on 16 May 2023.

In August 2023, IHG's Board declared an interim dividend of 48.3¢ per share, representing growth of 10% on 2022's interim dividend. This was paid to shareholders on 5 October 2023.

The Board is proposing a final dividend of 104.0¢ in respect of 2023, representing growth of 10% on that for 2022. The proposed total dividend for the year is therefore 152.3¢. Further, the Board have approved a share buyback programme to return an additional $800m of surplus capital in 2024. Given expectations for growth and EBITDA in 2024, leverage is expected to be around the lower end of our target range of 2.5-3.0x.