

Our business model

What we do

We provide an enterprise platform for hotel owners to join the IHG system through a family of 19 hotel brands and IHG One Rewards, one of the world's largest hotel loyalty programmes. Our overall enterprise, including our brands and technology, meets clear guest needs and generates strong returns for our hotel owners.

This in turn attracts further new-build hotel investment and existing hotels to convert to IHG's brands, which grows our system size. We predominantly franchise our brands and manage hotels on behalf of third-party hotel owners, with the decision largely driven by market maturity, owner preference and, in certain cases, the particular brand.

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 prices. Room supply and the size of our system also reflect capturing structural growth drivers of increasing demand to travel and experience,

as well as how attractive the hotel industry and IHG is as an investment from a hotel owner's perspective.

IHG is an asset-light business, with a focus 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.

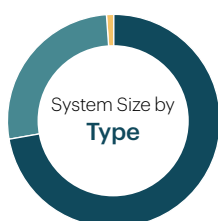
Hotels in the Essentials category tend to be franchised, while Luxury & Lifestyle hotels are predominantly managed. Our broad geographic spread and weighting towards essential business and domestic leisure drives comparative resilience during times of economic downturn.

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, and comprises 21% of the future growth pipeline.

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 and conducting business responsibly and sustainably.

Total system size

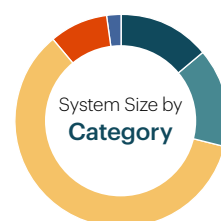
987,125
rooms



■ Franchised^a: 73%
■ Managed: 27%
■ Owned, leased and managed lease: <1%



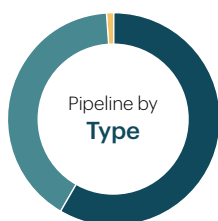
■ Americas: 53%
■ EMEAA: 27%
■ Greater China: 20%



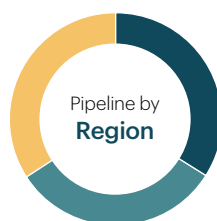
■ Luxury & Lifestyle: 14%
■ Premium: 15%
■ Essentials: 60%
■ Suites: 9%
■ Exclusive Partners: 2%

Total development pipeline

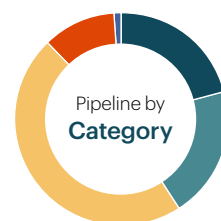
325,252
rooms



■ Franchised^a: 59%
■ Managed: 41%
■ Owned, leased and managed lease: <1%



■ Americas: 34%
■ EMEAA: 32%
■ Greater China: 34%



■ Luxury & Lifestyle: 21%
■ Premium: 20%
■ Essentials: 47%
■ Suites: 11%
■ Exclusive Partners: 1%

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

How we generate revenue

As an asset-light business, revenue attributable to IHG is the fees charged to third-party hotel owners, rather than the entire revenue base of the hotels themselves. IHG also receives various ancillary fee streams.

In 2024, IHG's revenue from fee business was \$1,774m (which generated an operating profit of \$1,085m). For the small number of owned, leased and managed lease hotels, the entire revenue of these hotels is attributable to IHG, which in 2024 was \$515m (generating an operating profit of \$45m). Total revenue reported for IHG in 2024 was \$4,923m, which additionally includes \$1,611m of System Fund revenue, \$1,000m of reimbursable revenue, and \$23m of insurance activities revenue.

Third-party hotel owners pay...

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

Franchised hotels

We receive franchise fees based upon a fixed percentage of rooms revenue when a guest stays at one of our hotels.

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

The above fee streams drive the fee revenue that IHG recognises in its three reporting regions. Certain other fees paid by third-party hotel owners, such as technology fees, are additionally recognised in Central revenue.

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

System Fund

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

Revenue recognised by the System Fund also includes a portion of revenue on consumption of IHG One Rewards loyalty points. Given the significant scale of the System Fund, IHG can make substantial investments in marketing brands, creating a leading loyalty programme and developing powerful technology systems, thereby strengthening the whole IHG enterprise for the benefit of all our hotel owners.

The System Fund is not managed to surplus or deficit for IHG over the longer term, but for the benefit of hotels in the IHG system.

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.

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Ancillary fee streams

Aside from fees paid to IHG from third-party hotel owners, IHG also receives ancillary fee streams. These include fees related to co-branded credit cards, a portion of proceeds from the sale of loyalty points to consumers, and other fees related to branded residential properties.

For more details, see page 26.

Owned, leased and managed lease hotels

For the small number of hotels that we own or lease (representing less than 1% of our system size), 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 that averaged around 130bps a year between 2009 and 2019 in total for IHG.

In 2024, our fee margin increased by 190bps, which was ahead of the 100–150bps annual improvement on average over the medium to long-term that is expected to be driven by positive operating leverage.

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 more than 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.

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.

Fee margin by region

Americas		EMEEA	
FY2024	81.2%	FY2024	65.3%
FY2023	82.2%	FY2023	60.5%
FY2022	84.3%	FY2022	52.7%
Greater China		Total IHG	
FY2024	60.9%	FY2024	61.2%
FY2023	59.6%	FY2023	59.3%
FY2022	26.4%	FY2022	55.9%

Capital allocation

Our priorities for the uses of the cash flow that IHG generates are consistent with previous years and comprise three pillars:

Shareholder returns 2022–24 (\$bn)

Category	Value (\$bn)
Ordinary dividends	0.7
Share buybacks	2.1
Total	2.8

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
Key money and maintenance capital expenditure	<p>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.</p> <p>Maintenance capital expenditure is devoted to the maintenance of our systems and corporate offices, along with our owned, leased and managed lease hotels.</p>	<p>Examples of key money include investments to secure representation for our brands in prime locations.</p> <p>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.</p>
Recyclable investments to drive the growth of our brands and our expansion in priority markets	<p>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.</p> <p>We would look to divest these investments at an appropriate time and reinvest the proceeds across the business.</p>	<p>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 franchise agreements.</p> <p>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.</p>
System Fund capital investments for strategic investment to drive growth at hotel level	<p>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.</p>	<p>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.</p>

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 where we aim for a ratio of 2.5–3.0x.

\$500m of surplus capital was returned via a buyback programme announced in August 2022, \$750m via a programme announced in February 2023, and then a further \$800m via a subsequent programme in 2024. 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 2024, IHG's Board proposed a final dividend of 104.0¢ in respect of 2023, representing growth of 10% on that for 2022. The proposal was subsequently approved at the AGM and paid to shareholders on 14 May 2024.

In August 2024, IHG's Board declared an interim dividend of 53.2¢ per share, representing growth of 10% on 2023's interim dividend. This was paid to shareholders on 3 October 2024.

The Board is proposing a final dividend of 114.4¢ in respect of 2024, representing growth of 10% on that for 2023. The proposed total dividend for the year is therefore 167.6¢. Further, the Board have approved a share buyback programme to return an additional \$900m of surplus capital in 2025. Given expectations for growth and EBITDA in 2025, leverage is expected to be around the lower end of our target range of 2.5–3.0x.

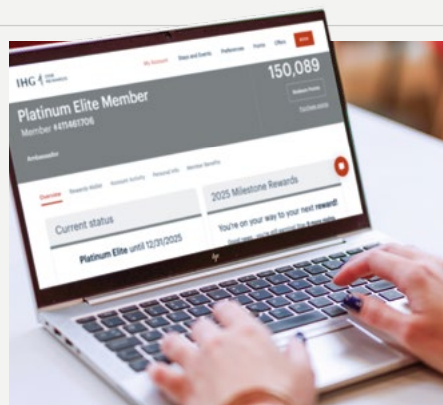
Our business model continued

Driving ancillary fee streams

Ancillary fee streams further leverage the strength of IHG's brands and our powerful enterprise platform. As well as additional fee revenue, they typically flow through to operating profit at a high incremental margin, therefore contributing to overall fee margin accretion.

Loyalty points sales to consumers

Our loyalty programme, IHG One Rewards, allows members to earn points through qualifying stays and through third-party partnerships and programmes. Points revenue is generated through hotel assessments from qualifying stays, third-party points purchases to support partnership arrangements, and points purchased by members. Points revenue was previously included in the System Fund, but from the start of 2024 a portion of revenue from the sale of certain loyalty points is attributed to fee business revenue, delivering approximately \$25m incrementally to revenue and operating profit from reportable segments in 2024. The change applied to 50% of proceeds from points sold in 2024 and will increase to 100% in 2025, approximately doubling the benefit to IHG's reportable segments. Further points revenue growth is expected in future years as the number of points sold continues to increase, driven by the growth in the attraction and scale of the IHG One Rewards Programme. In 2024, the programme grew to over 145 million members who are responsible for over 60% of room nights consumed globally.



Co-brand credit cards

Co-brand credit cards drive further membership and loyalty to our IHG One Rewards programme, deepening guest relationships and delivering more business to our hotels. Co-brand credit card partners pay fees to IHG for:

- access to our loyalty programme and customer base and the rights to use IHG brands;
- arranging for the provision of future benefits to members who have earned points or free night certificates;
- performing marketing services.

IHG One Rewards co-brand credit card holders stay even more frequently and spend more in IHG hotels. 2024 was a record-breaking year for new account applications, there was double-digit percentage growth year-on-year in total card customers, and total card spend was around 25% higher than before the relaunch of card products two years' earlier. In November 2024, IHG entered into new agreements with our card issuing and financial services partners that were effective immediately from that date and have an initial term running through to 2036. Under prior arrangements, fees recognised within IHG's operating profit from reportable segments were \$39m in 2023, with these expected to be double that level in 2025.



Branded residential properties

A further example of driving ancillary fees through the strength of IHG's brands is their use to generate increased sales of residential property, typically alongside a hotel development with shared services and facilities. This industry segment has increased by 180% over the last decade. IHG already has more than 30 branded residential projects that are open or selling properties across five brands in 15 countries, and more in the pipeline including further projects where sales will launch in 2025. Signings in 2024 involving branded residences included Kimpton Monterrey in Mexico, the Regent Residences Dubai at Marasi Marina, and several for Six Senses, such as in the US at Telluride in the Colorado Rockies and Riverstone Estate in Foxburg, Pennsylvania, and at Dubai Marina. Fees earned by IHG from branded residences are recognised within IHG's operating profit from reportable segments.



Why hotel owners choose to work with IHG

Hotel owners choose to work with IHG because of the trust they have in our brands and our track record in delivering strong returns.

