# Industry overview

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

**The global hotel industry continued to demonstrate a high degree of resilience through the macroeconomic uncertainties of 2022. As we move into 2023, the capacity for long-term structural growth is clear.**

The $550 billion hotel industry has compelling structural growth drivers, underpinned by factors including the inherent need and desire to travel for business and leisure purposes, population growth, and an expanding middle class in emerging markets with increasing disposable income. 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. Though there are uncertainties within the wider economic outlook, a number of tailwinds may also persist through 2023, including the continued progress in returning to pre-Covid-19 levels of demand for group travel, as well as the ongoing reopening and recovery of several major international markets, such as Greater China and Japan.

In what is a relatively fragmented sector, with 55% 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, partnering 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, driven by supply chain and contractor constraints, financing availability, and lingering Covid-19 restrictions in certain markets, there remains a long-term need for new hotel supply to satisfy the demand drivers listed above. Global hotel room net new supply increased at a CAGR of 2.0% over the 10 years from 2012 to 2022, with forecasts indicating a similar rate into the future.

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, to 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 macroeconomic environment. At a local level, political, economic and other factors such as terrorism, oil market conditions, hurricanes and the ongoing pandemic response can also impact demand and supply.

Shorter-term economic challenges may therefore become more of a factor in 2023, and health-related travel restrictions could recur, which would lead to the volatility in demand seen in recent years. However, the attractive industry fundamentals that led to the sector outpacing global economic growth in 18 out of 23 years between 2000 and 2022 are anticipated to be fully restored in the longer term. For example, STR data shows that US industry RevPAR has already returned to 2019 levels during 2022 on a nominal basis, and STR's forecasts are for both occupancy and real ADR to exceed 2019 levels by 2025.

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 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**

**1.5%**

**per annum between 2000 and 2022**

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%**

**per annum between 2012 and 2022**

Source: STR

## with significant barriers to entry...

### The top five hotel groups[a] have increased their market share

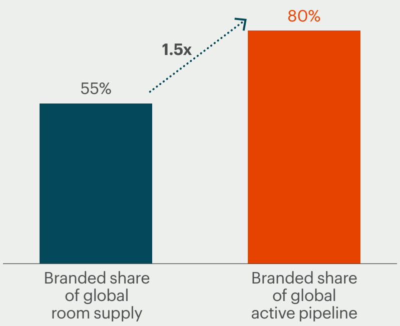
Share of top five branded hotel groups as % of global rooms supply


[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

**74%**

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

Source: Bond, in partnership with Visa

**78%**

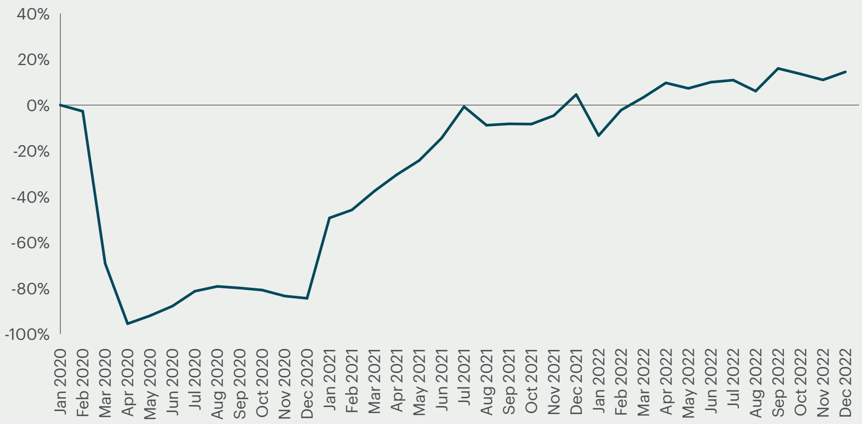
**Of loyalty members have a redemption goal for the programme**

Source: Bond, in partnership with Visa

## and a track record of growth

### Industry RevPAR has shown resilience and recovery post-Covid-19

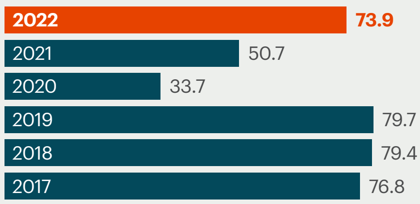
US Industry RevPAR growth, indexed to 2019




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.