

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.

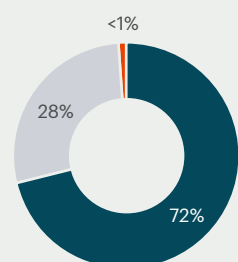
Total system size

911,627
rooms

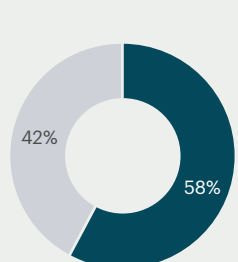
Total development pipeline

281,468
rooms

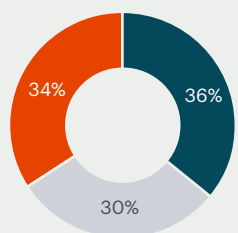
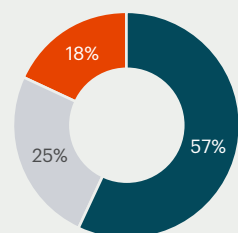
Composition of rooms



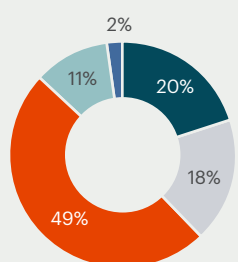
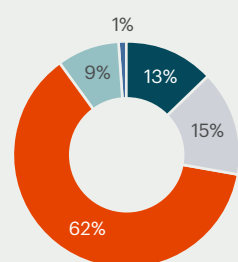
Composition of rooms



■ Franchised*
■ Managed
■ Owned, leased and managed lease



■ Americas
■ EMEA
■ Greater China



■ Luxury & Lifestyle
■ Premium
■ Essentials
■ Suites
■ Exclusive Partners

* 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 growth drivers: revenue per available room (RevPAR) and increasing 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 reflects how attractive the hotel industry is as an investment from an owner's perspective.

To drive growth, we have a portfolio of 18 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 travel has driven comparative resilience during times of economic downturn. Though 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 13% of IHG's system size, though comprises 20% 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

Franchised hotels

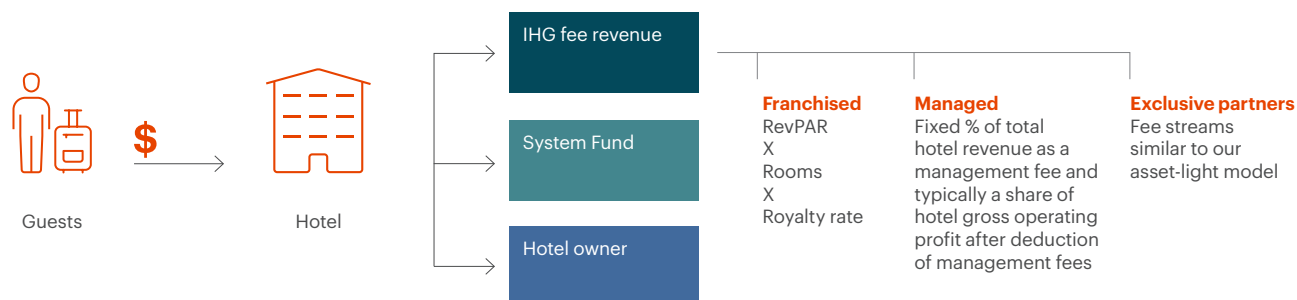
We receive a fixed percentage of rooms revenue when a guest stays at one of our hotels. This is our fee revenue.

Managed hotels

From our managed hotels, we generate revenue through a fixed percentage of the total hotel revenue and a proportion of hotel profit.

Exclusive partners

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



Owned, leased and managed lease hotels

For hotels which we own or lease, we record the entire revenue and profit of the hotel in our financial statements. Our owned, leased and managed lease hotels have reduced from over 180 hotels 20 years ago to 16 hotels at 31 December 2022.

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.

Third-party hotel owners pay:

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

Assessments and contributions that are collected by IHG for specific use within the System Fund.

IHG revenue from reportable segments^a

2022: \$1,843 million

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 84 for more information.

System Fund revenues

2022: \$1,217 million

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

See page 68 for more information.

^a Excludes System Fund and hotel cost reimbursements.

Our business model continued

How we drive operating profit

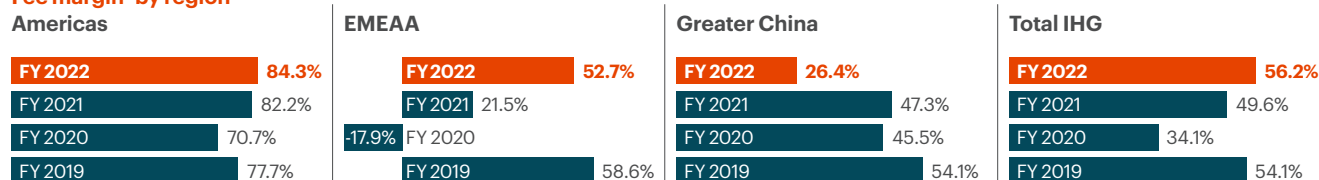
Our asset-light business model requires a limited increase in IHG's own operating expenditure to support our revenue growth, which delivers operating profit and fee margin growth.

The benefit of operational efficiencies, along with brands and markets becoming more mature, has supported fee margin expansion on average by over 130bps a year between 2009-2019.

For franchised hotels, the flow through of revenue to operating profit is higher than it is at managed hotels, given 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 Fee margin excludes owned, leased and managed lease hotels, significant liquidated damages and the results of the Group's captive insurance company and is stated at AER.

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 cash

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

Shareholder returns (2003-22) (\$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 funds to shareholders

The Group has a strong track record of returning surplus cash to shareholders. Since 2003, including the ordinary dividend, the Group has returned \$14.3bn.

^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 85 to 88 and reconciliations to IFRS figures, where they have been adjusted, are on pages 226 to 232.

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. 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 guestrooms. 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 or equity capital. This expenditure is strategic to help build brand presence. 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.
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.

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.

In February 2022, IHG announced that ordinary dividend payments would resume with an 85.9¢ proposed final dividend in respect of 2021. This reflected 2021's improved trading as the business continued to recover from the pandemic, strong cash flow, and significant reduction in net debt. The proposal was subsequently approved at the AGM and paid to shareholders on 17 May 2022.

In August 2022, IHG announced the resumption of the interim dividend, with a proposed payment of 43.9¢ per share,

representing growth of 10% on the 39.9¢ interim dividend paid in 2019. This was paid to shareholders on 6 October 2022. In addition to the interim dividend, a \$500m share buyback programme was also announced. This commenced on 9 August 2022 and completed on 31 January 2023.

The Board is proposing a final dividend of 94.5¢ in respect of 2022, which is consistent with the 10% growth of the reintroduced interim dividend on the prior interim payment in 2019. The proposed total dividend for the year is therefore 138.4¢. Further, the Board have announced a share buyback programme to return an additional \$750m of surplus capital in 2023.