IHG Checks In On… Capital Expenditure

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Featuring (in order of appearance):

- ***Stuart Ford, SVP Head of Investor Relations***
- ***Michael Glover, Chief Financial Officer***
- ***Blake Longstaff – SVP, Chief Finance Officer Americas***
- ***Matt Woollard, SVP Chief Finance Officer EMEAA***

Stuart Ford, SVP Head of Investor Relations (SF)

Hello, I'm Stuart Ford, SVP and Head of Investor Relations at IHG Hotels & Resorts. Welcome to IHG 'Checks In On…', a series of videos, webinars and fireside chats for investors, analysts and other stakeholders looking to learn more about how IHG operates and drives value for shareholders.

Today's episode will go into more detail on capital expenditure, with particular focus on what in the hotel industry is referred to as "key money", and I'm pleased to say that I'm once again joined by Michael Glover, IHG's Group Chief Financial Officer, to help the audience gain deeper insight on this important topic.

Together we'll be considering the strategic approach IHG takes to capital deployment, and how that fits into the wider investment case and growth algorithm. We'll also shine a light on the highly disciplined governance structure which IHG employs to ensure the optimum utilisation of its investment resources and balance sheet, as well as covering some of the more technical aspects of relevant accounting and reporting principles.

It would be impossible to discuss capital expenditure without taking a deep dive into key money, and I'm very pleased to say that we'll also be joined later on by IHG's regional Chief Financial Officers for the Americas and EMEAA regions, to help Michael and I cover further ground on this hotly discussed industry topic.

So, let's kick off!

Good morning Michael!

Michael Glover, Chief Financial Officer (MG)

Good morning Stuart, it's great to be here.

SF

And Michael, this is now your third IHG Checks In On appearance?

MG

That's right – and I'm really pleased to have the opportunity to speak today on capital expenditure. It's been a big topic over the last year or so, with key money in particular generating a significant amount of discussion. There isn't often time to cover all the bases in a normal length investor meeting or results presentation, so this format is fantastic to really take a deep dive into the detail.

SF

Absolutely. So why don't we start by quickly reminding viewers of IHG's strategic approach to the allocation of capital.

MG

Great idea.

Now, those familiar with our growth algorithm will already recognise the tenets of our capital allocation approach, but I think it is important to start off by quickly re-establishing this context, particularly for those who may be newer to our investment case.

We are a highly cash generative business, with a long track record of achieving around 100 percent earnings to free-cash-flow conversion. Our first priority for this cash is to ensure the business is fully invested in to drive our growth potential. We have built a high barrier-to-entry global business, and through the capital expenditure and M&A investments we have made over many years – and continue to make – we grow our scale, strengthen our enterprise platform, and deliver a high margin, high earnings growth business.

Next, our free cash flow is used to fund sustainable growth in the ordinary dividend – and we've seen that increase by 10 percent annually for the last four years after payments were briefly paused during the pandemic.

Finally, we look to return any surplus funds via our longstanding rolling buyback programmes, while aiming to achieve leverage within our target range of 2.5 to 3 times net debt-to-EBITDA. This has seen the buyback quantum increase from 500 million dollars in 2022 to 900 million in 2025 as we increased leverage back up into that target range, and for 2026 we announced another programme to return a further 950 million.

So taken together, the highly generative cash nature of our business will have allowed IHG to return over 5 billion dollars to shareholders through dividends and buybacks over the five years from 2022 to 2026.

SF

It's a core component of our investment case Michael, and always great to remind viewers the fantastic track record of IHG's shareholder returns. Why don't we pivot now to talk in more depth about IHG's capital expenditure?

MG

Absolutely - and why don't we start by first establishing what we actually mean by capital expenditure? From an accounting point of view, you can argue its relatively well defined, but what are we really talking about here?

IHG guides to spending up to 350 million dollars annually on capital expenditure.

Our capital expenditure consists of key money, maintenance capex, recyclable capex, and System Fund capex. Obviously, capex excludes adhoc M&A – it wouldn't make sense for our type of business to put something like that into our overall guidance as M&A is ad hoc and 'lumpy'. IHG has done 4 acquisitions in the last decade, and equally our capacity to deploy ordinary course capital expenditure should not be impacted by opportunistic M&A activity, and vice versa.

We're going to spend a lot of time on key money today, so I'm going to come back to that one – but let me quickly explain the other areas of capital expenditure.

Maintenance capex, as the name suggests, is devoted to the maintenance of our own tech systems and corporate offices, along with the very small number of owned and leased hotels that IHG has.

With our successful progress to migrate to software-as-a-service as the predominant means for deploying corporate IT tech infrastructure, the efficient rationalisation of our global office footprint, and the reduction of our owned and leased estate – we are down to just 17 of these hotels out of a total of over 7,000 hotels in our global estate – you can see that our maintenance spend has been on a reducing trend over the last decade.

There is a degree of lumpiness to this spend – some years there might be a little more to spend on offices and hotels, some years a little less, but overall the requirements are far lower than a decade or so ago, when we had not yet completed our asset light journey.

And just to be clear, the vast majority of ordinary course hotel maintenance in our owned and leased estate is funded at the hotel level via the furniture, fixtures, and equipment reserves. It is typically only discrete, incremental projects which fall into this centralised bucket.

SF

And so, given the relatively small size of IHG's owned and leased estate, I presume these projects account for a small proportion of IHG's overall capital expenditure?

MG

That's right. We'd expect maintenance capex to continue roughly in that 30 to 50 million dollars a year range that it has been at for the last few years.

So next, let me talk about recyclable capital expenditure.

This can be defined as investments which are made with the expectation to divest at a future date, and then subsequently reinvest the proceeds across the business.

SF

Ok, so recycling the proceeds from the investment, and so this is investment that is temporary in nature?

MG

Exactly.

But look, we're not an investment fund. I'm the CFO of a global hotel group, not a portfolio manager. Sometimes though, it is necessary for IHG to secure real estate or investment through joint ventures, equity capital, or loans to facilitate third-party ownership of hotel assets.

A great example of this was our joint venture investment in Hotel Indigo Lower East Side, where we used our capital to help develop a flagship property in a prime New York City location. The hotel was subsequently sold, with IHG therefore recycling the capital, and is now operated under a management contract within our estate.

More recently, recyclable investments have included the Kimpton Era, also in New York City, and the InterContinental Orlando. Both these projects represent showcase luxury and lifestyle opportunities in key gateway cities.

There will always be a lag in terms of how long it takes to recycle the capital – the return horizons can be three to five years – in exceptional cases, potentially longer – but over the medium-to-long term, the inflows and outflows should be broadly neutral.

And as you can see from this chart, over the last ten years, our net position is an outflow of less than 50 million dollars. This is predominantly due to there being an elevated number of deals with recyclable capital expenditure attached in 2024 which we haven't had the flow back yet.

SF

And, coming on then to System Fund capex?

MG

There are similarities between recyclable capex and System Fund capex in the sense that IHG ultimately gets the investment back in the medium term.

There is already a previous episode of IHG Checks In On that covers this in some detail, so I won't get too deep in the weeds on this one, but at a very high level, all System Fund capital expenditure is initially paid for by IHG. Depreciation and amortisation is then recorded as a System Fund expense, reducing the System Fund capacity to spend in other areas, and therefore this enables IHG to recover what it has initially paid out in capex on behalf of the System Fund.

On average over the last 10 years, capex on behalf of the System Fund has averaged 67 million dollars a year – we were significantly above that in the years of heavy lifting with the capex to move to our new GRS system in 2017 to 2019, and in more recent years, we are below, but with an extremely well invested tech stack given the industry-leading moves that we've made in this area.

SF

So from how you have described each of those types of capital expenditure, Michael – one can determine that there are broadly two categories of spend – key money and maintenance capex, which in essence is permanent and not recouped, and then recyclable capex and System Fund capex, which, if you'll excuse the phrase, 'washes its face' and is net neutral over time.

MG

That's correct Stuart, and those broad categories are reflected in how we think about free cash flow. Key money and maintenance capex sit within our free cash flow definition. We guide that the annual total spend across these two categories is somewhere between 200 million to 250 million dollars.

That then leaves recyclable capex and System Fund capex which together account for the remaining capital expenditure in our annual guidance of up to 350 million dollars. Given these two categories are approximately neutral over time, it means that whatever free cash flow is generated by the business is then broadly available for M&A and shareholder returns.

SF

Got it – so within our capital expenditure guidance of 'up to 350 million dollars', 200 to 250 million is key money and maintenance. Should investors and analysts call that the 'net' capex spend?

MG

This comes up quite regularly Stuart – and the simple answer is not quite, but the numbers are typically close to each other.

We include a slide on this at each Results Announcement, but as a reminder, our definition of net capital expenditure is key money and maintenance capex net of repayments, plus net recyclable expenditure, plus net System Fund expenditure.

Now, given key money repayments are often very small or do not occur at all, and recyclable capex and System Fund capex should be broadly neutral in the medium term, it's not surprising that some may interchangeably use the term 'net capex' to describe aggregate key money and maintenance spend, and the 'true' definition shown on the slide you've put on screen.

But it should be avoided using the terms interchangeably, even though the numbers should be fairly close. As you can see, net capex for 2025 was 185 million dollars while key money and maintenance was 208 million dollars. The two are never likely to exactly match due to timing differences relating to when we actually receive recyclable capital back, as well as differing depreciation profiles for System Fund expenditure.

SF

So while our guided net capital expenditure and key money and maintenance capex are both likely to be around the 200 to 250 million dollar mark, the terms are not interchangeable.

MG

That's right.

SF

So Michael, why don't we move on to key money now. How about you start things off by giving the viewers a broad explanation of what it is.

MG

Key money is an incentive payment to the owner of a hotel we are contracting with to bring that hotel into IHG's system. It can potentially be seen as a partial contribution towards the capital expenditure that the owner themselves are incurring to build or fit out the hotel, but in reality it is more appropriate to see it as assisting with the opening costs and initial expenses while the hotel is 'ramping up'. It can be awarded to both new build and conversion properties, and is typically far more common in the Luxury & Lifestyle and Premium segments.

We get a very high return on the key money we invest. While the rate achieved will vary from project to project, we of course target and expect to exceed our cost of capital – and often do so by a significant margin.

SF

That's a very helpful overview. Let's drill down first on some of those practical elements you just mentioned…

Key money being given to assist with the initial expenses while a hotel is in its ramp up phase – that's an important distinction to the misconception that it's there to help owners finance the development stage.

MG

That's exactly right Stuart. The key money an owner receives will be a very small fraction of the total build or conversion cost relating to their property. It's not a tranche of construction funding, nor mezzanine financing, nor anything else similar – it has very little bearing on any stage of the hotel's development cycle before it opens.

It's important to note too that while key money is agreed on signing, owners typically only receive key money two weeks after their hotels are open in the system, so they will be financing their build or conversion without any key money incentives from IHG.

SF

That's very clear – so we know what key money is – but why has it become a hot topic for both the industry and IHG over the last year or so?

MG

Well, that's predominantly due to the quantum of key money which is being spent.

We saw outflows increase in 2024 and be at fairly similar level again in 2025, and this has led to questions from investors and analysts looking to understand the reasons for the more recent levels in comparison to history.

We're going to cover all those questions, and more – but before we get into that detail, now is probably a good time to quickly understand the accounting treatment of key money.

SF

Great idea Michael – this is something which isn't perhaps as clear and obvious as one might expect.

MG

That's right. Firstly, viewers should know that 'key money' is more of an industry term – on our statutory accounts, you're not going to see it called that. The technical term for these payments is 'Contract Acquisition Costs'.

As one would expect, when we pay key money, or contract acquisition costs, it is treated as a deferred asset and released against revenue over the life of the contract to which it relates.

The capitalised key money can be seen on the Group Statement of Financial Position – which is what most people would still call the 'Balance Sheet' – as 'contract assets'.

SF

So, we are showing on screen for the audience these line items on the Group Statement of Financial Position, or what many of would still call the Balance Sheet.

MG

So, aside from the naming conventions, the balance sheet side of key money is quite simple – it's the amortisation element which can sometimes trip people up.

Now, as I mentioned, key money is amortised over the life of the contract to which it relates.

And IHG has a very clear 'amortisation and depreciation' line in the Group Income Statement…

That isn't, however, where you're going to find key money amortisation.

That 'amortisation and depreciation' line in the Group Income Statement is predominantly linked to the maintenance capital expenditure we covered off earlier – basically, PP&E and software.

SF

OK Michael, so just to be clear for the audience again here – key money amortisation isn't included in the amortisation line in IHG's Income Statement.

MG

Correct Stuart – key money amortisation, or contract acquisition cost amortisation, or contract asset amortisation – however you want to refer to it, is actually treated as contra-revenue.

The fee revenue number you see in our accounts is already net of this contra revenue, however if you want to see what the deduction was, you can see it in the reconciliation of profit to cash flow from operations.

This is how the accounting works post IFRS 15, though it can be a little confusing, especially for those who are expecting to find the key money amortisation expense below revenue in the Group Income Statement.

So although key money is Capex, it is an operating rather than investing item in the statutory cash flow, and the 'D&A' isn't the same as traditional capex, which would be treated as an operating expense rather than already being netted off against revenue, as is the case with key money. As well as that, traditional D&A gets added back to EBITDA but that's not how we treat key money amortisation.

SF

So Michael, key money has been a hot topic recently, predominantly due to the increase that IHG, and some industry peers, have seen in the more recent years. From what you've already explained regarding the amortisation of key money, has the market been looking at it the wrong way?

MG

Well, yes and no. At the end of the day, if I have key money and maintenance payments of 200 to 250 million dollars in any one year, that's 200 to 250 million dollars of cash out the door, and I've got to be sure that I have the balance sheet firepower to do that without hindering my capacity to do other things elsewhere.

When you look at 2025, and while there were gross key money payments of 179 million dollars, IHG still completed the 116 million dollar acquisition of the Ruby brand, still paid 270 million dollars to our shareholders via the growing ordinary dividend, and still returned a further 900 million dollars via the share buyback programme.

We did all those things and our year end leverage was still only 2.5 times net debt to EBITDA, which meant it finished the year just into our target range.

So despite increased key money outflows, capacity is not an issue.

SF

So how about the contra revenue piece?

MG

Well, that contra revenue element is still a tiny fraction of our gross fee revenue.

Since the implementation of this accounting treatment with the adoption of IFRS 15 in 2018, we've historically seen the contra revenue formed from the amortisation be between 1 to 2 percent of gross fee revenue.

Even with the increases in key money expenditure we've seen in 2024 and 2025, contra revenue from key money amortisation was still only 2.7% of gross fee revenue.

SF

And why is that? Why does it stay a low proportion?

MG

Well, it ties back to what I said earlier about the types of deal where we are deploying key money. The majority of key money expenditure is for Premium and Luxury & Lifestyle deals. In 2023, over 80% of our key money expenditure was in these segments – and even with the significant outflows we saw for the NOVUM deal in 2024 and 2025, well over half of key money expenditure in those years went to Premium and Luxury & Lifestyle projects.

And as our viewers will know, we receive significant fee revenues from hotels in those segments. Fees per key for Premium and Luxury & Lifestyle hotels can be orders of magnitude higher than those in Essentials and Suites.

So if I go back to that chart showing the progression of key money over the last decade – you'll notice there was an uptick even before the NOVUM key money in 2024 and 2025 – that's because we had already started to see an increase in the number of Premium and Luxury & Lifestyle hotels we were opening.

And then if we consider where we are at in 2025, versus say 2019, and look at it as a proportion, you can see that L&L and Premium has roughly doubled from being around 25% of our openings, to now being closer to 50% of our openings.

SF

So what you're saying, Michael, is that key money has been increasing over time as a result of the volume of deals IHG has been doing in the Premium and Luxury & Lifestyle segments, and then in addition to this there was some further key money for NOVUM over the last couple of years?

Can you remind the viewers again why IHG paid a significant amount of key money as part of the NOVUM deal? It doesn't sound like it fits in with the strategy of issuing key money for high fee Premium and Luxury & Lifestyle hotels.

MG

Sure. So look, key money is overwhelmingly associated with deals in the Premium and Luxury & Lifestyle space. But, every now and again, there may be exceptional circumstances which warrant key money in other segments. NOVUM was a key example of this.

Historically, Germany has been a difficult market for asset light hotel operators to penetrate due to idiosyncratic deal structures and the lack of asset heavy partners in the country. With the NOVUM portfolio, IHG not only found a very high quality local partner who was willing to convert all of their hotels to IHG brands, but one that was willing to do so in a manner which allowed IHG to maintain an asset light position.

Deals of this size, deals of this quality, and deals like this in Germany, which doubled IHG's scale from around 100 hotels before to well over 200 hotels after, do not come around very often, and those exceptional circumstances meant that key money was warranted. And, of course, as well as key money being strategically compelling, it also earns IHG a return that meets our criteria, which I'm sure we will come onto further.

SF

As we go into 2026 with most of the NOVUM key money now already paid, how should we think about the key money profile going forward – is it a slow but steady increase as the number of Premium and Luxury & Lifestyle deals continues to increase?

MG

Yes, as we continue to do more in Premium and Luxury & Lifestyle, key money should be expected to further increase. But the nature of these deals means that key money can be, for lack of a better word, 'lumpy'.

As I previously mentioned, when key money is paid, it is a tiny fraction of what the owner would have paid for land, construction and other development costs.

However, with that said, at the upper echelons of luxury, where IHG is doing more deals than ever before with brands like Regent and Six Senses, individual key money payments can be sizeable.

Hypothetically, if in any year we were to see a couple of extra deals from either one of those brands, it could potentially result in us reporting a bump in key money.

But that would still be a good thing – we want to do those deals – the fees per key are far, far above the system average, and those brands also bring other intangibles, like increasing the attractiveness of the loyalty programme.

From a cash perspective IHG can manage this lumpiness – and we've seen the strength of IHG's balance sheet on display in recent years with the absorption of the increase in key money from the NOVUM portfolio.

And added to that, the actual in-year impact of key money on profitability is minimal. Key money is amortised over the life of the contract to which it relates. Across both IHG and the industry, contracts are typically 20 to 25 years in length – and so totally hypothetically, if, for example, there was a year that saw us pay out 50 million dollars more key money than the norm, then you're looking at an incremental annual contra revenue hit of 2.5 million dollars for the next 20 years.

Luxury & Lifestyle contract lengths can be significantly longer than 25 years – in some case up to 40 to 50 years, and the increased lengths of these deals means that the incremental annual contra revenue is less than it would have been on a shorter contract.

SF

So we should expect more key money going forward, in a medium-to-long term profile, but which may also show 'lumpiness'?

MG

That's right. We said at our 2024 Full Year Results Announcement that 2024 and 2025 would be key money high water marks, so to speak, in the sense that the NOVUM outflows were elevating what was already increased spend.

Now, sure, those NOVUM payments will not be much of a factor in 2026 and beyond, but we continue to see a strategic shift into Premium and Luxury & Lifestyle. 2025 was another record year in terms of total signings in these segments, and so there will continue to be an increasing need for key money going forward.

But we've been clear on this.

We give guidance on key money spend – for a long time we said that this guidance was "up to 150 million dollars" in total for key money and maintenance. We then increased this to "150 million to 200 million dollars" at our 2023 Full Year Results Announcement, before settling on the current guidance of "200 million to 250 million dollars" a year later.

Firstly, please don't think there is now a precedent to up it by 50 million dollars every year! And remember too that this covers key money AND maintenance spend. That's because the two combined are what goes through Free Cash Flow. You can see that maintenance capex has been around forty million dollars a year over the last five years, and so you can deduct that from the 200 to 250 million dollars in order to get a view of just the key money element that we expect a year.

So, we have reassessed this guidance over the last few years due to the significant acceleration of development activity we've seen in Premium and Luxury & Lifestyle across a relatively short timeframe. It's a good thing that key money has increased, as we get a very good return on it, as I hope you'll come on to ask, and it will be a further good thing if it continues to gradually rise as we make more and more progress in this higher fee per key area with the leading brands that we've got.

Our total capital expenditure guidance, inclusive of gross System Fund and recyclable capex, as well as key money and maintenance, is around 350 million dollars. While we have no plans to change that in the immediate future, it has been held at that level for over a decade now, so at some point it is natural to expect that it might nudge up given our growth as a business as well as due to inflationary effects.

SF

And to wrap things up on key money quantum before we speak to our regional finance leaders – can you provide a little more colour on the frequency of key money? How often is it attached to Premium and Luxury & Lifestyle deals?

MG

We opened a record 443 hotels in 2025. Key money was attached to roughly a quarter of those deals. Now, for Luxury & Lifestyle openings, that proportion is a lot higher – a little under half of all deals in that segment – but certainly not all of them.

There are regional factors that come into play here as well, and we'll speak about that in more detail shortly.

SF

Is it a similar proportion for Premium?

MG

Not quite, it's lower, it's more like a third of deals in that segment. But it's right we think of both Premium and Luxury & Lifestyle openings being the driver of our increased key money spend as they both see greater frequency of deployment, and they also see higher average payments – which is no surprise given they also generate far higher fees per key to IHG.

And before you ask, I'm not even going to attempt to give you an 'average' key money figure by brand. It really does vary on a case-by-case basis, with the same brand warranting different levels of key money on a market-by-market basis.

SF

Does it make a difference whether the development is a new build or a conversion?

MG

A little bit – in 2025, roughly 30 percent of conversions had key money attached, whereas it was approximately 20 percent of new builds.

But rather than read this as the type of development origination driving likelihood of key money, it actually has more to do with segments still.

Premium and Luxury & Lifestyle deals are more frequently conversion openings than new builds, and that's the predominant driver here.

I'm glad you've mentioned conversion activity though Stuart, as that has arguably been another factor in the acceleration in key money outflows we've seen in recent years.

Not only have we seen increased activity in the Premium and Luxury & Lifestyle segments, we've seen more of that activity come through as conversions than ever before, due to the low industry supply we're seeing in the US and Europe.

Conversions, of course, have a shorter development window than new builds – so the average timeframe from signing to opening has shortened, and that has meant that key money payments have crystalised quicker.

SF

So I know we don't want people to get drawn into averages, especially when the range is very wide, but what's the best steer?

MG

When we look at the use of key money over the last 3 years, it's been on roughly one quarter of all deals, with average key money paid of under two million dollars per deal. But as you point out, there is a wide range, though only a dozen deals have seen a key money payment greater than 5 million dollars.

SF

Super clear. I think now is a great time to introduce our regional finance leaders. So joining us on the call we have Blake Longstaff, CFO of the Americas region and Matt Woollard, CFO of the EMEAA region. Thank you both for joining us today.

So for the next part of the episode, we'll look for Blake and Matt to provide some additional colour on not just the strategic aspects of key money, but the practical considerations behind its deployment day-in-and-day-out.

Blake, let's start with you. Michael and I have been speaking about how key money is typically used on deals in higher chain scales – but how does that work from the governance perspective – who decides which deals get key money?

Blake Longstaff – SVP, Chief Finance Officer Americas (BL)

Hi Stuart, hi Michael, thanks for having me here today.

Look, the first thing that I'd say is that awarding key money is not a decision which is taken lightly.

If we think about the 2026 financial year, the key money governance process started months back in the autumn, when budgets were being looked at for the year ahead.

Now, I have some visibility of how much key money I'm going to need for the year ahead, particularly when it comes to executed deals already in the pipeline that will complete their construction or conversion, and open in our system in 2026.

But there will be "in-the-year-for-the-year" deals – hotel opportunities that we identify, negotiate and sign into the pipeline, and then open in our system all in the same calendar year which I allocate additional budget capacity for.

So I generally head into the year with enough budget to open the hotels where we have line-of-sight at the beginning of the year, and then a bit of additional capacity to do those in-year deals, which will typically be conversions.

This isn't a blank cheque though – there is capacity to do deals, but not every deal – and so it is vital to prioritise the opportunities and identify those which will generate the optimum value.

SF

And how do you do that?

BL

Sitting alongside our development teams we have investment analysis professionals who assess every deal.

They use an internally developed programme called 'The Hotel Investment Tool', aka 'The HIT Model' which helps them calculate the net present value of all fee streams which might be associated with the deal, discounted using our weighted cost of capital as well as any risk premiums attached to the specific market.

Within the tool there is functionality which defines a range of potential key money outcomes based on the value of the total deal economics we are comfortable to concede.

As Michael previously mentioned, our investment analysis teams ensure that at an absolute minimum the net present value of the deal is positive. In practise, however, the vast majority of deals significantly exceed the cost of capital.

SF

Is it then just a case of you signing it off and waiting for the developers to bring back a signed agreement?

BL

What happens next depends on the quantum of key money that may be offered. We have a well-defined Delegation of Authority policy within IHG that sets out the process for approval.

Up to a certain quantum, key money can be approved at the Regional Expenditure Committee, or REC for short.

SF

So that's a sub-committee of the Regional Leadership Team?

BL

It is. I sit on it, representing finance, and then you also have the Regional CEO and Regional General Council, providing strategic and legal expertise respectively. Developers will send memos detailing their requests in advance, and then we hold regular meetings where they're invited to discuss the proposals with us.

SF

You said 'up to a certain quantum' – what if it's more than that?

BL

Well, if it's more than that, or if we're looking to concede more of the economics via key money than is typical, then it has to be elevated up to the global Capital Sub-Committee, assuming it gets approved at the REC first. The Capital Sub-Committee is a sub-Committee of the Executive Committee, which delegates authority to a panel of IHG's Group CFO, CEO and General Council.

SF

So, escalation for higher approval is about both the absolute quantum and about conceding more of the deal economics than would be typical?

BL

That's correct. But to answer the question, I think we really have to get into the essence of what key money truly is, and more so, what it isn't.

Viewers should think of key money, in many cases, as 'table stakes' or 'permission to play'. Certain deals, particularly in the Premium and Luxury & Lifestyle segments will have owner expectations for key money.

But IHG equally has a very defined framework for what it views as an acceptable proportion of deal economics to concede as key money.

Now I'm going to be extremely clear right now – we never, ever discuss this with our competitors.

But they are likely to have similar tools to our HIT model, with similar anticipated views of the fee streams they expect to earn, similar risk premiums, and similar philosophies on appropriate value concession through key money.

Therefore, the key money quantum that IHG may offer an owner, and that which our peers would offer, could well be similar.

Once again, this is not something competitively discussed – it's simply the result of branded hotel operators generating similar fee streams via their asset light models, and being willing to concede similar amounts of the deal economics back to the owners.

There is a misconception that hotel deals are won and loss via a key money bidding process – in reality it doesn't typically happen like that.

If a deal warrants key money, IHG is going to offer what it deems appropriate, and it's very likely that our peers will offer something very similar. The deal might be won or lost on the owners' assessment of the strength of our enterprise platform, the quality of our tech stack and the reach of our loyalty programme. It might be won or lost on the relationship the development teams have with the owner, or on their emotional connection to our brands. But as a general rule it's not going to be won or lost purely on the mechanical assessment of the key money quantum.

And that's a factor why we can't simply deploy more key money to deliver additional growth.

SF

Got it. So when might there be exceptional circumstances in our key money evaluations?

BL

In very exceptional circumstances, sometimes there may be no alternative but to concede slightly more than what we'd typically offer.

SF

And why would this happen?

BL

It's nearly always due to an asset which is truly a unique opportunity. The best location in the city. Conversion opportunities for hotels which are already extremely well known and successful. Developments where the owner probably can walk away and doesn't have to make a deal.

MG

There needs a be a very good reason!

BL

If these deals are approved at our REC, there's still very significant challenge to get them through the Capital Sub-Committee.

MG

Viewers would have heard Elie and me talk over and over again about the importance of "keys with fees". When we offer key money to owners, we need to see the scale of the contra revenue. So if we're being asked to chip away at the deal economics more than we'd normally expect, then there has to be a very good reason for it.

BL

I think the takeaway for the viewers though is that there is a lot of governance oversight on key money, not just on the quantum being awarded, but on the quality of the deal itself.

SF

And those who have followed IHG over the last couple of years would have often heard Michael and Elie saying that IHG could deliver higher net system size growth or NUG, if we didn't show this discipline in key money and on other deal terms.

MG

That's right – as we discussed at the start of this episode, key money is ultimately awarded to owners to help with the early operational costs of their hotels while they are ramping up. If an owner expects more than we are willing to concede, then as part of the negotiations we have to say 'thanks but no thanks'.

We never operate on the basis of net system size growth at any cost – it has to be not only 'keys with fees' – but keys with fees that aren't then being conceded back to the owner via deal incentives!

SF

Blake, while it's great that IHG has this governance structure while assessing a deal, what protections are in place once the key money has been paid?

BL

IHG has a low removals rate – with our mid-to-long term guidance being somewhere around 1.5 percent. And the majority of those removals occur at the end of a hotel's contract. But, if for any reason a hotel was to terminate mid-contract having received key money, they would then be obliged to repay a pro rata portion of the key money related to the remaining contractual term.

SF

So Blake, before Team IR gets a huge influx of questions on this topic – are you able to give an idea of what is acceptable to IHG in terms of value concession via key money?

BL

Unfortunately, I can't Stuart, that's about as commercially sensitive as it gets. But I'll finish by saying that IHG's approach is both rational and systematic – and from experience, there isn't very much which gets approved by the Capital Committee when we try to go outside of those bounds!

SF

Thanks Blake.

Matt – great to have you here, let's move on to some EMEAA context next.

Now, over the last couple of years, your region has seen a notable uptick in key money expenditure – can you talk me through that?

Matt Woollard, SVP Chief Finance Officer EMEAA (MW)

Hi Stuart, great to be here.

You're right, the EMEAA region has seen increased key money intensity, but there are good reasons for that.

The first, as Michael has already touched on, was the NOVUM portfolio.

Germany is a key market, not only for the value of the business within its borders, but also the spend on travel from its citizens when travelling abroad. Remember, globally, Germany is third only to the US and China in outbound travel spend.

To tap into that, you have to have a strong domestic presence. The NOVUM portfolio doubled IHG's size in the country, while establishing a valuable relationship with a high quality local partner which continues to drive growth.

Not only that, but the deal also saw two new brands introduced to Europe – Garner and Candlewood Suites.

So taken together, the NOVUM deal was a fantastic use of key money, and we'd do it again if there was a similar opportunity. Though we have to be clear that it really was a unique opportunity given the structure of the German market – there aren't really many other examples of private operators who have developed their own domestic brands and could bring 119 hotel conversions in one go into IHG's system.

Then aside from NOVUM we have also seen a significant uptick in the number of Premium and Luxury & Lifestyle deals in the EMEAA region.

If you look at 2019 – the last uninterrupted year before the Covid pandemic, the EMEAA region saw roughly three thousand room openings in each of the Premium and Luxury & Lifestyle categories for that whole year.

In 2025, we've had 10,000 room openings across Luxury & Lifestyle and Premium, so around double what we had in 2019. And those 10,000 room openings exclude Ruby, I'm just talking organic openings, and the NOVUM hotels are not in these categories.

So there are a lot more deals happening in the higher chain scales in our region. It's the success of our well-established brands, like InterContinental and Hotel Indigo, combined with the rapid scaling we've seen of newer brands, like voco, Vignette Collection, Regent and Six Senses.

SF

And will Ruby drive further key money expenditure?

MW

I'd say that Ruby will drive further system growth, and sure, some of that growth might have key money attached. At the end of the day, Ruby is a premium, urban-micro lifestyle brand, and it will typically involve conversions of high value, attractive city centre real estate – and those are the types of deal which can often include a key money contribution.

SF

Can you give me some other recent examples of hotel openings which have had a key money element attached? The audience has watched this far, and I've put up charts and numbers, so they deserve some photos and video footage of hotels!

MW

Of course.

One of the bigger 'lumps' of key money we've paid out recently was for the Six Senses in Rome. If any viewers ever get a chance to visit, it's a fantastic property, bang in between the Pantheon and the Trevi Fountain.

This was a conversion – not from an existing hotel, but from a restored 15th century palazzo. As you can imagine, this type of real estate, in one of the most visited capital cities in the world, was not cheap – and the owner made a significant investment not only to secure the site, but to renovate it to the exceptional standards which the Six Senses brand demands.

Now, the key money we provided did not finance any of that development – it was paid out after the hotel opened.

But it did help the owner with working capital in the early phase of the hotel's ramp up. And that's something we're happy to do. This is a hotel which is generating substantial fees to IHG over the next couple of decades and beyond, and therefore the key money incentive was a great use of IHG's balance sheet.

To give you another example, key money was also paid when the Vignette Collection Ciel Dubai Marina opened.

This unique property is the world's tallest all-hotel tower – with over a thousand keys spread across 80 floors.

And elsewhere, other examples I'd give include key money paid out on the opening of Kimpton Barcelona and Kimpton Budapest – two fantastic properties, the latter of which was the debut of the brand in Hungary and also one of IHG's Low Carbon Pioneers.

SF

Do brand debuts typically always require key money?

MW

Not always, but it makes sense that there may be more rationale to offer it. If you take a brand to a new market, the ramp up period can be a little longer as it becomes established and builds a presence. It's easier to justify the case for key money in these circumstances, where owners might need a little more support through that initial period. Regardless, though, it still needs to make sense to IHG from a financial perspective, and there still needs to be a good return on the capital we're investing.

SF

Thanks Matt.

And Michael, let's go back to you for a moment again.

We have Blake and Matt with us here today – but not Alice Du – their peer as CFO for the Greater China Region.

And that's because key money just isn't very prevalent in China?

MG

That's right.

To put it very simply, market dynamics just don't particularly support key money in Greater China.

In very rare circumstances it has, and can be deployed.

But we're really talking about exceptional cases here and it is not typical of the development environment.

SF

That's very clear.

Matt and Blake, thank you so much – that's been incredibly enlightening and has really added some colour into our understanding of how key money is deployed.

So Michael, this has been somewhat of a mammoth IHG Checks In On episode, but there has been a lot to get through.

MG

Absolutely Stuart, how do we even begin to summarise this?

SF

I'll have a go…

So look, we established that there are four types of normal course capital expenditure. They are key money, maintenance capex, recyclable capex, and System Fund capex.

Key money and maintenance capex are within free cash flow, but recyclable capex and System Fund are not.

Over time, recyclable capex and System Fund capex should 'wash their face' so to speak - that means IHG will recoup the outlay on each of these types of expenditure so that they are broadly neutral over the medium term.

Both key money and maintenance capex, are capitalised and then amortised or depreciated. Maintenance capex in the 'traditional' way, as you'd expect, sees D&A being an operational expense, but for key money the amortisation is contra revenue which is deducted from our gross fee revenue.

IHG's guidance for total key money and maintenance expenditure is 200 to 250 million dollars. This has increased in recent years, due to a strategic shift towards more Premium and Luxury & Lifestyle deals, and one-off significant outflows on significant deals like the NOVUM portfolio. The increased proportion of conversions in our openings mix has also accelerated the timing of openings, and therefore pulled forward key money payments.

With all of this in mind, however, the governance structures behind IHG's deployment of key money are incredibly strict. All deals receive thorough oversight from senior legal and financial leaders within the business, and any deals which sit outside of the norm in terms of quantum or value concession require sign-off from the CEO, CFO and Group General Counsel via the Capital Sub-Committee.

The EMEAA region in particular has seen recent increases in key money outflows, due to the NOVUM portfolio, but also due to the significant uptick in Premium and Luxury & Lifestyle development.

Outflows have also been accelerated by the increased prevalence of conversion activity in this region.

Meanwhile, the Greater China region sees key money deployed far less frequently, due to the deal economics of lower RevPAR hotels not being compatible with these types of incentives.

Key money is driving not just system growth, but also very attractive returns on investment for IHG.

That's the summary!

MG

It's almost as if you've been practising this in investor and analyst meetings!

SF

Michael, thank you too, it's been a pleasure to have you join me for another episode of IHG Checks In On. Viewers, do please watch out for episode 12 which has been released alongside this one, and covers off IHG's Central revenues and expenses.

Other past editions can also be found on ihgplc.com, under the investors section of the website.

Thank you for watching and goodbye.