IHG Checks In On… Central Revenue

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Hello and 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.

This episode will focus on our Central division or Central reportable segment – what it is, how we report it, and how you should think about modelling it going forward.

For the financial year 2025, IHG reported total revenue of 5,189 million dollars. This comprised of Revenue from Reportable Segments of 2,468 million dollars and System Fund and reimbursable revenues of 2,721 million dollars.

This episode will not address System Fund and reimbursable revenues. The System Fund is managed to cash flow neutral or breakeven over the medium term, as it delivers benefit to all hotels within IHG's system. Reimbursable revenues, meanwhile, predominantly relate to pass-through costs associated with IHG's managed estate, and fully net off against an equal and opposite expense, thereby having no impact on profit. Cost reimbursements are not applicable to all hotels, and growth in these revenues is not reflective of growth in the performance of the Group.

Revenue from reportable segments, the other component of total revenue, is a non-GAAP line item which is a key measure of IHG's financial performance.

It consists of revenue from IHG's fee business, the owned and leased hotels, and insurance activities. As you can see, fee business is presented on the Income Statement shown as a split between the Americas, EMEAA, and Greater China – IHG's three geographic regions – and Central.

The regional splits are relatively well understood, and analysts and investors have generally been comfortable modelling Revenue from reportable segments on this basis, typically by factoring assumptions on RevPAR – a key driver of fees in the existing estate – and net system growth, the additional driver of fees by adding more hotels into our estate.

Central revenue, on the other hand, has arguably been less well understood. And this is perhaps no surprise – for much of IHG's history, Central revenue received less focus as it showed consistent, moderate growth at a CAGR of roughly 6%.

In the last couple of years, however, there has been significant acceleration in Central revenues, and with that, Central revenue has come into more focus. From totalling 221 million dollars in 2023, Central revenue grew by 19 percent in 2024 to 262 million dollars, then grew by a further 39 percent in 2025 to 363 million dollars.

To understand this acceleration, it is relevant to contextualise the different fee streams that comprise Central revenue, and how they have evolved and developed over the last few years.

Until 2024, there were three principal fee streams within Central revenue – firstly, Technology fees; second, from 2020, a share of revenue from the co-brand credit card; and third, from 2022, revenue from insurance activities. Technology fees and revenues from the co-brand credit card are fee business revenue, and that is what we will be focusing on today. Revenue from insurance activities does not relate to fee business, but it is included within Central revenue and therefore also in revenue from reportable segments. As a quick reminder, revenue from insurance activities relates to the insurance lines of coverage provided to managed hotels for which IHG receives a premium against an offsetting claims cost. These items are intended to be passthrough, and therefore insurance revenue and cost are called out as separate lines. Revenues from insurance activities are less than 10 per cent of Central and are not a strategic focus of creating shareholder value through growing our fee business.

So, let's move on to the actual elements of fee business revenue within Central.

The first category of fee revenue in Central is technology fees. Under franchise and management agreements, the Group agrees to maintain and develop certain aspects of the technology ecosystem which hotels in our system benefit from, in exchange for a monthly technology fee. This fee is charged and recognised over time as these services are delivered.

In the Americas region and in Europe, these fees are charged on a per room, per month basis, and so typically show growth in fees that are aligned to growth in net system size, compounded with inflation. In other geographies, the charging mechanism is very slightly different, as technology fees are pegged as a percentage of rooms revenue, and therefore move with both RevPAR and net system growth. With these drivers, global technology fees would typically grow mid-to high single digit percent each year.

Let's just unpack a little more what tech fees actually are. These are separate from technology-related System Fund activities which cover the development, maintenance and support of IHG's Global Reservation System, or GRS, and the technology costs associated with loyalty, with Revenue Management systems, with digital platforms and channels, and so on. So what do the tech fees that IHG charge within Central actually cover? Well, these are to monitor, protect, run and improve IHG's systems, infrastructure and tech environment which owners are using, while also investing in new products to more deeply protect our owner's systems. Through a broad ecosystem of solutions, IHG provides post-implementation support and ongoing 24/7 help desk services, while focusing on enhancing the security and compliance of our technology environment through the ongoing evaluation, education about and remediation of cyber threats and events.

The second category of revenue within Central is co-brand card fees. IHG has had a co-brand credit card partnership in the United States since 2010. 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. We'll shortly look at how this programme has evolved and will continue to develop, but first, let's quickly touch on the mechanics of how it actually generates fees to IHG.

Co-brand card partners pay fees to IHG for:

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

When members of IHG's One Rewards loyalty programme in the US wish to earn additional loyalty points beyond those awarded simply from guest stays, they can do so by also having a co-brand credit card. Using this card for any expenditure – i.e. not just hotel spend – will result in the user earning IHG One Rewards points from the card issuer. The issuer buys these points from IHG, paying a margin above the redemptive value, and it is this margin which forms the majority of co-brand credit card revenue in the IHG P&L. The remainder of the sales value and the associated redemption cost is recognised on a net basis within System Fund revenue.

IHG's previous US co-brand credit card arrangement ran from 2015 to late 2024, generating revenue of 39 million dollars in 2023, and a broadly similar amount in 2024 as the new arrangements only came in towards the very end of that year. But an important point to note is that in the decade over which that prior agreement existed, IHG underwent transformational change that turbocharged the potential of its loyalty programme, and this is the key feature as to why co-brand fees step-changed in 2025 with the new arrangements coming in.

So, why was this step-change achieved? Firstly, IHG's brand ladder was significantly strengthened and diversified with the addition of 10 new brands between 2015 and 2025, from midscale to upper luxury, and through a combination of organic launches, acquisitions and commercial partnerships. With a disciplined approach to the expansion of our portfolio, brands have been added at the intersection of guest and owner demand to address clear long term consumer trends and capitalise on growth opportunities. So called "white spaces" in our brand ladder have been successfully filled, though we will continue to assess potential opportunities to further enhance our industry-leading brand portfolio.

Next, the IHG masterbrand was refreshed in 2021, and has continued to be strengthened since. We've raised the profile of IHG Hotels & Resorts by executing on a fully integrated investment in media, partnerships and public relations, and are proud to see IHG Hotels & Resorts everywhere, including on television, social media, airports, music festivals, sporting events, and much more.

Following the progress made in IHG's portfolio and masterbrand, the loyalty programme was then relaunched as IHG One Rewards in the summer of 2022, along with a revamped app, which has picked up many awards as the leader in the industry. This was transformational, with the following year seeing loyalty membership enrolments surge by 50 percent, and reward night bookings increase by 20 percent.

Loyalty membership numbers have rocketed - from just over 100 million at the relaunch of the programme, to 130 million by the end of 2023, to now over 160 million members –an increase of over 50% in just three and a half years.

Taking all of this together, it was clear that IHG, and more specifically, IHG's One Rewards programme, had significantly increased in value to co-brand card partners compared to when the previous US deal was signed in 2015.

In November 2024, IHG entered into new agreements with card issuing and financial services partners that were effective immediately from that date and have an initial term running through to 2036.

We announced at that time that these new agreements would result in significantly higher co-brand credit card revenues to IHG. We said that the 39 million dollars of revenue achieved in 2023 was expected to double in 2025 – and as you would have seen from our published results for 2025, this was achieved. We also said that we expected revenue to have more than tripled to over 120 million dollars in 2028, and we remain on track for that.

So, in 2025 our co brand credit card revenue saw a significant step-up of around 40 million dollars. In the next three years, we still expect further growth of another incremental 40 million, but that would likely be spread more evenly over the three years to 2028. From there on, IHG still expects further growth, and this will be driven by the growth of the loyalty programme membership base compounded by increases in US consumer spend.

We are often asked whether there is opportunity for IHG to expand its co-brand card offering to other geographies. As you would have now seen in our 2025 Full Year Results Announcement, this is something which we have already initiated into the UK market, and will continue to assess for other countries. It is important to bear in mind, however, that the US is, and will continue to be, the world's largest market in terms of credit card uptake and spend, and the opportunity for co-brand cards is very market-dependent on the particular structure of the financial services industry in each individual country. We recognise co-brand cards within Central because they are centrally negotiated and separate from the regional development activities of the fee streams that come from hotels.

While co-brand credit card revenue and technology fees have always been part of Central revenue, there was a new fee stream recorded for the first time in 2024 – fee revenue from the sale of loyalty points to other third parties.

Third party points sales refer specifically to points sales separate to those that are sales to our co-brand card partners. This typically occurs when a loyalty member wants to boost their loyalty points balance, for example to have the amount required to redeem for a free stay, and therefore they buy additional points to bridge the gap.

Historically, as the System Fund scaled up, IHG designated that the revenue generated from the sale of loyalty points was allocated to the System Fund. However, in 2024, a new arrangement was established which saw the transfer of a portion of this revenue from the System Fund to IHG's reportable segments.

Initially 50 percent of this revenue from the sale of certain loyalty points, together with certain other ancillary revenues, was recognised in IHG's reportable segments in 2024. This initially delivered approximately 25 million dollars incrementally to Central revenue in that year. This then annualised to 100 percent, to deliver a further step-up of around 25 million dollars in 2025, therefore delivering a full run-rate of approximately 50 million dollars.

There is also expected to be further growth in these revenues in future years as the number of points sold continues to increase, and also due to the ramp-up effect of the IFRS 15 accounting standard which defers revenue recognition until redemption of the points previously sold.

So let's bring this altogether now.

In 2023, Central revenue totalled 221 million dollars. 21 million of this related to insurance activities, leaving 200 million of fee business revenue. As previously mentioned, in 2023 there was 39 million dollars of revenue related to the co-brand credit card agreement, with the remaining 160 or so million dollars consisting predominantly of revenue from technology fees.

In 2024, Central revenue grew by 19 percent to 262 million dollars – an increase of 41 million dollars. There was only a small increase in insurance activity revenue from 21 to 23 million dollars, and therefore fee business revenue grew 20 percent to 239 million dollars. Within this, technology fees and co-brand credit card revenues grew by approximately 7 percent, with an additional 14 million dollars from these revenue streams. More significant, however, was the step-up of around 25 million dollars from the recognition of the first 50 percent of revenue from the sale of certain loyalty points and ancillary revenues from the System Fund to reportable segments.

And that brings us to 2025, where we have just reported that Central revenue increased by 101 million dollars to total 363 million dollars in the year – a 39 percent increase on 2024. Within this, we have achieved the around 40 million dollar step-up in co-brand credit card revenue and the further incremental around 25 million dollar step-up in third party points sales revenues, which we as estimated and described at the time of their announcements. There has also been further underlying growth in these fee streams, alongside an increase in technology fee revenues.

So how should central revenue growth be modelled going forward?

While both 2024 and 2025 saw 'step-ups' from third party points sales and co-brand credit card revenue, Central revenue will now be entering a 'steady state' in the short to medium-term. Considering each of the three core constituents of Central revenue in turn:

- First, tech fees should compound roughly in line with net system growth and inflation.
- Second, for US co-brand credit card fees, we have already indicated an expectation for these to grow further to over 120 million in 2028. Beyond this, there will be continued growth driven by increased IHG One Rewards membership and US consumer spend.
- And third, for loyalty points sales, fee revenue would be expected to compound roughly in line with growth in loyalty membership.

It is worth noting that revenue from branded residential properties has become increasingly discussed as analysts have looked to understand the size of this additional ancillary fee stream. To clarify, revenue from branded residential opportunities is recorded at a regional level, not within Central – and therefore this will not create Central revenue 'step-ups' in the same way that other fee streams have in recent years.

Both co-brand credit card and third party points sales revenue 'drop through' to profit at a very high margin. In 2023, the gross costs of running Central activities, which also includes all non-regional corporate costs, totalled 305 million dollars, and that was held flat at the same 305 million dollars in 2024. Thus the increase in fee business revenue of 39 million dollars in 2024, driven predominantly by step-ups from third party points sales, fed directly to a 39 million improvement in the result from Central, reducing the 105 million dollar loss made in 2023 to a loss of 66 million in 2024.

In 2025, IHG's ongoing efficiency programmes meant that the gross costs associated with the running of Central activities decreased by 5 million dollars to 300 million dollars. The 97 million dollar increase in Central fee revenues, driven by step ups in co-brand credit card revenues and third party points sales, therefore shifted the segment from that loss of 66 million dollars in 2024 to a 36 million profit in 2025. Going forward, in 2026 and beyond, there aren't further step changes and therefore the profit progress of Central will simply reflect the ongoing normalised growth in fee revenues, along with our progress on managing the cost base efficiently.

That wraps up another episode of IHG checks in on. Do please watch out for episode 11 which has been released alongside this one and covers off IHG's capital expenditure and key money. Other past editions can also be found on ihgplc.com, under the investors section of the website. Thank you for watching and goodbye!