

IHG Q1 2023 Trading Update

Friday, 5th May 2023

Introduction

Stuart Ford

VP & Head of Investor Relations, IHG

Welcome

Good morning, everyone, and welcome to IHG's call for the First Quarter of 2023 Trading Update. I am Stuart Ford, Head of Investor Relations at IHG, and I am joined this morning by Keith Barr, our Group Chief Executive, and Michael Glover, our Chief Financial Officer.

Disclaimer

Just to remind listeners on the call, that in the discussions today, the company may make certain forward-looking statements as defined under US law. Please refer to this morning's announcement and the company's SEC filings for factors that could lead actual results to differ materially from those expressed in, or implied by, any such forward-looking statements.

For those analysts or institutional investors who are listening via our website, may I remind you that, in order to ask questions, you will need to dial in using the details on page two of today's RNS release. The release, together with the usual supplementary data pack, can be downloaded from the results and presentations section under the investors tab on IHGplc.com.

I will now hand the call over to Keith.

Trading Update

Keith Barr

Chief Executive Officer, IHG

Welcome

Thank you, Stuart, and good morning, everyone. Before turning to the Trading Update, I just wanted to acknowledge the other announcement we have made this morning regarding my stepping down as CEO and the appointment of Elie Maalouf as my successor.

It has been an incredible privilege to spend more than 30 years at IHG and be part of the many achievements and successes that the business has had so far. IHG is a very special company and to have spent the last six years as CEO has been an honour, as has working alongside our talented colleagues and in partnership with our hotel owners who all share our passion for hospitality.

When I look at the business today, it is set for a very bright future, with the breadth of our portfolio, our scale, and the strength of our enterprise platform and a clear strategy ahead to grow the business.

On a personal level, it has been a very difficult decision to make, but after nearly 20 years away from the US working in different countries, now is the right time for me and my family to return to the US, given my daughters will be studying there.

I am delighted that Elie will be succeeding me. I will be here in an advisory capacity until the end of 2023, but, from July, Elie will take over as Group CEO and be based here in the UK. Many of you already know Elie, who has led the Americas region for the last eight years. Under Elie's leadership, he's grown the Americas system by almost 700 hotels or 20%,

launched new brands and formats, strengthened how we drive value for hotel owners and delivered record profit levels.

Elie and I have worked incredibly closely together, including on key investments and on successfully delivering our strategic priorities, and I know IHG will be in great hands and ready to continue a strong track record of growth and value creation.

Introduction

With that, let me turn to the subject matter of the call, our first quarter trading update, and it is it's great to be updating you on another strong quarter of trading.

I am here with Michael Glover, who as you know stepped up to be Group CFO in March. Michael has been with IHG for some 19 years, most recently as CFO of the Americas region. He has previously served as IHG's Group Financial Controller and CFO for Greater China.

Many of you had the opportunity to meet him in person for the first time when we were out on the road together following the release of our 2022 financial results a couple of months' back.

I will pass over to Michael in just a moment for him to review each of the regions for you in more detail, but before that I wanted to summarise the Group's performance.

Highlights

You will have seen that we are still providing monthly RevPAR data in our release, as well as giving you both the year-on-year movements and the performance relative to 2019, given the impact that COVID was still having particularly during the first quarter of 2022.

On a Group-wide basis, RevPAR was up 33% on last year and up 6.8% on 2019. You will recall that Q4 2022 was up 4.1% on 2019, but had we reverted back to the pre-COVID definition of comparable hotels, Q4 growth would have been around 2% higher.

We have now reverted back, which aligns to the definitions used by our US peers. Even taking that into account, Q1 growth of 6.8% still shows another quarter of sequential improvement.

In terms of the component parts of global RevPAR for the quarter, rate was up 11% versus last year, and up 10% on 2019. Occupancy of 62% was 10 percentage points better than last year, and has now recovered to be within 2 percentage points of 2019 occupancy levels.

In terms of the split of stay occasions between Leisure, Business and Groups, we generated 30% more leisure-driven rooms revenue in total than in the same quarter last year. While this was partially driven by the continued strong rates seen across the industry, it is also reflective of the strength of our brands as they continue to grow in the Luxury & Lifestyle segment, as well as in resort locations.

Lapping last year's COVID-impacted comps meant that Business and Groups revenue was up by more than 30% on a year-on-year basis, and this reflects the further normalisation of global working habits and the return of more meetings, conferences and events.

When comparing to 2019, Leisure revenue is up by around 25%, Business revenue is now broadly flat, and Groups is down around 12%. We have talked before about Groups being the last of the three demand drivers to be fully restored, and we are confident that it will be.

Net System Size growth

Turning now to Group net system size. Over 8,000 rooms were opened in the quarter, 25% more than the same quarter of last year. This represents the strongest Q1 openings performance since the onset of the pandemic. This led to net system size growth of 4.2% year-on-year, adjusted for the impact of the removal of our Russian business in Q2 of 2022.

It is worth noting that we generally experienced seasonality in our system growth, with relatively fewer openings and more removals in the first quarter of each calendar year. Year-to-date net system size growth was therefore 0.4%, very similar to the 0.5% at this stage last year, and we expect the rate to accelerate through the rest of 2023.

That said, there are economic uncertainties, and clearly some financing challenges for the wider commercial real estate industry. These are holding back hotel development and opening activity from fully returning to normal, though improvements are anticipated as the year progresses.

Signings

Turning to signings, we added more than 16,000 rooms into our pipeline in the quarter, matching the same quarter last year, which had been the strongest over the last three years. This takes the total pipeline to 287,000 rooms, which is an increase of 3.3% year-on-year.

You can see the strength and competitiveness of our brands across chainscales in that performance, with signings spread broadly across regions and segments. One area to call out is Luxury & Lifestyle, which is currently 13% of our system, but represented 33% of all signings in this latest quarter. Our ability to increasingly capture conversion opportunities was also highlighted, representing over a third of both openings and signings in Q1.

Interestingly, the 39 conversion signings in this latest quarter, represented in absolute terms the third highest for any quarter across the last decade.

I will now hand over to Michael to provide more detail at a regional level.

Financial Review

Michael Glover

CFO, IHG

Key Figures

Thank you, Keith. Let me step through each region to give you some more colour.

Starting with the Americas, RevPAR was up 18% year-on-year, and was up 11% versus 2019. For the US, RevPAR grew 15% year-on-year and was up by 10% on 2019 levels. As Keith touched on, this quarter we reverted back to our pre-COVID methodology of calculating RevPAR comparability. Back at Q4 we said that this would have resulted in our quarterly US RevPAR being approximately 200 basis points better than the 8% growth, which we reported.

So this latest Q1 RevPAR performance of 10% in the US and 11% for the Americas represents a continuation of last year's strong Q4 exit rate. Occupancy of 64.3% was 0.5 percentage points above 2019, marking the first quarter in which the region has exceeded pre-COVID occupancy levels.

Pricing power remains robust, with average daily rate exceeding 2019 by 10%. Leisure revenue in total was up 11% year-on-year, driven in part by another strong Spring Break vacation period. The pricing power of our hotels was already strong in this segment a year ago, and it continues to be so.

Business revenue has shown an even more marked improvement, up 20% year-on-year, while Group demand, which had been the slowest driver to recover, has accelerated to see Q1 up nearly 30% on 2022.

If you look at this performance on a versus 2019 basis, Group revenue still lags by around 10%, but Business revenue is flat, and Leisure revenue is ahead by more than 20%.

In terms of system size, nearly 2,000 rooms were opened in Q1. This included the first Vignette Collection property in the US, the Yours Truly DC, which is an excellent representation for the brand right in the heart of the nation's capital.

We signed over 5,000 rooms across the Americas, despite the uncertainty created by the financing environment during the quarter. Mexico and Canada represented over 20% of hotel signings in the quarter, compared to around 10% last year, demonstrating our growing appeal beyond the core US market.

Also notable was our first Regent signing for the Americas, which is a spectacular property on Santa Monica Beach that will be the flagship for the brand both in the region and globally. Meanwhile, the signing of fantastic Six Senses properties in Napa Valley and the Yucatan peninsula mark a clear signal of the momentum and excitement behind the brand.

Signings also included 21 hotels across the Holiday Inn Brand Family and a further 18 across our extended stay brands.

EMEA

Moving on now to our Europe, Middle East, Asia & Africa region, where RevPAR exceeded the Omicron-impacted first quarter of 2022 by 64%. Compared to 2019, RevPAR was up 9.7%. With this, we have now seen the scale of RevPAR progress in EMEA broadly match that of the Americas for the past two quarters.

The dispersion of RevPAR performance across EMEA has narrowed with the opening of borders and increasing return of international travel. Q1 RevPAR versus 2019 ranged from up 21% in the Middle East, to up 12% in the UK, up 11% in Australia and up 7% in Continental Europe.

In Japan, where restrictions on international travel were lifted only part-way through the previous quarter, RevPAR sharply improved to be down just 9% versus 2019 levels. The increasing return of Business travel and Groups demand has been notable in Europe, as has the return of major events and expos in other markets such as Japan, Australia and India. Other destinations such as Thailand mark those that are only recently seeing the benefit of international travel resume.

Over 5,000 rooms were opened in EMEA during the quarter, half of which came from the next eight Iberostar Beachfront Resorts properties in southern Europe. For all but two of the 43 properties which Iberostar own outright, we have now successfully completed the initial phase of integration onto the IHG system.

You will recall that the commercial agreement was for a total of up to 70 properties. The pace of adding the remaining 27 of those will be slower from here, as these are third-party owned properties and so they each require a separate process of third-party approvals.

Whilst traditionally the first quarter of a calendar year is seasonally quiet, it was still pleasing to see that EMEA achieved a record number of signings when looking back over all first quarters historically on an organic basis. Conversions were almost half of all signings in the region and almost two-thirds of the signings were in the Luxury & Lifestyle segment.

There were three Vignette Collection and six voco signings in locations including the UK, Germany and Japan, which also underscores the ongoing opportunities for our newer brands in core markets.

Greater China

Finally, moving on to Greater China, where the lifting of COVID restrictions at the end of 2022 has already resulted in a significant improvement in trading. RevPAR was down only 9% versus 2019, having been behind by more than 40% in Q4 2022. Rate improved to 94% of 2019 levels, while occupancy recovered to be less than 2 percentage points down on 2019.

We saw the strongest performance in tier four locations, which were up 18% on 2019, driven by leisure demand, particularly in resort locations such as Sanya and Xishuangbanna. It is worth noting that whilst a very impressive sequential improvement is clear, going from down 42% in Q4 to down just 9% in Q1, further improvement from here becomes much more dependent on the return of international travel into China, given how this particularly drives demand into the highest RevPAR tier one cities.

We remain confident this will fully return as more international airlift comes back, as we've seen in other regions, but it will take some time for these areas of demand to fully normalise.

Whilst trading performance has rapidly improved in 2023, development activity in the region will likely take longer to get back to full speed. Despite this, the 1,000 rooms opened during the quarter was still an improvement on the same period in 2022. We expect this to accelerate through the year.

Signings in Greater China were nearly 6,000, broadly in-line with levels over the last three years for the first quarter. These included the first Vignette Collection property for the region alongside a Crowne Plaza signing, both of which are at Shanghai Snow World, a major tourist destination, which includes the world's biggest indoor ski park. There were six signings in total in another strong quarter for Crowne Plaza, and 13 more for Holiday Inn Express.

Additional signings for InterContinental, Hotel Indigo and voco also highlight IHG's growing Luxury & Lifestyle presence and the opportunity for conversions in the region.

Other updates

Finally, just to update you on the share buyback. We are currently 32% of the way through the \$750 million programme announced in February. To date, this has reduced our share count by 2.0%.

Now, back to Keith.

Conclusion

Keith Barr
CEO, IHG

Summary

Thank you, Michael.

So to summarise the first quarter:

- Strong trading has seen continued improvement in our Group-wide RevPAR performance, with China demonstrating a remarkable recovery since the lifting of restrictions in December 2022, and both the Americas and EMEAA regions showing no signs of weakening;
- Net system size growth was 4.2% year-on-year on an adjusted basis;
- Luxury & Lifestyle continues to accelerate as a proportion of our pipeline, with a third of the 16,000 rooms signed being within that segment; and
- While development and hotel opening conditions for the industry continue to have macro challenges, we remain on track to deliver on our growth ambitions this year.

Taken together, we are therefore expecting 2023 to be another year of successful progressing on our strategic priorities and in achieving the core components of how we create value for our shareholders: growing our fees through the combination of both RevPAR and system size expansion; which in turn, will drive further margin accretion; and with our typical strong cash conversion, this allows IHG to both re-invest in the business and to return surplus capital to shareholders.

With that, I will now pass back to the operator to open up the call for questions.

Q&A

Vicki Stern (Barclays): Just firstly, I wanted to start with the unit growth. You previously signalled that around 4% would be a sensible level to have in mind for net unit growth this year. Just keen to understand the impact you have seen really since SVB's failure and obviously what has played out since then for the regional banks. I think you mentioned there in the prepared remarks that you are expecting improving activity as the year progresses. I guess you have got a blend of things going on with markets like China, obviously, ramping up and the US on the other side. So yes, if you could just give a bit more colour to what you are seeing in the different regions and particularly how things have changed perhaps since SVB?

Secondly, just where that would then leave you in terms of that unit growth outlook for the medium term? You, obviously, do not give specific targets for the medium term. But given what is going on today, do you think you could accelerate from the current 4% as we are looking into the next couple of years?

And then just finally, separately on the share buyback. Can you think about the path from here. It does look given the better RevPAR performance like you are going to be getting upgrades coming through today. So that is going to possibly leave you with even more

headroom to your leverage target by the year-end. How should we be thinking about the potential for further share buyback announcements later in the year?

Keith Barr: Sure. Thanks, Vicki, and great to catch up with you. Let me take that and have Michael add a little bit of colour in as well. I think, yes, we are very confident in net unit growth being around the 4% mark for this year. And we would expect that to continue to accelerate in the coming years, given the strength of the brand portfolio and the expansion we have done.

You probably heard in the prepared remarks today a lot about conversions and Luxury & Lifestyle, with signings being a third Luxury & Lifestyle and a third are conversions. And those conversions are spread throughout the regions. You heard about the Regent Santa Monica, the Yours Truly in Washington DC. Significant number of conversions across EMEA and in Greater China, too.

So that is what gives us confidence about that net unit growth being around the 4% this year and growing in future years.

In terms of getting back to the impact on financing, the broader commercial real estate industry has been impacted by regional banks slowing their lending, and that is going to have an impact overall on all real estate classes. Helpfully, hotel assets are among some of the top-performing real estate asset classes right now, and owners are still signing hotels and expecting to develop hotels, given the great quarter we had in which 16,500 rooms were signed this year, same as the strong quarter last year, too.

So owners have confidence, banks are lending, but the lending criteria is a bit higher and they are being a bit slower. We are adding additional resources into the Americas specifically as we mentioned at the full year results, who are going out and talking to the regional banks with owners to really explain the value proposition of the IHG enterprise, the value of our brands, helping to facilitate that financing.

We do believe that financing will loosen up as the year progresses, as we get further along to the banking resolutions in the US. So we are confident. Our owners are confident. We are confident. But it is a little bit bumpy right now.

Greater China, again, you saw lending contract a little bit during some of the property challenges during COVID. Property growth is a key component of GDP growth, which is a key focus for the Chinese government. So we expect to see more lending take place there, plus we are seeing the SOEs become more active in China again, which have more access to capital, too.

So in general, confident around the 4% this year, accelerating in future years. Strength of our brand portfolio expansion in the last number of years gives us the opportunity to do more conversions, too, overall. So I think that is how we feel about unit growth and the impact today.

In terms of the share buyback, again, we are well on track to the \$750 million share buyback for this year. We have three uses of capital, right, invest into the business, grow the dividend and then return surplus to our shareholders, which is what you hear from us year after year, and that is not going to change. So the Board will constantly evaluate where we are in terms

of performance, and overall, in those criteria of investing in the business and capital, dividend increases and returning surplus, too.

Jamie Rollo (Morgan Stanley): Three questions, please. First of all, just expanding on that point about the type of financing market. You are talking about more resource to facilitate financing. Are we just talking about people on the ground? Or are you thinking about any equity or debt support going in? And also, could you just remind us what percentage of US pipeline is under construction or funded, if you got that data?

Secondly, any signs of weakness anywhere at all? We are certainly seeing some in lower chain scale, data resorts, data in the US, some funds of corporates cutting back. Just interested whether you have seen that as well.

And then finally, on incentive management fees, do you think this year in China and EMEA, you can get back to the 2019 levels?

Keith Barr: Thanks, Jamie. Given Michael having been the Group CFO in the Americas and super close to our development there, I am going to let him take the first question. I will pick up the weakness in demand or what we are seeing and then I will let Michael talk about the IMF.

Michael Glover: Yes, sure. Basically, for the US, in the financing market, we are impacted as most of the lending comes through the regional banks. But a lot of what you have to do, especially with new brands is get out there and actually sell your brands to the bankers and so they know what they are lending against. And so when we are talking about resources and adding financing resources into the Americas, we are actually talking about people going and working directly with the banks.

We would also look at any opportunities to drive incentives, to drive ground breaks and within our capital guidance that we have already given. And so we are looking at those kind of things to kind of unlock the pipeline and move those ground breaks along. Of course, we are always looking for other ways to help owners drive returns and get financing. So we will be looking at all those different things. But those are the primary three ways we're doing that.

I will hand it back over to Keith.

Keith Barr: Yes. In terms of weakness in the consumer demand, Jamie, we are not seeing any. And I think one of the interesting things that people have not quite picked up on the US has been the amount of government stimulus that has been created with the CHIPS Act, the Inflation Reduction Act and so forth, trillions of dollars. So we are actually seeing increase in government spending, which is a significant segment within IHG's portfolio of our mainstream brands and underpinning the strong business from SMEs and corporates as well, too.

So we really have seen again leisure still being quite strong, government growing, SMEs being very strong. So we are not really seeing any cracks of weakness. We think we are going to have a very, very strong summer, but we do have a short booking window. But overall, nothing I can tell you that has us being concerned right now overall.

And I will let Michael pick up on the incentive management fees.

Michael Glover: Yes. First of all, you also asked a question about under construction pipeline. For the Group globally, we have about 40% of our pipeline under construction. In

2022, we had a little over \$100 million in incentive management fees. In 2019, they were \$151 million. And I think in 2023, potentially, we could get back to 2019 levels.

Richard Clarke (Bernstein): Three questions, if I may. Maybe just starting with the C-suite move. Keith, when you took over, it was the person coming from China, you were involved in loyalty, you were involved in sort of branding and marketing and that was going to be the focus. Is there anything we should read into the fact that you are now moved the entire Americas C-suite into the Group C-suite? Is this Americas coming back into focus, this is where you need to focus the business, on improving the Americas performance? And anything you can say on what happens to Americas management now you have taken the C-suite out of there?

Second question, just coming back to the favourite topic of Holiday Inn and in Crowne Plaza. It looks like you have lost about 2,000 rooms quarter-on-quarter. Obviously, the messaging has been that, that process was done. So is this just very much the tail end of those closures? What are those 2,000 rooms? How should we feel about those brands going on?

And then the last question, just on Mr & Mrs Smith. It was included in some of your literature around the loyalty launch. Now it looks like it is going to be acquired by Hyatt. Maybe how important was that to the loyalty programme relaunch? Do you need to replace that with something else? Or can you kind of make up for those hotels internally?

Keith Barr: Thanks, Richard. Great question. So the C-suite moves, the Board takes succession planning as one of the key responsibilities. And I think that I was a great reflection of that with my move into Chief Executive, having been built out by being in the Americas, being in Greater China then being in the centre, gave me the skills and the background experiences to help strengthen the brand portfolio, loyalty and technology and build a very, very strong enterprise platform with the executive team.

I think Elie has been on the Board for six years running the Americas. He has been in global roles previously. Michael, again, was my CFO in Greater China. He has also been the Group Controller base in the UK.

So what I think you have with the move of Michael and Elie are people who know the entirety of the business, who have been exposed to all of the key strategic initiatives. And moving Elie to lead from the UK, he will be the group Chief Executive, and then we will be making moves to make sure we backfill with key leadership positions into the Americas, too.

So Americas is always going to be a focus given the scale and the size of that business, and we are fortunate to have leadership who has been in multiple roles, on the Board, and working in multiple regions overall, too. So I think Elie is a great appointment, and I'm thrilled to have Michael sitting across from me right now.

In terms of Holiday Inn and Crowne Plaza, I mean, we had the bulk of the removals took place. We also signalled that we always will have some removals on an ongoing basis. But you will never see Holiday Inn and Crown Plaza go to zero removals. And we did have some that we are going to tag over into 2023. And I'll have Michael pick up a bit more on that.

Michael Glover: Yes. And I think, Richard, as you look at our overall removal rate, yes, we still have a few Holiday Inn and Crowne Plaza coming through. We would still expect our

removal rate to be around 1.5%, as we have indicated going forward. So I would really look at that for our full year and as you think about us longer term.

Keith Barr: And Mr and Mrs Smith, we were very happy with the partnership. Truthfully, we launched it right before the pandemic hit. So it never really had a chance to ramp up completely. And very, very small part of our loyalty earning and burning coming to Mr & Mrs Smith. It is really on the margin right now. It is a great company.

Our loyalty member today is 115 million members. We have added another four million members in the first quarter. Almost all the redemptions happened in our hotels. Mr & Mrs Smith was a nice add-on. And we are going to evaluate our position on that. We are not saying today that we are exiting the platform, even though it is being acquired by Hyatt. We have to understand what their plan is and how that is going to run, then we will make a decision going forward.

But our loyalty programme goes from strength to strength. We are seeing redemptions go up, contribution go up, membership go up, based on all the changes we have had. So I am really pleased with what is happening there.

Jaina Mistry (Jefferies): I have got three questions. The first question is around the supply conditions, particularly in the US. How do you think about the interplay of sequential supply pressure coming from the financing conditions in the US? And pricing as well. Do you think pricing could offset potential supply pressure in the medium term?

And second question is around margins. Do you think this year, that margins could get back to 2018 levels in EMEA and China? Obviously, the Americas margins have already surpassed 2019 levels already.

And then my third question is around financing conditions. We have spoken about the impact in the US. Are you seeing any tightening in Europe or Asia as well?

Keith Barr: Great. Thank you very much. Three excellent questions. And I actually really appreciate the first one because it is something that we have been talking about internally because it is really the strength of IHG's model and the leverage that we can pull to drive Group revenues both on the supply side, so the addition of rooms, and the RevPAR side.

And when you look at historically, when you see a slower supply side growth, you tend to see higher RevPAR environment. Those two factors together give us that high single-digit revenue growth, which is the key part of our algorithm, which then flows through margin and capital allocation and so forth. And so I think that is what gives us a lot of confidence. So we can have the sort of 4% growth in net unit growth this year and accelerating in future years, strong revenue growth here, which gives you pricing power in many, many markets because the constraint supply, because demand continues to grow.

And so if you look over decades, that is how our model works, and we are now the most efficient we have ever been in terms of being asset-light. So I am very encouraged by our ability to navigate through this in a more moderate supply side, having upside on the RevPAR side. Then over time, supply side comes back, RevPAR moderates, but we benefit from both parts of the leverage there.

I will let Michael talk about margin.

Michael Glover: Great. Yes. I mean, I think when you think about margin, the first thing I would say is if you go back to the model, we are going to deliver between 100 basis points and 150 basis points of margin. I would expect that for 2023 as well. When we look at the individual regions and you think about the growth coming back, we can get close to where we were, if not all the way back to where we were in 2019, in both EMEAA and China.

Americas was a little bit topsey. So I am not sure if we can grow it further and would likely be in that range.

Keith Barr: Yes. Thank you. I mean, we are very confident about our ability to deliver margin in this business. We have proven it time and time again.

And then with financing conditions, we have talked about the US. I mean, we are putting resources there and incentives there to help owners get financing and accelerate ground breaks, so that will come back over time. We are putting resources into other markets too in terms of our hotel life cycle and growth teams to make sure we are helping owners open hotels as fast as they can.

Financing conditions vary around the world. There are some markets where there are no financing issues whatsoever. When you look at the acceleration we are seeing in Saudi Arabia, we have a significant pipeline there. There is no financing issues. It is basically when they are sovereign wealth, there is no financing issues.

With the state-backed tourism, there seems to be very limited financing issues. China wants to see lending come back in. They have eased restrictions on banks and on the prop cos there as well, so that is going to get better too. So generally, there are different issues in different parts of the world. But our ability to also grow through conversions is how we can offset any slowing that we are going to see in new builds. And financing will come back because, again, we are seeing all these revenues come back from the strong tourism demand and travel demand, which is driving great returns for owners.

Jaina Mistry: Sorry, just specifically in Europe. Has there been an impact on financing in Europe?

Keith Barr: Definitely, there has been some impact on financing, but we are not hearing about it nearly as much as we were hearing about it in the regional commercial banks in the US. But again, it has not been a major topic I am hearing from the owners overall.

Leo Carrington (Citi): If I can ask two, please. Firstly, can I follow-up again on the financing and construction cost environment in the US? I think your comments on the trends are very clear, but what are the tangible implications on your pipeline? Are you seeing developers delay ground breaks because of the construction costs or owners changing their development plans from new builds to trying to seek out existing properties as a result? And in terms of the financing conditions, is that causing projects to sit in the pipeline for longer? So just a bit more colour on implications for you would be very helpful.

And then second question on Iberostar. For the hotels you have had in your system since December, do you have any observations that you can make about the relationship so far? And any significant change to the distribution mix in these hotels? So any early observations would be fantastic.

Keith Barr: Great. Well, on the financing and impact on the pipeline. So the pipeline grew, I think, 3.3% year-over-year, 280,000 rooms under development and 16,000 rooms signed in the quarter. So owners are still signing hotels. They want to develop hotels. Industry-wide, when you look at lodging econometrics, you will see that ground breaks have slowed in the US from the previous highs. And that is from a number of factors. That was input cost on the supply side, construction cost, the availability of labour and financing costs.

Now in some instances, we are seeing a couple of things get much better, right? So the input cost of building and equipment has come down. So that is a great part of the equation. Labour availability has actually increased in construction in the US because of the slowdown in residential pivoting over to commercial. So that is another good positive impact factor.

The headwind would be financing. And again, we are putting resources against that too. So ground breaks have slowed for the industry. They have slowed a bit for IHG, but we are also now putting incentives in place to help owners do more ground breaks, which we talked about at the full year. And also putting resources there, too. We expect it to come back to normalise over time. But it will take a bit of time, depending upon what happens in the US banking area for the entire industry.

But we can make up for it in conversions and also the strength of our growth internationally as well.

Iberostar, relationship is great. I mean, integrations are complicated, but these are amazing hotels in incredible locations. We have done the first phase of integration, which was a light touch. And we are seeing our customers begin to book into those hotels. The more deeper technical integration happens later this year and into next year, where we then see real big segmentation shift, which is why we signalled most of the profit growth happening in the later years, kind of 2025, 2026 and 2027, as they resegment the hotels.

But very, very positive. Our teams talk on a daily, if not weekly basis, and really looking forward to hopefully doing more partnerships like this in the future with the success of this model.

Tim Barrett (Numis): I have a couple of things left, please. Firstly, can you talk about the seasonality of rooms dropping out to the pipeline? Does that tend to show any pattern? Or should we broadly annualise the, I think it is 10,000 or 11,000 from Q1?

And then secondly, a similar question on Iberostar. I know you were very excited when you launched it, that it could set a precedent. Have you got any look-alike deals that you expect to come through this year?

Keith Barr: Why don't I talk about our growth strategy and partnership strategy, then I will let Michael talk about seasonality in the pipeline. I am very excited about the Iberostar deal and the whole concept of having these strategic partnerships because it shows the strength of IHG's enterprise platform.

And by doing that deal, and again, the reaction we had from many people was surprised because no one had expected Iberostar to do a deal with a major because they did not need to, and the fact they saw the value. It has opened up the door to multiple conversations. We cannot talk about any specific partnerships or M&A at any given point. But what you are going to see is a trend, I believe, is the strongest enterprise platforms in this industry, like IHG, will

continue to attract partnerships and adjacencies that want to become part of our travel ecosystem because of the value that we can create, too.

So I would not expect this to be the last, given the strength of what we continue to do, invest in our loyalty programme and our technology. But I cannot announce anything today. But as soon as we do something, we definitely will.

And I'll let Michael talk about the seasonality of the pipeline.

Michael Glover: Thanks for the question. In terms of the pipeline and terminations out of the pipeline, we do not see any real seasonality in terminations coming out of the pipeline. However, we do see seasonality and removals in the system, in our system size. You will also see some seasonality in the way we get openings through the system. And so I would say there is some seasonality in parts of it, but in the way things terminate out of the pipeline, not necessarily any specific seasonality there.

Keith Barr: So probably, and again, I am just going to give you a general direction. You would say that removals tend to be bigger in the beginning of the year. We tend to accelerate openings as the year progresses. And pipeline terminations, there is not a lot of seasonality to it. There is going to be lumps and bumps along the way, but that is how I would think you should think about it.

Alex Brignall (Redburn): Two questions around hotels and alternative accommodation. A few of your competitors have jumped on the long-stay bandwagon and launched or plan to launch new brands in that space. I wonder if you could tell us, you obviously have a few options there, how you feel about your brands or what interest you are getting from your development partners just for potential places where they would like to do more?

And then on a related topic, last night, Expedia talked about a shift back in demand from alternative accommodation. Sort of Vrbo, Airbnb-style property back to hotel as they sort of saw a shift back to urban and just a general normalisation to pre-COVID trend. I wonder if you could give any thoughts on that.

Keith Barr: Thanks, Alex. Suites, we are really fortunate to have three fantastic suite brands already. Some of our competitors initially have them in the same segments. We have got Staybridge, we have got Candlewood and we have launched Atwell Suites. We have actually done new prototypes for Staybridge and Candlewood, I think it was late 2021, early 2022, which are more efficient cost to build, cost to operate in much more contemporary designs.

And of course, we have launched Atwell Suites. So I think we've got three fantastic brands in the extended stay area, high returns for owners and an increasing proportion of our growth vehicles as well because the high returns are great for owners, too. So I think we are well-positioned in that space already, having those three brands.

And in terms of Expedia shifting demand away. We have not really looked at it, to be honest. And so I would not actually say that I have the same level of insight that Peter has over at Expedia on this. We will have to take a look. But what we are seeing is a continued return of business demand into our hotels and continued strength of leisure and also continuing groups, meetings and events.

The strength of government and SMEs, and that might just be pulling business out of alternative accommodation to our hotels. I can tell you who they are, I cannot necessarily tell

you where they are coming from, but fortunately, they are staying with IHG brands. So we are doing really, really well.

Many thanks to all of you who joined the call. And also thanks to many of you who I have had the privilege to work with closely over the years and have had some fantastic conversations and some great debates. It has been a very real pleasure.

I want to remind you that our second quarter update and financial results for the first half of the year will be announced on 8th August. And I am sure you look forward to spending time with Elie and Michael then. But again, I wish you all well, and I will be advising IHG on the side lines for the remainder of the year as we continue to go from strength to strength. So thanks, everyone. Take care and be well.

[END OF TRANSCRIPT]