IHG - Q1 Trading Update

Friday, 3rd May 2024

Introduction

Stuart Ford

Head of Investor Relations, IHG Plc

Welcome

Good morning, everyone, and welcome to IHG Hotels & Resorts' conference call covering the 2024 First Quarter Trading Update. I am Stuart Ford, Head of Investor Relations at IHG, and I am joined this morning by Elie Maalouf, our Chief Executive Officer, and Michael Glover, our Chief Financial Officer.

Disclaimer

Just to remind listeners on the call that, in 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, can I remind you that, in order to ask questions, you will need to dial-in using the details on page three of this morning's Q1 RNS release. The release, together with the usual supplementary data pack for the first quarter, can be downloaded from the Results & Presentations section under the Investors tab on ihgplc.com.

This morning we also released a separate announcement regarding changes to System Fund arrangements, which is summarised in the Q1 Trading Update release. You will also find that separate full release under the Investors tab on ihgplc.com, or by following the link within the Trading Update release.

Now, over to Elie.

Overview

Elie Maalouf

CEO, IHG Plc

Highlights

Thanks Stuart, and good morning everyone. I would like to start today by congratulating our teams on what has been a very busy and productive start to the year across our business, and which has been another period that has really demonstrated the attractiveness and strength of our globally diverse distribution.

RevPAR continued to grow, and on a global basis was up 2.6% on last year. This was driven by both ADR, which was up 2.3%, and occupancy, which was up 0.2 percentage points.

In terms of performance by stay occasion, leisure demand remained robust, with global rooms revenue on a comparable hotels basis up 7% on 2023. Group's performance also improved, with revenue up 5%. Business revenue was flat, but that reflects the timing of Easter being in March this year compared to April last year, as the week leading up to Easter always experiences a lull in Business travel.

In terms of system growth, we opened more than 6,200 rooms across 46 hotels in the quarter, leading to 5% gross growth year-on-year and 3.4% net growth. The number of rooms opened in the quarter was 11% higher than in 2023, adjusting for the Iberostar rooms, which were being added this time last year.

It is worth reminding that we typically experience 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 growth was therefore neutral, and we expect net growth to ramp up through the rest of 2024.

Turning to signings, we added nearly 18,000 rooms into our pipeline in the quarter, which was an increase of 7% on the same period last year. This contributed to the milestone of over 300,000 rooms in the pipeline for the first time, an increase of 6.6% year-on-year.

Over 35% of openings and signings were 'quicker to market' conversions, reflecting the breadth and attractiveness of our brands and the benefits to owners of joining IHG's enterprise.

This was further reflected with the major conversion deal we signed a couple of weeks ago. We were delighted to announce an agreement with NOVUM Hospitality, which will double IHG's presence across Germany and add up to 119 hotels or 17,700 rooms over the coming years. This deal boosts confidence in the outlook for our system growth, and underlines the attractiveness to owners of our brands and enterprise platform.

We expect the agreement to bring significant benefits for IHG and NOVUM Hospitality, including higher brand awareness, increased direct bookings and excellent loyalty engagement.

Germany is one of Europe's largest hotel markets and so there is strong domestic consumption that IHG will capture. The country also generated the highest number of international outbound trips globally in 2022, around 100 million, which is a further attraction to this priority market for us.

Of course, we also expect the agreement to drive the development of more of our brands across more locations.

In a separate announcement today, you will also see that we have made changes to our System Fund arrangements, which will further improve economics for our owners and grow ancillary fee streams. This change is consistent with the strategic priorities we shared with you a couple of months back, which drive value for owners through our leading commercial engine and grow ancillary fee revenue and drive margin improvements for IHG, as part of our growth algorithm.

In 2024, we expect the change to incrementally add around $25m to IHG's revenue and operating profit from reportable segments. Then in 2025, it should be double that amount, and will also grow further as more points are sold and as deferred revenue recognition ramps up. Michael will talk you through more of the detail on these new System Fund arrangements in a moment, after he has reviewed each of the regions for you.

With that, let me now handover to Michael.

Financial Review

Michael Glover

CFO, IHG Plc

Key financial highlights

Thanks Elie. Starting with the Americas, RevPAR was down 0.3% year-on-year. The US was down 1.9%, whereas in aggregate Canada, Latin America and the Caribbean was up 11.3%. Occupancy in the region was down 1.1 percentage points, though pricing remained robust, with rate growing by 1.5%.

In terms of demand types, Group's demand was strongest, with comparable rooms revenue up year-on-year by 5%. Leisure revenue was also ahead by 1%, while Business revenue was slightly lower than the first quarter of 2023, down 2%.

For the industry as a whole, this was a quarter with some adverse calendar timing and other seasonal impacts. When we look at the last eight weeks rolling performance, which obviously smooths out the shift in Easter that impacts not just Leisure travel but also the timing of Business travel, our US RevPAR in aggregate over the last eight weeks was ahead of last year.

The quarter also had some other smaller adverse impacts to deal with. For example, the location of the Super Bowl this February compared to last year was less helpful in terms of the geographic distribution of our rooms inventory, and there was also less hotel demand for accommodation related to weather events than this time last year.

And if you take our overall performance for the first quarter compared to the US industry, we are very satisfied when we look at it on a weighted chain scales basis.

Looking ahead, booking trends would indicate a move back into positive RevPAR for the second quarter.

In terms of system size, over 3,000 rooms were opened in Q1 in the Americas, an increase of more than 60% versus the same period last year, albeit, as we have noted, Q1 is a seasonally small quarter for openings. This included 13 hotels across the Holiday Inn brand family, as well as openings for avid, Atwell and Garner, as we continue to build momentum behind these newer brands.

There were also two Kimpton additions, one of which, the Kimpton Todos Santos in Mexico, was an example of a hotel signed and opened in the same quarter, demonstrating the speed in which IHG can deliver-to-market high quality conversions to our brands.

We signed over 5,000 rooms across the Americas, broadly in line with the first quarter of 2023. It was a great start to the year for our newer mid-scale brands, with eight avid properties and nine Garner hotels added to the pipeline.

Similarly, the 25 signings across our extended stay brands shows their continued strong appeal to owners.

EMEAA

Moving on now to our Europe, Middle East, Asia & Africa region, where RevPAR was up an impressive 8.9% versus 2023. Pleasingly, this was driven by both pricing and demand, with rate up 4.5%, and occupancy up 2.7 percentage points.

The dispersion of RevPAR performance across EMEAA continued to narrow. RevPAR was up 17% in Japan; 10% in Australia; 7% in the Middle East; and 6% in Continental Europe. RevPAR growth of 2.4% in the UK was simply a reflection of normalised growth in a market which fully recovered earlier than much of the rest of the EMEAA region. This time last year RevPAR in the UK was already 12% ahead of 2019 levels, and so now we are a further 2.4% ahead of that.

Just over a 1,000 rooms were opened in the quarter, representing gross year-to-date growth of 0.4%, and gross year-on-year growth of 7.2%. Net system growth was a slight decrease of 0.2% in the quarter. We expect a return to net growth as we progress through 2024.

5,400 rooms were signed to the pipeline in the quarter, 4% more than a year earlier. These signings were well-dispersed across all our segments, demonstrating IHG's ability to compete and win deals all through the chain scales. It was great to see the first three Garner deals signed as the brand becomes available across the EMEAA region, having only launched in the Americas back in September, and of course the NOVUM deal will add more than 50 further Garner hotels.

Greater China

Finally, moving on to Greater China, where RevPAR was up 2.5% year-on-year, driven by occupancy improvement of 0.7 percentage points, and rate growth of 1.3%. An increase in international travellers in the quarter contributed to a 7.3% rise in tier one city RevPAR. In tier two to four cities, RevPAR was down 2.1% given tougher comparables from resurgent demand this time last year, and outbound leisure travel particularly to South East Asia has also picked up, which is a benefit we have seen in our EMEAA region.

Looking ahead, we expect to continue to see a tailwind through 2024 from the return of more airlift capacity into Greater China.

In terms of system size, over 2,100 rooms were opened in the quarter, driving gross year-to-date growth of 1.2%, and gross year-on-year growth of 10.4%. Net system size growth was 0.2% year-to-date, while net year-on-year growth was 7.9%.

Development momentum continues to build, and the 7,200 rooms signed in the region is an increase of 22% on the same period last year.

Share buyback

Now to update you on the share buyback. We are currently 30% of the way through the $800m programme announced in February. To-date, this has reduced our share count this year by a further 1.4%.

New Agreement in Germany

Elie has already noted the new agreement recently announced with NOVUM Hospitality that will double IHG's hotel presence in Germany. Just to add some further colour for you, we currently have just under 100 hotels in Germany, and this portfolio of 119 hotels would add a further 111 in Germany and the remaining eight are in Austria, the Netherlands and the UK.

The increase in our global system size would be up to 1.9% over the coming years, with the majority of the conversions expected to take place over the next 24 months. IHG is contributing key money capital expenditure that will reflect the phased conversion and timing of openings of this major portfolio of hotels, which of course includes the European debuts for our Garner and Candlewood Suites brands which we are very excited about.

And then in terms of fees, IHG will receive franchise fees after the phased conversion of the existing properties and upon the opening of the hotels under development. The fee revenue, net of key money amortisation, once all the hotels are in our system, would be in excess of $10m a year. Additionally, standard assessments will be received into IHG's System Fund, including those to cover the operation of IHG One Rewards, and marketing and reservation services.

Changes to System Fund arrangements

Finally, to cover off for you the separate announcement regarding changes to our System Fund arrangements. Under the new terms that govern the sharing arrangements with the System Fund, a portion of the revenue from the sale of certain loyalty points and some other ancillary revenues will now be recognised by IHG within our results from reportable segments.

Initially 50% of this will be recognised in 2024, which is expected to deliver an estimated incremental $25m of both revenue and profit for this year, before increasing to 100% from 2025 onwards which doubles the run-rate of this incremental fee stream.

The run rate is expected to further increase in subsequent years as the number of points sold continues to grow and also due to the ramp-up effect of deferred revenue recognition. As analysts and investors revisit their expectations for our fee revenue and our operating profit from reportable segments, or EBIT, you will want to bear in mind this future uplift.

As Elie mentioned, it is important to recognise that the changes we are making are also improving the economics for our owners. We are able to do this because of the successful growth and development of the IHG One Rewards loyalty programme and the efficiencies and scale of the System Fund, for example, the assessments into the Fund meant that the System Fund's revenues in 2023 totalled nearly $1.6b, which is $330m or 27% greater scale than five years earlier.

IHG's hotel owners benefit from this substantial scale and efficiency of the System Fund and will continue to do so as it further grows and as the overall enterprise achieves new levels of strength. To the immediate benefit of owners and reflecting the efficiencies that are already being achieved, IHG is lowering its standard loyalty assessment fee that owners pay into the Fund, and is also increasing the Reward Night reimbursements that owners receive back out of the Fund.

Across all the changes being made to the System Fund arrangements, IHG and the IHG Owners Association have worked together to ensure that the overall capacity and effectiveness of the Fund to invest and spend on behalf of all IHG system hotels remains strong, and that the operation of the Fund continues to be on a net nil surplus or deficit basis over the longer term.

With that, I will hand back to Elie for closing comments.

Conclusion

Elie Maalouf

CEO, IHG Plc

Summary

Thank you, Michael. So to summarise the first quarter:

- Global RevPAR has increased by 2.6% year-on-year, with both occupancy and rate showing further improvement;
- Gross system growth was 0.7% year-to-date, and net system growth was 3.4% year-on-year;
- Our newer brands continue to build momentum, including a dozen signings globally for Garner as it accelerates in the Americas and secured its debut in EMEAA;
- And the progress we have made in securing large conversion deals and delivering ancillary fee streams gives us confidence in our ability to deliver our growth ambitions and drive shareholder value.

As we progress through 2024, we expect to continue advancing the strategic priorities that we have laid out for IHG, in order to drive the core components of value creation. As a reminder, these are:

- Growing our fee revenues through the combination of RevPAR, system size expansion and ancillary fee streams; which in turn will drive further margin accretion; and
- With our typical strong cash conversion, this allows IHG to both reinvest 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 your questions.

Q&A

Vicki Stern (Barclays): Just wanted to start off on the System Fund changes. So it looks like it is described as a win-win for all, IHG gets more and the owners seem to pay less. So if you could just help us understand who loses here, is that ultimately lower marketing spend? Where does the difference come from? With that, how do your owners feel about the initiatives?

Secondly, on that point, you talked about the faster growth from beyond next year. So just any sense of what that $50m by next year could ramp up at? What pace of growth beyond that?

And then the final question was just back on the NOVUM deal. I do not think you have called out exactly how much key money will be involved there. So just any quantification there? And then, I guess, particularly whether that could lift you above that $200m Capex level you talked about for this year?

Elie Maalouf: Okay. Thank you, Vicki. Let me just start on your first question and second question, also. I will take part of the third question and turn it over on key money and expectations for that to Michael.

First of all, the System Fund, when we made this arrangement to start selling points on the back of IHG One Rewards and the strength of our brands back in the mid 2000s, I think 2008 and 2009 well before my time, the System Fund was a fraction of what it is today. IHG One Rewards have not grown like it had today. And we always assumed back then I understand that at some point when the System Fund reaches a certain scale, there will be a change made when the System Fund reached that scale and had all the capabilities that it has today.

Today's System Fund is nearly $1.6b. It has grown nearly 40% since 2018. And there is ample capacity to do everything we are talking about and continue the marketing of our brands and continue the effectiveness of our operations as it is.

Remember, System Fund grows every year with RevPAR, grows with system size, grows with more ancillaries. And so it is a growing fund. It is not static. It is not a zero-sum game in the way that you might be thinking about it.

Second, it is also not an accounting change. It is actual fee stream that is today being recognised in System Fund that is now going to be the P&L. It is not an accounting change of that sort. It is high quality, high margin and growing beyond that.

Our owners are benefiting, as we said, by having higher reimbursement for loyalty nights, lower loyalty assessment, but that is something that we envision doing all the time across all the fees that we charge in the System Fund at some point. When System Fund gets a certain scale, the unit cost per hotel is lower, and we are always trying to invest in our owners' value proposition. And because of System Funds run at a net nil surplus or deficit, we want to make sure that they are getting the best value for the operation.

So there is not a reduction in capability, what the System Fund marketing will do, nor there is somebody winning, and therefore, somebody has to be losing because as the System Fund has grown, it is able to do all these things at once. That is the first question.

On the ramp-up, it ramps up for two reasons. One, because there is an element of deferred revenue that can only be recognised in future years when the points are consumed. Number two, because the point sales programme is very popular for consumers. And people have been buying more points over recent years.

And as IHG One Rewards gets stronger and as our master brand gets stronger and as our system gets bigger, we anticipate people to continue buying more points. So that is the growth.

On NOVUM, look, it is a terrific transaction, let us step back. The opportunity to find a portfolio of 100 hotels in a straight franchise deal. It is not a partnership. It is not a distribution agreement. It is an actual franchise, a conversion deal, but to find a portfolio that can convert of this scale is very attractive. It is very competitive, of course, in a high-value market, like Germany, which is a very large hotel market, but actually not very branded.

So we, and obviously, other hotel groups are trying to grow our distribution in this high value market. And we were successful in this. Given the scale and size and quality of this portfolio and length of these franchise agreements, it was competitive, as I said. So therefore, there was some key money associated. We do not disclose that for commercial and competitive reasons, as I am sure you understand.

I will let Michael address how that plays into projections.

Michael Glover: Yes. So as Elie mentioned, obviously, we would not give out the absolute key money number agreed with this. And the key money will be paid out over the time of the period in which the hotel is open. So it will be spread out over the next few years.

In terms of our guidance, we did raise the guidance of key money of $150m to $200m at the full year results announcement. That was primarily due to the increase in Luxury & Lifestyle properties that we are opening. It is obviously very early in the year now. And so the mix of what opens will change throughout the year. And so we are not changing that guidance as of now, but we will keep an eye on it. And obviously, we will be looking at it as we get to the half year.

Jamie Rollo (Morgan Stanley): Three questions, please. First, actually, just sticking with the loyalty changes. Could you just quantify the reduction in the loyalty assessment fee? And also, where does that put you versus the competition in terms of that percentage or even dollar value that you are spending on marketing and so on?

Secondly, in terms of just US RevPAR. I appreciate your points about seasonality and some sort of one-off external factors. Just probably fair to say it has been a bit weaker than expected this year, particularly for the mid-scale and economy segments. Why do you think that is? And are there any forward-looking indicators you can give? I think you said you expect Q2 to be positive. So notwithstanding the March, April figures you gave, what else can we hear on the rest of the quarter or year?

And then finally, just again back on NOVUM, I think $10m was a mature run rate. So it is about just over 0.5% to Group fees versus about 2% to Group rooms. I guess some of that is the refurb CAPEX, but just help us to understand that bridge, please, a bit more.

Elie Maalouf: Thank you, Jamie. In terms of the reduction, actual reduction, Michael, was?

Michael Glover: 4.75 to 4.55, 20 basis points.

Elie Maalouf: Yes. So 20 basis points. If you ask how? We are in a competitive range. I mean, our competitors charge varying rates. Some have different rates by brands. Some have different rates by categories. So we think it is still a competitive rate. It does not affect our ability to market our brands whatsoever, if that is your question. This is a different thing.

We charge a certain amount and then reimburse hotels when a guest stays at the hotel. So it does not really affect the capacity of the System Fund to do the marketing. But I mean, to go back to your point generally about marketing, we do a certain amount of marketing that has been actually growing over the last few years as the System Fund has grown.

You reach a certain point where as the system grows and System Fund grows and we find more efficiencies in the System Fund and our overhead and System Fund does not grow at the same rate, of course, of room nights and of RevPAR and of rooms and RevPAR that you just have more capacity in there.

In times before, we have actually lowered other fees to owners for other programmes that we have, whether the technology programmes with other support programmes, our revenue management for hire programme, we found ways over time that we have not discussed in public, such as this, to lower those fees because the unit cost can come down while the total cost has not changed, and there is more capacity in System Fund.

So actually lowering fees over time as the system grows and as our costs do not grow at the same rate of our revenues is a natural thing to do to our owners. This one is part of this disclosure because of the impact that it has to the P&L. So it is actually a healthy thing to be doing to lowering unit costs as the system grows over time, but does not affect our capacity because we are still spending the same amount in total, and we are still growing the System Fund.

On US RevPAR, look, it is very hard to estimate the impact of Easter. We know it happens every year. It does move every year. It is very hard to estimate exactly how much it is going to be. It probably turned out to be more than some people in the industry expected, what some of the forecasters expected.

Now as Michael and Stuart said, April has shown a pickup. So we are pleased with that. I do not know if that is a read across for the rest of the year or not. I think it is a smaller part of the year here in the first quarter. We are pleased with the start that we have had, the projections from the industry for US RevPAR are still for positive growth.

Actually, the US economy is in pretty good shape. GDP is growing, unemployment is low, wage growth and job growth is high in a way that is kind of why the Federal Reserve is not lowering interest rates as much as people thought. And our Group's bookings are pretty strong. I mean we are at the end of the first quarter, 11% year-over-year in Group's booking, which is showing momentum and people wanting to travel for business and for large groups and meetings. We will see how that plays out for the rest of the year, but projections are still for RevPAR growth for the rest of the year.

On NOVUM and that calculation, the 2% to the 1%, let me turn it over to Michael.

Michael Glover: Yes. So I mean, we do talk about it being in excess of $10m. This is a typical standard franchise deal that we have gotten here, typical arrangements, typical to what we would see in Germany in terms of the fees that we get in both on a franchise fee and a System Fund side.

It also is important to recognise. Remember, 50 of these will be Garner, so in the lower RevPAR ranges and mid-scale ranges. So that affects the total fee take as well from that. So I think that is probably the main drivers of how we get to the key in excess of $10m.

Richard Clarke (Bernstein): I have three, if I may. Just starting again on the System Fund changes. Just want to understand what was the origin of this. Did the owners want a reduction in their fees, and that is what led to this and you managed to make weight? Or was it IHG wanting the extra revenue for yourselves and had to negotiate this fee cut? Who went first?

Maybe the second question just on churn in Q1. I am struggling to find a year where Q1 was actually flat for system size. I think you have to go back to maybe 2017. So it looks like higher churn than normal in Q1, few Kimptons left in the U.S., I think 1,200 Holiday Inn Express rooms as well. So anything you would call out that is just driving higher than expected churn and what that might look like at the full year?

And then lastly, quite a big gap between US RevPAR performance and America's RevPAR performance. Just wondering how much of that is caused by Iberostar? You do not break out a Iberostar RevPAR. Is that going very well for you?

Elie Maalouf: Thank you, Richard. Your last question, US RevPAR versus America's RevPAR. Let me actually start in inverse here, take the first question.

Look, the rest of the Americas did very well. Latin America, Mexico, Caribbean, Canada, they were, on the one hand later to recover. Those markets are doing very well. Our distribution is well located in either resort or urban areas that are progressing well. You have seen Mexico do very well with the reshoring of manufacturing into the market with a stronger peso, where they benefit also from higher oil prices.

And so everything is going in Mexico's way in the last 18 months or so, and resorts have been very strong in Mexico. Iberostar, by the way, is going very well, but I do not think this is a reflection of just that whatsoever in any different way. And Canada did very well for us. So I think it is actually a testament to having a global diversification, regional diversification, not just across brands, but across regions where we know that there are highs and lows across regions, but we are diversified enough that our distribution attenuates that. But it is not necessarily an Iberostar thing, although Iberostar is going very well.

Let me jump to the first question on the System Fund discussions, and then I will leave the second question to Michael.

We are always in conversations with our Owners Association, our owners. It is a constant thing. We have a formal association. We have a standing board. We have a very engaged dialog that goes on all the time. Of course, as you would know, Richard, owners are always looking for lower cost, it is not today or yesterday or tomorrow. It makes sense. They want the highest revenue delivery system, which we believe we deliver at the lowest possible cost always.

And so as I mentioned earlier, I think either Vicki or Jamie, we are always looking for ways to add value to them. And as we gain scale, and what is the purpose of scale? The purpose of scale is to deliver value to your customers through many times more services, higher value services. Sometimes it means lower unit cost because if you reach a level of scale, you can actually lower unit cost.

And over the years, we have lowered other unit costs that we have not publicized it for. For example, our revenue management for hire programme is a self-contained, no surplus or deficit programme, one of those nil surplus programmes that we offer owners. But we have lowered unit cost in that programme over the years as we have gotten more membership into it and more revenue into it, then we use it to fund the services for revenue management for hire that we deliver to owners. But we lower the unit cost as the programme grows.

Same thing here. That discussion is always going on with owners on how we can deliver value to them. At the same time, as I said earlier, I think to Vicki, I think it was always envisioned at some point when we created this point sales programme, which is separate from credit card, which is separate from other ancillary revenues, but lives off the back of the strength of our brands, of our direct relationship with our customers and IHG One Rewards.

As IHG One Rewards has grown, as the System Fund has grown, we always envisioned at some point that this would belong in the P&L when the System Fund would reach a certain capacity. It was our deliberate decision to place these revenues and System Fund way back when, what is much smaller. But scale means that when you are bigger and stronger, you have different choices.

And today, we are exercising that choice in agreement with the owners. But it was not really sort of this and that kind of discussion. We are always looking to add value to the owners, and we are always looking to use our scale to benefit the growth of our ancillary streams.

Michael Glover: In terms of the system size and the first quarter results, if you look at the average over the last eight years, we have grown at about 0.2% in those eight years. And so the first quarter is always the highest for removals and lowest for openings.

We would still fully expect our removal percentage to be in the 1.5% range as we talked about for the full year. So I would not see anything change there in what we have said. And I think certainly, with the NOVUM deal coming in and some of those coming in this year, we feel confident in being around where our consensus is on system growth, and certainly definitely not below where it is. So you still want to reaffirm that and feel comfortable about where that goes.

Elie Maalouf: I mean, Richard, one other way I would look at it is, we had a very strong year in signings and openings last year. We came back this first quarter with another 11% increase in openings, 7% increase in signings, pipeline up 6.6%. I think that is pretty good momentum. And by the way, those figures did not even include the NOVUM deal, which was signed in April, but gives us greater confidence in continuing our growth momentum. I think that is actually a pretty good growth momentum.

Muneeba Kayani (Bank of America): Just a few more on the System Fund changes, please. Can you explain what is the cash impact of this? Is that $50m fully flowing through to cash?

Then secondly, you said it is a portion of the revenue from loyalty points. So can you help us understand what is the portion percentage of the overall?

And then as we think about the growth going forward, what drives it? What drives the loyalty points? Should we be thinking about it as driven by system size or RevPAR, just a framework would be helpful.

And then the other question on China performance. The STR data turned negative in April. Can you give a bit more colour on what you are seeing in China and your outlook for the rest of the year?

Elie Maalouf: Thank you.

Michael Glover: Elie, if you want, I will take the first one on the cash impact. We were obviously always getting the cash into the system. But as you know, we try to run the System Fund as a nil surplus/deficit, so you were spending that cash. So this is positive cash into our operating cash. And because we would not be spending the funds for that, it will be pure EBIT uplift at almost 100% margin. So cash accretive and then EBITDA margin accretive as well.

Elie Maalouf: Yes, the percentage of loyalty points continue on that.

Michael Glover: And then on the percentage of loyalty points, there is multiple programmes in which we sell loyalty points. This is one of those. The credit card is another one. We are not giving any guidance on what percentage of the overall sale of what we do for loyalty points today. But this is related to points we sell and promotions we do. For example, if you go on our website, you may see a point in cash opportunity to do a room with where you buy some points and you spend some cash.

We do sales on things, like points.com and users go out and buy the points there. And it is really driven by the increase in our loyalty programme. And the more loyalty members we have, the more people want to go out and buy those points, and that is why we have seen growth, as we have seen growth coincide with the growth in our loyalty programme.

And certainly, the relaunch of the loyalty programme has driven increased number of members, increased engagement with members, that drives also point sales. And so that is how we look at that.

Elie Maalouf: I mean, to your question on why does it grow? It grows because IHG grows its system. We have more hotels. IHG grows its members and IHG One Rewards, and it grows its brand portfolio and the strength of the brand portfolio, grows the recognition of its master brand. And therefore, those customers want to be more engaged in the IHG System.

They want to stay more with IHG. They want to earn more points with IHG. Sometimes, they want more points before they have earned them to complete a stay or to reach a certain status or because they see a certain sale value on buying those points. It is a bit of a gamification of the points programme, and it keeps them engaged in the programme.

And so now that they are earning points through a stay, they are earning points maybe because they are a credit card holder, they are earning points because they are using a credit card to do their shopping, not just staying. And now they may want to buy some points to top it off. And that is where that final piece, that is where those points are coming from.

And it has been growing because people are engaging more with IHG and IHG One Rewards. And based on the trend that we have seen over several years, we expect it to continue to keep growing.

On Greater China, there are like multiple dynamics going on in China. We have seen tier one cities, RevPAR growth over 7%. Tier two, three and four not grow in the first quarter, but we have seen growth of outbound travel to Southeast Asia, which we actually benefited from high rates of growth in Vietnam, Thailand, Cambodia, Japan, Hong Kong, all the adjacent travel markets from China. Whether that continues for the rest of the year? We do not know.

I think that Chinese economy had a 5%, 5.2% GDP growth in the first quarter. Clearly, some segments are slower, right? We know that sectors like residential, real estate, financial sectors are slower. Hospitality sector seems to continue to go forward and grow. Our openings grew 10%. Our signings grew 22%, which to me shows confidence in owners and investors and continued growth in the hospitality market.

We also recognise that it makes highs and lows, that it ebbs and flows as other markets seem to do, too. But we are in it for the long term. We do benefit from Chinese travellers that may not stay in China and go somewhere else. We do not have any prediction for the rest of the year, but we feel good for continued growth in China for this year.

Muneeba Kayani: If I may follow up on the cash question. Just to clarify, so it is adding to your operating cash. So we should be thinking about this as benefiting your net debt position at year-end?

Michael Glover: Yes, absolutely.

Elie Maalouf: Thank you, Muneeba.

Jaina Mistry (Jefferies): I have got three. The first question is around your balance sheet. At the Capital Markets Day or at your full year results, you mentioned you had a potential $500m of excess cash. We have seen M&A activity pick up, particularly in the Luxury/Lifestyle segments. Are you seeing any compelling opportunities this year? Or do you see potential to return the excess cash to shareholders this year?

Second question is on the US environment. I wondered if you could give us an update on what you are hearing from developers and banks in terms of bank financing conditions, specifically in the US.

And then my third question, you mentioned earlier about the headwind from the location of the Super Bowl. And I wondered, do you have any plans to accelerate growth in Vegas, specifically, over the next few years?

Elie Maalouf: Thank you, Jaina. I think what we said in February was that we had another $500m of headroom, which is not necessarily to have a $500m of cash laying around, but $500m of headroom within our debt to EBITDA guidance.

We do not comment on M&A. You know that we do not. You know that we have said that we are always looking for opportunities that might be strategically accretive, but also financially accretive. Wee have done some of those before. But we do not comment about what could happen in the future.

Michael Glover: I would also say on that, Elie. I mean, that was $500m if we took net debt to EBITDA all the way to 3 times. And of course, we have been very clear on our capital allocation policy. Obviously, we invest in the business first. We are going to grow the ordinary dividend, and we are going to return cash back to shareholders.

And assuming we do not find any other uses of that through an M&A activity, we will return that cash back to shareholders. As we said last year, we feel the best time to do that is at our full year results. I would expect that is when we would really look at that again. So that would be our general guideline on how we would look at that.

Elie Maalouf: Then US financing development environment. I think it continues to get better. We said in February that it would not be V-shape, and it is not a V-shape. We have seen interest rates sort of stabilise, maybe not go down any further. But I think stability and predictability matters as much as lower rates. The fact that rates are stable in the mid-4s on a 10-year and inflation, it maybe not be going down as much as people thought it might, but it is not going up, but just people visibility and stability also to project their construction cost and to get the financing.

We think that is reflected in our pace of signings. It is reflected in the fact that in the first quarter, our construction starts were more than 2 times higher than last year. So it is picking up. And we think it will continue to pick up. We are optimistic about that. But it is going to be a build. It is not going to be a V-shaped inflection.

Meanwhile, conversions continue to go pretty well. We have had a very good start with Garner, and not just in the US, but we are very pleased to see Garner catch on quickly. We announced deals in Japan and in Germany. We have made it available in Mexico and in Canada, and I think you will see the pace of the brand continue.

I think it will be both. New development will continue to improve, and conversions will continue to improve.

Regarding Las Vegas, look, we are always looking to grow our distribution in key markets. We do not have anything to announce right now, but our developers, our teams are always looking to add. And I mean, as we speak, I am sure we have hotels that are entering the pipeline and are being planned in Las Vegas. I do not have anything specifically to announce on that.

Jarrod Castle (UBS): Just in terms of how you approach marketing and related to the system brand. Can you give a very broad picture of where the spend is going to in terms of loyalty points, digital, TV, print, etc., just to get an idea of broadly speaking, where it would be going to? I know it is probably different by market as well, but any comments you can say give on that.

And then, secondly just in terms of construction cost inflation. What are you seeing at the moment and the ability to undertake construction on time? Are there any supply chain issues?

And then just something notable about the US. I mean, we have seen occupancy falling for many months now, but pricing still seems to be pretty buoyant in general. So I mean how long do you think this can continue? Or is it just better revenue management systems in the industry and it potentially does not lead to pricing under material pressure.

Elie Maalouf: Sure. Look, the scope of our marketing activities is vast. It is vast. It is powerful. It is highly sophisticated. Sure. It is the traditional media that you mentioned, TV, airport, airplane, radio all those things but it is way beyond that. Our digital marketing, our social marketing, our earned and paid media marketing on social and digital is very powerful.

Our partnerships and alliances, whether that is sports partnerships and whether it is sponsorships have been growing. I think you see IHG hotels and resorts everywhere you travel, every sport you watch, whether it is US Soccer, whether it is lead sponsor of Major League Soccer, whether it is rugby here in Europe, whether it is US Tennis Open, and you see it in every major airport around the world on many airlines today and China were the sponsor line on airlines.

I mean our marketing has actually expanded significantly over the last two or three years, much more than it used to be. And that was a deliberate strategy, and we have talked about that strategy, which was, first, we were going to grow and fill out our Luxury/Lifestyle portfolio.

Second, we were going to relaunch IHG One Rewards, the app. And then we were going to market the heck out of those through a much larger marketing and we are doing that. And that has powered the growth of IHG One Rewards as part of the growth of our system, as part of the growth of our System Fund. So we are going to continue to do that. And there is nothing in today's arrangement change that deters that or defers that whatsoever.

In terms of construction costs, I think they are stabilised in all of our major markets. They are not coming down. I do not get the sensor coming down, but they stabilised. Supply chain issues have not been really an issue for at least a couple of years now. I think those got resolved. In fact, there is quite a bit of excess of supply in many materials today.

I think what we have built out is a very robust procurement programme that supports our owners to purchase all the way up to HVAC and mechanical supply equipment and at the lowest possible cost and the highest quality.

Our construction starts, as I said earlier, are more than 2 times higher in the first quarter than a year ago, which is an optimistic sign. That is a US statistic. In China construction starts continue to move at pace. We signed 22% more hotels in the first quarter, opened 10% more hotels and making good progress in Europe. And I mean, let us not forget that the NOVUM deal that we have announced in Germany comes with a healthy pipeline and a growing pipeline and a commitment with NOVUM that all the future hotels that will open will be part of IHG brand. So there is confidence in that market too that we will continue to open and develop hotels either as conversions or new builds.

So it has stabilised and improving.

Michael Glover: So add to that, that this is not a one-time type fit. Always our brand teams, design and engineering, procurement teams are looking at our brand designs continuously. They are looking at ways that we can create value, we value engineer our products, cost modelling. We go through and more cost, and we are looking at where do the guests value the experience in the hotel and where can do we dial up costs in those areas and maybe dial down costs in other areas.

So we are constantly looking at that cost to build as we move forward and as we continue to evolve the brand.

Elie Maalouf: On your question about ADR in the US, can it keep moving up? Well, I mean you have the fundamentals of good demand, strong economy, strong employment, good wage growth and low supply growth. And then add it to something we discussed also in February, which was it is not necessarily raising individual rates for certain customers, but it is remixing the rates, mixing out lower-rated business because occupancy is still solid and demand is strong and supply is low and mixing in higher value business.

I mean I am sitting today in a hotel here in London, the Kimpton Fitzroy, speaking to the GM, that is exactly what he was talking to me about this morning, which was given the strength that they are seeing from corporate business here in London, he has been mixing out some lower paying customers and mixing in some higher paying customers.

Neither is paying more than they were a year ago, we are just taking more of the higher rated business, and that is showing up in higher net ADR. But the solid demand and low supply is still a pretty good tailwind for rate.

Leo Carrington (Citi): I have got three type of questions, please. Firstly, in terms of the System Fund changes, that 20 basis points of assessment fees that owners no longer need to pay. What was that spent previously on? And I suppose is it fair to assume that those fees were not previously currently driving the owner benefits that you were hoping for?

And then secondly, on openings, EMEAA openings were quite low even for Q1. Is that a timing issue? Or is the European or EMEAA development outlook not improving as you would have hoped? And how does this tie into expectations for around 4% net unit growth for this year, taking into account NOVUM as well?

And then lastly, just thinking forward, I mean, are there any other changes to the System Fund that in future you could implement to either move costs out of the reportable segments, like you did in December 2020 or other changes like those announced today?

Elie Maalouf: Okay. I will take part of the first question and then turn it over to Michael to follow up on it.

I guess I have said earlier, we had an assessment of 4.75%. But that is when our system was much smaller. The loyalty programme was much smaller. And actually, our marketing spend was much smaller. And today, all of those things are much bigger, and therefore, there is an opportunity to just lower the unit cost. But there are still more customers, and there are still growing room nights.

So the total revenue System Fund does not necessarily have to decline. It is just that it is growing more so the unit cost can decline. And remember, it is 4.75% of portfolio. So as rate grows, that grows too. But rate has grown significantly. And so we find the opportunity to return some value to owners and say, we are covering the cost of the loyalty plan, of the loyalty marketing we have to do and can still give you a little bit of benefit back because the system has grown so much if the unit cost can come down.

It is just one of those very classic economic models that as you grow scale, you can lower unit cost while still having a greater aggregate take, that is nobody necessarily loses because we have grown scale to the point where unit costs can come down, but the total volume is the large and the marketing can still continue and everybody wins.

Scale is actually one of those things where it is not a win-lose. Everybody can win when we grow scale properly. And that is what we have done with IHG One Rewards. It is always the intent to grow scale to a point where everybody can benefit.

If conversely, by some unfortunate measure, it dropped down in half, like it did during the pandemic, then there is not enough to do for everybody, right? But we have grown so much that there is the opportunity to lower the assessment just a little bit, but also to maintain the marketing of the loyalty plan. Do you want to add to that, Michael?

Michael Glover: Just a reminder that the 20 basis points is not off the marketing and reservation assessment. That stays the same. This is only on the assessment of Reward Night stays. So when a customer stays with us that is a Rewards member, as Elie mentioned, we charge 4.55% now on the full folio of what they stay. And so it is not taking out of the marketing and reservations assessment, it is coming from the loyalty programme.

And we do not expect to change what we have been able to do there in terms of marketing and targeting loyalty customers going after new enrolments, and we will continue to see that happen. As Elie said, it is mainly a scale and efficiencies play. And so we feel really good about this. This is actually a great thing for our owners, and hopefully, will help us sign more deals in the future.

Elie Maalouf: On your question about EMEAA openings, that is mostly a timing thing. I have travelled throughout the EMEAA a lot since the beginning of the year. I have been in Japan. I have been in Southeast Asia. I just came back from India, been in the Middle East and Saudi Arabia. We see great momentum. I have been in Germany, where we signed the NOVUM deal, which really is not in these figures, but will clearly boost EMEAA signings and openings for the year and beyond.

I am very comfortable with the EMEAA's outlook for growth, for signings, for openings, for starts, for the whole thing. I think that addressed your questions.

Michael Glover: The System Fund was the only other question. And really with the System Fund and are there other things? We have a really healthy relationship with the IHG Owners Association. We are constantly looking at how can we drive more revenue and benefit for our owners, how can we drive benefit for IHG. It is an evolving thing that we will always look at, just like you would do in any business.

We try to grow it, and we try to grow ancillary revenue streams. We have been talking about the credit card, which is out there, and we are going through that process. So this is an evolving area, and we will continue to look at it and do the right thing for our owners and for IHG.

Leo Carrington: Maybe just the only point not covered, the 4% net unit growth for this year, taking into account Q1 plus NOVUM. Is that something you are still happy with?

Elie Maalouf: Absolutely. It certainly does not come down after NOVUM deal and the momentum we feel in our markets.

Alex Brignall (Redburn Atlantic): First one on RevPAR. It sounds like you do not give guidance, and you have explained why, it is very sensible. But it sounds like you are suggesting that consensus could come down by about 1% for the full year. Looking at the second half, the comps for where we were versus 2019 last year, they get significantly harder, probably 600 basis points harder in Q3 than Q1. How does that come into your thinking of what your year-on-year will look like? Because obviously, international markets last year were recovering very rapidly. And so the base is very different in the second half of the year to the first half of the year.

And then the second one is, I guess, it is NOVUM related. It sounds like the free cash flow from NOVUM over the years where hotels are converting is likely to be flat or negative. And other hospitality businesses have done conversion deals recently that were certainly on worse terms than we were used to and quite a lot of them. STR data kind of shows that a decade ago, only 55% of branded hotels were held by the big ones. And now we’re over 80%, which obviously is positive but it means that there just not very many left to convert.

So I wonder what you might say about how much there is left to go for in terms of smaller branded hotels that are converting to your bigger brands and whether that is a risk?

Elie Maalouf: Okay. Thank you, Alex. Let me start with your last question on how much is left to convert. I will turn it over to Michael for a question about comps and whatever guidance we do not give.

Anyway, so I think on conversions, you have to keep in mind that not everything we are converting is necessarily unbranded. So even in a market like Germany, the NOVUM hotels would show up as branded. Actually, there are brands that they created, and we are very happy with, but they would want to be part of a larger system and a stronger system, and therefore, chose to rebrand to IHG. So that does not actually show up in your figures as unbranded rooms going to branded. That is actually branded to branded.

And in the US, which is high branded, higher branded about 70% branded to 30% unbranded, a lot of what we convert is actually branded from other brand companies that want to join IHG. So the potential for branding is not just in the unbranded. Then I would say beyond that in Europe, 70% is still unbranded. And therefore, that is on top of the brand that can move.

Therefore, we do not think that the addressable opportunity in conversions is really diminishing. I think actually addressable opportunity and conversions stays alive as more branded and unbranded operators and independent operators realise the benefit of a strong global system like ours.

I would tell you when I was at the IHIF conference in April, where we signed and announced the NOVUM deal, but I was going there anyway, we had multiple meetings with hotel groups and owner groups interested in converting to IHG brands, irrespective of the NOVUM transaction, but probably motivated by it because they are looking at the same economics of having to scale up costs that are very difficult, such as having a loyalty plan, having an app, having a digital distribution, having a global sales force, things they just cannot access. And it tends to be European or pan-European operator.

So this is not a shrinking addressable market. I do not know what you may be referring to in terms of lower value partnerships or transactions. NOVUM is not that. NOVUM is neither a partnership, nor a alliance. It is a franchise deal at full fees, full fees to P&L, full fees to System Fund, every single hotel. Every single hotel is a separate franchise agreement with IHG under an IHG brand. It just happens to be a lot of them at once. That is what really differentiates it. But it is not different from having signed one franchise agreement. We are just signing a lot of them at once.

In terms of the comps, Michael?

Michael Glover: Yes. In terms of RevPAR, I think, we have said consensus is at 3.6. We are at 2.6. We are not necessarily suggesting that consensus needs to come down. I think we just gave an indication of, for example, it did stay at that 2.6 range, what would be the impact on profit on the fees and in fee sensitivity, it is about $11m for 1 point in RevPAR. So I think we were just kind of giving that indication.

As we move forward, the RevPAR growth in the US and really internationally started to actually slow as you went through the quarters. And you may remember actually the US RevPAR in the fourth quarter was roughly flat. So we think the comparables actually are a little better. Q1 in the U.S last year was really strong. And then internationally, that will depend on the markets. But in the aggregate, overall, the RevPAR growth was slowing. So we are not as concerned about the comparables being too tough.

Alex Brignall: I do not ask you to answer that question again, Elie. But I specifically asked about, are you referring to brands converting to brands? Most franchise operators talk about brand, whether their conversions are largely branded. I was not referring to independent hotels. I was saying that the mix of brands that is now large brands, like yourself, is now dramatically higher than it was 10 years ago.

And so therefore, the amount of small brands that you referred to as weak, and therefore, wanting to join a bigger group is now a much smaller pool to fish in than it was and that being a challenge. I understand the point about independence, but there are not that many independents that convert into brands for logical reasons.

I do not want to keep on asking. But on the RevPAR, obviously the year-on-year numbers in 2023 were much lower than the second half because in 2022, what they were building, it just seems that not looking at 2019 might just be a little bit narrow but maybe I am seeing it wrong.

Elie Maalouf: No, we get your earlier point about the conversions. I still say that in Europe, there is still a very large unbranded or independent category that is a ripe opportunity for conversions. So we see the opportunity continuing.

Jaafar Mestari (BNP Paribas): I have got a couple, if that is okay. On the System Fund economics point, I do not know if you have thought about this, but approximately how much profit do you think the fund would have generated in 2025 if you had just let it run with the current economics and not made these changes, please?

And then I would be keen to hear any discussion of how this value will be reflected by geography and then the other side of it, if I am a median Holiday Inn Express owner, how much better off am I in dollars post this change, please?

And just more broadly, it is just one quarter, but super, super rough rounded numbers. You signed 18,000 rooms in Q1. There are three big buckets there. And interestingly, the bucket with all the newer brands, Vignette, voco, HUALUXE, Garner, Atwell and avid, stuff that did not really exist six years ago, that is about a third of your signings, just shy of 6,000 rooms. Is that the desirable moving parts there that all the new stuff is about a third, and then the big engine, Holiday Inn Express at about a third and then everything else is about a third?

Or is there a point where you will either do more in terms of new launches, continue to have additions to that brand roster? Or is there a point on the other hand where you go, well, the Crowne Plaza, etc., maybe we do another relaunch, another tweak because it should be a bit higher.

Michael Glover: Maybe I will start with the first one and then Elie can pick up on maybe the last one there. In terms of what would it have been in 2025, should we have just left it in the System Fund? It is a really complicated calculation because it deals with actuaries and consumption curves. So really, I think the best way to look at this is that the $50m that we have talked about, we get 50% of what is available this year, and we said that is approximately $25m. We get 100% of that next year, so you can essentially double that.

But as we have said, that's going to grow as there is consumption of the points. This is the deferred loyalty accounting method. And so that will grow. And that will also depend on consumer behaviours and how they use those points and things of that nature.

And then on top of that, it grows just from the growth in the points. So it is really complicated. And so I would not want to try to go back to a non-deferred revenue accounting method. I think the best way to look at it is $50m and growing.

Elie Maalouf: Then your question about what will that mean? I mean, the improvements we made for owner economics, what will that mean for them at a hotel level individually? It will really vary based on their mix of loyalty customers that they take, what level of occupancy they are reaching. And so there just is not one specific answer. I think it is going to be very well appreciated and meaningfully incremental to their economics. But it is very hard to estimate it on what a specific hotel will be because they have very different levels of loyalty contribution, very different rates, very different levels of occupancy to reach where their reimbursement varies based on occupancy. So it is a pretty complicated thing, and it is very bespoke to each hotel.

On your question about the signings across our brands, look, we are very pleased that our new brands launched and acquired represent a meaningful amount of our growth going forward and a growth in our pipeline. We are less interested in maintaining a certain proportion. We are interested in growing them all. We would be happy if they all continue to grow, but the proportions would shift because we think they all have incredible potential in their markets, where they launched and the markets where they are going to expand to.

I mean, as we said in February, in China, we still only compete in the mainstream space with two brands, Holiday Inn and Holiday Inn Express. But we have six mainstream brands globally, including the new one, Garner. So you can anticipate that we are going to have more brands there. That will change the percentage of what gets signed in China. WE are happy with that. We are not trying to limit how many we sign each brand.

On Six Senses, it will never be a very high percentage of the rooms that we sign by design. It is uber luxury, very high rates, super exclusive. We're going to keep it like that. We are going to grow the brand, but keep it very disciplined to very high-quality resorts in urban locations. It would not contribute to system size, necessarily contribute to fees substantially into the value of our loyalty plan to the value of our portfolio, but not about the system size. So yes, we are pleased to see our new brands ramp up, but we are not trying to reach a certain proportion of each category.

Jaafar Mestari: And just that point on the $50m by region for you, if you have already made some estimates there that you are happy to share, please?

Michael Glover: Say that again, the $50m?

Jaafar Mestari: The System Fund change, how will it be reflected in each of your reported regions?

Michael Glover: It will be in reportable segments into central.

Jaafar Mestari: Yes. And do you have a split of the $50m, $25m contribution in each of your reported regions?

Michael Glover: No, it is in central.

Jaafar Mestari: Okay. So it is all in the central. Okay. So it is not in the overheads in the region. Okay.

Elie Maalouf: Okay. Thank you for your time today. We really appreciate it. We have no more questions coming in, and the operator will now hand back.

All right. Many thanks to all of you on this call. We just want to remind you that our second quarter 2024 update and financial results for the first half of the year will be announced on Tuesday, 6th August. Thank you, and have a great rest of your day.

[END OF TRANSCRIPT]