InterContinental Hotels Group HY26 Results Presentation and live Q&A | 11th August, 2026

Stuart Ford:

Hello, and welcome to IHG's 2026 Half Year Results Presentation. I'm Stuart Ford, Senior Vice President and Head of Investor Relations at IHG Hotels and Resorts.

And shortly, you'll be hearing from Elie Maalouf, our Chief Executive Officer, and Michael Glover, Chief Financial Officer. Before we proceed, I'm obliged to remind all viewers and listeners that the company may make certain forward-looking statements as defined under US law. Please refer to the accompanying results 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.

In addition, the presentation will refer to certain non-gap financial measures. Once again, please refer to the accompanying results announcement and SEC filings for reconciliations of these measures to the most directly comparable line items within the financial statements. The results announcement, together with the usual supplementary data pack, as well as the presentation slides accompanying this webcast, can all be downloaded from the results and presentations section under the investors tab on IHGPLC.com.

Now, over to our first half highlights reel followed by Elie.

Elie Maalouf:

Hello, I'm Elie Maalouf, Chief Executive Officer of IHG Hotels and Resorts. Welcome to IHG's 2026 Half Year Results Presentation. I will begin with a short overview of our results in the first half, a period of strong financial performance, record development activity, and a further progress on a clear strategy that's unlocking IHG's full potential.

Michael Glover, our Chief Financial Officer, will then provide a financial review. After that, I will return to take you through the progress we are making on our strategic priorities. IHG delivered a strong financial performance in the first half of 2026. Global RevPAR grew 4.1%. Net system growth reached 5%. Fee revenue grew 7%, and fee margin expanded by 120 basis points, driving 10% growth in operating profit from reportable segments. Supported by strong cash conversion in our share buybacks, EPS grew even faster at 13%. Today, we are pleased to declare an interim dividend of 64 and a half cents, an increase consistent with our 10% growth rate since 2022.

Dividend payments along with a $950 million share buyback program are expected to return over $1.2 billion to shareholders in 2026. Together, the results reflect the strength and resilience of our business model, the diversification and scale of our estate, and the long-term value creation potential of our enterprise platform. They are a clear demonstration of how IHG is continuing to deliver against the growth algorithm we set out in 2024. Let me now hand over to Michael to take you through the financial results in more detail.

Michael Glover:

Thanks, Elie. I'm Michael Glover, Chief Financial Officer for IHG Hotels and Resorts. Let me take you through some more detail on the strong financial performance delivered in the first half of 2026. I'll start as usual with our reportable segments, which includes the fee business together with our owned and leased portfolio of 17 hotels.

Revenue was $1,255 million and EBIT was 655 million, growing 7% and 10% respectively. Within this, fee business revenue increased 7% to $971 million, and fee business operating profit increased 8% to 640 million. Fee margin increased by 120 basis points to 65.9%. I'll come back to the drivers of that performance in more detail shortly.

Adjusted interest increased to $106 million, putting us on track for a full year guidance range that we've narrowed to 230 to $240 million. Our adjusted tax rate was 26%, consistent with the rate in the first half of last year.

Adjusted earnings per share includes the accretion benefit from the $950 million share buyback program announced earlier this year, together with the annualized effect of last year's $900 million program. The combination of revenue growth, further margin progression, and buyback accretion resulted in adjusted earnings per share increasing by 13% to 274.7 cents.

The interim dividend is increasing by 10% to 64.5 cents, consistent with the growth rate in each of the past four years. Moving on to a summary of RevPAR performance. Global RevPAR increased 4.1% in the first half with occupancy up one percentage point and ADR up 2.5%. Q2 RevPAR grew 3.5% and positive RevPAR growth was delivered in each of our three operating regions, both in Q2 and for the first half overall.

In the Americas, RevPAR increased 4.8% in the first half. Performance accelerated to the period increasing from 3.6% in Q1 to 5.4% in Q2.

Supportive trading conditions from a strong US economy led to growth in all three demand drivers as shown on the next slide. The World Cup added approximately 100 basis points to America's Q2 RevPAR growth. Excluding that uplift, there was clearly very good and broad-based growth right across the region.

In EMEAA, RevPAR increased 3% in the first half. After growth of 5.6% in Q1, growth in Q2 was 0.6%, reflecting the well-documented impact of the conflict in the Middle East. The sub-region, which represents 5% of IHG globally or just under 20% of the EMEAA region declined by 19% in Q2. The rest of EMEAA grew by 4% in Q2, including growth of 3% in the UK, 2.3% in continental Europe, and 6% in East Asia and Pacific.

The breadth and diversification of the EMEAA portfolio therefore continues to be a significant strength. In greater China, RevPAR increased 3.1% in the first half.

Following stellar growth in Q1 of 5.7%, Q2 had an impact from public holiday timings. The RevPAR in this latest quarter still grew by 0.8%. This slide presents the business leisure and group's demand drivers showing a breakdown of booked revenue split by room nights and ADR.

At a global level, all three demand drivers delivered growth. Groups was again the strongest, up 6%, with particularly strong growth as expected in the Americas. Business increased 2% globally, and leisure increased 3% globally. As we've highlighted before, this diversification remains an important strength of IHG. Growth is being supported by a range of customer segments, geographic markets, and travel purposes, rather than relying on a single demand driver. Turning now to system growth, where we delivered record levels of development activity. We opened 31 and a half thousand rooms across 197 hotels during the first half, delivering gross system growth of 6.5%.

Excluding rooms from the Ruby acquisition, openings increased by 8% year-on-year, continuing the strong momentum we've seen across the business in recent periods. This further demonstrates the continued attractiveness of IHG's brand and enterprise platform to owners globally.

The mix of openings remained balanced with 55% from new builds, 43% from conversions, and 2% from Ruby. Just under 9,000 rooms were removed from our system during the half, representing a removal rate of 1.5%. Taken together, this drove net system size growth of 5% year-on-year, continuing the momentum we had already seen in the first quarter. This represents a strong outcome with increasing openings, a normalized level of removals, and sustained net system growth across the portfolio.

Moving now to signings, we signed 49,200 rooms across 352 hotels in the first half. Signings on an organic basis also increased by 8% year-on-year. And the composition of signings was again well-balanced with 51% from new builds and 49% from conversions.

By region, we signed 12,500 rooms in the Americas, 19,500 rooms in EMEAA, and 17,100 rooms in Greater China. Development activity remained strong with signings growth in all three regions, including in EMEAA, which continued to perform particularly well despite the disruption experienced in parts of the Middle East during the period. The strength of signings continues to support our confidence in IHG's outlook for future system growth. Coming back to our fee margin progress, this increased by a further 120 basis points to 65.9%, in line with our medium to long-term ambition of delivering annual margin accretion of between 100 and 150 basis points on average.

Importantly, the improvement was broad-based across all geographic regions. The Americas delivered a 150 basis point increase in fee margin to 84.2%, driving operating profit growth of 7% to $442 million. EMEAA increased fee margin by 400 basis points to 69.8%, supporting 10% profit growth to 141 million, while Greater China achieved outstanding profit growth of 25% to 55 million underpinned by fee margin expansion of 460 basis points to 62.5%.

The central reporting segment had a revenue increase of 13%. The central margin came down slightly simply due to the planned timing of cost investment, which is a little more weighted to the first half, but fully consistent with our view for the year as a whole. The operating profit of central therefore increased by 5% in the first half of the year.

As I noted at our full year results, IHG has maintained a disciplined approach to cost management for many years with this mindset embedded in how the business operates. Through process redesign, greater leverage of centralized support and enhanced use of technology, we continue to build a highly efficient scalable cost base with step changes delivered in our recent programs that are achieving sustainable savings over the long term. As you can see from this chart, we have consistently increased fee revenues over time whilst maintaining strong discipline over our overheads, therefore driving substantial margin expansion.

And that's what we've achieved once again in the first half of 2026 with the 7% increase in fee business revenue delivered on a lower level of cost growth. The 4% increase in fee business overheads in the first half included the timing of certain costs that were front loaded in the year. There is no change to our view for the year as a whole. We remain confident of delivering an overhead increase within the range of one to 3%, reinforcing our commitment to discipline cost management and achieving further fee margin expansion.

Moving on to cashflow. Adjusted free cash flow was $360 million, an increase of 58 million on the first half of 2025, driven by the increase in profit. Cash conversion on a trailing 12-month base has remained above 100%. The increase in net debt is a result of the ordinary dividend payments to shareholders together with returning further surplus capital via share buybacks. As expected, financial leverage remains within our target range. Looking now at capital expenditure in more detail. Key money and maintenance CapEx totaled $95 million in the first half with 83 million of key money and 12 million of maintenance CapEx. Recyclable investments were a net outflow of $40 million comprising gross outflows of 42 million and gross inflows of two million. These support attractive development opportunities within IHG recouping the outflows over time. And as previously described, these arrangements are often inherently bumpy. Along with system fund investments, overall gross CapEx was therefore $158 million and net CapEx was 123 million. These align with our unchanged guidance for key money and maintenance CapEx of around 200 to $250 million annually and for gross CapEx of around 350 million a year on average.

Our strategy for the uses of cash remains unchanged. After investing to drive long-term growth, which is the foremost priority, we look to sustainably grow the ordinary dividend.

After that, we then look to return surplus funds to shareholders. This year's $950 million buyback program is on track and was 42% complete at the half-year balance sheet date, having repurchased a further 2.7 million shares or a further 1.8% reduction in the share count. For the full year, ordinary dividends of around $285 million together with the $950 million buyback are expected to return more than $1.2 billion to shareholders, which is equivalent to just under 6% of IHG's market capitalization at the start of the year.

Over the five years from 2022 to 2026, IHG will have returned more than $5 billion to shareholders. On a prospective basis, given consensus expectations for growth in EBITDA and cash generation in 2026, together with the share buyback, leverage at the end of 2026 is expected to remain within our target range, a two and a half to three times net debt to EBITDA.

Our other modeling guidance remains unchanged from what was communicated at our 2025 full year results back in February, except for a slight narrowing of the forecast range for interest cost. For reference, this slide also shows a summary of our growth ambitions over the medium to long term. With that, let me now hand back to Elie.

Elie Maalouf:

Thank you, Michael. We are pleased with our financial performance in the first half, which reflects the strength and resilience of our diversified business model. This model, which builds on years of strategic positioning, positions IHG to capture demand across geographies, price points, stay occasions, and fee streams. This breadth also allows us to benefit from the structural growth drivers fueling our industry, including consumers' continued preference for experiences over goods.

So even in a period when there were geopolitical challenges in a sub-region like the Middle East, which represents 5% of our global inventory, the other 95% performed very well against a favorable macro backdrop underpinning demand for travel. In the US, our largest market, economic growth in our industry are being driven by high levels of employment, rising household wealth, resilient consumer spending, strong corporate profits, and huge amounts of investment going into technology, energy, manufacturing, and other areas of the economy.

With this economic momentum expected to continue, we are confident in the underlying factors driving our US RevPAR growth. In China, our second-largest market, the economy's also growing well. The number of middle income households is rapidly expanding. There is significant investment going into infrastructure in China's broad industry base, and the consumer has demonstrated a continued strong desire to travel.

Against that backdrop, we made further progress in the first half across our five areas of focus. Growing our brands, expanding in key geographic markets, developing our leading technology and enterprise platform, driving ancillary fee streams, and as Michael already covered, delivering increased dividends and returning surplus capital to shareholders.

Together, these areas are unlocking the full potential of IHG for guests, hotel owners, colleagues, and shareholders. Let's now take a closer look at the progress we are making in growing our brands. Over the past 11 years, we have expanded our portfolio from 10 brands at the start of 2015, to 21 today. We can now serve more guests across more price points and stay occasions and more destinations, from remote resorts to urban hotels and major gateway cities, while attracting more owners and property types to our system. This broader portfolio is also creating a larger and more diversified revenue mix.

Since 2014, the total gross revenue or TGR generated by our hotels has grown from 23 to $37 billion. A key driver of that growth has been our strategic expansion in luxury and lifestyle. This higher fee per key segment has doubled from five billion of TGR in 2014 to 10 billion today. Strong growth in suites and the introduction of exclusive partners have further diversified the mix alongside the continued strength and growth of our essentials and premium brands. This breadth of brands is translating into record organic development activity. In the first half, we opened 197 hotels and signed a further 352 into the pipeline with the number of rooms open and signed both increasing 8% year over year on an organic basis. Our established brands continue to drive the majority of development activity on a large base, accounting for around two-thirds of openings and signings. At the same time, our newer brands are scaling at pace, accounting for around one-third of development activity. And our newer brands still have substantial runway for growth ahead.

Now taking a closer look at three of these new brands that are bringing us closer to a wider set of guests, stay occasions and owner types. Regent continues to build strong momentum and is resonating with guests and industry followers in upper luxury. When we acquired the first 51% stake in the brand in 2018, it had nine open and pipeline hotels.

Today, it has 25, including flagship properties in each region, in Hong Kong, Cannes, and Santa Monica. In fact, region Hong Kong received its first Forbes five-star rating earlier this year, and Region Carlton Cannes received its second consecutive five- star rating. These prestigious accolades, among many others, reflect the quality of the Regent brand and the consistency with which our teams are bringing the guest experience to life around the world.

We recently completed the next pre-agreed step to acquire the remaining stake and region, and we see strong growth potential ahead as the brand continues to deliver for guests and owners.

Ruby, our premium urban lifestyle brand acquired in 2025, has already grown from 30 open and pipeline hotels at acquisition last year to 42 today. Ruby's distinctive urban micro-format and franchise-friendly model give us significant opportunities to expand beyond its strong European base. We have already signed the first two US hotels in New York and Chicago, and owner interest is strong as Ruby becomes franchise-ready across East Asia and Pacific. And then Garner, our fastest ever scaling of a brand globally, opened a further 23 hotels in the first half of this year and signed another 54 into the pipeline. This included further development activity across the US and Japan and the first opening in China. The brand has already reached 17 countries across open and pipeline hotels less than three years since launch.

A further example of the strength of our brands and enterprise platform is our selection together with our partner, Sentinel, for the US Department of Air Force Lodging Program. This builds on the success of our work with Sentinel since 2009 through the privatization of Army Lodging Program. Finalizing the new 50-year agreement with the Department of Air Force is in progress and operational transfer of the hotels into IHG system will begin later in 2027. This is expected to initially include hotels on 23 Air Force installations across the US and its territories.

The prospective agreement would further underpin our system growth momentum. We are deeply honored and looking forward to supporting the US Air Force community and continuing to proudly serve those who serve. Let's now turn to our key geographic markets where we continue to grow across each of our three regions and further diversify our global footprint.

IHG is a large domestic player in large domestic markets, with the US, Europe, and China collectively accounting for 79% of our current system size. Over the last 12 months, nearly 90% of guests staying at our hotels around the world traveled either domestically or from nearby countries. Therefore, shifting travel flows in pockets of geopolitical uncertainty, while impactful to certain markets and regions usually have limited impact on IHG's overall global performance. And with more than 7,100 hotels in over 100 countries, we are well positioned to capture guests wherever and whenever they choose to travel.

Our pipeline of 2,400 hotels will expand our presence in the world's fastest growing economies. Almost 60% of this pipeline is located east of Europe, where economies are expected to grow by around 4% annually over the next decade, and the number of middle income households is expected to expand by 6% per annum.

Let's now look at six priority markets where we are building strong growth momentum and taking share of future supply. In the US, our largest market, the strength and breadth of the macro backdrop not only supported very good trading, but also strong development momentum. Applications and ground-breaks increased year-on-year, and we signed more than 10,000 rooms up 30% across more than 100 hotels. The strength in signings was led by strong activity from our Essentials and Suites brands, including 22 Garner Hotel signings and 43 across the Holiday Inn brand family. Given the record levels of investment going into the economy, greater clarity around tax policy, and continued wealth creation, we expect recent development momentum in the US will continue.

In Greater China, we celebrated our 900th hotel and delivered another record period of openings. Growth was led by the Holiday Inn brand family and our conversion-led brands. With more than 50% future rooms growth embedded in the pipeline and under penetration of hotel rooms per capita, continued economic growth, and a strong desire among consumers to travel, we remain confident in the long-term fundamentals of this vast market.

Across EMEAA, we continue to expand in both high value and rapidly growing economies. In Germany, one of Europe's largest hotel markets, our combined open and pipeline hotel account now stands at over 250, more than doubling from the start of 2024. Japan, another example of high value developed market now is 62 open hotels and 34 in the pipeline. Signings included a 14 hotel conversion portfolio in Kyoto, 12 of which will become Garner properties.

In India, a rapidly growing market with significant potential, we signed a record 24 hotels in the first half of 2026, taking the number of open and pipeline hotels to over 160. We expect momentum to continue accelerating over the next five years as we aim to reach more than 400 open and pipeline hotels.

In Saudi Arabia, development activity continued in the first half despite geopolitical uncertainty in the region. In fact, one of the first three Noted Collection deals was signed in Saudi Arabia in the second quarter, a testament to our and our hotel owners' confidence in the country's long-term growth potential. And with 77% future rooms growth embedded in the pipeline, we will be significantly growing our footprint in the coming years on top of an already industry-leading position. Importantly, across the other five markets, as you can see in the top chart, our pipeline shows we will be taking greater share of future supply through both new builds and conversions.

Overall, the strength of our brands and global geographic positioning drove our strongest net system growth performance in seven years, reaching 5%. With 33% further rooms growth embedded in our pipeline, around 50% of which is currently under construction, we remain confident in the continued momentum of our system growth going forward.

Now, turning to the important progress we're making in developing our industry-leading technology and enterprise platform to capture demand, deepen guest loyalty, and support hotel owner returns. Our connected technology ecosystem is the backbone of our enterprise platform and a key competitive advantage for the 7,100 hotels in our system. It reflects years of strategic investment in our digital foundations, including the unification of our data in the cloud, the early adoption of our best-in-class guest reservation system, and the rollout of our AI-enhanced revenue management system, which has unlocked revenue uplift and market share gains for our owners.

Now, we are in the final stages of upgrading and modernizing our core hotel tech stack as we roll out new best-in-class cloud-based property management systems across our estate. This new PMS will help owners run their hotels more efficiently, transform their day-to-day operations, and unlock further new tech capabilities.

One such capability is a new digital solution that will create a more connected experience for our guests from pre-arrival messaging through to in-stay services like enhanced digital F&B ordering. We expect the new PMS to be in 4,000 hotels by the end of 2026, doubling over the year. We are continuously leveraging the strength and scale of our enterprise platform to deliver even greater value for owners. In recent years, we have lowered our standard loyalty assessment fee, increased reward night reimbursements, and reduced the cost of the IHG Ignite marketing program. On top of providing a leading tech stack, we have also enhanced many other areas of support, such as the growing depth and breadth of our hotel procurement services.

In a further important development, where owners pay for additional specialized commercial services, we are piloting a new commercial delivery model in 500 hotels. 75% of owners are already seeing a price reduction while at the same time benefiting from an expansion of services. Owner feedback has been very positive, and further rollout across the America's region will continue into 2027.

Now, turning to the ways we are weaving AI throughout our enterprise platform and supporting how we deliver on our growth algorithm. Our approach to artificial intelligence is grouped into three distinct areas, guest acquisition and loyalty, hotel performance, and corporate efficiency and innovation. Together, these capabilities are strengthening our direct channels, creating better experiences for guests, enhancing hotel profitability for owners, and supporting an even more efficient and scalable cost base for IHG.

In the first half, we made important progress across a number of priorities within the area of guest acquisition and loyalty. We launched new AI-enabled natural language search capabilities within our award-winning mobile app and our website, making it easier for guests to find the right hotel for their needs through a conversational search experience. We launched an IHG plugin within ChatGPT, giving users access to real-time hotel information while creating a seamless path back to IHG's app and website to complete the reservation.

We also began piloting our new hotel content platform, which will amplify how our hotels show up across digital channels and AI-powered search. And we are piloting our new cloud-based guest CRM, allowing us to get closer to our guests and deliver more personalized experiences consistently across our global estate.

Together, these capabilities will make it easier for guests to discover the right hotel, experience more memorable stays, and deepen loyalty. For hotel owners, these capabilities create even greater value, widen the competitive mode, and unlike the full potential of IHG One Rewards from an already strong base. For a more detailed look at our advances in AI and the area of guest acquisition and loyalty, you can watch the latest episode in our IHG Checks In On... series, which has been launched today alongside these half year results. This episode featuring Heather Balsley, our chief commercial and marketing officer, and Jolie Fleming, our chief product and technology officer is available on the investor section of ihgplc.com.

Turning now to IHG One Rewards, which continues to be one of our most important competitive advantages and a key to strengthening hotel owner returns. At the start of 2026, our IHG One Rewards membership base stood at more than 160 million members globally. In the first half, loyalty penetration increased further to around 67% of room nights booked globally. And this figure was even higher in the US at 73%. Member engagement has been strong with milestone rewards selected up 7% year-on-year. Our loyalty members are also continuing to take advantage of our award-winning digital channels with 65% of elite members using the app in the last 12 months. App visits in total have increased 9% year over year.

Overall, the strength of IHG One Rewards, together with our industry-leading technology ecosystem in all the channels and sources we manage for our owners is driving increased total enterprise contribution that provides our hotels with 83% of all the rooms revenue booked. This is generating more high quality revenue for owners, further lowering their costs and improving their returns. Now, an update on our ancillary fee streams driven by the strength of IHG One Rewards, our powerful brand portfolio, and our enterprise platform. We've said before, that our loyalty members are our most valuable guests, spending more and booking direct. Our co-brand credit card holders stay even more frequently and spend even more in our hotels. In the first half of 2026, the number of US co-brand card members grew at a mid-single digit rate, and the total card spend continue to grow. We are on track with the previously described increase in this fee stream, which will also expand system fund capacity and our ability to invest on behalf of owners.

We are also expanding our co-brand offer internationally. Our new UK debit cards with Revolut and Visa launched in June. And we recently agreed at partnership with Sumitomo Mitsui Card Company and Visa to launch co-brand credit cards in Japan in 2027. Further co-brand opportunities and priority growth markets are targeted for future years as these partnerships deepen guest loyalty, bring more business to our hotels, and create valuable fee streams for IHG and the system fund.

Finally, we continue to see significant growth potential from branded residences. We now have 35 projects open or selling across 19 countries with additional opportunities in the pipeline. In the first half of 2026, we earned further fees from sales of branded residences at Six Senses Dubai Marina, building on the success of the previously fully sold development at Six Senses The Palm, Dubai, and from the sale of further units at locations such as Intercontinental Ha Long Bay in Vietnam. Fee growth is expected to be more substantial in 2027 and beyond as additional residential units under development are sold, and as we continue to leverage the global reach and potential of IHG's luxury and lifestyle brands.

And to finish with a reminder of our growth algorithm. We are very pleased with the strength of our financial performance, the growth of our brands, and the progress made in the first half of 2026 against a clear strategy that is unlocking the full potential of our business for all stakeholders. This strong performance culminated in adjusted EPS growth of 13% within our medium to long-term growth algorithm target range. And we remain confident in our ability to continue delivering on this algorithm over the medium to long-term, which is expected to produce a CAGR of a high single digit fee revenue growth, 100 to 150 basis points of fee margin expansion, the ongoing return of surplus capital to shareholders, and growth in adjusted EPS of 12 to 15%.

With that, we thank you for listening to our first half 2026 results presentation.

Operator:

We will now begin the Q&A session for participants online. If you wish to ask a question on the phone, please press star one on your telephone keypad. I would like to remind all participants that this call is being recorded.

I'll now hand over to Elie Maalouf to introduce the Q&A session.

Elie Maalouf:

Hello, thank you, and welcome to this Q&A session. I'm Elie Maalouf, Chief Executive Officer of IHG Hotels and Resorts. Hopefully you've all had a chance to watch the results presentation, which we made available at 7:00 UK this time this morning. It featured myself and Michael Glover, our chief financial officer. We also released the latest episode of IHG Checks In On..., featuring Heather Balsley, our chief commercial and marketing officer, and Jolie Fleming, our chief product and technology officer. The episode provides a closer look at how we are leveraging artificial intelligence to get closer to the guests, transform the search and discovery process, and further enhance the overall guest experience. Before we open the lines to take the first question, I will briefly summarize our strong performance in the first half of 2026. Our global RevPAR grew by 4.1% with growth across all three regions and underpinned by the breadth of our geographic footprint, the depth of our brands, and the resilience of our operating model. We delivered gross system growth of 6.5% and net system growth of 5% driven by record development activity with openings and signings both up 8% year-on-year on an organic basis. We expanded our fee margin by 120 basis points and grew EBIT by 10%. Adjusted earnings per share grew 13% supported by our share buyback.

In summary, we made excellent progress in the first half on our strategic priorities, and we are confident in the strength of our enterprise platform and the attractive long-term growth outlook.

And with that, let me turn it over to the operator to take the first question.

Operator:

Your first question comes from the line of Jamie Rollo from Morgan Stanley. Your line is open.

Jamie Rollo:

Thanks. Good morning everyone. Three questions, please. You've obviously delivered very strong net system growth in China again, but also we've seen some weak market data continuing through Q2 into Q3 or on RevPAR.

So could you talk a bit about why you think RevPAR has slipped back in China and if there are any risks that impact owner economics and your net system growth going forwards? Secondly, just a question on the fee algorithm at the group level. Your helpful slide, 47, shows constant currency fee growth for the three regions combined at 5.2%, well below the sum of 4% constant currency RevPAR and 5% available rooms, and there's quite a few items on the slide you're giving behind that. Could you please talk through those items and when you think that sort of regional fee algo sort of picks back up again?

And then finally, just a sort of general industry question. Some of our US peers have been reducing charge-outs to help owner economics. Some are under pressure to share credit card income. Now I know you were an early mover a couple of years ago on your reward night reimbursements, but are you considering any future changes to charge outs? And would that be system fund P&L or would that be IHG P&L? Thank you.

Elie Maalouf:

Thank you, Jamie. Let me start with China. So we're very pleased with our performance in China and our growth in China in the first half of the year. We had very strong RevPAR growth in the first quarter of 5.7, as you noted, 0.8% in Q2. So for the half, it was 3.1, which is very pleasing. If you recall, for a number of years, I've been saying that China would bottom out and it did in the fourth quarter of last year, and I think it's just turned up. We said it would not be sort of a vertical V-shaped turn-up, but it's been gradually turning up.

So what happened in the first quarter, in the first quarter, you had a very strong Chinese New Year that had additional days added to it. And then they also threw in...the government threw in some new school holidays in the first quarter. So we think the combination of those pulled some business, some travel, some leisure forward from Q2. We still printed the positive RevPAR in Q2. We're confident in the long-term potential in China. If you looked at it by tiers, tier one and tier four did very well. Tier one is major cities, and then you got Hong Kong and Taiwan. Tier four is leisure and resorts, and they did very well. Tier two and tier three saw some softness and business transient, but that's not new. It's been going on for quite some time, and I think that overall, China has been doing better.

As you noted, we've had record development activity in China for a number of years now, and every year we're hitting new records. I think this year will be another record of signings and openings. We've reached 900 hotels. I believe we're going to reach a thousand open hotels by the end of the year with roughly another 600 under development taking share in the marketplace.

So why is that happening consistently? It's happening because you still have a large economy, 20-plus trillion growing between 4 and 5%. Not as much as it used to grow, but on a bigger base. You have record exports, different products that are exporting. It's EVs, batteries, technology. They're leaders now, among the leaders in artificial intelligence. So different economy, but still growing well. You have a middle class that's still growing.

And importantly, while not every sector of the economy is doing very well, like the residential sector is still in a slow, but certain turnaround, but it's slow. In the residential sector, travel is strong. Domestic trips are up. International inbound now to China is a growing segment. And what you see is the travel among the sectors is still a favored thing. Our occupancy continues to actually improve in the first half of the year after being flat during the negative RevPAR years.

So we don't see signs of oversupply. We're adding a strong level of new openings, but it's being absorbed in our system. And we actually saw some rate growth too across the full China business. So we're confident that the midterm, the long-term China outlook is good. I mean, look at the profit performance in China. It's up 25% year-on-year. So for us, China's not just a growing and large market, it's a profitable market and getting more profitable.

Now on the fee algorithm, let me turn that over to Michael, and then I'll pick up on the industry question you had.

Michael Glover:

Hi, Jamie, thanks for the question. You might expect we'll have a similar answer to what we've had in the past. The vast majority of the fee triangulation difference that you raise is really around the development activity and the record level of openings and the growth in system size that we've seen.

Newly opened hotels typically take time to reach realized stabilized occupancy, room rate, overall hotel revenue. And most agreements have a graduated fee structure that steps up over the first few years of operation. As a result, the full fee revenue contribution from recent openings is only partially reflected initially and builds over time as the hotels mature and fee structures step up.

We said in the past that that will begin to narrow with time. And actually at the group level, you've actually seen about a 40 basis points improvement year-over-year in that fee triangulation. In some markets like the US, you've seen 110 basis points of improvement year-over-year as that has happened. And we do believe that will continue to improve.

There's always some other noise in there, but really that's what's driving that. And that's a good problem to have because we've been driving that system size growth. We want to continue to drive that growth. As it stabilizes, it will normalize.

And I'll pass it back to Ellie on owner economics.

Elie Maalouf:

Yeah, thank you, Michael. Look, this is our fifth year in a row of increasing net system size growth gradually with a focus on fees with fees, with a focus on a high quality estate. And so we're building a sustainable model of higher net system size growth, and you can see it building. We'd rather have that going on and some lag in when those fees come in, but the good news is there are more fees coming. We're not putting a ceiling on where our system growth would reach.

But at some point in theory, when we reach a cruising altitude and level off that cruising altitude, then the closing of the lag will accelerate. But I'd rather continue our growth and have the lag catch up with us as more fees come in.

On your industry question, so I'm not going to comment on what others have said and done. I would first say to you, as you would know, Jamie, some things are read across as to other businesses. Some things are not. Let's not assume that everything is a read across. Let's not assume that every situation's different. We have a different distribution in the Americas than some competitors, different system fund arrangements. So we have a slightly different situation.

Overall, I'd say not just in the Americas, but globally, we have a very competitive owner value proposition and fee structure really designed to drive attractive returns for owners. And look, we are all aware that there have been cost pressures over the last couple of years across all industries, in our industry too, and they've affected owner economics. And that's why we've been in front. Starting in '24, you mentioned yourself, we lowered the loyalty assessments, we increased the reward night reimbursement rates. We reduced the cost of our Ignite program marketing program, all of which directly improved hotel level economics for owners. They're not theoretical. These improved the P&L at hotels by real basis points, by real cashflow.

On top of that, we've lowered the cost of our F&B programs in our mainstream and our premium hotels. We've lowered the cost of our new built prototypes, our conversion packages. Now that we have more conversion brands, we've broadened the categories offered by our procurement program to lower the cost across hotel construction and operations. And then today in the SEA, you saw that we talked about a new commercial services program that we've been piloting in the Americas. I guess it's more than a pilot, it's in 500 hotels now. And it's expected to broaden to the full region very soon. And it's been lowering... It's going to lower the cost of that commercial services program to 75% of the participating hotels.

So we have a holistic approach to dealing on owner cost because look, owner success is fundamental to our success. We can only be successfully asset light if they're successfully asset heavy. We recognize it. We have an owner's association with representatives that are elected by the owners with whom we discuss all these matters, get alignment and proceed with it.

So I mean, our relationship has been productive, constructive with owners. None of these improvements in costs that I mentioned earlier are on our P&L. They're all within the general system fund, looking to create value for owners. And look, where we are lowering the cost of these programs, it's not sort of just a straight discount. It's using the scale of our growing system fund, using the efficiencies that we're finding through new processes, technology, now artificial intelligence to create more efficiency from the greater scale. And as every good operator, sharing some of the efficiencies of that scale with your partners. And so I think that I see benefits, but our owners have been benefiting from that scale. And I think we're in a pretty good place on it.

Jamie Rollo:

Thank you very much.

Elie Maalouf:

Next question.

Operator:

Your next question comes to line of Jaina Mistry from Barclays. Your line is open.

Jaina Mistry:

Hi, Elie. Hi, Michael. Thank you very much for taking my questions. I've got three as well. Just on NUG, I see on your website you've got consensus of 4.7%. Do you still see upside risk to that number given what's happening in the Middle East and any risk from the Revo bankruptcy in Germany?

And then secondly, also NUG actually. Elie, you mentioned that the gap between RevPAR and NUG versus what you report on for your revenues will narrow as you hit cruising altitude on NUG. What's the achievable run rate here? Is mid single digit the right run rate? So should it start to narrow in 2027?

And then very final question, just going back onto your annual relationships and what you were saying before, you mentioned not everything is read across. IHG obviously has the owner's association. Just how differently does this position IHG in the market versus your peers? Thank you.

Michael Glover:

Gina, I'll take the first one. I'm sure Elie will come in on the next two. You're right, consensus does show NUG at 4.7%. We wouldn't call any upside to that risk. We would call that opportunity. And so you may remember at the first quarter result, consensus was around 4.5% and we said there was more opportunity to the upside than there was risk to the downside. And over time, consensus has moved up to 4.7%. We've delivered 5% in the first half. And so as we look at it, we do feel like there's opportunity to do better than the 4.7%, but it's in and about the right place. A 10th of a point is only about a thousand rooms on a system size of about a little over a million rooms. So we feel confident in where that is, and certainly we wouldn't be expecting any number below that.

Elie Maalouf:

All right. Thank you, Michael. So your question was on when do we reach this cruising altitude and what does it do to the triangulation from there? So I think there are really two questions. I think there was actually one other aspect of your question that Michael didn't touch on, the Revo bankruptcy. We have very little exposure to Revo. We're aware of them, we have a few hotels with them. We have very little exposure to that. And so it's not going to be material factor for us.

Michael Glover:

Yeah. Sorry, I should have mentioned we have six hotels, 820 rooms, and that's it. And so not really much exposure at all.

Elie Maalouf:

And so on your second question. So first, we're very pleased that the fundamental health of our business is in great shape. Our signings are growing, our openings are growing, our RevPar's growing, our margin is growing, our operating profit, cash conversion, EPS. So the model is working. It takes a lot of hard work from the teams around the world. And it's a result really of the strategy that we presented to you in 2024. At the beginning, we talked about broadening the reach of our brands, broadening our geographic reach, working on our cost, working on our conversion, adding great technology and commercial platforms all to make the model work even better for guests and for owners and for our shareholders, and it's working. And so even in a time where you have some geopolitical conflict in the Middle East, the rest of the business is so diversified now, it can more than offset it and continue to grow, not just in earnings and profit, but also in net system sized growth.

We're not putting a ceiling really on where we go with net system sized growth. I think it's further clearly from where we are today, given the strength of our signings, openings, and the recognition that we're getting from owners for the brands that we have either acquired and accelerated or we have launched and accelerated. I mean, look at Garner. Three years on, 220 hotels opening the pipelines, a dozen countries more than I would've ever imagined, and more coming. And so a Noted Collection, we talked about it just a few months ago, three signings, actually the first two in the Middle East, despite everything going on there. So there's momentum there. And I don't know when we reach our cruising altitude. I'm not eager to reach our cruising altitude because it just means that we've topped off. I just think there's more to go.

And then the triangulation from there is already narrowing, by the way, as Michael said, it narrowed 40 basis points year over year and a half. It'll continue to narrow, but there will still be some lag as long as year over year we're opening more than we did over the recent time. It does take, especially in luxury and lifestyle, two, three years to get to the full steady state revenues and steady state fee schedule. So there will continue to be a lag even after you open the hotel, but it's good. It just means that there are more fees coming from higher growth in the business.

Now on your last question, yes, we're all in the same industry, but we tend to be similar in some ways and different than others. So let me just give you a few ways where we're different than others. And then there's some things that we're similar. Yes, we're all exposed to say inflation and interest rates. We're all exposed to macro events that can happen, but then your distribution and the shape of your business matters.

So in the Americas, for example, we are 85% essentials and suites. That's Holiday Inn, Holiday Inn Express, our extended stay brands, Avid, Atwell, 85% broadly distributed, not really concentrated in urban areas where you'll have higher union costs, higher operating costs, higher taxes, and really full service hotels with higher just operating costs. So yes, we have some of those great properties, but we're 85% essentials and suites, which makes us different from others. I'm not saying there's anything wrong with their shape, but we just have a different shape, which over time has served us well. Now we're growing more in luxury lifestyle, but on a huge base of essentials and suites. So that's one difference.

Another difference is that we're much more indexed to industrial businesses in the heartland, much more indexed to energy, to manufacturing, to construction, to technology than we are say to professional services, which again has other, nothing wrong with those segments, but we're less indexed to that. We're more to traditional industries and manufacturing construction, which is actually having a pretty good moment now. So that's another difference. I'm not sure who of our peers have owner associations or don't. I wouldn't know. I know we do, and it's a very constructive relationship. I used to sit on the board of that as our representative, Jolyon, my successor in Americas does that now, and we have a constructive, and we don't always agree on everything, but we find constructive outcomes always in the interest of the health of the system and the health of our franchisees and owners. So we have that dialogue and it works well for us. And there are other things that make each company different from the other. So just because we're in the same geography doesn't mean that everything affects us in a similar way. Jaina, thank you for your questions and we're ready for the next one.

Operator:

Your next question comes line of Leo Carrington from Citi. Your line is open.

Leo Carrington:

Good morning. Thanks for taking my questions. I have three. Firstly, on RevPAR, I mean the growth has been primarily rate driven, probably also if you excluded the World Cup effects in the US too. I mean, how do you frame the ADR growth in the first half of the year? Is it pricing power? Is it yield management? Really interested in how you see it.

And secondly, on residences, I've noted, or I heard in your presentation, we're expecting the fee growth to be more substantial in '27 and beyond, I think. Can you just give us some color on the pipeline visibility for '27 and how material this ancillary fee can become? And then lastly on key money, I think it was broadly stable or even down year over year. Is it broadly stable the outlook, despite what I think is a little mixed shift towards luxury and lifestyle in the pipeline. Thank you.

Elie Maalouf:

Okay. So look, we're pleased with our RevPAR growth of 4.1% in the first half of the year. And it was broadly based. Every region grew RevPAR, every brand grew RevPAR, every segment grew RevPAR. So it was actually more balanced than in the previous times and so we're actually pleased to see some occupancy growth return. There were a lot of questions in the past from some participants about, is it only going to be rate growth? Well, yeah, we saw a healthy rate growth, but we also saw healthy occupancy growth on pretty high levels. And every region had occupancy growth and every region had rate growth. So I think that in the long term, typically the majority, not all, but the majority of RevPAR growth comes from ADR anyway. And this distribution that we saw in the first half, it's probably similar to historic distributions of overall RevPAR growth plus or minus a few basis points.

And what's that down to? Look, the World Cup was, we're saying it's going to be a 40 basis point factor in the whole year. So it's not the biggest mover. And we never talked about it in the beginning of the year as being a big mover, and we're not saying it is now. It was great. I had a lot of fun. I went to match. I watched as many games as I could. I think it was a great commercial success. It met all of our expectations, but it's not the fundamental driver.

The fundamental driver are really two things. One, strong fundamentals in the markets where we operate. Very strong fundamentals in the US, recovering industry in China, great attraction to people traveling into Europe. I mean, just inbound to Europe is up again, expected to be at 5% from the US this year, high spending, and all that, as we said, more than offset the impact in the Middle East.

That's one key thing. The second thing to take advantage of the strong fundamentals is a strong enterprise at IHG. Our brands are doing well. We've been really taking care of our brands. Stronger cut-through marketing. Our loyalty program now, 160 million people, greater room nights penetration. We said we hit 67% room nights penetration around the world, 73 in the US. We're right there among the leadership of the industry now in penetration. That drives better RevPAR, drives better economics, also at the bottom line for owners. Yes, and our commercial and technology systems we think are as good as they get as global sales force that's driving groups and meetings and events. You saw our groups business doing well and meeting and events doing well. And that's really something we're investing a lot in. Our technology platforms, not just our revenue management system that we put in place now 18 months across the whole estate, but we have our new POS system, PMS system in 2,000 hotels, planning to be in 4,000 hotels.

Our marketing programs are becoming a lot more efficient with AI, cheaper to produce faster turnover, more marketing per dollar, more effectiveness per dollar. Our owner support is stronger. Our procurement service for owners are stronger. Our total value propositions per owner is stronger, which is translating and more signings and more openings, greater share of conversions. We're taking a strong share of conversions, which means owners are preferring our system, our platform to others in a very competitive industry. So it's just not one thing that is driving the healthy RevPAR. It's yes, good fundamentals. I mean, we benefit like everybody else does in the industry, but then within that, we're taking share by having a strong enterprise across multiple fronts. Residences, it's a small part of our business today, but it's a growing part of our businesses. I think I said, I don't know if I told you I've been to the Middle East twice already since the beginning of the year. We're already in conversations with owners there for more projects despite the conflict. Our residences here at the Six Senses in London are almost, I think, all sold that, but for one unit, if anyone of you are interested, we can send you to the right people. And so we think that in 2027, some of these projects are already under construction today, go into sales mode. And so from there, you anticipate more fees coming in. It'll still be early, but it's a multi-year buildup to what we think is going to be a material business in our total diversification of our fee streams.

Michael Glover:

Leo, I just would add onto that. We've got 35 hotels or branded residents open and selling around the world in 19 different countries. And even more in early stages, a double element as Elie talked about. There are some in the Middle East that could cause some delays or slower sales momentum, but we feel like that's going to normalize over time. But we've got projects across Southeast Asia, Europe, and the US that are progressing very, very well. We did talk about a full year result that we were somewhere in the five to 10 million range last year. And we've been saying that that could be multitudes of what it was then. And that is still how we believe and can get and be substantial in 27 and beyond.

I'll move into key money there. Yes, our key money was down slightly in the first half. I don't think there's anything systemic or anything that I would call out specific around that. And we continue to say that our key money and maintenance capital will be in the 200 to 250 million range. We see no reason to change that right now. We did have the big step up a couple of years ago, certainly as we moved into luxury and lifestyle, that continues to be the case, but we're good at the 200 to 250 million range as we've laid out.

Elie Maalouf:

And I just want to add to combining your last two questions. The reason residences has really opened up as a new business line and fee opportunity for us is because of the strength of our luxury and lifestyle business, is because the strength of our ultra luxury in region and in Six Senses. So these things kind of build on each other, there's never really one thing, but part of our strategy to go further in luxury and lifestyle was to open up not just our loyalty opportunity and our co-brand opportunity, but to open up residences. In addition to in and of itself, the great business case of higher fees per key in luxury and lifestyle. But there are incremental lateral benefits that come with it. Residence is one of them. Thank you, Leo. We can go on to the next question.

Leo Carrington:

Thank you very much.

Operator:

Your next question comes from line of Estelle Weingrod from JPM. Your line is open.

Estelle Weingrod:

Hello?

Operator:

Estelle, your line is open.

Elie Maalouf:

Maybe we come back to Estelle if somehow her audio isn't working. We'd love to hear from you.

Operator:

Your next question comes from the line of Richard Clarke from Bernstein. Your line is open.

Richard Clarke:

Hi there. Good morning. I guess a few follow-ups from what we've been asked so far. So just on the key money point, I guess another theme of Q2 earnings has been a sort of step up in key requirements to grow mid-scale conversion brands. Have you seen any of that trend for Garner in the US that you're being asked for key money a little bit more regularly?

Secondly, obviously very strong unit growth. I think the only one of the major hotel groups maybe where the pipeline's growing a little bit slower than the unit growth, looks like a couple of fairly meaty terminations in Intercontinental and Crowne Plaza in first half. Just anything to call out those Middle East projects that have been perpetually delayed.

And then just you call it an important development, this new commercial delivery model. Just anything you can give us around what is the scale of that? How much money are you saving for owners? What exactly is that? What are those additional specialized commercial services that owners are buying and what changes have you actually made on that front?

Elie Maalouf:

Thank you, Richard. Just to your first question, no. We're not seeing more key money or really key money at all for Garner. I mean in mainstream, if there ever is key money for us, it's where it's say an urban property that's in a high barrier to entry, much higher RevPARs that's kind of working like a premium to full, not full service, but a premium property at that point.

But no, I mean, Garner's growing very well in the Americas, growing now in another dozen countries. Very pleased with its pace. And we've done it thoughtfully also by maintaining a very high quality estate, but really no key money to speak of there. I think we mentioned in one of the scripts that we actually have signed our first... We actually opened the first Garners in Japan last year, and now we have another portfolio of which 12 are going to be Garners in Kyoto. That's a really high value market. I mean, it's very exciting to go in with such a distribution into Kyoto. So no, on that one I think we're about in the right place on key money, continue to grow our system and staying efficient in capital light and asset light.

On the pipeline, look, the biggest reason the pipeline did not grow as much as it could have is because of record openings. I mean, you had 52% openings in China, and that was really strong openings. And so I think that's really the main reason. We're not seeing any out of the ordinary exits in the Middle East whatsoever. And there might be a delay of some of the projects for a quarter or two, not that we've registered that yet. Certainly we haven't heard of any cancellations. Keep in mind, our pipeline in the Middle East, 90% of it is in Kingdom of Saudi Arabia, Egypt, and Turkey. We do have some of it, of course, in UAE, very little in the other countries, but 90% in KSA, Egypt, and Turkey, which are far less affected sit in the front line of where the conflict is today. So we feel pretty good about our pipeline there. Commercial services. So today, not just Americas, but globally, but starting in Americas, we have, in addition to the commercial benefits that our owners get as part of their franchise or management agreement, we have a premium commercial services program that offers field marketing, digital support, web support, additional training, group efforts, just a whole menu of things, web design, on and on. A whole menu of things that hotels sometimes choose to outsource or leave with us and we're happy to do it. We have used technology efficiencies, new processes. We spent over a year redesigning this to provide an even deeper and greater package of support at a lower cost. And we rolled this out in this year to 500 hotels. It's performing very well, saving the hotel's money. We'll come back with some statistics, but there's also confidentiality and competitive advantage that we want to maintain.

Everybody's working hard to make sure their owner offer is the best out there. We think ours is, but we're going to not give anybody any clues on how to make theirs better. But it is a material benefit because it's one of the things that we don't just develop this thing in isolation. We work with owners every time we develop something like this. They tell us what they're looking for. We respond. They tell us what a meaningful savings of benefit would be, and we respond and work in collaboration today. So it's material for them. Thank you, Richard. Let's go to next question. Maybe Estelle is back.

Operator:

Your next question comes to line of Estelle Weingrod from JPM. Your line is open.

Estelle Weingrod:

Hi everyone. Can you hear me?

Elie Maalouf:

Yes, we got you.

Estelle Weingrod:

Yeah. Okay, great. Thanks. Sorry, don't know what happened. I've got three questions, please. The first one on current trading, you did speak about China. I wanted to ask on EMEAA as well, how do you think H2 evolve in the Middle East with what we know now?

The second question looks like business was comparatively weaker in Q2. Is there anything to flag? I guess group remained strong. Leisure got better. Could be partly helped by the World Cup, but business seems to have decelerated overall in Q2.

And the last one on cash, any phasing to be aware of? I mean, H1 was quite solid and you're now targeting the lower end of the range for interest expense and a slightly lower tax rate. Does it mean cash conversion this year should be better than initially anticipated perhaps? Thank you.

Elie Maalouf:

Okay. I'm going to take the first question on EMEAA trading and hand it over to Michael about our segments, business, leisure growth by region, which I think we're pleased in general about. We know that there's an impact in the Middle East, but other than that, it's been a pretty good trend. And I'll leave cash conversion with Michael too.

So we're not making projections, and of course we don't give guidance, and it's not easy to project trading in an area with conflict and some tensions. But I think the general sense is a few things. First, that we're past the peak of the conflict, which was March, April. I mean, there's not a sense whether when you're there, and I've been there twice, meeting with our teams, meeting with owners, investors, government officials, a whole range of people and of course, observing from here and from the US, there's not a sense that we're going to go back to that level of conflict.

So since the conflict peak has subsided, we've seen a recovery, not a B-shaped recovery, we've seen a recovery on a rolling monthly basis. And if things kind of stay where they are today where there's tension, but no hot, hot conflict as of March and April as it was then, I think you're going to continue to see that gradual recovery and occupancy. You're going to continue to see a lot of domestic business as we saw the staycation, the domestic business picking up, and more flights coming in, more people transiting through and more people traveling there.

Actually, I mean, when you're on the ground there, Estelle, I was in Doha, I was in Dubai, it feels very normal. I mean, you don't feel like there's a conflict going on whatsoever. People don't talk about it. People go out their business, go to the office, go to work, go shopping, go here, go there. There are fewer people moving around in airports, but the airports are still pretty busy, I felt, but not probably, it's definitely lower than the peak, but it's recovering. And frankly, the airfares are pretty attractive to draw people through.

So I think that in a scenario where things kind of stay where they are today, which frankly for the Middle East is not uncommon. I'm from the region, dealing with tension and conflict is not a new thing, so if they stay where they are today for some time, say for the rest of the year, I think we'll continue a gradual recovery and we believe that we can fully offset any impact that comes from that environment through the end of the year and beyond.

Now, yes, it'll give us probably good comps next year when we get to Q2, but setting that aside, we actually do hope that there's a clearer and nearer term resolution to the conflict. But even if there isn't and it stays like this for a while, we do think there's a gradual recovery. It's a very resilient region, very resilient people, courageous people. They're not sitting still. We talked about new deals, new projects, new signings, opportunities when I was there that there wasn't a sense of pulling back among a broad range of players in the marketplace. That's Middle East, over to you, Michael.

Michael Glover:

Sure. As we look at the demand drivers, Estelle, I mean, it was very pleasing to see that actually all three of the demand drivers were up globally in terms of the first half. And so business was up 2%, leisure up 3%, and groups up 6%. And even in EMEAA with all the conflict and noise, you saw all three demand drivers up in the half.

And if you go to the US, at least talked a bit about China, business was up 3%, leisure up 4%, and groups up 10%. So we're seeing strong growth across really all those demand drivers. And it goes back to, it's not just all related to the World Cup. The World Cup we set in the quarter was about a hundred basis points of impact in the US. And so when you look at what's going on in the US, actually underlying is pretty strong growth. We still have unemployment levels *[NB.corrected to 'employment levels'…see page 21 of transcript under Michael Glover section*] at all time highs, the economy is still growing, wages are generally keeping up with inflation and consumers are still spending.

And to the business side, corporate profits are still strong. And there's a lot of significant levels of private investment going into the economy and building. And that's not just around AI, that's energy, manufacturing, chips, pharmaceuticals. And so all of that really creates an environment where we see business demand continuing to be strong as we go forward in the US. So we feel good about where we sit in terms of all of our demand drivers.

Elie Maalouf:

And remember that group, is probably half business and half leisure. So maybe business meetings, business conferences, business get togethers, so that is business travel, maybe of a different kind, but still business travel and actually maybe more profitable for our hotels because you get F&B, and you get banquet, and you get catering with it and they tend to be longer stays.

Michael Glover:

And our cash conversion on your final question has been really strong into the first half. If you look at it on a trailing 12 month, we're over 100%. As we look into the full year, we still think it'll be around 100% cash conversion. So, we feel really good about that. No change to our model and what we would say there. And so really, really pleased in how we can move and bring in that cash.

Estelle:

Thanks for that.

Elie Maalouf:

We can go to the next caller.

Operator:

Your next question comes from the line of Jarrod Castle from UBS. Your line is open.

Jarrod Castle:

Great. Thanks very much. Probably three for me as well. Elie, you talk about keys with fees and just if you can give some color in terms of US military contracts, how competitive it is to win such a contract, how the economics look, potentially any other conversations just to give some color there. Secondly, obviously you continue to do really well in terms of fee margin improvement, is 100 to 150. I mean, America's is getting close to 85% now. I mean, how much longer do you think you can actually drive this when you look over the next three to five years? Is that going to continue to go upwards? And then you've spoken a lot about owners this morning, but just interested to get your thoughts on how much AI can take out costs for your owners. I mean, a competitor was kind of hinting at double-digit reduction in cost rates. Did you have any views on that? Thanks very much.

Elie Maalouf:

Alright. I'll take the first and last question. Leave the fee margin improving in the Americas to Michael, but I'll say we've been getting that question for as long as I remember and we keep making improvements. So, I hope we keep getting that question because we're making improvements in the America's margin. So look, in terms of the Air Force deal, we're in advanced negotiations to conclude that agreement, which I have high confidence will get signed. We've been the lodging partner along with Sentinel for the US Army on their US bases for over a dozen years now in a very successful arrangement that's brought high quality branded lodging to the US Army men and women and to their visitors on base. In general, the economics are similar, not the same sort of configuration, but they end up being the similar in terms of net fees per key as a typical off-base franchise.

Just a different structure because the demand drivers are different and how they count for things are different, but it's a good business. Let me put it this way. Don't disclose the economics. It's a very good business. It's totally asset light for us. Sentinel is a development company. They will do the development and the ownership. We will do the management. There's no key money involved. And they're very long agreements. And so, we're actually very proud to have been selected. It was a very competitive process with the best in the industry competing. And not just on economics. I think economics was one, but not the primary aspect, not the primary factor. It's your track record, your capabilities, the strength of your brands, the strength of your platforms, your technology, your service, your reputation, your hotel opening and support structures to get all these conversions and new builds done.

It's a very wide range of factors that get assessed over multiple months and with serious due diligence. And so, I think, it's actually an assessment, an external assessment from a very disciplined actor of the strength of our enterprise and of our capabilities. And I'm very pleased with the team effort that we made to get there. Are there other opportunities? I guess you can just kind of do the math yourself. There are three main services in the US military, the Air Force, the Army, and the Navy. The Marines kind of follow the Navy in lodging. So, I'm not going to make any predictions, but there is one more. These things are very long-term. We're going to be very busy with the Air Force project for a number of years. And the good thing is, it's yes, a positive sign for the strength of our business in the Americas and overall, but it's also further underpins our confidence in growing net system size grow. And fees, let me underline.

So on AI hotel cost reduction, as we said in the presentations today, our artificial intelligence strategy and priorities are focused in three areas. One, guest acquisition. Number two, hotel performance. And number three, corporate efficiency and effectiveness. So, your question is really around hotel performance, and we work hard to use artificial intelligence to improve the hotel performance on multiple fronts. First, the top line. You always have to start with the top line because that's really the strongest driver of hotel profitability. And that's where our commercial systems, our new revenue management systems, our loyalty, our marketing, all of which are being infused with AI today. The new content manager system that is going out this year that you heard about or will hear about if you listen to the Checks In On episode is AI driven. Our new CRM system is AI driven. The trip planning that we just announced a conversational search on our website and app, so you can use natural language to specify, and design, and customize your trip and your experience with IHG is helping the top line.

Yes, we're using AI to help your middle line, your cost. And so, that will work across the full P&L. There's more to come. We're not going to attach a percentage to it. Frankly, I would say it's way too early for anybody in the industry to put a percentage on what it could be because it's an evolving technology. And when you start to get to the middle of the P&L in operations, there are a lot of things that aren't common across regions, across brands, across jurisdictions, but there's definitely an opportunity. In the end, I would say that all of this is really they're designed to help owners be more effective and more profitable, which goes to the whole owner economic conversation we started earlier today.

Michael Glover:

I'll pick up on fee margin if you want, Elie. Before I do that, I just want to make sure I clarify on my answer to Estelle. I might've said record levels of unemployment. I really meant record levels of employment, just to be clear there. It's a big difference. But, I want to make sure that that was taken the right way. In terms of fee margin and how far this can go, I mean, if you look at where we said you've actually seen Americas continue to grow their fee margin, EMEAA and Greater China saw really strong growth of fee margin. We put it in the medium to long-term algorithm because we do believe there is further growth in that fee margin. And, I think, you got to go back to the fundamentals of this business. And what's great about our unit growth is we can add those units without adding cost.

And you may go back to the slide I showed where we call it the JAW slide where revenue is growing and costs are basically remaining pretty low or muted. And that is what we can do as a business. And so, I think over the medium to long term, we can continue to still grow that 100 to 150 basis points of margin. And really we wouldn't put a time limit on it at this point, so there's still lots of opportunity to continue to move forward.

Elie Maalouf:

Alright. Thank you, Jarrod.

Jarrod Castle:

Alright. Thank you very much.

Elie Maalouf:

We shall move to the next question.

Operator:

Your next question comes from the line of Kate Xiao from Bank of America. Your line is open.

Kate Xiao:

Thank you very much for taking my questions. I've got two. The first one in terms of your portfolio specifically in China, one of your peers recently talked about pressure of heightened removals, especially in lower chain scale brands in China. Just wondering, obviously we don't see that in your numbers, but just wondering whether you're seeing similar dynamics in recent periods. The second question, it's a follow-up on owner service programs. I was just wondering whether you currently would provide services such as, I don't know, IT, software, procurement to non-owners, like independent hotels that's not in your system. Do you think that could be a fee revenue stream for the group? Thank you very much.

Elie Maalouf:

Thank you, Kate. So in China, I think this is one of those questions and circumstances that goes back to a comment made earlier that some things are read across and some things are not because businesses have different shapes, different situations that may create idiosyncratic particular circumstances, upside or downside that aren't necessarily translatable to others. So in China, we've built a fully controlled IHG business with no partners, or JVs or master franchisees. Not saying that's the bad thing or good...we're saying it just isn't what we think has worked for us or will work for us. And, I think, that has made sure that we have a high quality estate, very close relationships with owners where we are the direct participant with owners and partner, strong governance over the quality of our hotels. We don't say yes to all deals. I mean, as incredible as it may sound, the 12% of system size growth could be even more if we told our teams to sign the maximum number of deals.

No, we want to sign the right number of deals with the right fees per key in markets where we think the hotel will perform. And I'm not saying everybody does that. I don't know what they do, but if they're not doing that, that may expose them to heightened removals over time. We want to keep the right balance of growing thoughtfully, sustainably with the right fees per key, with the right performance of hotels and right economics to the owners, because look, we all know that when the hotel economics don't work eventually, it's not a good situation for either of us. And so, having been in the business a long time, we've learned from that. We do have removals that happen in China. We talk about that being mostly today besides the organic, healthy rejuvenation of the estate. Some of that has been driven by post-COVID properties that aren't really suited for the industry anymore, but that's been attenuating and then leveling off.

Other than that, we don't see anything unusual in the industry and we're confident in the continued growth of our system in China, and the health of it too. So, your second question is a pretty short answer. No, we would not make our services available à la carte to anybody that's a non-owner in our system. If you think about it, we first of all, invest a lot to build the strength of our brands, the strength of our platforms, our relationships, the quality of our products, the strength of our marketing, and then the owners through the contribution they make to the system fund are investing to build other resources. And so, those are things that belong to the two of us. And that strength is something we share in common. And people would love to rent the power of IHG One Rewards. They'd love to rent the power of some of our technology. But, we're not a consulting firm or a services firm. We're a branded hospitality firm, and franchised, and managed with direct relationships with our owners and our services are specific and only for them.

Kate Xiao:

Got it. Thank you.

Elie Maalouf:

Thank you, Kate. Next question please.

Operator:

As a reminder, if you wish to ask a question, please press star followed by one on your telephone. That is star followed by one on your telephone. Your next question comes from the line of Alex Brignall from Rothschild & Co Redburn. Your line is open.

Alex Brignall:

Morning. Thank you for taking the questions. I think going back to a couple of the points we've gone on already. So, just on key money, it's been one of those topics obviously big in the industry and there's been a bit of drift on what hotels have been willing to tell us that's happening there. Marriott, I think for the first time of any admitted that half of their key money this year was going to existing contracts and also a lot more was going to mid-scale. Could you just talk about that? I mean, I know you've talked about things that are read acrosses and aren't read acrosses, but the key money trend for all the hotels has been very, very similar over the last few years. So, whether there's a risk that there's contagion of that into the rest of the competing hotels.

Then just onto the fee growth dilution, understanding of the comments you've made, even in answers to me in previous quarters about the timing. But in the US specifically, your NUG has been decelerating, but there is still a material gap, hundreds of basis points between your fee revenue growth and your NUG plus RevPAR, even if I just take sort of at reported RevPAR. So, I'm struggling to reconcile why the acceleration in growth would be a factor in the US because that's not what the [inaudible 01:35:44] is doing. And then the third one is just in terms of loyalty points. One of the issues in the Marriott owner letter, which is going to raise the most concern was the point that they made about forced member signups on premise and then very poor economics on loyalty night sales. And obviously that might be specific, but you a couple of years ago took loyalty point sales out of the system fund or out of your group and put them onto the P&L. Has there been any pushback to that? Has there been any questions on the balance of economics?

Or could you just give us a bit of detail on how the economics of loyalty nights work in terms of the split of it between yourselves and the owners? Because obviously Marriott has faced a lot of questions on that. Thank you.

Elie Maalouf:

Thank you, Alex. So, as Michael said, our key money is stable this year. Our total capital guided is stable. Our asset light business model and algorithm is working. And we don't see anything to alter that at the moment. We're very competitive, but we compete hard for the deals that we think are creative to us, and we don't go after every, every single deal too, which is the responsible thing to do. We have not disclosed what is the share of... I think what you're getting to is share of retention key money versus completely new project key money, whether conversion or new build. That bumps around. It's not going in a particular direction for us. And so, we don't see a trend there for us. It's not a number we're disclosing, but we don't see a trend. And we don't know what other competitors have chosen to say and for what reason or what point, that's for them to explain.

But, we don't think we see a trend between retention and new project. I would observe that our retention is getting better as you see our removals reducing gradually over time, as I said, we would as a percentage of the estate. And while we're very focused on keeping a high quality estate. I mean, it's not retention at all costs. We want to keep a high quality estate. But, you've seen our openings and signings go up, so we're more on offense, I would say. We've been more and more and increasingly on offense here, and that's where more of our resources and attention are going. And no, we're not seeing more going to mid-scale. As I said earlier on the call, there are some projects that are urban, high barrier to entry or end up being in a great resort destination, but it's a Holiday Inn Express or it's a Holiday Inn in amazing locations can have a high RevPAR.

That will have some level of incentive in it in many cases, but it's not a broad trend and it's not any different than it used to be. It's like this when I joined 12 years ago, it's like this today. The numbers of course are different. RevPAR's higher, costs are higher, everything's different, but on a percentage basis, proportionally it's the same.

I'll let Michael talk about the America's margin and triangulation. I would just say one thing. It is not correct that our Americas and system size growth is not growing [inaudible 01:39:21]. It's actually the opposite. If you go to this year, our year-on-year, and year to date that system size growth in Americas is higher than last year. It's not lower. It's higher. I just want to establish that, factually first, and turn it over to Michael for the rest of that and I'll pick up on loyalty points, et cetera.

Michael Glover:

Yeah. Alex, just to give you the numbers there, if you look back at the half year 2025, in the Americas, we were at 0.1% year-over-year system growth. And today this year we're at 1.8%. And so, you've seen a number, you've seen that there is some acceleration there. Actually, if we go all the way back to full year '23, we were at 0.8. And then in '24, we were at 1.6. '25, we ended up at 1.6 again. We've done 1.8 this first half. So, it is accelerating. It is still going. I would also maybe also remind you that we did talk about some of the large exits that we had in last year as well. You may have remembered we talked about a few hotels that exited in '25 that were large fee paying hotels. And we do have some replacements coming in for those. They just haven't fully opened and fully ramped yet.

So, that will come back over time. But more importantly, if you look at the number and how it's improved and narrowed, it's improved by 110 basis points year over year. So, we feel like we're on the right track in the Americas in doing that and accelerating that growth. Again, this is a good thing. Like I said, there's always some bits of noise in there, but we're definitely on the right track.

Elie Maalouf:

Yeah. I mean, the net system size growth in America is ramping up. The triangulation is narrowing. And we're opening up more in luxury lifestyle, which is a positive thing while still growing very strong and mainstream in everyday brands. On loyalty, I mean, there's a lot in your question, and we can talk a long time about that. We feel like we're in a very good place on the loyalty program, on the owner economics. We redesigned it about three years ago working with our own association to agree with them. What do we think is an attractive offer for guests today, but also attractive economics for owners today? And I'll tell you that almost invariably, what I hear more from our owners isn't that they think the loyalty plan doesn't work for them as they want more loyalty guests. They want more loyalty guests. When we, five years ago, we were at 50 or below room night's contribution around the world.

What our owners wanted most, I'm telling you about our IHG owners, was they want us to be higher in loyalty contribution, not lower. And they wanted a stronger loyalty plan. And that's what we've done our last five years now. You fast-forward five years, we're at 67% loyalty contribution, 73 in the US. And overwhelmingly I hear from owners, that's something they're proud of, they're pleased with, and they're part of that. So, you talked about signups at the property. That's not the only form of signup. Increasingly signups are digital, but people at the front desk are proud of the brand they work for, are proud of representing IHG Hotels & Resorts. There are incentives for them to do it. It's not mandatory. It's something that they do voluntarily and they do with pride. And so, that's just natural, it's been in the industry all the time. So, I don't think we have any pushback on that.

We're not 160 million members around the world. Reward night penetration is up. Milestone usage is up. Engagement is up. And the contribution to our hotels is up. And that's really what our owners really wanted us to do. So, I think, that we have a program that we feel is working, not just for the guests, but for the owners and for IHG too. But, it has to work for everybody at once. And it's taken the collaboration that we have to fine tune it. Now, it's different probably, and we don't sit and have all the detail on everybody's programs, but it's probably different than the programs of others, and everyone can design their program to suit their needs.

Alex Brignall:

Thank you. Maybe just coming back to the fee growth, obviously in H1 that accelerated, but I guess my question ties just to the longer trend. So in FY25, your NUG in the US is 0.2, but the gap widened to 310 basis points in terms of the shortfall of revenue growth. I'm just trying to triangulate that was a year when NUG decelerated and the gap widened. So, it's kind of gone back the other way, which we wouldn't expect this because it's accelerated. So, I thought it might widen, and it widened last year. So, I'm just trying to put the two together with the answer you gave.

Elie Maalouf:

Yeah, I don't think we're seeing what you're seeing, or I don't think we're seeing what you're seeing. And we're confident that going forward, our triangulation is improving, that our NUG is increasing. And we might need to have our team follow up with you on those figures to make sure that we look at it the same way you're looking at it. But, we're not seeing what you're seeing. But, we'll follow up with you.

Alex Brignall:

Okay. Thank you.

Elie Maalouf:

... to make sure that we clarify any question you have. Thank you, Alex, for your questions.

Michael Glover:

Thanks, Alex.

Elie Maalouf:

Let's go to the next.

Operator:

There are no further questions. I will now hand over to management for closing remarks.

Elie Maalouf:

Well, thank you everyone. It's just been great to connect with you today. We are very proud of what our teams have accomplished in the first half of 2026, and we remain confident in our ability to continue delivering in our strategy and driving shareholder value creation going forward. Our next market communication will be our third quarter trading update on Thursday, the 22nd of October. Thank you for your time and interest in IHG, and I look forward to catching up with you soon.