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Choice Hotels International, Inc.

Q4 and Full-Year 2024 Earnings Call

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CORPORATE SPEAKERS:

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Choice Hotels International, Inc.; President, Chief Executive Officer & Director

Scott Oaksmith

Choice Hotels International, Inc.; Chief Financial Officer

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Bank of America; Analyst

Michael Bellisario

Baird; Analyst

Robin Farley

UBS; Analyst

Stephen Grambling

Morgan Stanley; Analyst

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Truist Securities; Analyst

Brandt Montour

Barclays; Analyst

Meredith Jensen

HSBC; Analyst

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PRESENTATION:

Operator^ Ladies and gentlemen. thank you for standing by. Welcome to Choice Hotels International's fourth quarter and Full Year 2024 Earnings Call. (Operator Instructions) I will now turn the conference over to Allie Summers, Investor Relations Senior Director for Choice Hotels.

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Allie Summers^ Good morning. Thank you for joining us today. Before we begin, we'd like to remind you that during this conference call certain predictive or forward-looking statements will be used to assist you in understanding the company and its results. Actual results may differ materially from those indicated in forward-looking statements.

And you should consult the company's Forms 10-Q, 10-K and other SEC filings for information about important risk factors affecting the company that you should consider. These forward-looking statements speak as of today's date and we undertake no obligation to publicly update them to reflect subsequent events or circumstances.

You can find a reconciliation of our non-GAAP financial measures referred to in our remarks as part of our fourth quarter and full year 2024 earnings press release and investor presentation which is posted on our website at choicehotels.com under the Investor Relations section.

This morning Pat Pacious, President and Chief Executive Officer, will speak to our fourth quarter operating results; while Scott Oaksmith, Chief Financial Officer, will discuss our financial performance and 2025 outlook.

Following our prepared remarks, we'll be glad to answer your questions.

With that, I'll turn the call over to Pat.

Pat Pacious^ Thank you, Allie. And good morning, everyone.

We appreciate you taking the time to join us. Choice Hotels delivered yet another year of strong results in 2024.

We exceeded the top end of our guidance with a 12% year-over-year increase in adjusted EBITDA and a 13% year-over-year increase in adjusted earnings per share.

In 2024, we realized a 3.3% year-over-year net increase in global rooms including a 4.3% net increase for our more revenue-intensive domestic rooms.

We also continue to increase the velocity of moving hotels from our pipeline to open hotels and opened 21% more hotels worldwide in 2024 compared to the prior year.

And as we look to our future, our long-term growth is expected to continue to be strong because 98% of the rooms in our global pipeline are now within our more revenue-intensive brands. This means that our pipeline is set to generate significantly higher revenue compared to our existing portfolio driven by a substantial RevPAR premium, a higher average effective royalty rate and a larger room count per hotel. These results demonstrate that our strategy continues to deliver.

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2024 was a year in which we continue to realize the earnings growth from our past investments, both to meaningfully expand the scale of our business and to reposition the company into more revenue intense segments.

During the past year, we relaunched four brands adding exciting new brand growth opportunities for our franchisees.

We opened our 515 extended stay hotel continuing our leadership position in that sought-after sector.

We meaningfully expanded our partnerships business.

We significantly increased our international footprint, we achieved record organic growth in our rewards program and we unlocked new value through our Radisson Americas acquisition.

All of these important successes have further strengthened our network, enhanced both the guest and franchisee experience and created additional ancillary revenue opportunities.

We are also excelling at what we do best, delivering for our franchisees.

In the fourth quarter, we outperformed the industry by 90 basis points in domestic RevPAR performance and achieve RevPAR index share gains versus competitors with RevPAR increasing 4.5% year-over-year.

We are capturing demand across multiple regions of the country and our robust sales infrastructure and capabilities are allowing us to secure incremental demand generated by the recent natural disasters.

In addition to the positive trends in leisure travel, we are seeing improving strength in our business travel. In 2024, business travel represented approximately 40% of our overall mix reflecting the success of our revenue-intense strategy.

In fact, our business transient segment grew 14% year-over-year in the fourth quarter. Traction in the technology vertical is particularly encouraging and we believe we have a meaningful long-term opportunity to capture growing demand for both the technology and energy related sectors driven in part by the significant infrastructure investments required by GenAI.

We are also driving a year-over-year acceleration in the growth of our group travel business where we are capturing demand from small corporate and leisure groups.

So far in the first quarter of 2025, our business travel is trending up fueled by both group and business transient travel as we are seeing a pickup in locally negotiated business and year-

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over-year revenue growth through our digital channel that delivers mid-week and corporate-managed business.

At the same time we launched exciting new rewards program features that provide our Choice Privileges members with even more options to maximize their rewards and enhance their overall experience including an extended booking window for points redemption, and the ability to redeem points for upgraded rooms.

In just one month since the launch, these enhancements have already led to a significant year-over-year increase in reward redemptions and extended booking windows, which drive occupancy for our properties further out, this positive momentum in both business and leisure travel driven by the significant investments made last year, gives us increased confidence in our 2025 outlook.

It is important to note what is enabling the positive results from these investments, and that is our scale. Today with 22 hotel brands, our scale is significantly larger than it was just three years ago, and the benefits of that scale now extend to all of our hotels.

We have created a step function change in the company's positioning, which has not only created additional business development opportunities for franchisees, but also enabled us to generate more value for them. Relentlessly enhancing the value, we bring to our franchisees is one of the key reasons our existing owners choose to expand their hotel portfolio with Choice Hotels, and contributes to our industry-leading voluntary franchisee retention rate.

As we grow, we are continuing to invest and enhance our value proposition for franchisees, which we believe will result in expanding our business and taking additional market share.

2024 was the year we began to realize the benefits of our larger scale, which enabled us to make additional investments given our significantly enhanced growth profile.

I'm pleased to report that we are already starting to see a positive impact from some of those recent investments. First, we've invested in capturing more group business and business transient demand, leveraging our evolution to a more upscale portfolio.

In 2024, we redesigned and augmented our group sales team, resulting in an impressive year-over-year revenue increase of over 45% from group accounts in the fourth quarter, primarily driven by meetings and event-related travel.

At the same time we increased our business transient revenue supported by our strengthened upper mid-scale portfolio where revenues were up by 20% year-over-year in the fourth quarter. The larger scale has also allowed us to invest more in franchisee-facing technology.

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Specifically, we are excited about our recently relaunched choicehotels.com website and mobile apps. This new digital experience has already led to a year-over-year increase in booking conversion rates including a double-digit increase for our upscale properties.

Last quarter, we also successfully deployed a mobile-friendly one-stop platform for our franchisees to efficiently manage all of their properties from any location, which in turn helps further reduce their operating costs and allows them to focus on providing an outstanding guest experience.

With a strong foundation and a clear direction for our reposition company, we are focused on continuing to invest in key areas that offer the greatest opportunity to further enhance our value proposition and accelerate our growth in the coming years.

In 2025, we will concentrate our investments on improving franchisees' profitability, developing better tools for small and medium-sized business customers, and strengthening our rewards program.

We are confident that these investments will significantly increase our future growth opportunities.

In addition to our traditional strength in the upper midscale and midscale segments, the company has well-established brands with significant growth potential in the two segments with the highest developer and guest demand, extended stay and upscale limited service. These segments are more accretive to our earnings and they have been and will continue to be a key driver of our earnings algorithm and future growth.

We are pleased to be expanding our lead in the cycle resilient extended stay segment by adding more than 4,500 extended stay rooms in 2024.

For six consecutive quarters, we have grown our domestic extended stay room system size by 10% year-over-year and we expect the higher-than-industry average growth to continue.

With over 70% of all domestic economy extended stay rooms under construction being Choice Hotels brands and nearly 43,000 extended stay rooms in our pipeline, we are well positioned for future growth.

In the upscale segment, we continue to expand our presence increasing the global room system size by 44% year-over-year to over 110,000 upscale and above rooms representing 17% of our overall system, almost two times our economy portfolio.

Importantly, our rewards program members now enjoy access to over 180,000 upscale, upper upscale and luxury hotel rooms worldwide.

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With 17% of our CP members' annual household income exceeding \$200,000.

With nearly 25,000 more upscale and above global rooms in the pipeline, we will be providing them even more aspirational locations to visit well into the future. Fueling that growth is the momentum we are seeing in the upscale segment.

In 2024, we achieved strong development growth with a 36% year-over-year increase in the number of domestic upscale franchise agreements awarded.

We also continued to strengthen our core brand portfolio.

In addition to the success we are seeing with our newest brand Park Inn by Radisson, our Country Inn and Suites by Radisson brand outperformed STR's upper midscale segment by nearly 3percentage points in the fourth quarter.

At the same time we expanded the iconic quality and brand portfolio to nearly 150,000 global rooms, highlighted by 49 global hotel openings, a 29% year-over-year increase in a year when the brand celebrated its 85 anniversary.

A key addition to our growth story is the performance of the Radisson Americas brands. The significant improvements in digital traffic and booking conversion rates since the integration have driven those brands RevPAR index gains, which has led to new hotel development commitments. Notably, in 2024, we executed twice as many domestic franchise agreements for the Radisson Americas brands as we did in 2023.

We expect the positive momentum for the Radisson Americas brands to continue and as of year-end, we had 13% more rooms in the pipeline across the domestic Radisson Americas portfolio compared to the prior year. A key differentiator for winning new franchise agreements continues to be our best-in-class hotel conversion capability, which moves projects rapidly through the pipeline.

In fact, of the domestic franchise agreements we executed for conversion hotels in 2024, we opened 164 within that timeframe, a 22% increase compared to 2023.

Over the past two years, we have accelerated our opening speed by nearly 25%.

We are encouraged by the continued traction for our conversion brands.

In the fourth quarter, we increased the number of domestic franchise agreements executed for conversion hotels by 7% year-over-year, and we expect our hotel conversion core competency to be a key growth driver this year.

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I would now like to turn to our international business, where in the fourth quarter we increased our adjusted EBITDA by 50%, and expanded our rooms portfolio by 4.4% year-over-year, highlighted by a 58% increase in hotel openings, and with a new construction rooms pipeline that has increased by 14% compared to the prior year.

We continue to see a significant opportunity to further gain international market share in the coming years.

In our key strategic region of EMEA, we delivered a 5% increase in RevPAR performance year-over-year and are attracting strong franchisee interest. Last quarter, our EMEA team executed our first direct franchising agreement in Spain, adding more than 700 rooms.

We have already onboarded over 500 rooms to our portfolio and expect the remainder to be open in 2025.

In France, under our direct franchising agreement with Zenitude Residential Hotels, we've already onboarded more than 2,600 rooms and anticipate the remaining 1,600 plus rooms to join the system throughout 2025.

Turning now to our customer base, in 2024, we expanded our rewards program to 69 million members, an 8% increase compared to the prior year, which marks the highest number of organic enrollments in a single year. This growth is a direct result of us creating a more compelling program including adding exciting new experiences such as music, racing, and college sports event redemption options, and introducing new aspirational hotels.

Another exciting development benefiting our customers is the new strategic partnership with Westgate Resorts, the industry's premier resort operator. This arrangement added more than 14,000 rooms to our domestic portfolio in 2024 and further enhanced Choice Hotel's rewards program by allowing our members to earn and redeem points at these resort properties.

In closing, by successfully executing our strategy, we've repositioned the company and established a strong foundation for future growth.

Our proactive investments and more versatile model have meaningfully enhanced our company's growth profile, and we believe we have positioned choice to deliver sustained earnings growth and create long-term value.

We continue to grow our significant free cash flow annually, and our priority use of this capital will remain focused on enhancing our value proposition and driving organic growth, while returning excess cash to shareholders. I will now turn the call over to our CFO, Scott?

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Scott Oaksmith^ Thanks, Pat. And good morning, everyone. Today I will discuss our fourth quarter and full year results, update you on our balance sheet and capital allocation, and share our outlook for the full year 2025.

For full year 2024, a combination of global rooms growth, strong effective royalty rate growth and the robust performance of our non-RevPAR dependent programs drove adjusted EBITDA to \$604.1 million representing a 12% year-over-year increase and exceeding the top end of our guidance.

Our full year 2024 adjusted earnings per share also exceeded our guidance reaching \$6.88 per share, a 13% increase year-over-year. For fourth quarter 2024 compared to the same period in 2023, revenues excluding reimbursable revenue from franchised and managed properties increased 7% to \$229 million.

Our adjusted EBITDA grew 12% to \$140 million and our adjusted earnings per share were \$1.55 per share, an 8% increase.

Let me first discuss our key drivers of franchise fee growth, which include unit growth, RevPAR performance and our royalty rate.

In the fourth quarter, our domestic rooms growth rate improved sequentially and increased by 4.3% year-over-year across our more revenue-intense upscale, extended stay and midscale portfolio.

This growth represented a 1.5% year-over-year increase in the number of units.

We opened 305 new domestic hotels in 2024, a 16% year-over-year increase, our highest number since before the pandemic.

We are particularly pleased to see our new hotel construction starts in the fourth quarter exceed our expectations and we saw an 8% year-over-year increase in the number of new construction hotels opened even as we faced a challenging hotel development environment.

We believe this illustrates our commitment to franchisee profitability and providing brands that deliver compelling returns on investment even during times of elevated costs. The growth in our year-over-year openings was fueled by our robust pipeline, which included over 20 hotels and 14,000 rooms from our partnership with Westgate that moved from our pipeline to open hotels in the fourth quarter.

We continue to focus on building a strong pipeline of hotels and are pleased with our ongoing progress.

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In fact, when excluding the impact of opening the Westgate hotels under our Ascend Hotel collection in the fourth quarter, our domestic pipeline increased sequentially by 3% quarter-over-quarter.

Our deliberate decisions and strategic investments in our franchisee tools, brand portfolio and platform capabilities are delivering results across all our brand segments.

First, we are continuing to strengthen our presence in the upscale segment with a 12% increase in global openings and an 8% increase in domestic franchise agreements awarded compared to the fourth quarter of 2023.

In fact, our Ascend Hotel collection, a leading global soft brand, reported a 43% year-over-year increase in openings worldwide.

Second, we grew our domestic extended stay room system size by 10% year over year, highlighted by record openings for both our WoodSpring Suites and Everhome Suites brands. The Everhome Suites brand is gaining strong traction with seven hotels now open and 64 domestic projects in the pipeline including 22 under construction as of today.

And third, we expanded our global midscale rooms portfolio to approximately 422,000 rooms highlighted by a 51% increase in global hotel openings compared to the prior year. At the same time we saw a 10% increase in midscale domestic franchise agreements executed year over year.

Turning now to our RevPAR performance, our fourth quarter domestic RevPAR outperformed our chain scales by 30 basis points, increasing 4.5% year-over-year. This was driven by an 80-basis point improvement in occupancy levels and a 3.1% year-over-year increase in average daily rates.

Outperformance exceeded our forecasted expectations and we continued this positive momentum into the first quarter of 2025.

Our domestic extended space segment performed exceptionally well achieving fourth quarter RevPAR growth of 5.9% over the prior year.

Impressively for the full year 2024, our radis and upscale brand outperformed SDRs upscale segment by over 4percentage points and achieved RevPAR index share gains of nearly 3percentage points.

Turning to our third revenue lever our effective royalty rate also continues to be a significant source of revenue growth.

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Our domestic system effective royalty rate for full year increased 7 basis points year-over-year, representing approximately 7 million of incremental royalties. This performance demonstrates the positive impact of our strategy to drive the growth of our revenue-intense brand portfolio and our enhanced value proposition to franchise owners.

We are optimistic about the ongoing upward trajectory of our effective royalty rate for years to come, as the contracts in our domestic pipeline have significantly higher effective royalty rate than those in our current portfolio of open hotels.

We continue to build on the strong momentum of our platform business.

Our ancillary fees benefit from expanded offerings to our franchisees and guests, increased transaction volume with our qualified vendors and the broader reach of our initiatives. These fees increased 8% year-over-year in the fourth quarter and increased by more than 50% for full year 2024 compared to 2023.

Particularly our co-branded credit card program has been yielding impressive results, delivering 20% year-over-year growth in credit card revenues over last year.

Continue to expand our platform business and increase the products and services we offer is one of our key initiatives, and we believe that we can drive strong revenue growth in the years ahead. Last year, we generated over \$390 million in adjusted free cash flows, a 13% year-over-year increase, and our operating cash flows net of franchise agreement acquisition costs increased 8% to \$319 million.

Our business continues to produce strong cash flow, which coupled with our well-positioned balance sheet, allows us to execute our capital allocation priorities including investing in the growth initiatives Pat highlighted, while also returning significant capital to shareholders.

In 2024, we returned over \$435 million to shareholders including approximately \$56 million in cash dividends and over \$380 million in share repurchases.

We repurchased over 3 million shares representing over 6% of our outstanding share counts, and we had 3.8 million shares remaining in authorization as of the end of December.

I'm also pleased to report that we made progress executing on our capital recycling strategy, recycling over \$45 million in 2024 with a strong cash position, leverage levels at the low end of our targeted range, and total available liquidity of approximately \$700 million at the end of 2024.

Our capital allocation priorities remain unchanged.

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We intend to build on our long record of delivering outsized value by accretively investing to further expand our business.

Before opening up for questions, I'd like to discuss our expectations for 2025.

As we look ahead to this year, we expect to generate adjusted EBITDA in the range of \$625 million and \$640 million.

We anticipate this growth to be driven by organic growth across more revenue-intense hotels and markets, robust effective royalty rate growth, continued growth from our ancillary revenue streams, strong international business and incremental revenue-generating opportunities from our expanded scale.

We expect our full year 2025 adjusted diluted earnings per share to range between \$6.98 and \$7.24 per share. This outlook does not account for any additional M&A, repurchase of the company's stock or other capital markets activity.

Underlying our outlook are the following assumptions for full year 2025.

We expect our net global unit and room system size to grow approximately 1% year-over-year.

We project our domestic RevPAR to range between 1% to 2% year-over-year, and we anticipate our full year 2025 effective royalty rate to grow in the mid-single digits year-over-year. Finally, we expect adjusted SG&A to grow in the low to mid-single digits from the 2024 base of \$276 million.

I would also like to highlight that we are providing additional detail of our ancillary programs included in our reimbursable revenue and expenses on page seven of our investor deck, which can be found under the Investor Relations section of our website.

For full year 2025, we expect our platform, procurement and ancillary revenues, which include all the revenues outside of our royalty and licensing fees, system fees, owned hotels and certain other revenues to grow in the mid-single digits from the 2024 base of \$231 million. Today's results are a testament that our strategy is working and that we are benefiting from our expanded scale and versatile business model.

We intend to keep investing in those areas of our business that will generate the highest return on our capital. At this time Pat and I would be happy to answer any of your questions.

Operator?

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Operator^ (Operator Instructions) Your first question comes from the line of David Katz from Jefferies. Please go ahead.

David Katz^ I was hoping we could just spend just a little more time on one of the line items that we've been getting some questions on and kind of going through ourselves.

It's really within the other revenues from franchised and managed properties, right, which are sort of moving around there.

My understanding is a piece which is entirely reimbursable and then there are some other items in there. Scott, can you help us just unpack those line items backward-looking and forward-looking if you can?

Scott Oaksmith^ We actually did, post in our investor presentation today a reconciliation of that line item to help investors understand that.

So I will refer you to that, which will hopefully give you some clarity.

But during the quarter, we did recognize in that line item, there was about \$161 million of reimbursable revenues and just under \$40 million in non-reimbursables, which the non-reimbursable is when you apply the expenses against to it generated about \$14.5 million which was up about 16% year-over-year.

If you remember, we realigned our franchise agreement starting in the fourth quarter of 2023.

So the quarter is now on apples-to-apples and that reflects that 16%, the growth of those programs.

In terms of the overall full year, it added about \$63 million of EBITDA for us for the full year in those non-reimbursable line items.

On the reimbursable side, we ran a deficit of about \$18 million, which was favorable to the \$35 million that we had originally guided to.

That's really a timing element, and you'll see some of that shift into 2025.

David Katz^ But I get most of that, but what the -- what is driving the earnings and just having a good understanding of sort of what makes those continue to grow or no grow in the future, I think is part of what we'd like a little more insight on.

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Pat Pacious^ Sure. Those revenues or ancillary revenues of fees that we collect from our franchisees.

So one example I'll give you is our property management system, which is Choice Advantage.

We have a proprietary property management system that is our connectivity to our central reservation systems and allows the inventory management, so our hotels use that.

During the year, we did see some nice growth in those revenues as we rolled that system out to the Radisson properties that we acquired, as well as and we have recently enhanced the capabilities to be able to handle our extended stay brand.

So that rolled out during the year and contributed to the increase in revenues. Going forward, there's other services like that that we can continue to deliver to our franchisees that are more of a fee for service, and they should also grow in line with our room's growth domestically and internationally.

Operator^ Your next question comes from the line of Dany Asad from Bank of America.

Dany Asad^ Good morning. Thanks. Are we able to quantify the benefit to Q4 that we got from hurricane in that 4.5% RevPAR that you posted in the quarter?

Scott Oaksmith^ Yes.

So we certainly saw some benefit from the hurricane in the fourth quarter. When we think about just the fourth quarter, we talked about you in Q3, we did see an inflection point in our RevPAR performance back in August where we started to see trends improve with increasing demand in multiple regions of the country.

We did see those trends continued into Q4, which you saw in our overall results of an increase in 4.5%, it was really a multitude of reasons.

We saw a strength in our business transient revenue, which was up 14% in the quarter, and particularly saw our verticals of technology, energy, transportation and construction all up.

We also saw our groups, which really remain strong reflecting some of the investments we've made in those capabilities earlier in the year.

We saw a 45% increase in business from our managed accounts, primarily from meetings and events.

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We also saw some good on government spending up 5%. In terms of other things including the hurricane.

We saw a pickup in some of our oil markets, as we've seen increased activity on that.

Then when you look at kind of the, specifically the business that was delivered from our FEMA accounts and Red Cross business, as well as those related to like increased spending from the restoration crews, we estimate that was about 125 basis points of lift in the fourth quarter, which translates to roughly about 30 basis points for the full year.

Dany Asad^ Thank you, Scott. And for my follow up a little bit unrelated, but how should we be thinking about investment spending levels in 2025 compared to '24, and in what buckets can those could that look like?

Pat Pacious^ I guess Dan, just when we look at the continued investments and we look at kind of our capital allocation strategy and how we think about the business, the first item that we invest in is our value prop.

So we talked a lot about investments we made in 2024, that's now resulting in the increase we're seeing in the group and transient sector in the investments we've made in the website, mobile apps, we have a significant amount of investment this year in 2025 that's really designed to help our franchisees manage their rate inventory and their rate structure.

So really leaning into the dynamic pricing capabilities that are becoming more and more commonplace in the industry.

So a lot of the key investment in the core enterprise is really around the value prop and it's really three things.

It's driving top-line revenue, reducing costs and making it easier for our franchisees to do business with us. Those are the three hallmarks for all the investments that we're making on that front.

As you're aware, most of that comes from the system fund efforts that we're doing.

But all of those are really designed to really take advantage of those trends that Scott talked about that are really going to drive the RevPAR performance that we expect to see in 2025.

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Operator^ Your next question is from the line of Michael Bellisario from Baird. Please go ahead. Thanks.

Michael Bellisario^ Just my question is going to focus here on net unit growth.

So the 1% guide sort of maybe feels low given all the momentum that you just highlighted. I guess couple of parts here.

What are you assuming for U.S. in that global guide?

What are you assuming for international growth?

Then also what's embedded in there for the blue-green rooms, how should we be thinking about that now that the Westgate portfolio is now part of your system?

Scott Oaksmith^ Yes, Mike. I think one thing that's important to remember is, we're effectively in a world now where about 80% of the openings are coming from conversion hotels.

It's why in our remarks we keep referencing the focus we've had on moving hotels rapidly through our pipeline.

Over the past two years, we've seen a 25% improvement for that.

So what does that mean for the pipeline?

It means that we may have a hotel that enters and opens within three months.

So you don't even see it in the pipeline during a quarter. And because we've been able to increase the velocity and the pace of that, we're not really just focused on the aggregate amount in the pipeline, we're actually focused on how do we get these conversion hotels that are looking to join our system from an application to a cash flowing hotel on our system more rapidly and we've had a lot of success on that front.

So that's kind of the first thing is a lot of what's in our pipeline today reflects that conversion and it really shows up in the openings when you look, I think about 80% of our openings in 2024 were conversion hotels.

So that's a key piece of that.

I think when your question regarding Bluegreen, we expect that unit count to remain the same, kind of going forward and that's a reflection of the agreement that was in place prior to the transition in control.

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So that is going to continue to sort of be of a similar contribution to us going forward.

Westgate is a complementary component to that. Both of those partnerships we expect to grow over time and they are going to coexist together and it's really a nice opportunity for us to provide a lot more rewards redemption points and earning places for our CP members who are really excited to sort of go and stay at those aspirational locations.

Pat Pacious^ Yes, Michael, in terms of just the breakdown, we're expecting to grow our international rooms slightly above 3% and domestic will be slightly positive.

We've stopped the guidance in terms of our revenue intense strategy just to try to give a bigger picture of what the global room growth is as we penetrate more internationally.

But you should expect kind of the revenue intense units to be similar to what they were in 2024.

So given that the international is still a relatively smaller part of our business the overall unit room growth will be around 1%, but it's a mix of a little over 3% international and slightly above positive in domestic.

Michael Bellisario^ Then just two follow up there. How many Blue-green rooms do you have today within the Ascend collection?

Then for the Westgate deal, is it fair to assume that sort of a pay to play agreement where you're getting fees for Choice direct contribution?

And just trying to think about the fee per room contribution given how many rooms came on into the system in the fourth quarter and that's all for me. Thank you.

Scott Oaksmith^ Yes, Bluegreen, we have roughly around about 3000 rooms in the system as they send hotel collections.

Obviously we have a much larger partnership with them in terms of the timeshare business they have, and we're really excited about the Westgate opportunity.

It's really gives an opportunity to bring an exciting array of properties to our guests in terms of the locations they have, the travel experiences they can give. The accommodation types, which typically have larger rooms, which can be great for families when they can stay in more of a two-room suite versus maybe a one room hotel.

And it really opens up, our upscale experiences to our 68 million loyalty program members as well as the other Choice guest.

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It is a distribution agreement where we are paid for the reservations delivered, because it's a distribution agreement, it has much higher fees for reservations delivered than a typical franchise agreement.

So we're excited about that partnership and already seeing the engagement with our loyal guests those opportunities to stay in the Westgate partnerships.

Operator^ Your next question is from the line of Robin Farley from UBS. Please go ahead.

Robin Farley^ I just wanted to clarify a little bit more about the economics from the Westgate deal.

Since they're not typical franchise fees, how should we think about sort of the equivalent?

Is it more like the equivalent of kind of a 1% franchise fee versus a 5% fee, or kind of how should we think about that equivalent?

Then I have a quick follow up question on that as well.

Scott Oaksmith^ Yes. It's hard to do a direct correlation there, Robin. Think about it more as a much higher fee.

Our average royalty fees are 5%, so these are significantly ahead of that, but it'll be based on the reservations we deliver into those rooms.

So the blended rate will be somewhere in probably a little south of the royalty rate, but we don't have an exact number to give you at this time.

Robin Farley^ Your guidance for '25, full year effective royalty rate, is that kind of the same store, in other words, does that include the impact of the -- or actually you would be counting the royalty fee being a higher than 5% contractually, even if the effective rate that you get is lower. Is that what's included in your guidance, kind of that nominal north of 5%, not the effective rate?

Scott Oaksmith^ Yes. The effective rate includes all of our franchise agreements.

So it isn't -- so our growth is not being muted by the Westgate partnership that we have.

We certainly are seeing growth across all of our franchise agreements.

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As we've talked about our pipeline is much more revenue intense today giving a higher RevPAR a higher room count and higher effective royalty rates as we continue to improve our value proposition for the over the last decade.

Robin Farley^ Then just one final question on it, if I can -- is there any pushback from owners in your system that are kind of paying you the full, all of the lines of franchise fees that there may be sort of competing within your program with owners that aren't paying you as many levels of fee revenues?

Pat Pacious^ I'm not sure I understand your question, Robert.

But I mean the way we look at the effective royalty rate, I mean that is commensurate with the value that we're continuing to drive to our franchisees and those fees are something we talk to them about consistently throughout the year as we meet with them and our owners' councils.

When you look at a year like we just had where we're delivering a lot more direct business, the investments we made in the website, the business travel, the group travel, all of that is improving the business delivery capabilities of the company and that's then reflected in their willingness to stay with us when you have a 97%, 98% voluntary retention rate.

When they renew their contracts, they're seeing the value and as a result of that, the ability for us to achieve a higher effective royalty rate with them is consistent with that continued improvement in the value proposition.

So we don't have I'm not sure I understand your question about competition between those not paying the royalties versus those that are. Everybody is sort of paying them. It's really a reflection of different royalty rates really depend more on what segment you're in.

You may have entered the system within a year and you're ramping up to a royalty rate.

So all of those are just things that are more consistent with how the industry operates, but we don't get pushback from franchisees on that front.

Scott Oaksmith^ The only thing I'll add to that is just I think we're very deliberate in thinking about these partnerships that we have and that they're additive to our portfolio.

So typically, they're either a type of stay occasion or in markets where we don't have a lot of product and where guests are looking for a different experience.

So we feel like when we bring these partnerships on, they're added to our portfolio, bringing new guests, into the Choice ecosystem versus taking guests from those who might have been staying at, say a Comfort Inn or a Quality Inn or one of our other properties.

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So if you look at kind of what we've done on those partnerships with Bluegreen, Westgate, Penn Gaming, they're really around stay occasions where we don't have the ability to product for our guests to stay in and we know they're looking for those type of stay occasions.

Operator^ Your next question is from the line of Stephen Grambling from Morgan Stanley. Please go ahead.

Stephen Grambling^ I was hoping to dig into the recyclable capital and key money a little bit. Do you anticipate that the recyclable cash will be a source or a use in 2025?

And can you just remind us perhaps of the book value of the recyclable capital deployed so far and perhaps what the total EBITDA associated with those investments that look like in 2025?

Scott Oaksmith^ Yes.

So as we've talked about in the past, we use recyclable capital really to launch brands and we primarily use that in our Cambria and Everhome brands.

We've been very, very excited for what it's done for the Cambria brand.

It's over 75 units now reaching critical scale and really becoming a great contributor to our overall portfolio and the halo effect that gives the rest of our portfolio.

I would say we're at towards the tail end of our investments in the Cambria brand, and we should be kind of reaching a peak investment on that and starting to see recycling starting in '26, '27 for that brand.

With Everhome, we've had some similar successes with getting that brand off the ground.

We already have seven open, another 20 plus under construction.

So those capital programs have really helped jumpstart brand launches that have been, that we think are going to be really big contributors to our growth in the future. In 2024, our net outlays around those programs were about \$150 million.

We would expect that to be slightly lower than that this year. Probably more in the \$115 million to \$120 million in 2025, with then seeing more of recycling opportunities starting in 2026 and beyond.

On the balance sheet today around those programs, we've got about \$600 million outstanding.

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So that's the pool of investments that we should see peaking here in the next year or two, and then starting to get into a net recycler position.

In terms of the owned hotels and the growth, we will have a couple new hotels opening in 2025, more towards the later half of the year, but we would expect the growth of kind of same-store sales to be in that mid-single digits on the EBITDA contribution from those.

Stephen Grambling^ And that EBITDA contribution though, that from the owned, I mean that I imagine that some of the recyclable capitals maybe in JDs or others, so is that contribution on the P&L the total, or is there other kind of EBITDA that's off the P&L within some sort of a JD line or something like that we should think about when you try to sell that 600 million that's on the balance sheet?

Scott Oaksmith^ We look at the components of it, it's owned hotels, it's joint ventures and lending. Both the joint venture and lending are not included in our EBITDA, so they're below the line, so they would not be contributors to EBITDA just the owned assets.

Stephen Grambling^ And can you give us a sense of what that, the EBITDA from those assets would be?

Just as we think about kind of the multiple, you get to sell that down?

Pat Pacious^ Yes. If you take a look at the face of our income statement, you can see we actually do break out the owned hotels.

So it was about \$113 million of revenue in during the year, which generated an EBITDA of roughly around \$30 million.

Stephen Grambling^ I'll follow up with the other one. Thank you.

Operator^ Your next question comes from the line of Patrick Scholes from Truist Securities. Please go ahead.

Patrick Scholes^ I have a question and also a follow-up question. That first question is, over the past year you had talked about our telegraph, high single digits EBITDA growth as sort of the way to think about the long-term trajectory.

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As I look at the guide, it's closer to mid-single digits. Should we think about mid-single digits going forward as that long-term growth rate and what would you attribute the mid-single digit guide this year versus sort of what you had telegraphed the high single digit previously?

Thank you.

Pat Pacious^ Yes, Patrick, I mean I think it's really a function of, well really two things.

One, where interest rates are with interest rates as high as they are, new construction across the industry is muted. I mean if you just look at the total supply growth for the whole industry in the U.S. has been less than 1%.

It's expected to be less than 1% again this year. And a lot of what that additional growth that would get you back into the high single digits could be helped by is the new construction environment picking back up.

We have a significant amount of new construction projects sort of ready to go with owners. I think just sort of waiting for interest rates to come down slightly more, for that to really be an added element to it.

I think on the RevPAR side of the house, I mean if you look at our guide, we just guide to sort of domestic RevPAR, but the international RevPAR is likely going to be higher. It's just a more difficult area for us to provide a forecast around.

But when we look at the comments we made in our remarks and we look at how the year is setting itself up, we're pretty confident that what we're seeing in the early days here is going to probably push us towards the higher end, but it's early days. I mean we're sort of six weeks into the year here.

But if you look at the macro backdrop, GDP up 0.3% in the fourth quarter, consumer spending up over 4%, labor force participation rate remains strong and as I mentioned, supply growth is being muted.

That's really setting itself up for a nice healthy environment domestically, favorable backdrop for the industry.

Then, if you look at the areas that we're making our investments and they're showing up in business and group travel, that's adding to the top end of that.

We talked about the impressive results we're seeing in the oil and gas markets, the tech sector, the energy sector, really feeding into those corporate accounts that are participating in the hyperscaler growth around AI.

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There's a ton of data centers and EV battery plants getting built around the country and our product is in the right places for those.

So those are all possible upsides for us, but it's just at this point six weeks into the year, an area that we're kind of waiting to see if the traction sort of continues to pick up, but we're as I said, we're seeing some positive signs on that.

So if you get interest rates back down where new construction adds and the RevPAR environment improves more, you could see more at the top end of our range that we provided this morning.

Patrick Scholes^ Then a second question here. Have you heard anything from your franchisees, your owners, have they seen any impact from the immigration deportations and ICE and everything that's going on around that?

Any impact on their ability to maintain employees or hiring or labor situation, et cetera?

Thank you.

Pat Pacious^ Yes.

We have not and we've had meetings already this year with our franchisees. That has not been a topic that's been brought up.

Operator^ Your next question comes from the line of Brandt Montour from Barclays. Please go ahead.

Brandt Montour^ Good morning, guys. Thank you for taking my questions. I'm curious, back to David's first question about the marketing fund. When we look into the bottom of your release, you're adding back \$50 million net reimbursable deficit, right, in the EBITDA adjusted EBITDA well.

And I'm just curious, I mean I remember, Scott, you telling us that you were going to move the services fund EBITDA from the services fund to the P&L this year, and I'm not sure if that happened.

And this is a marketing fund adjustment because you're going to overspend on the marketing program?

Or if you didn't move it elsewhere in the accounting and you're keeping it down here and you're

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essentially saying \$60 million is going to \$50 million this year on the services fund. Can you kind of clarify that for us?

Scott Oaksmith^ Sure, Brandt. What we're talking about is we'll recast our financial statements to make this clear starting in the first quarter, what we did do is provide a reconciliation in our investor presentation that really breaks out the amounts that are in our corporate EBITDA. When you see the page seven of the investor deck, you'll see a column called non-reimbursable, that's the EBITDA generating portion of that line item.

I think what you're referring to is of the portion that is reimbursable, so that's our historic marketing and reservation system activities, which we operate over the long term at a breakeven basis which you'll see for full year 2024. We operated that around an \$18 million deficit.

If you recall I think I mentioned on previous calls, we came into the year of 2024 with about a little over a \$60 million lifetime surplus where we had underspent collections and we had a multi-year plan to spend that down back to the breakeven with some investments that we're doing to continue to improve the value proposition to our franchisees.

Our 2024 expectation was to spend a deficit of around 35 million due to timing that was only 18 million.

We are now pushing some of that into 2025.

So the 50 million will be when you see the statements going forward, that historical line item that we have, that's just going to be the system fund activities for franchise and managed properties that over time will breakeven.

So really think about an \$18 million deficit that goes to 50 million that we add back, but the non-reimbursable revenues will show up probably most likely in that platform procurement and ancillary revenue line item going forward.

Brandt Montour^ Okay. I think I get that, that's helpful.

Then just a bigger picture, longer term question.

When we look back to 2019 your businesses has grown adjusted EBITDA substantially.

I have it up 65% from '19 to '24, but you didn't get the same list in the operating cash flow line, something like a total of 20%.

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But I know that includes key money, and I know key money can move around from OCF to below the OCF line in the investment section.

So can you kind of try and cleanse that for us and give us a bridge of why like the OCF line hasn't grown and how you look at it on like a free cash flow adjusted free cash flow basis and what that would look like versus EBITDA in next to '19?

Scott Oaksmith^ Yes.

So in terms of key money, we have seen an increase in key money, but when you look at the '23 to '24 increase, it really was commiserate with openings.

So our key money increased from about \$98 million to \$112 million, but our openings were up over 21%.

So you can see that the key money's not growing as quickly as the openings.

When you look at how we look at it on a free cash flow basis, we're about 65% free cash flow conversion ratio, and that's been fairly steady in '23 to '24 and even 2022.

We expect that free cash flow conversion to remain around that mid-60, 65 ish in 2025.

Brandt Montour^ Okay. Great. I'm assuming that was consistent back to 2019 as well on your algorithm.

Scott Oaksmith^ Yes. I would say there has been an increase in the use of key money across the industry since 2019.

So that has been a little bit of a use of cash that wasn't as prevalent back in 2019. I think that's really a reflection of a couple different things.

One is, we've been launching brands which typically use a little bit more key money particularly our Cambria and ever home brands to get those launched to scale.

Then we are in a little bit more competitive environment and a tougher interest rate and construction cost environment.

I think of those as kind of temporary. You tend to see in times when construction costs rise and or interest rates are up where it puts a little bit of pressure on developer returns. And at times hotel companies will use key money to bridge that gap to make sure that the development is

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moving through the pipeline. When we look at that, it's a pretty accretive use of capital for us to get a long-term franchise agreement, but that will ebb and flow in terms of the supply environment.

Operator^ Your next question comes from the line of Meredith Jensen from HSBC. Please go ahead.

Meredith Jensen^ Thank you. Two quick questions.

One, I just want to follow-up quickly on the on Stephen's question on the owned hotels.

I think in the past, you mentioned you had something like 12, and I heard you were just going to open some more.

I was, wondering if you might, let us know which, formats the new openings will be. Will those be all in the Everhome or Cambria?

And one, adjacent question, if you might speak to sort of the management strategy, management of owned hotels versus contracting out as you have a delay until you potentially recycle some of these hotels.

I'm just kind of curious, I know you contract out and when you decide potentially to manage those yourself?

Thank you.

Pat Pacious^ Yes, Meredith, let me start with the management and Scott can follow-up on the owned hotel openings piece of it. When we actually entered the management company business as a result of the Radisson acquisition, so effectively 14 management contracts were part of that.

We actually have benefited significantly from actually being on both the franchise and managed side in a very small way.

But management as a line of business for us is not an area that we are looking to grow.

As we have taken some of the owned assets, we have not been managing our self-owned assets to any significant degree.

I think we have one hotel that we took on similar because it was in the same market where we were already managing for a third party.

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So the owned and the managed are usually two separate groupings of hotels.

Our strategy over the long run has always been to use third party management companies, particularly for upscale brands and for extended stay. The importance of having the right management company is critical to the performance of the hotel and also to using the tools that Choice Hotels provides to the franchisees.

So that's not an area that we would expect to grow organically. And as we, over time recycle the owned hotels out, it's likely going to stay the same because most of the hotels that we're managing are for a single third-party operator.

Scott Oaksmith^ In terms of the owned portfolio, today we have 12 owned assets.

We have three Radissons that we got during the acquisition of Radisson.

We own eight Cambria that are open and one Everhome.

For the year, and as I mentioned earlier, most of these will open kind of towards the latter half of the year.

We would expect to open two additional Everhomes and two additional Cambrias this year.

Meredith Jensen^ One additional very quick one. I know you had mentioned in the past, Scott, about cyclicity and sort of seasonality of the business, sort of having a first and fourth quarter different from other quarters.

And since you've spoken about the business growing, corporate group sort of expanding and taking a bigger part of your overall room nights, would you see any change in that, or is there anything we should watch out for and sort of how we look at the quarters sequentially?

Thank you.

Pat Pacious^ It's a great question, Meredith. I would say over time as we do get more business travel, you will see that even out. I mean typically, the second and third quarters have been our largest given our predominantly of leisure travel.

So Q1 and Q4 have a little bit more business travel, but even I would say probably Q4 is a little bit more of a heavier business travel quarter than Q1. Q1 tends to be rather slow.

So I would not expect any different modeling assumptions for 2025, but over time as that mix continues to move that you could see a shift of a little bit more business in Q1 and Q4 than

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historical. And as that happens, we'll certainly update you if there's any major changes in the modeling assumptions.

Operator^ Your last question comes from the line of Alex Brignall from Redburn Atlantic. Please go ahead.

Alex Brignall^ Thank you very much. Just back to the growth question.

Obviously the Westgate rooms came in very late in the year, so really, they, we can think of them in the nudge this year.

So if I add that to the RevPAR guide and your comments that you've given on the royalty rate, I get immediately higher number than the EBITDA work you've guided in the middle.

So I wonder if you could just reconcile that with one of the answers that you gave earlier around underlying royalty rate progression, because it doesn't really seem that there's any financial contribution within the effort for Westgate MSM, so misjudging it.

Then could you just talk a little bit about your retention rates in 2024 and where that came in relative to prior years and what you think that might do going forward?

Thank you.

Pat Pacious^ Yes. I'll start with the retention rate. It's effectively been consistent.

We look at the overall churn of the business has been usually around 3% to 4%.

Our voluntary retention rate which is those hotels that we want the owner to stay has consistently been around 97% to 98%.

So that's effectively when an owner comes up on a window in their contract to leave they're generally at that 97%, 98% rate sticking with us, but we have also been continuing to move underperforming product or owners that are not willing to stay with the brand standards out of the brand or out of the system altogether.

So we haven't sort of had to do this sort of large cleanups or those types of things or brands, because we've been fairly diligent in moving underperforming product or owners who are no longer willing to make investments out of the system.

But I think as you look forward, and you look at what's in our pipeline growth and the areas where our retention is even higher, our retention's even higher in those upscale and extended

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stay segments, which are a significant component of our core business today but also what's coming in the pipeline.

So I would expect that voluntary retention rate actually could actually increase even further as we continue to deliver for those two particular segments.

Scott Oaksmith^ In terms of the building blocks for our 2025 guidance, the way I would think about it is if you look at our domestic rev levers and the guidance we gave for RevPAR, net room growth and effective royalty rate, that'll add about roughly 2.5% to our EBITDA.

Our owned and international business should add another 1%, our platform and ancillary revenues continued growth including the co-brand credit card should add about 2%.

Then we're guiding to SG&A in the low single digits, so that'll reduce that growth by about 1%.

So that gets you to roughly the midpoint of our guidance.

As Pat mentioned earlier, if we're better on the RevPAR and the net unit growth as we're optimistic about, that would be where it would push us closer to the top end of our range.

Alex Brignall^ Thank you. Just to clear that up on the retention rate.

So in the last couple of years, hasn't it been within that 96% to 97% retention rate on a sort of overall basis?

Pat Pacious^ Yes.

Operator^ There are no further questions at this time. I'd like to turn the call over to Patrick Pacious for closing remarks. Sir, please go ahead.

Pat Pacious^ Thank you, Operator. Thanks again everyone for your time this morning.

We will talk to you again in May when we will announce our first quarter 2025 results. Have a great day.

Operator^ This concludes today's conference call. Thank you very much for your participation. You may now disconnect.