

08 - 06 - 2025

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Choice Hotels International, Inc.

Q2 2025 Earnings Call

CORPORATE SPEAKERS:

Allie Summers

Choice Hotels International, Inc.; Investor Relations Senior Director

Patrick Pacious

Choice Hotels International, Inc.; President and Chief Executive Officer

Scott Oaksmith

Choice Hotels International, Inc.; Chief Financial Officer

PARTICIPANTS:

Dany Asad

Bank of America; Director

Michael Bellisario

Baird; Senior Research Analyst

Daniel Politzer

JPMorgan; Analyst

Charles Scholes

Truist Securities; Managing Director

Robin Farley

UBS; Managing Director

Meredith Jensen

HSBC; Analyst

Alex Brignall

Rothschild & Co Redburn; Director of Research and Transport & Leisure Analyst

PRESENTATION:

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to Choice Hotels International's Second Quarter 2025 Earnings Call. (Operator Instructions)

I will now turn the conference over to Ms. Allie Summers, Investor Relations Senior Director for Choice Hotels. Thank you.

Please go ahead.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Allie Summers^ Good morning. And thank you for joining us today.

Before we begin, we would 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 second quarter 2025 earnings press release, 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 second quarter operating results and update on our strategic priorities, while Scott Oaksmith, Chief Financial Officer, will discuss our financial performance and outlook for the remainder of the year. Following our prepared remarks, we'll be glad to answer your questions.

And with that, I will turn the call over to Pat.

Patrick Pacious^ Thank you, Allie. And good morning, everyone. We appreciate you taking the time to join us.

I'm pleased to report that in the second quarter, the ongoing momentum from our strategic investments drove our adjusted EBITDA to \$165 million and our adjusted earnings per share, 4% higher year-over-year.

We also achieved a more than 2% year-over-year net increase in global rooms including a 3% net increase in our more revenue intense rooms.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

We are particularly pleased with the strong performance of our international business where we drove 10% growth in adjusted EBITDA and expanded our rooms portfolio by 5% year-over-year, highlighted by a 15% increase in hotel openings.

With an 11% increase in our rooms pipeline since the start of the year, we are very optimistic about the continued accelerated growth of our more than 140,000 rooms outside of the U.S. and see a significant opportunity to further gain international market share in the coming years.

We are actively expanding our global footprint across strategic markets through a recent acquisition, strengthening of key partnerships and entry into new regions.

In the Americas, in July, we acquired the remaining 50% interest in Choice Hotels Canada from our joint venture partner. This strategic acquisition marks the next chapter in Choice Hotels' 70-year presence in Canada, transitioning us from a master franchising to a fully direct franchising model.

Our Canadian team will now expand their product offering and franchise success system support from the current eight hotel brands to our full portfolio of 22 with particularly strong growth potential for our extended stay brands.

Canada presents an attractive opportunity with the lodging market projected to grow at an average annual rate of more than 5% over the next five years, reaching over \$50 billion in total revenues by 2030.

Our teams there have already established a strong base of 30,000 rooms, a pipeline of over 2,500 rooms, approximately 9 million customers and over 200 Canadian franchisees. This powerful foundation now positions us to capture additional market share by leveraging our local market expertise and Choice's franchisee success system across all 22 brands.

Elsewhere in the Americas, we extended our master franchise agreement with the largest multi-brand hotel operator in South America, for an additional 20-year term,

Choice Hotels International, Inc.

Q2 2025 Earnings Call

covering over 10,000 rooms in Brazil, thereby further strengthening our presence in the region.

In the EMEA region, we are very pleased with our progress in expanding our presence after successfully onboarding approximately 4,000 rooms under direct franchise agreements, we've grown our room count to over 63,000 rooms, a 7% increase from the prior year.

We also entered a new European market by signing our first franchise agreement in Poland, one of the fastest-growing markets in Central and Eastern Europe.

Turning to Asia Pac. During the second quarter, our team signed a master franchising agreement with a leader in the upscale business hotel and resort segment in China. This relationship is expected to significantly accelerate the growth of our mid-scale portfolio in China with approximately 10,000 rooms over the next five years and increase Choice brand awareness among Chinese travelers internationally.

Additionally, we secured a strategic distribution agreement, which will add over 9,500 upscale rooms to the Ascend Hotel Collection by the end of the third quarter, allowing our rewards members to earn and redeem points at these properties.

We believe these agreements mark the first steps towards a long-term expansion opportunity in the region.

As we look at the domestic business, we continued our growth in the Cycle Resilient Extended Stay segment.

Over the past five years, we have expanded our extended stay portfolio by over 20% to nearly 54,000 rooms with the segment's pipeline now constituting half of the total domestic rooms pipeline.

In the second quarter, we added over 5,000 rooms domestically over the prior year's quarter.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

For eight consecutive quarters, we have grown our domestic extended stay room system size by double digits year-over-year and we expect this higher than industry average growth to continue. This increased footprint provides us with even more confidence in the resilience of our business, given the longer average length of stay and more stable revenue associated with extended stay hotels. And as they have in the past, our extended stay hotels continued to outperform the industry during uncertain times.

We are very proud that for the third year in a row, J.D. Power ranked our WoodSpring Suites new construction brand, number one in guest satisfaction among economy extended stay hotel brands. This strong guest recognition is translating into increased interest from developers as demonstrated by a 43% year-over-year increase in the number of WoodSpring Suites brand domestic franchise agreements awarded in the second quarter.

With half of the industry-wide economy extended stay rooms currently under construction being the WoodSpring Suites brand, we are well positioned for the future.

Now let me discuss how our strategic expansion into more revenue intense segments is positively impacting our economy transient brands.

As part of our portfolio enhancement, we have been deliberately exiting underperforming hotels. This approach allows us to open these markets to new owners and maximize market potential for more profitable hotels.

Additionally, over the past year, we have successfully elevated our guest satisfaction scores in the Economy transient segment by delivering enhanced guest experiences through our upgraded product quality.

As a result of these actions, our economy transient hotels are outperforming the economy chain scale in domestic RevPAR performance while achieving RevPAR share gains versus competitors. This improved performance enabled us to expand our domestic economy transient rooms pipeline by 8% and execute 42% more domestic franchise agreements in the first half of 2025 year-over-year with the new hotels expected to generate higher royalty revenue than the hotels we exited.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

We have reenergized the Country Inn & Suites by Radisson brand. Our recently introduced value-engineered prototype for the brand helped drive an 11% increase in the brand's pipeline over the prior year's quarter.

In the upscale segment, we continue to expand our presence, increasing the global room system size by 15% year-over-year to over 110,000 rooms.

With nearly 29,000 upscale global rooms in the pipeline, a 7% increase over the prior quarter, we will be providing our guests with even more aspirational locations to visit.

As we look to the future, our global pipeline provides a strong platform for long-term growth with 98% of the rooms within our more revenue intense brands. This means that our pipeline should generate significantly higher revenue compared to our existing portfolio driven by RevPAR premium of more than 30%, a higher average effective royalty rate and a larger room count per hotel.

Our distinct strategy continues to deliver strong results, reinforcing our confidence in the long-term outlook. Notably, our focused expansion in the revenue intense segments has elevated the domestic mix of higher revenue-generating rooms to 88% of our system. This improvement in our hotel portfolio has further strengthened our overall value proposition to our guests.

Our guest strategy is tailored to address the underlying consumer trends we are currently seeing and have been focused on for the past several years, such as increasing retirements, road trips and domestic infrastructure investments.

As more of our core customers reach retirement age this year, they have increased disposable income and time for leisure travel, seeking brands like ours. Research shows that one in four baby boomers currently spends 6x more on travel than the majority of millennials and Gen Z cohorts, with gas prices at their lowest level since 2021 and approximately 90% of our domestic portfolio within one mile of a highway, we offer travelers the opportunity to take more affordable vacations closer to home without the need to fly.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Additionally, as we have been noting for some time significant infrastructure investments driven by Gen AI and the reshoring of American manufacturing are fueling new business demand, especially for our extended stay hotels.

By making deliberate investments to capitalize on these compelling tailwinds, our enhanced value proposition is driving stronger customer engagement, increasing customer lifetime value, and attracting higher value, more resilient travelers.

We are seeing this in a more favorable guest mix, increased traction in the small and medium business and group travel segments, and the growing strength of our rewards program. We expect these positive trends to further strengthen in the coming quarters and years, positioning us to capture significant future market opportunities.

Importantly, we achieved occupancy index share gains versus our competitors in the second quarter even as the industry faced macroeconomic uncertainty. We believe this will contribute to increased loyalty and repeat guests over time.

Today approximately 40% of our guest profile mix consists of business travelers, which we believe is a good balance between business and leisure travel.

Importantly, Choice's business travelers have a relatively resilient profile, which is particularly evident in our small and medium business segment performance where revenues were up 13% year-over-year in the second quarter.

We also see ongoing strength in sectors such as construction, utilities and high-tech manufacturing.

In addition, our recent investment in an enhanced group sales team and an expanded upscale hotel portfolio continue to pay off. This is demonstrated by the 48% year-over-year increase in revenue from the group travel business in the second quarter, driven in part by small corporate groups and sports travel bookings.

Our rewards program is also delivering exciting results, benefiting from the investments we have made this year.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

We expanded our rewards program to nearly 72 million members, an 8% year-over-year increase as of the end of the second quarter, and I'm especially pleased to share that Choice Privileges was recently named the Top Hotel Rewards Program by U.S. News and World Report and WalletHub, a trusted source for personal finance insights and consumer rankings. These recognitions are a testament to our efforts in creating a more compelling rewards program including introducing new aspirational hotels and exciting experiences such as music, racing and college sports redemption options, along with added program benefits.

Notably, our enhanced rewards program is driving stronger customer engagement.

During the first half of the year, we saw a more than 40% year-over-year increase in the booking window for reward night redemptions, which drove occupancy for our properties further out.

Additionally, our rewards program enhancements contributed to the increase in the overall length of stay at our hotels compared to the previous year.

As we've highlighted previously our focus on strategic investments combined with the broader adoption of Gen AI is unlocking significant growth opportunities for both Choice and our franchisees, positioning us for long-term margin expansion and enhanced operating leverage.

In particular, our investments in franchisee-facing technology are empowering our franchise owners to maximize returns on their assets. Solutions such as advanced revenue optimization services, and tailored profitability tools are designed to help drive stronger performance of their hotels.

On the guest side, we are elevating the customer experience through the launch of a redesigned Choice Hotels website and mobile app, intelligent marketing initiatives and enhancements to our rewards program, all of which are contributing to stronger customer engagement and increased customer lifetime value.

I'm also proud that we were recently named Time Magazine's 2025 America's Best Midsize Companies list. This achievement is a testament to our strong company

Choice Hotels International, Inc.

Q2 2025 Earnings Call

culture, where we prioritize our people, foster innovation and seek to deliver long-term value for all stakeholders.

In closing, by successfully executing our strategy, we have transformed the company to be future-ready and established a strong foundation for both near-term stability and long-term growth.

We believe that our proactive investments, differentiated value proposition, an asset-light fee-based model have meaningfully enhanced our company's growth profile, enabling us to generate multiple avenues of growth even in the face of an uncertain macroeconomic environment.

We continue to grow our significant free cash flow annually, prioritizing the creation of long-term value by enhancing our value proposition, driving growth and returning excess cash to shareholders.

I'll now turn the call over to our CFO. Scott?

Scott Oaksmith^ Thanks, Pat. And good morning, everyone.

Today I will discuss our second quarter results, update you on our balance sheet and capital allocation and comment on our outlook for the remainder of 2025.

In the second quarter, despite a weaker-than-anticipated RevPAR environment, we achieved a record second quarter adjusted EBITDA of \$165 million, representing a 2% year-over-year increase.

Our growth was driven by the expansion of our global rooms, a robust effective royalty rate, strong international business and successful expansion of our margins as we implement technology and provide tools to improve the productivity of our associates.

When excluding the impact of a \$2 million operating guarantee payment for a portfolio of managed hotels, which was acquired with the Radisson Hotels Americas acquisition, the adjusted EBITDA would have increased by 3%.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Our adjusted earnings per share also reached a second quarter record of \$1.92 per share, marking a 4% year-over-year increase.

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

In the second quarter, our global rooms grew by 3% year-over-year across our more revenue intense, upscale, extended-stay and mid-scale portfolio with total worldwide rooms growing by 2.1%.

Our deliberate decisions and strategic investments delivered results across all our brand segments in the second quarter.

First, we grew our domestic extended stay room system size by 10% year-over-year, highlighted by a 7% increase in domestic openings. At the same time we saw a 6% increase in domestic franchise agreements awarded year-over-year. The Everhome Suites brand continues to gain strong traction with 17 hotels now open, 11 of which were open this year and 55 domestic projects in the pipeline including 16 under construction as of today.

Second, we further strengthened our presence in the midscale segment. Our flagship Comfort brand continues its growth trajectory with a 50% increase in global openings and a 23% year-over-year increase in domestic franchise agreements awarded.

Third, we expanded our global upscale portfolio and attracted strong developer interest with a 38% year-over-year increase in domestic franchise agreements executed.

Specifically, our Ascend Hotel Collection, a leading global soft brand, reached over 65,000 rooms worldwide and saw a 29% year-over-year increase in domestic franchise agreements awarded. Given the strong demand we continue to receive from developers for our brands, we are focused on continually elevating the strength and quality of our portfolio by exiting select underperforming assets that fail to meet our requirements and standards and on average, under-indexed the rest of our portfolio.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

In the second quarter, we achieved global system-wide rooms growth even as we made some of these strategic exits.

Turning now to our RevPAR performance. Excluding the tougher comparisons due to the Easter calendar shift to April as well as the benefit from eclipse related travel in 2024, domestic RevPAR declined approximately 1.6% for second quarter 2025 compared to the same period of 2024.

Our overall second quarter results declined 2.9%, reflecting reduced government and international travel as well as softer leisure transient demand due to the broader economic uncertainty as well as the Easter and eclipse impacts.

As Pat mentioned, we were pleased that despite the macroeconomic headwinds, our strategic investments to improve our brand portfolio and expand our customer reach drove occupancy share index gains versus our competitors.

In particular, our domestic extended space segment outperformed the industry's second quarter RevPAR by 40 basis points and delivered over 3% year-to-date RevPAR growth through June 30.

At the same time our domestic transient economy segment outperformed the economy chain scale by over 3 percentage points achieving RevPAR index share gains versus competitors in the second quarter and also increased its year-to-date RevPAR by over 3%.

Moving on to our third royalty growth lever.

We are pleased to report that the continued expansion of our effective royalty rate remains a significant source of revenue growth.

In the second quarter, our domestic system effective royalty rate increased by 8 basis points year-over-year. This performance highlights the positive impact of our strategy to drive the growth of our revenue intense brand portfolio and our enhanced value proposition to franchise owners.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

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 a significantly higher effective royalty rate than those in our current portfolio of open hotels.

We continue to strengthen our partnership business, which encompasses revenues from our strategic partners and vendors. Excluding a onetime benefit in 2024 related to our prior credit card partner, this revenue stream increased 16% in the first half of the year and 7% year-over-year in the second quarter, primarily due to higher partnership fees from our co-brand credit card.

We're also seeing these positive results in our non-RevPAR-related franchise fees for various services we provide, which increased by 6% in the second quarter compared to the prior year. Expanding our partnership service and fees as well as our non-RevPAR-related franchise fees remains one of our key initiatives, and we believe that we can drive strong revenue growth in the years ahead.

Finally, we expanded our EBITDA margins by 120 basis points during the second quarter as we continue to grow our top line while improving the productivity of our associates and the efficiency of our operations, reflected by a 4% decline in our adjusted SG&A.

In the six months ended June 30, 2025, we generated \$116 million in operating cash flows including \$96 million in the second quarter, and our free cash flow conversion was approximately 50%.

Our business continues to produce strong cash flow, which coupled with our well-positioned balance sheet, allows us to execute on our capital allocation priorities. These include investing in growth initiatives and acquisitions while also returning significant capital to shareholders. Year-to-date through June, we've returned \$137 million to shareholders including \$27 million in cash dividends and \$110 million in share repurchases. We had 3 million shares remaining in our authorization as of the end of June.

As Pat discussed, we acquired the remaining 50% interest in Choice Hotels Canada from our joint venture partner for approximately USD 112 million subject to customary adjustments for working capital and cash.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

For full year 2025, Choice Hotels Canada's operations are expected to generate approximately \$18 million in EBITDA in U.S. dollars, and we anticipate growing this EBITDA through the realization of cost synergies and driving higher revenues as we introduce our full array of brands to this key market, which offers us significant development growth opportunities.

As a reminder, Choice Hotels Canada refranchises over 26,000 rooms in Canada, which were already part of our system before the acquisition.

We remain well positioned with a strong balance sheet with gross debt to trailing 12-month EBITDA ratio of 3.1x as of quarter end and total available liquidity of \$588 million as of June 30, 2025.

Furthermore, the pro forma leverage ratio accounting for the Canada joint venture acquisition remains at the low end of our targeted range.

Finally, I'd like to discuss our expectations for the remainder of the year.

As a reminder, in the fourth quarter, we will face tougher comparisons due to the hurricane-related demand we benefited from last year. Reflecting the more uncertain macroeconomic backdrop, which is impacting domestic RevPAR performance across the lodging industry, particularly the mid-scale and economy segments, we are adjusting our domestic RevPAR expectations to a range of minus 3% to flat. The midpoint of this range assumes that the current trends we are observing will continue for the remainder of the year.

For the full year 2025, we are maintaining our adjusted EBITDA outlook range of \$615 million and \$635 million. The guidance reflects a more moderate domestic RevPAR expectation, offset by effective cost management and the additional earnings from the purchase of the remaining interest in Choice Hotels Canada.

We are updating our full year guidance for adjusted SG&A now expected to grow at a low-single-digit rate from the 2024 base of \$276 million.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

We maintained strong conviction in our portfolio's resiliency, our model's versatility and adaptability and the strength of our fee-based business.

We anticipate growth will be driven by more revenue-intense hotels and markets, robust effective royalty rate growth, growth from our partnership revenue streams, strong international business and incremental revenue-generating opportunities from our expanded scale. This outlook does not account for any additional M&A, repurchase of the company's stock after June 30 or other capital markets activity. Today's results are a testament to our strategy's effectiveness and the benefits of our expanded scale and versatile business model, even in a softer domestic RevPAR environment.

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?

Operator^ (Operator Instructions) And your first question comes from the line of Dany Asad from Bank of America.

Dany Asad^ So Pat, maybe if we look at your international expansion, just from a strategy perspective, this quarter, you're going direct in Canada, but in other regions like South America and China, they are master franchising. So how do you decide direct versus master franchise in any given market? And should we expect one over the other over time? And then maybe can you just remind us of the difference in economics between the two?

Patrick Pacious^ Yes. Sure, Dany. So effectively, the -- if you look at where we are in our international growth strategy, a lot of this goes back to the acquisition we did of Radisson. So we bought that brand at the end of 2022, effectively back half. 2023 was really a focus on the cost synergies, 2024 opened up a number of revenue synergy opportunities. And now in 2025, we're really leveraging that platform plus our existing business to expand internationally.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

The way we think about direct versus master franchise is really what are the fundamentals in each of those countries. And in markets where small business owners can aggregate capital and there's the correct regulatory environment, those are generally the two things that we look for where direct franchising makes sense.

I would add to that the ability for owners to actually acquire the land. And so in certain markets, where we are doing direct franchising. So Canada now Mexico, Australia, New Zealand, Europe, a good part of South America. All of those factors are present there.

And if you look at our mix today, post-acquisition of Canada. We're now more direct franchising than master franchising across the international portfolio.

So those are the things that we look for. And as we said in our remarks, the Canadian opportunity, we've been in that market since 1955, built a great business there. Of the 70-year history, we had a 30-year great partnership with our JV partner.

But since we acquired nine additional brands from Radisson, we also have our Cambria brand and our extended stay brands, bringing all of those to be supported by our existing Canadian team just makes a ton of sense, both from an opportunity perspective, but also cost avoidance of going into market in both in the prior world, we were doing both direct franchising for those other brands and the MFA.

So it really is a great opportunity for us to consolidate the operation there, leverage the talent of our team headquartered out of Toronto and really grow our business there.

Operator^ And your next question comes from the line of Michael Bellisario from Baird.

Michael Bellisario^ Two more follow-ups on Canada. I mean firstly, can you just help us understand the growth outlook there over the coming years. I know Pat, you mentioned sort of the demographic drivers, but maybe more specifically, how quickly can you open new hotels or convert hotels? And then can you quantify some of the revenue and cost synergies that you referenced maybe on a stabilized basis two to three years out?

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Patrick Pacious^ Yes, Michael, I think the dynamics around development and hotel openings and the speed with which to do it in Canada looks very similar to what we have here in the U.S., the dynamics around conversion versus new construction, very similar.

So if you look at an extended stay opportunity up there, given WoodSpring and Everhome, those are more new construction brands. So those will take some time. Whereas Suburban and Mainstay are more conversion brands, so those could be showing up sooner.

I think when we look at the health of that market, the reason we disclosed just some of the growth trajectories there, 5% healthy growth is really positive.

So the other thing is the quality of the product in Canada. The RevPAR there of that system is pretty significant. So it's a good quality product and the franchisees up there, we already have an existing base of 200 who are interested in doing more brands with us. So really having that support team up there, supporting all of the brands, I think, is going to be a really exciting growth opportunity for us.

I think as we get further into the ownership structure and some more details and maybe in the future, we can provide more unit growth expectations for that market.

But we're pretty excited by the interest in our brands up there. And as I said, the long history we have with existing franchisees.

Operator^ And your next question comes from the line of Dan Politzer from JPMorgan.

Daniel Politzer^ Another one on international. I mean I think that by our estimate, this is about 6%, 7% of your EBITDA, maybe a couple of points higher now with Canada. You have a long-term expectation -- one, I wanted to [kindly] check that, but do you have a kind of a long-term goal or expectation for how this could evolve over time in the coming years as maybe you look to do more of these international deals?

Patrick Pacious^ Yes. I think for -- it obviously differs by region. I think if you look at the 7% increase that we saw in EMEA, a lot of that is sort of based off of the existing

Choice Hotels International, Inc.

Q2 2025 Earnings Call

franchisee base and the opportunities we have for our brands. And they differ -- they do differ by region. So we do see significant upside there.

I think what we'll likely do sometime in the future is sort of lay some of this out in a more detailed fashion about where we see those growth opportunities.

But as I mentioned in the remarks, some of these are foundational, so what we are seeing in China, for instance, is partnering with a very strong player in that market, bringing a couple of our mid-scale brands there with a pretty significant opportunity.

It's really a look into these markets and looking at the right partners that we have on the MFA side. And then on the direct franchising, as I said, particularly in the Americas region, we are looking to grow the system size there, very similar to what we experienced here in the U.S.

Scott Oaksmith^ And Dan, a follow-up on your question on just the absolute size. Yes. You're right, it's about 6% of our current EBITDA prior to the acquisition of Choice Hotels Canada. And what we're really excited about is we've been able to really grow that EBITDA during the quarter, that was up 10% even before the acquisition.

So really a strong opportunity for us, a lot of white space where we think we can grow at a more accelerated fashion for the company.

Daniel Politzer^ Got it. And if I could just squeeze in a quick follow-up. Just in terms of the RevPAR cadence, you guys called out and reminded us that, that fourth quarter hurricane benefit, which we have from the prior year to compare against, is there any way to kind of think about or frame out the cadence of RevPAR growth for the rest of the year, just given some of those puts and takes?

Scott Oaksmith^ Yes. Just as a reminder, what we talked about in the fourth quarter of last year is we did see about a 125 basis point lift related to business delivered from FEMA accounts, the Red Cross business as well as increased spending from the restoration crews.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

For the rest, in terms of the pace for the rest of the year, really where our guidance is in the midpoint is to think about our pace for the second quarter to continue through the rest of the year, that would hit about the midpoint of our guidance. Obviously any improvement to that would be towards the top end and any softness would be towards the bottom end.

Operator^ And your next question comes from the line of Patrick Scholes from Truist Securities.

Charles Scholes^ My first question, in the prepared remarks, everything sounded pretty uniformly positive. But then on the other hand, you're taking your RevPAR guidance down where you called out basically current trends as the driver for that.

I'm wondering if you could talk a little bit more on specifically what in those current trends is softer now than your previous expectations, customer segments, geographies, et cetera? And then I have a follow-up question.

Patrick Pacious^ Yes, Patrick, I mean the two headwinds and the whole industry is experiencing there's a really international inbound and government travel. Those are the two things that have sort of modestly set back RevPAR expectations.

I think when we -- the reason we're positive is if you look at the U.S. consumer, consumer confidence is trending up, credit card delinquencies are flat. We pointed out in our remarks, gas prices are lower, people are driving more than flying.

And then you've had some pretty significant catalysts in the kind of middle of the year here. You've got certainty now on tax reform. You've got a solid labor market, the trade policy is sort of settling out. Corporate profits are healthy. And then you've got these catalysts for growth, significant investments in both infrastructure with Gen AI and all of the efforts that we see going on around that and then the reshoring of American manufacturing.

So you couple that with the limited hotel supply growth that the industry has seen for the last couple of years and particularly in our segments, it gives us a lot of optimism about the future of RevPAR growth.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

So that's why I think we've had this sort of very choppy first half of the year. The upside case is pretty strong when you look at the industry fundamentals. And so that's why when we kind of look at the RevPAR environment, those are the positive aspects.

But we are still, as we mentioned, seeing softness from government travel and international inbound.

Charles Scholes^ Okay. And then my follow-up question, this actually has to do with an article that came out -- a news article a couple of weeks ago regarding a loan that you had made in San Jose to a Motel 6 property and a Super 8 property, neither of which I believe are your brands for \$22 million that appears to, per the article, defaulted. I guess my question is why is Choice making loans to competitors' brands? And secondly, are there any other loans of size similar like this that we should be aware of?

Scott Oaksmith^ Yes. So we -- those loans were not to a competitor brand. So they were around some new product that we had brought in at our Park Inn brand last year as we launched it.

So typically, we do use our balance sheet to launch new brands. I think you're well aware of the investments we've made over the years in Cambria and Everhome to launch it.

We had a previous Motel 6 owner that was bringing a large amount of properties over to the Park Inn brand to get that brand started and we did make a loan on one of the properties. That owner has had some financial difficulties, but we are working through the collection process on that.

We do detail our overall loans, which are predominantly towards Cambria and Everhome in our financial disclosures but nothing of significance other than that, that has any financial difficulty at this point.

Charles Scholes^ Okay. Any other significant loans of size that are in good standing? That's my last question.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Scott Oaksmith^ Yes. We don't typically do lending. Typically, our capital support programs have been more in joint ventures and building hotels.

On the books today, we have just under \$80 million of loans on the books spread across multiple properties.

Charles Scholes^ It seems so unusual.

Operator^ And your next question comes from the line of Robin Farley from UBS.

Robin Farley^ Great. Just wanted to make sure I understand, looking at your global net system rooms, the guidance is for 1% growth this year, and that didn't change since last quarter, but it seems like the agreement in China and would already -- I know the rooms in Canada would have been in your system already, but it does seem like China would have added to that. So just wondering if that's not included in that **Global Net Systems** guidance yet or if it's just -- maybe some domestic deletions were part of that?

Patrick Pacious^ Yes, Robin, I think when you look at the whole picture, you start with in the quarter, up 2% in global rooms. When we look at our franchise agreements that we've awarded, if you take out the onetime Westgate agreements from last year, we're up 5% year-over-year upper mid-scale, mid-scale awarded contracts were up 15%. Extended Stay remains strong.

And as we talked in our remarks about the economy segment, we've really been looking at removing lower-performing properties in that segment. And that better product quality in the Economy segment is really giving us the confidence to sort of continue to exit out underperforming properties because we've got such strong demand in that segment, and you saw that in our numbers.

So what we're looking at from a total unit growth is the benefits of the future contracts that we've got, either already awarded or apps that we have received or in-house and also the strategic terminations that we're doing along the way.

Scott Oaksmith^ And Robin, I would say we executed that Chinese agreement towards the beginning of the quarter, so that was contemplated in our previous guidance.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Robin Farley^ Okay. Great. And then just also wanted to follow up. There was an operating profit guarantee in this quarter that was a little bit of an impact on your EBITDA. Are there additional operating profit guarantees and just kind of this year, next year, any future years just for us to think about?

Scott Oaksmith^ Yes. As you're aware, the management business is not a large part of our business. We did acquire that with the Radisson Hotels Americas. So we manage 13 hotels. A portion of those are with one owner, there is an operating guarantee across a portfolio of hotels.

The total amount that potentially could be paid under that over the life of the agreement is \$20 million. It's an annual valuation of that agreement. So we did some softness in some of the markets as well as a renovation of one of the hotels have put us a little bit behind on the performance.

But at this point in time, we evaluate that going forward and don't expect to pay anything more material than what we've recorded today, but continuing to monitor the performance of those hotels.

Operator^ And your next question comes from the line of Meredith Jensen from HSBC.

Meredith Jensen^ I know in the past, you've spoken about managing the balance between occupancy and rate as part of revenue optimization. And so I was wondering if you could speak to sort of how you're thinking about driving incremental occupancy, particularly now as you have sort of a different mix of -- with higher variable service costs associated to sort of higher revenue intense brands and sort of how you and the franchisees are approaching this trade-off in this kind of environment?

Patrick Pacious^ Yes. Meredith, it's a great question, and it's actually kind of a reflection of how our franchisees, I think, are managing through this uncertainty. The good news for us is that they are hanging on to occupancy and actually taking occupancy share gains, which is a reflection of the primarily limited service nature of our brands, and I think it's really important to understand that fact.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

So yes, we are in more revenue-intense segments, but that doesn't necessarily mean the cost per occupied room is higher. You look at extended stay, for instance, where the cost per occupied room is very low, but the revenue intensity of those brands is higher because of the length of stay and the room count in the hotels.

So our owners have been managing this through this time of uncertainty, looking to hold on to customers and because of the limited service nature of those brands, the profit margins on each room makes sense for them.

So we see it as a positive sign. And if you're well aware of sort of past cycles, you need occupancy in order for rate gains to return. And so we're pretty pleased to see that occupancy is not dropping as well as rate. So to have occupancy be stable or slightly up is a positive sign for the future.

Meredith Jensen^ That's super helpful color. And very quickly, I was wondering if you could just clarify how many of the Everhome and Cambria you still have over in ownership and how you're thinking about recycling nodes? And lastly, sorry to toss one more in, if you could discuss conversion activity internationally, in particular.

Scott Oaksmith^ Yes. I can -- I'll start with the ownership of hotels.

So today, we have 13 hotels that we own and operate. Those are eight Cambrias, three Radissons and two Everhomes.

Patrick Pacious^ Sorry, I was going to answer your other question, Meredith, on conversions on international. It's very similar to the U.S. business. I mean I would say in Europe, given most of those are leaseholds, it's a primarily conversion business there.

But when you look at Canada, you look at LatAm, you look at Australia and New Zealand, some of those markets, the conversion and new construction mix is very similar to the U.S.

Operator^ And your next question comes from the line of Alex Brignall from Rothschild & Co Redburn.

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Alex Brignall^ Could we just look at the U.S. net unit evolution? I guess in there, there's a little continued reduction in Radisson, but just across the beginning of the year, it's down over 10,000 rooms. So maybe you could just give us some detail on how much of that is sort of intended churn of low revenue room that you've taken out and whether you could give us the gross and net number within that.

And then just on the 3% that you said in terms of the higher-end brand growth, again, would that include the China partnership agreement from the Ascend Collection, would that be within that number? Because obviously that's a relatively big number.

Scott Oaksmith^ Yes. To answer your first question on Radisson.

So one of the things that I think we talked about in the first quarter is skewing the results a little bit is we did have more of a distribution agreement that came over with the Radisson acquisition with the Treasure Island hotel in Las Vegas represented close to 3,000 rooms. So there was just a loyalty program arrangement that paid for loyalty program members that stayed there.

So it was something that when we acquired Radisson, it was a known contract that was expiring that we knew was leaving the system. So it has skewed the room numbers a little bit, but it was not a meaningful revenue contributor.

I'd say, in terms of the other declines, again, as we purchased that brand, we understood that there were some underperforming properties. And with the success we've had in upscale, we thought it was the right thing to do is to make sure that we have the right product going forward for our guests. So the rest of it has all been planned of what we expected for the Radisson brand to churn.

We do expect in kind of '26, '27 to start seeing more growth there. Certainly, we've seen that on an international basis. That's a very strong brand in the LatAm. So we've been pleased with kind of what the global story looks like for Radisson.

In terms of your numbers, I think you're talking about our rooms growth to date. That does not include -- we have not opened yet the Chinese hotels yet. So that 3%, that's

Choice Hotels International, Inc.

Q2 2025 Earnings Call

still sitting in the pipeline for the Chinese hotels and not included in the year-over-year growth rates of our overall portfolio through June 30.

Alex Brignall^ Okay. That's fantastic. And I guess a follow-up on the second question then. How much of the growth in the revenue intense segments is coming in the international business, where obviously there's a much higher mix of kind of master franchising and lower fee agreements, which, of course, dilute the overall group royalty rate.

Scott Oaksmith^ Yes. I would say outside of the Chinese partnership, most of the growth we have is coming from the direct markets, which are a much higher royalty rate, as we've talked about.

So the growth we've had in Europe with our partnership with Zenitude in France, we've signed them with a multiunit developer in Spain. All those are direct franchise agreements that are paying on that higher royalty rates.

So outside of the Chinese partnership on the indirect MFAs, it's mainly direct franchising growth.

Patrick Pacious^ And it's -- from a revenue intense perspective, our economy brands really aren't represented in a meaningful way. So it's almost 100% from an international pipeline is in those revenue intense segments.

Operator^ Thank you. And there are no further questions at this time.

I will now hand the call back to Mr. Pat Pacious for any closing remarks.

Patrick Pacious^ Thank you, Operator, and thanks, everybody, again, for your time this morning.

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

Choice Hotels International, Inc.

Q2 2025 Earnings Call

Operator^ This concludes today's call. Thank you for participating. You may all disconnect.