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Choice Hotels International, Inc.

Q1 2026 Earnings Call

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CORPORATE SPEAKERS:

Allie Summers

Choice Hotels International, Inc.; Senior Director, Investor Relations

Patrick Pacious

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

Scott Oaksmith

Choice Hotels International, Inc.; Chief Financial Officer

PARTICIPANTS:

David Katz

Jefferies; Analyst

Michael Hirsh

JP Morgan; Analyst

Michael Bellisario

Baird; Analyst

Charles Scholes

Truist Securities; Analyst

Robin Farley

UBS; Analyst

Stephen Grambling

Morgan Stanley; Analyst

Brandt Montour

Barclays; Analyst

Raymond Bowers

Wells Fargo; Analyst

Meredith Jensen

HSBC; Analyst

PRESENTATION:

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to Choice Hotels International's First Quarter 2026 Earnings Call. (Operator Instructions)

I will now turn the call over to Allie Summers, Senior Director of Investor Relations.

Please go ahead.

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Allie Summers^ Good morning. Thank you for joining us.

Before we begin, please note that today's discussion includes forward-looking statements as defined under U.S. securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied.

For more information, please refer to our filings with the SEC including our most recent Forms 10-K and 10-Q. These statements speak only as of today and we undertake no obligation to update them.

A reconciliation of any non-GAAP financial measures referenced in today's remarks is included in our earnings press release available on the Investor Relations section of choicehotels.com.

Joining me this morning are Pat Pacious, our President and Chief Executive Officer; and Scott Oaksmith, our Chief Financial Officer.

Pat will discuss our business performance and strategic progress, and Scott will review our financial results and outlook.

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

Patrick Pacious^ Thank you, Allie [ph], and good morning, everyone. We appreciate you joining us today.

We delivered first quarter results in line with our expectations, signaling an inflection point in underlying trends toward rooms growth, RevPAR improvement and lower capital intensity.

The work we have done over the past several years has now positioned us as a more accretive, asset-light growth model with significantly lower capital intensity and stronger unit economics,

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which is reflected in the continued expansion in our average royalty rate. Taken together, this supports more consistent earnings growth and increasing returns to shareholders.

At Choice, our strategy is built on a straightforward, repeatable model: improving franchisee economics drives demand and rooms growth, which we convert into higher quality earnings and free cash flow. We reinvest that cash in high return, capital-light opportunities and return excess capital to shareholders in a disciplined and increasingly predictable way. We are now seeing this translate more clearly into our results.

First, U.S. net rooms growth is inflecting and improving sequentially with gross openings up 32% year-over-year, first quarter hotel openings at a five-year high, and exits at their lowest level since 2023.

Our U.S. pipeline is also expanding sequentially, providing greater visibility into future growth. At the same time, our international portfolio continues to scale as an additional growth engine.

Second, franchisee unit economics are improving, driven by stronger revenue delivery and lower hotel development and operating costs. This is resulting in stronger returns across the system, reflected in our strong voluntary franchisee retention rate and continued expansion in our average royalty rates, with improving RevPAR now flowing through a higher quality, more revenue-intense system.

And third, as we move beyond a period of elevated investment that has achieved its strategic objectives, capital intensity is now declining materially, with development outlays coming down.

As market conditions continue to improve, we intend to accelerate capital recycling, further enhancing our ability to return capital to shareholders and drive a more consistent capital return profile.

We were pleased with the quarter, and in the 46 states not impacted by hurricanes, RevPAR was up 1.8% year-over-year, driven by gains in occupancy.

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Looking ahead, as we move past last year's hurricane impact, demand continues to benefit from tax refunds and is expected to be further supported by event-driven travel this summer, such as the FIFA World Cup and the U.S. 250th anniversary.

More broadly, we are seeing strength across our core segments, supported by several structural trends that are already driving performance today. Affordability remains a key factor in travel decisions, aligning directly with our value-oriented brands and core middle-income customer.

We are seeing continued strength in small and mid-sized business travelers and group demand. Employment growth continues in sectors such as healthcare, construction and utilities, driving workforce-based travel from customers who rely on our hotels. In addition, repeat stays from the rising number of retirees and road trips provide a stable base of demand.

We are also seeing a shift in guest expectations toward accommodations that feel more like home, supporting strong demand for our extended stay portfolio. Importantly, these are not future tailwinds. They are trends we are seeing in the business today contributing to a stable and diversified demand base across cycles.

So when you step back, the story is clear. Room growth is inflecting, unit economics are improving and capital intensity is declining, positioning us to deliver more consistent earnings growth over time.

Importantly, we believe we are uniquely positioned to capture demand in segments where we have a structural advantage.

Let me build on that by focusing on what is driving the durability of our room growth.

Our growth is driven by a conversion-led development model, where we have a clear advantage in speed and capital efficiency.

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Our brand portfolio, aligned with both guest demand and owner returns, and improving unit-level economics that continue to drive developer demand across our core segments. Globally, we grew rooms by 1.7% year-over-year, with growth improving sequentially.

In the U.S., developer demand remained strong, with franchise agreements awarded up 65% year-over-year in the first quarter. We have made meaningful progress in reducing the time from signing to opening, enabling faster revenue generation.

In the first quarter, U.S. conversion room openings increased 59% year-over-year, and approximately 60% of franchise agreements executed in the quarter are expected to open this year, providing strong near-term visibility into growth.

Importantly, a meaningful portion of our openings come from conversions that never appear in our quarter-end pipeline, underscoring the speed of our model.

We also focus on segments where we are structurally advantaged. Extended Stay remains a key growth driver, with 11 consecutive quarters of double-digit rooms growth, and now represents more than 40% of our U.S. pipeline. Supported by strong unit-level economics, a dedicated extended stay field organization and a leading hotel pipeline, we are well positioned to extend our leadership in this category.

In mid-scale and economy transient, we are seeing strong developer interest, with U.S. franchise agreements awarded up 38% year-over-year and pipelines continuing to build, driven by improving unit level economics and owner returns.

As part of our focus on enhancing franchisee returns, we have reduced the cost to build and convert hotels, including lowering prototype costs by up to 25% across key mid-scale brands and simplifying property improvement requirements. A clear example is Country Inn and Suites by Radisson, where the redesigned lower-cost prototype is driving renewed momentum with franchise agreement growth of 50% year-over-year for the brand.

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In economy transient, our portfolio strategy continues to improve system quality and guest satisfaction, supporting continued developer engagement with the pipeline increasing 26% sequentially.

International continues to scale as an important growth engine with net rooms up 13% year-over-year in the first quarter.

In Canada, we are seeing strong early returns following last year's transition to a direct franchising model, with net rooms growth of over 30%, the strongest performance in more than a decade, and a pipeline up 55% year-over-year, alongside improving revenue and guest satisfaction.

As we continue to enhance the Choice value proposition internationally, we see a meaningful opportunity to drive both system growth and stronger franchise economics over time.

Our hotel development pipeline remains a powerful engine for future earnings growth.

Importantly, 97% of rooms in our global pipeline are in higher revenue brands, which we expect to be approximately 1.7x more accretive than our current portfolio. Taken together, these trends reinforce our confidence in our ability to deliver durable global net rooms growth, supported by a structurally advantaged portfolio, a high-quality and more accretive pipeline and a development model that enables consistent, capital-efficient expansion.

Turning to unit economics. Our growth is supported by structurally improving franchisee economics driven by enhancements to our revenue generation engine and lower franchisee operating costs.

Importantly, the mix of customers we are attracting is becoming more valuable over time. The segments where we are growing, business travelers and groups, generate higher spend per stay, while loyalty is driving more repeat stays, together translating into stronger franchisee economics.

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Loyalty is a key driver of our higher quality demand and customer lifetime value.

Our Choice Privileges program now exceeds 75 million members, up 7% year-over-year. Earlier this year, we launched the next evolution of the program, building on the strong momentum we delivered last year through continued enhancements designed to further strengthen engagement and drive repeat stays.

We are already seeing this translate into our results, with loyalty contribution increasing over 300 basis points in March year-over-year as new members generated higher revenue per member than prior-year cohorts.

In business and group travel, we continue to see strong performance with small and mid-sized business revenue up 14% and group revenue up 9% year-over-year, supported by recurring event-driven demand such as youth sports. This performance reflects our ability to effectively capture and convert these higher-value demand segments across our platform.

Technology is an increasingly important differentiator for Choice. We have a long-standing advantage, having been an early mover in migrating both our infrastructure and data to the cloud, which underpins how we deploy AI across our business. That foundation enables us to move faster, deploy capabilities at scale and translate innovation into real business outcomes for our franchisees.

We are already seeing this in action. For example, our recently launched AI-enabled EasyBib platform is improving response time to group RFPs by approximately 30%, which is translating into conversion rates that are roughly 250 basis points higher and driving incremental group business for our franchisees.

Through our long-standing partnership with AWS, we are the first major hospitality provider in the U.S. to standardize on a common AI foundation, allowing us to move beyond pilots and rapidly deploy capabilities across our business, embedding them across guest experience, franchise operations and distribution.

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We are also extending these capabilities through our partnership with Salesforce, where we are deploying intelligent agents across our field organization to improve franchisee operations, strengthen how our hotels capture group demand, and enable faster, more data-driven decisions, giving us the flexibility to rapidly deploy and scale new capabilities across our platform. Together, these capabilities are improving franchisee returns and driving continued expansion in our average royalty rates.

Looking ahead, Choice is well positioned for continued growth with a clear path to more consistent, higher-quality cash returns.

U.S. rooms growth is inflecting. Unit economics are strengthening and capital intensity is declining. With a structurally advantaged higher-quality portfolio of hotels, a more accretive pipeline, a capital-light model and a differentiated cloud-based technology platform, Choice is positioned to deliver durable earnings growth and create long-term shareholder value.

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

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

Let me start with our first quarter results.

For the first quarter, revenues, excluding reimbursable revenue from franchised and managed properties increased 3% year-over-year to \$217 million, driven by global rooms growth and expansion in our average royalty rate.

Of particular note, international performance was strong, with revenues, excluding reimbursable revenue from franchised and managed properties, increasing 63% year-over-year. Adjusted EBITDA was \$126 million compared to \$130 million a year ago and adjusted earnings per share were \$1.07 compared to \$1.34 a year ago.

The year-over-year decline in adjusted EBITDA primarily reflects the timing of certain SG&A costs. The decline in adjusted EPS further reflects a temporary adjustment to our effective

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income tax rate in the first quarter. These items were anticipated and are expected to normalize over the balance of the year, consistent with our full-year guidance. As a result, we are maintaining our outlook across all key metrics.

Let me now turn to the key drivers of our performance. Three themes shaped our first quarter results.

First, U.S. net rooms growth improved, supported by strong openings and lower exits. RevPAR trends improved through the quarter. And finally, capital intensity declined as investment in Cambria and Everhome has achieved the strategic objectives and is now being significantly reduced.

Let's start with our net rooms growth.

In the first quarter, we grew global rooms 1.7% year-over-year, led by a 2.5% growth in our higher revenue segments, and highlighted by a 37% increase in room openings. Developer demand remained robust, with global franchise agreements awarded up 72% year-over-year.

Importantly, in the U.S., performance improved meaningfully with nearly 6,000 gross rooms opened in the quarter, and net exits declined 52% year-over-year and improved sequentially, reaching the lowest level in recent years.

As the quarter progressed, hotel development momentum accelerated, with March accounting for approximately 70% of first quarter U.S. franchise agreements executed. Growth was broad-based, led by extended stay and strong momentum in mid-scale.

Conversion activity remains a key driver of our growth, expected to account for over 80% of openings for the full year. U.S. conversion franchise agreements increased 63% year-over-year, while the U.S. conversion pipeline grew 17% year-over-year and expanded sequentially, reinforcing our visibility into future openings.

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Relicensing activity increased significantly year-over-year, reflecting both brand strength and continued franchisee confidence. Taken together, these trends reinforce our expectation that U.S. net rooms growth returns to positive territory in 2026, with sequential improvement already evident in the quarter. International growth also remains robust.

Turning to RevPAR. Our global RevPAR declined 80 basis points year-over-year on a currency-neutral basis in the first quarter, primarily reflecting the lapping of hurricane-related impacts in the prior year.

International RevPAR increased 2.6% year-over-year on a currency-neutral basis, led by strong performance in Canada and the Caribbean and Latin American region.

In the U.S., excluding a 410-basis-point impact from prior year hurricane-related demand, first quarter RevPAR increased 1.8% year-over-year, supported by sequential monthly occupancy gains, an important leading indicator for future RevPAR performance.

On a comparable basis, RevPAR turned positive in February and remained positive in March.

Preliminary April trends remain positive, supporting our expectations for continued improvement. Performance continues to trend favorably relative to our expectations, supported by constructive underlying demand.

Moving to royalty rate, a key driver of our earnings growth.

In the first quarter, we increased our U.S. average royalty rate by 11 basis points, reflecting continued growth in higher revenue brands and ongoing improvement in our franchisee value proposition.

We remain confident in the trajectory of system-wide royalty rate expansion, supported by higher quality pipeline and ongoing investments in demand generation.

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Turning to our partnership business, which remains a key priority. Franchisee-facing service offerings included within our franchise and management fees continue to gain adoption during the quarter, driving over 10% year-over-year revenue growth. These offerings are also supporting the continued expansion of our non-RevPAR franchise fees.

Partnership revenues were \$24.7 million in the first quarter compared to \$25.4 million a year ago, primarily reflecting the timing of transactions in certain programs, resulting in some year-over-year variability.

We continue to expect partnership service and fees to grow in the mid-single digits for the full year. Together, these revenue streams diversify our earnings base and represent an attractive high-margin growth opportunity over time.

Turning to capital. A key component of our strategy is the meaningful reduction in capital intensity as we move beyond the peak investment phase for Cambria and Everhome, both of which have now reached the scale to support ongoing asset-light expansion.

Importantly, large-scale, balance sheet-intensive brand incubation is no longer central to our model as we shift towards more capital-efficient ways to grow and scale our brands. With strategic objectives achieved and peak investment winding down, capital deployment is declining and capital recycling is expected to increase materially.

In the first quarter, we generated approximately \$25 million of proceeds and reduced development outlays by 51% year-over-year, and we remain on track for net capital outlays of approximately \$20 million to \$45 million for the full year, approximately 70% lower at the midpoint than 2025 levels.

As hotel transaction activity improves, we expect additional opportunities to accelerate capital recycling, further expanding capital capacity.

We ended the quarter with total liquidity of \$474 million and net leverage of 3.2x adjusted EBITDA, comfortably within our targeted leverage range of 3x to 4x and providing strong financial flexibility.

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In the first quarter, we used \$23.2 million of cash in operating activities, primarily reflecting working capital timing and higher franchise agreement acquisition costs associated with a 37% year-over-year increase in global room openings. Operating cash flow is tracking in line with our expectations, with variability driven by seasonality and timing.

Our capital allocation framework remains disciplined and unchanged. Our first priority is to deploy capital to high return, capital-light organic investments that strengthen our brands and enhance franchisee economics, including our revenue engine and scalable technology capabilities. We then support a stable dividend.

Finally, we returned excess free cash flow to shareholders, primarily through share repurchases, supported by our expected free cash flow generation and consistent with our targeted leverage range.

As part of our increased focus on shareholder returns this year, we are providing greater visibility into our capital return profile.

We expect to repurchase between \$175 million to \$225 million of shares in 2026, supported by expected free cash flow generation and strong balance sheet capacity. Year-to-date through March 31, we returned \$75 million to shareholders, including \$62 million in share repurchases, with 2.3 million shares remaining under our current authorization.

Our disciplined capital allocation approach, together with the strength of our asset-light business model, positions us to improve free cash flow conversion, excluding franchise agreement acquisition costs over the next several years, moving towards 60% to 65%.

Before we open up for questions, I'll briefly cover our expectations for the remainder of the year.

For the full year 2026, we are maintaining our guidance across all metrics including adjusted EBITDA of \$632 million to \$647 million and adjusted diluted earnings per share of \$6.92 to \$7.14.

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Our outlook reflects continued growth across higher revenue hotels and markets, royalty rate expansion, sustained international momentum and further contribution from partnership and non-RevPAR revenues. It also reflects continued cost discipline with adjusted SG&A expected to grow in the mid-single digits, supported by operating efficiencies across the business including the scaling of AI-enabled tools.

Our outlook excludes the impact of any additional M&A, share repurchases completed after March 31 or other capital markets activity.

As we look ahead, we are well positioned to deliver more consistent earnings growth and stronger free cash flow, supporting long-term shareholder value.

With that, Pat and I are happy to take your questions. Operator?

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

David Katz^ I'd like to just talk about the aspirational levers of NUG out into the future, yours compared to the peer set.

What do you think the levers are?

What do you think the prospects are?

And how do you see Choice getting to accelerate NUG in the future?

Patrick Pacious^ David, great question. I mean when we look at our net unit growth, I mean obviously we saw in the quarter a sequential improvement, as you know very well.

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We are a conversion-led model, and that's really been the driver of growth and the speed and efficiency with which our conversion pipeline is moving. As we mentioned in the script, the conversion pipeline is up 17%. Franchise agreements are up 65% overall.

And when we look at that visibility, it gives us a lot of confidence that this inflection point that we're seeing in that rooms growth is happening. Keep in mind, the new construction environment has been very muted given the interest rate environment.

So as we see new construction come back, those brands that rely primarily on that, we can see an acceleration in our net unit growth into the future.

So we feel really good about the inflection point that we've seen, particularly here in the U.S.

We feel good about where the franchise agreements sold last year and, again, into the first quarter are. And the fact that their conversions, for the most part really gives us a lot of visibility and confidence in getting those openings done this year.

David Katz^ Okay. And any -- just to double back on a portion of my question.

Is there a future at some point where NUG is a, call it, low to mid-single-digit number?

And -- or should we look at this conversion-led model in a different context?

Patrick Pacious^ No, I think it is possible to get back to those levels that you're talking about when the new construction environment comes back.

We are seeing, obviously, an acceleration in the extended stay segment. That has continued to be strong. I think as new construction comes back, that will only get larger.

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We've been, as an industry, doing much more on the conversion side of the house. And I think the lack of supply growth will incent developers to come back as well as RevPAR strengthens into the future.

So we do see an underlying trend in the future that can get us back to those higher levels.

Operator^ And the next question comes from Daniel Politzer with JP Morgan.

Michael Hirsh^ This is Michael Hirsh on for Dan today. A question on consumer health, especially given the rising fuel prices in the U.S.

Have you seen any impact on your bookings or more broadly to consumer sentiment?

Patrick Pacious^ Actually, Michael, we've seen the opposite with what has happened in the Middle East that started in March, carried into April.

And as we said in our remarks, March was a very strong (inaudible) from our perspective --

Operator^ You are now joining the meeting.

Patrick Pacious^ Are you still there, Michael?

Operator, do you still have us on the call?

Operator^ Yes. Please go ahead.

Patrick Pacious^ Okay. Michael, are you still there?

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Michael Hirsh^ Yes. I'm here.

Patrick Pacious^ Okay. Sorry, there was a bit of a disruption there.

Yes, I mean I think we look at that -- the consumer has been pretty resilient given the rise in gas prices. We saw higher gas prices back in 2022. That really didn't temper demand. As I said, we've seen in the last two months, a continuing strength in the consumer.

I think the other things that give us a lot of positive feeling going forward is really the affordability trend that's going on in the country, that aligns very well with our value-oriented brands.

We're seeing a shift in the workforce, as we mentioned in the remarks. You're seeing employment growth in sectors where people have to travel to do their work, and those travelers rely on our hotels.

We're also seeing a shift in the way guests want their hotel room to look more like home, and that helps our extended stay hotels.

Then as we've talked on prior calls, we continue to see a rising number of retirees who have discretionary income, discretionary time. We know we over-index on that type of guest as well.

So we feel pretty good about the underlying trends that are supporting the RevPAR projections that we have for this year.

Scott Oaksmith^ And just a follow up on Pat's point, when you really look at our business travel, it was really strong during the quarter. Overall, business travel was up 3%. And particularly, our small and medium business was up 14% and our group's business was up 9%.

So really, really good performance during the quarter.

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Michael Hirsh^ And a quick follow-up on what Pat mentioned.

For U.S. RevPAR, understanding the first quarter was impacted by the hurricane comparison, what are your expectations for U.S. RevPAR in the second quarter and second half of the year?

And are there any other calendar considerations that we should keep in mind?

Scott Oaksmith^ Yes. We're encouraged by the strengthening trends we saw throughout the first quarter and really saw occupancy strengthen, and that positive momentum really continued into April. At the same time, we're still early in the year and being mindful of the broader macroeconomic environment.

So while performance has been trending favorably relative to our expectations, we believe it is prudent to remain cautious and we've upheld our current guidance. But should the economy continue to perform well and these macro risks recede, we think we're well positioned to trend towards the higher end of our forecasted range.

But for now, we believe a more measured approach is in our best interest.

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

Michael Bellisario^ First on the RevPAR underperformance. I get that the hurricane impact in retrospect was greater than you thought, but maybe help us with the two-year stack. I mean I presume your hotels lost market share.

So I guess maybe why do you think that was the case?

Then when do you think that ultimately starts to recover for at least those affected hotels?

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Patrick Pacious^ Yes, Michael, I think if you look at a couple of things, the first is the key point in all of this is occupancy.

We talked about this on the last call. We saw a strength of that indicator all last year, and that grew again in the first quarter.

So we are seeing demand come back into the hotels, and that's a really strong fundamental for the cycle to shift and move in the right direction and make it durable. Then on top of that, as owners get more comfortable with the demand environment, they raise price.

I think the other thing that's important to note is when you open 6,000 rooms in a quarter, the ramping of that, as well, has an impact on RevPAR.

So as we said, we're very comfortable with the RevPAR projections that we have for the full year. I think as you think about the openings and the more occupancy driven, with rate and following, that's how we look at how the first quarter shaped up when you take the hurricanes out.

Just for a reminder, about 20% of our portfolio sits in those four states that were impacted by the hurricane.

So it had a very significant effect on our Q1 numbers for last year.

So as we look into April and beyond and that dissipates, I think it will be a much more easier comparison year-over-year.

Scott Oaksmith^ Just to put a finer point on that. When you look at the various regions outside of that South Atlantic where those four states are, every region had positive RevPAR throughout the quarter, so up about 1.5% to 2% across all the quarters.

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So really was a regionalized hurricane impact to our results. And as we said in our prepared remarks, if you pull out the hurricane impact, actually the entire system was up about 1.8% for the quarter.

Michael Bellisario^ Okay. That's helpful. Then just real-time, I mean stock's down 14%. I mean market doesn't like surprises. That's what we got today.

So I guess how do you plan on handling communication, better telegraphing, some of the moving pieces in the model on a go-forward basis?

Any color or commentary there would be helpful.

Patrick Pacious^ Yes. I think we're -- like we said, we're very happy with the improving underlying trends that we're seeing. We're seeing unit growth inflecting. We're seeing RevPAR improving, capital intensity declining.

We've been -- these are all things we talked about on the February call. And while the financial results were in line with our expectations, really the underlying trajectory of the business is much stronger than the quarterly year-over-year comparison suggests.

So I think when you look at it on that front, we're going to keep communicating the positive story that we have and the results that we're achieving.

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

Charles Scholes^ Question for you regarding market share.

I know when -- in Covid, coming out of Covid, you were pretty vocal and granular when you were receiving market share gains.

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I want to go back and look at the transcript from 1Q '21. You had 400 basis points of year-over-year market share gain. Along that same line, what was your market share change year-over-year versus last year in the most recent quarter?

Scott Oaksmith^ Yes. In terms of index, I mean if you take out those hurricanes states that we mentioned, we were generally in line with the performance in the various local markets that we're in.

So obviously the heavy skew, as Pat mentioned, of our portfolio that is in those four states, about 20% of our product, that has skewed our comparisons when you look at the overall STR numbers.

But when you look at it on a localized basis, we're in line with the performance of the overall segments that we perform in those local markets.

Charles Scholes^ Okay. But let's not take those out, what would it be for the whole portfolio?

Scott Oaksmith^ Well, as we mentioned, the hurricane had about a 400-basis-point impact.

So if you look across the chain scales, obviously that -- our performance -- and we outperformed, I think, our competitors in those markets, certainly pulled down the overall results.

But as I said, outside of those numbers, we feel really good about the way our hotels are performing against their local comp.

Charles Scholes^ Okay. So I can't get a number like you had given before. Is that correct?

Scott Oaksmith^ Well, it really is by segment, Patrick.

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So creating a broader -- I think in the past, we had given some of the RPI gains against the various segments that we operate in, economy, scale up or midscale.

So we don't have those to provide today, but certainly happy to follow-up with that.

Charles Scholes^ Okay. It would be helpful. Just because when it goes up, we hear the good number and then when it goes down, we don't get a number.

So I'll follow up later.

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

Robin Farley^ Two questions. One is just looking at what we see from not only the STR numbers, but some other companies raising RevPAR guidance for the remainder of the year.

I understand the hurricane comps were an issue. It sounds like that would have dissipated by now in April.

Is there anything else from a geographic perspective other than the hurricane issues in Q1, which sounds like were not continued.

Is there anything else from a geographic perspective where -- why Choice wouldn't participate in maybe this better outlook than how things looked at the start of the year?

That's one question. Then if I could also ask your -- the line for equity and loss of affiliates, some of those losses have been coming in bigger. I understand that Canada, now you wholly own, and so there was a shift there. Is there development spend?

Or what other things are making that line look like maybe a heavier loss than it had been historically?

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Patrick Pacious^ Yes. Robin, I think it's important to also remember, Q1 is one of the lowest contributors from a travel perspective for our type of travelers.

So that's also playing into why we maintain our RevPAR guidance.

As we said, we're seeing very positive trends, particularly in March and April. It's occupancy driven, which is critical from the standpoint of durability, and we feel really good about that. But it's one of the quarters that contributes least.

As we get into Q2 and Q3, where we have much more of that summer drive travel, this year in particular we've got the event-driven travel, I think you'll see that pick up and we'll be able to give a clearer view into the rest of the year at that point.

Scott Oaksmith^ And just put another point on that. In terms of April performance, we are now past the hurricane impact. That dissipated probably about the middle of March last year.

So our preliminary results in April are positive. Underlying trends that we saw in March outside of the hurricane states have had pulled through in April.

So we are pleased with the underlying trends. And as we said, there are some more macro uncertainty that's out there. But absent that, we feel like we're more performing towards the higher end of our guidance on the RevPAR, assuming this continues.

In terms of your question around the equity gains and losses, those are really reflective of some of the development we're doing with the Everhome properties.

So we had several properties open over the end of Q4 and the beginning of Q1.

So really just the timing of ramping of hotels that's reflected through there.

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As we mentioned earlier, we are at the back end of the investments that we've done for Everhome and for Cambria now that both of them have met their strategic objectives.

So you'll see a meaningful step down in the capital intensity of our investments there. And as those hotels ramp up, those losses will turn to profits as they are fully ramped.

Operator^ And the next question comes from the line of Stephen Grambling with Morgan Stanley.

Stephen Grambling^ Just maybe a follow-up there on the international front. Just as that started to ramp up and becomes a bigger part of the base, how do you think about the contribution from a profitability standpoint?

Is there a certain number of rooms or certain pockets that you need to see get to a certain level before that can become more meaningful in terms of real EBITDA contribution?

Patrick Pacious^ Yes, Stephen. I think it's -- the significant change was the shift to more of a direct franchise model. Taking MFA markets, master franchise agreement markets and turning them into direct franchise markets where the contribution is significantly higher, the margins are higher, the royalty rates are higher.

So it's really a story around looking at the markets where we feel like it's more opportunistic for us to be, or strategic rather for us to be in that geography in a more direct franchise world as opposed to what we might have been doing prior to that.

So the shift is really, I think, exciting because we've got today about 10% of the EBITDA being driven by the international business. We're really starting to scale that up, particularly here in the Americas. And so we do see that becoming a much bigger contributor over time.

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Scott Oaksmith^ Yes. We're really pleased with the Canadian acquisition that we executed last year and really saw strong results from that -- our Canadian operations during the quarter with RevPAR up a little over 5%. Our rooms growth there was about 3.5% and the pipeline is up 55%.

So really I'm optimistic on the growth in that new market for us.

Stephen Grambling^ Maybe one other follow-up.

It could be related, but from a free cash flow standpoint, at this point on a TTM basis, it looks like even including some disposition proceeds, you're at about \$50 million.

What are some of the one-offs that we should be thinking about and how to think through the trajectory of free cash flow?

Is there still some spend that we've got to get through before we see that accelerate?

Scott Oaksmith^ Yes. We did have some timing issues in the quarter, which had pulled down our operating cash flow slightly, and our key money was slightly higher from Q1 to 2025 to Q1 2026 [ph], but that was really driven by a 37% increase in the room openings compared to the prior year.

And additionally, the mix of hotels opening really shifted with a strong growth in our more accretive segments that have really strong returns, which further contributed to a slightly higher key money disbursement.

What we really look at is this is really a timing -- our algorithm in terms of free cash flow remain intact for the remainder of the year as we continue to move back towards that historical 60% to 65% free cash flow conversion.

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On the balance sheet investments, a really strong quarter where net -- our outflows were down 50%, and we were actually net recyclers of capital during the quarter with about \$4 million net back to Choice where we spent about \$40 million the year before.

So we expect that to continue to meaningfully step down. We expect net outflows to be down about 70% year-over-year. And as the transaction market improves, we do see opportunities for us to accelerate the recycling of that capital by selling hotels encumbered with long-term franchise agreements.

Operator^ The next question comes from the line of Brandt Montour with Barclays.

Brandt Montour^ Great. So I wanted to circle back to AI. You guys mentioned it in the prepared remarks.

It seems like everybody in your space is in a race right now to roll out apps and apps and other AI-based search technology to try and enhance direct bookings within the top of the funnel and the customer journey overall.

Can you just give us the business State of the Union in terms of where you are in terms of rolling out that tangible technology versus your peers?

Patrick Pacious^ Yes. It's a great question. And for us, technology has always been a structural advantage for us. We're the -- I believe, probably the only company that has both our infrastructure and our data all in the cloud. Those are two key ingredients to be able to bring AI to the enterprise at a scaled level.

We see it as really driving our franchisee economics. We mentioned EasyBib in the remarks. I mean that is a tool that is already providing meaningful results to our franchisees from a revenue -- top-line revenue perspective, and it's cutting their costs.

So the unit economics is really where we are placing a big bet for us. I think there's industries and companies where they're throwing out thousands of agents and hoping 1,000 flowers will

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bloom. We've taken a very direct and purposeful approach to how we're going to use AI to drive the unit economics of our hotels.

To your point about the customer journey, we are definitely, as we've talked in the past, leaning in with OpenAI and Google. We are working with some of the other large language models to make sure our hotels appear in the answer engines.

That's a lot of test and learn that's going on in the industry itself. But we've taken a different approach, I think, by making early investments a number of years ago that have really allowed us to bring these AI tools to our franchisees at scale that are now driving real results for them.

The deployment is just incredible, and the adoption rates we're seeing from our franchisees are enormous, much higher than prior rollouts of tools.

And next week, we'll have all of our franchisees together in Las Vegas. A lot of that time will be spent having them roll up their sleeves and really engage with these new tools we're rolling out.

We're pretty excited by the upside we're going to see with both the unit economics of our hotels and then things that we're going to be able to do here at corporate to really drive higher productivity and lower costs.

So it's really hitting on three levels, that consumer, what we're doing for franchisee economics and then what we're doing here to run our business more efficiently.

Brandt Montour^ Okay. Great.

Then just a follow-up on demand, back to one of your comments, the reason why you guys didn't raise guidance for RevPAR was because of -- and I don't want to put words in your mouth, you said cautiousness around the macro and reason to be prudent.

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I'm just trying to put those comments with the earlier comments that the U.S. -- that you see the U.S. inflecting.

So I guess what is there in terms of macro tail risk within the domestic travel picture, if anything at all, or if it's the unknown unknowns when you say macro.

Patrick Pacious^ Yes. I would put it -- that's a great way to put it. It's more of the unknown unknowns.

I mean I think we've been through a couple of years as an industry where nobody had certain things on their bingo card at the beginning of the year when they put their forecast together. We've seen the airline industry and travel in general be significantly impacted by government shutdowns and tariffs and all kinds of things that we're not in anybody's forecast.

So I think we look at our business, we're really three months in and now we have some good visibility into April.

But rather than get ahead of our skis here, we feel good about the RevPAR range we have which is fairly wide. But it's a -- just given our trajectory and the close-in booking window that we have, so the visibility from a RevPAR for us is slightly different than maybe some industry peers.

So we want to be very prudent in taking a look at our RevPAR and thinking about that -- whether or not to raise it or not was a decision we -- a discussion we had, but ultimately decided the prudent decision was to keep it where it is.

Operator^ And the next question comes from the line of Trey Bowers with Wells Fargo.

Raymond Bowers^ Just following up a little bit on the cash flow dynamics. The key money outlay in the quarter due to the really solid gross additions.

Is that still going to -- expected to be in that \$100 million, \$110 million range this year?

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Or is the fact that you guys are doing better than expected on gross additions just going to raise that number?

Then longer term, as we look forward, should we think about a tie ratio of gross room or hotel adds to key money that the more success you have, that key money will grow with that?

Or are there dynamics there that might come down even with a better NUG environment?

Scott Oaksmith^ Yes. To answer your first question, no change to our overall outlook for key money spending for the year. Really, this was timing-related compared to the prior year with the really strong openings, which were in line with our forecast at the beginning of the year as we have been talking about really the inflection in U.S. rooms growth.

So nothing to change there.

In terms of an algorithm, really every key money deal is underwritten on a deal-by-deal basis, and it really depends on the strength of the deal, where we're putting the brands on in the overall environment.

So there isn't a one-to-one relationship in terms of number of openings and key money for future.

So I believe as the new construction environment starts to rebound, the RevPAR environment gets -- starts to improve over the next couple of years, I actually think you'll see key money per deal step down more meaningfully as that money isn't needed to help defray the cost of building a hotel or switching hotels.

So something we monitor closely. We're very pleased with the overall returns we get when we do use key money, but it's really a market condition dynamic of how much will be used based on how many openings we have.

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Operator^ (Operator Instructions) The next question comes from the line of Meredith Jensen with HSBC.

Meredith Jensen^ Just a quick follow-up on what Brandt asked around AI as I think your particular take is unique given your background in technology.

I would be really interested if you might speak or unpack a little bit more on your comments about being -- having a more narrow or strategic focus than some of the discussions we're hearing.

Is that given you might have a view on how much the economics of AI might end up being over time?

Or that the scalability is less knowable now and you've seen that before?

Just some more comments on that would be great.

Patrick Pacious^ Yes. Meredith, it's an interesting pivot point that I think companies have to make.

At Choice, our history has always been to invest in technology that we can scale to our 7,500 hotels. What we are really seeing with AI is the ability to do that in a much more accelerated fashion.

When you look at what we're doing, we've put out press releases about really deepening our partnership with AWS. The reason for that is to deploy these things at scale, you have to build the scaffolding in order to do it, and relying on a partner who we've already got our infrastructure in the cloud with who works with us behind the scenes on more experimentation and an improvement in the software development life cycle.

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We do develop proprietary tools. We just see an opportunity here to really drive higher productivity out of our current workforce in a way that's going to bring some pretty, I think, significant change to our franchisees' operating models.

That's why we really have been talking about the franchisee economics, that four-wall EBITDA for our hotels is probably going to increase in a significant way because of AI.

When you think about these tools in the past, as it would tell you what happened last week or last night in your hotel, they're moving to a place where there are teammates that tell you what's your next best action. How many people do I have checking in, how many Choice Privileges members are coming in next week, how do I plan for that?

These types of things are speeding up, and we're really seeing these tools deliver meaningful value to our franchisees.

So that's why we've taken the approach of focusing our efforts. The other thing people don't talk about is AI isn't free. Tokens cost money.

So as you think about the cost of your approach to deploying AI, you have to be measured in that as well.

So that's the way we've approached it. As I said, we just shared one example in the script of something that's already deployed. But that was built and deployed in a very rapid fashion and the adoption rate by franchisees is significant.

So that's the type of thing that we think we're going to see is just an acceleration of these tools being deployed in a place where our franchisees who, as you know, are small business owners. These things bring meaningful value to them and drive their returns higher.

Meredith Jensen^ That's really helpful color. And maybe one, since you touched upon it, on the loyalty program.

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I know you had a pretty big refresh that launched earlier in the year. And maybe if you could just speak a little bit more about the momentum you're seeing in engagement, changes in redemptions rates given you gave people, I think, extra flexibility and what we're seeing in terms of new opportunities that, that new card program might unlock?

Patrick Pacious^ Yes. So tapping into the theme of affordability, which our franchisees or our guests rather are telling us they want. We really looked at it and did -- we're pursuing a counter strategy here to make the points more valuable, not less.

So what we call Rewards Within Reach.

So you get something after five nights as opposed to 10 nights.

So bringing that in, and that meets where our customer where they are and the amount of travel that they do. As we said in the script, we've seen a 300-basis-point increase in loyalty contribution in the first quarter. We're seeing more members and we're seeing more revenue per member.

So we're really excited about the refresh that we've done and the upside it can bring to bring that loyalty program or a member who's a repeat stayer. We know they stay more often and we know they spend more when they travel.

So it's the right type of demographic for us to continue to grow and to keep that part of our revenue engine refreshed and move it in the right direction.

Operator^ And we have no further questions at this time. I would like to turn it back to Pat Pacious for closing remarks.

Patrick Pacious^ Well, thank you, Operator, and thanks, everyone, for joining us this morning. We look forward to speaking to you again in August when we report our second quarter results.

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Have a great rest of your day.

Operator^ Thank you, presenters. And ladies and gentlemen, this concludes today's conference call.

Thank you all for joining. You may now disconnect.