TRANSCRIPT

08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

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CORPORATE SPEAKERS:

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

Dominic Dragisich

Choice Hotels International, Inc.; Interim Chief Executive Officer

Scott Oaksmith

Choice Hotels International, Inc.; Chief Financial Officer

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JP Morgan; Analyst

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Bank of America; Analyst

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08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

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PRESENTATION:

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

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

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.

08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

These statements speak only as of today and we undertake no obligation to update them. A reconciliation of any non-GAAP financial measures used in today's remarks is included in our earnings press release available in the Investor Relations section of choicehotels.com.

Joining me this morning are Dom Dragisich, our Interim Chief Executive Officer; and Scott Oaksmith, our Chief Financial Officer.

Dom 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 Dom.

Dominic Dragisich^ Thank you, Allie, and good morning, everyone.

The second quarter marked encouraging progress across our key priorities, highlighted by a 6% year-over-year increase in adjusted EBITDA. Most importantly, U.S. net rooms growth improved sequentially for the second consecutive quarter and is now nearly flat year-over-year. This reflects our strongest first half performance since 2021.

These improving net rooms growth trends in the U.S. and continued international momentum led to global rooms growth of 2.6% in the second quarter.

We also continued to drive strong franchise agreement results during the quarter, reinforcing our confidence in future global and U.S. rooms growth. U.S. RevPAR increased 1.3% year-over-year, reflecting strengthening demand trends and benefiting in part from the FIFA World Cup. The RevPAR improvement we saw during the second quarter, together with the trends since quarter end, show we are moving in the right direction.

I am confident this business can perform at an even higher level as we continue to realize greater value from the investments we've made in our commercial engine and technology platform while maintaining a renewed focus on execution.

Disciplined capital allocation also remains a key priority for Choice. In the first half of the year, capital outlays for hotel development declined 80% year-over-year as we continued our transition back to a pure-play, asset-light franchising model while maintaining flexibility to make targeted investments in attractive franchise growth opportunities. There is still more work to do, but the progress we have made this quarter and the underlying operating trends we're seeing give us greater confidence in the outlook for the balance of the year.

As a result, we're raising our full-year outlook across several metrics including adjusted EBITDA, U.S. and global RevPAR, U.S. royalty rate and global net rooms growth which Scott will cover shortly.

Now, before I go into the quarter in more detail, I'd like to briefly share how I'm approaching this role. My focus is simple: execution. We have a meaningful opportunity to improve, and my job is to close the gap between where we are today and where I believe this business can perform.

Since stepping in, I spent most of my time listening to our franchisees and teams across the company. Those conversations have reinforced three priorities for me: staying close to our franchisees and the guests they serve, moving with greater urgency across the business and being disciplined about where we invest our time and capital.

Years of working across the business have given me firsthand insight into our strengths, where we can perform at a higher level and where better execution will make the biggest difference. What's needed now is greater speed, discipline and accountability to deliver stronger results for our franchisees and shareholders.

Over the past several years, we've invested in building a stronger commercial engine and technology platform. Today I believe our biggest opportunity is realizing the full potential of what we've already built, turning those investments into stronger operating performance, improved franchisee profitability, better guest experience and ultimately greater long-term shareholder value.

08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

We'll be candid about where we're making progress and where we still have work to do. Ultimately, you'll measure us by the results we deliver, and that's the standard I hold us to. The way we'll achieve those results is by executing a business model that creates value for our franchisees and in turn, our shareholders.

At Choice, we strengthened franchisee economics by lowering owner's costs and delivering higher RevPAR through our commercial capabilities.

Stronger franchisee economics support rooms growth and in turn, more durable earnings and free cash flow. That gives us the flexibility to invest in the business while continuing to return capital to shareholders. My job is making sure we deliver on that consistently.

In my conversations with franchisees, one message comes through consistently. They want a partner that lowers their costs, increases their revenue and helps them operate more effectively.

Technology has been helping us deliver on each of its priorities, building on several years of investment in our commercial engine and cloud platform. More recently, AI has helped us move even faster.

On costs, we've reduced prototype costs by up to 25% across key scale brands. Country Inn & Suites by Radisson is a good example. The redesigned lower-cost prototype is driving renewed development momentum with franchise agreement up 11% year-over-year in the first half of 2026.

We're also leveraging the scale of the Choice system to lower owners' ongoing cost through a new FF&E procurement program which is expected to reduce cost up to an average of 20% across the program's FF&E and building product categories.

On revenue, demand is strengthening, and I believe our biggest opportunity is earning a greater share of that demand by levering the commercial and technology investments we've made, particularly among our core value-oriented travelers. Earlier this year, we relaunched Choice

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

Privileges to better serve that traveler by making our loyalty program more rewarding and better aligned with how our members travel.

While it's still early, we're seeing encouraging signs. Membership grew 7% year-over-year to $77 million, while loyalty contribution increased more than 250 basis points during the quarter. Importantly, members acquired since the relaunch are already generating higher average revenue than comparable members acquired a year ago.

We are also seeing early traction from our recently launched Business Direct platform for small- and medium-sized businesses. Approximately 60% of enrolled businesses are new to Choice, and nearly 90% of room nights occur midweek. More broadly, revenue from small- and medium-sized business travelers increased 8% year-over-year in the second quarter.

I mentioned AI allowing us to move faster, but we are also using AI to deliver tangible benefits for our franchisees. Our AI-enabled easy bid platform improved group RFP conversion by 360 basis points, contributing to 16% year-over-year growth in group revenue in the second quarter.

Inside the hotel, our AI teammate Charlie within our property management system reduced requests for operational support by about 40% in an early pilot, freeing up staff to spend more time with guests and there's more ahead in how AI reshapes hotel discovery and booking. We're continuing to refine our content and data so choice properties are discoverable and desirable wherever guests are searching next. We're working directly with the major AI platforms shaping that shift.

It's early, but we intend to be ahead of that curve. I believe technology and AI are becoming the engine that powers everything we do. Not a separate initiative, but as capabilities embedded across every part of the business. That's how we create more value for our franchisees and ultimately, our shareholders.

Turning to RevPAR. Demand environment was constructive, supported by our value-oriented brands, resilient workforce-related travel and our extended-stay portfolio.

Choice Hotels International, Inc.

We also benefited from major event-driven travel over the past two months including the FIFA World Cup. Importantly, the World Cup brought in a meaningful number of first-time Choice guests and international travelers expanding our reach into segments where we have historically been underrepresented.

While the demand environment is constructive, our objective is not to rely on market tailwinds alone. We are focused on improving our competitive RevPAR performance by earning a greater share of demand through the commercial capabilities we've built and will continue to strengthen. That's how we'll deliver more consistent performance over time.

Net rooms growth remains my top operating priority. U.S. net rooms growth improved sequentially as second quarter openings reached a seven-year high, while exits declined to their lowest level in six years. The decline in exits reflects the growing value we're delivering to our franchisees through the Choice system, along with stronger franchisee engagement and improving owner economics.

Our conversion-led development model continues to differentiate Choice through faster openings, lower owner investment requirements and earlier royalty generation. That advantage was evident again this quarter as our U.S. conversion pipeline expanded 6% sequentially. Importantly, about 75% of the U.S. agreements we've signed year-to-date are expected to open this year, providing strong visibility into near-term growth.

International net rooms continue to grow in the double digits, providing another avenue for durable earnings growth over time.

Global franchise agreements increased 20% year-over-year during the quarter, reflecting continued demand across both our conversion led and our higher revenue brands. Taken together, these trends reinforce my confidence that we're building a stronger foundation for sustained global and U.S. net rooms growth. Beyond driving net rooms growth, we're also focused on disciplined capital allocation to maximize long-term shareholder value.

Returning to our pure-play asset-light franchising groups remains an important part of that strategy. As development outlays continue to decline and market conditions improve, we expect to pursue additional capital recycling opportunities. Together, those actions strengthen our financial flexibility allowing us to allocate capital towards the highest return opportunities while continuing to return excess capital to shareholders.

We're encouraged by the progress we've made this quarter. Our focus now is on staying disciplined, holding ourselves accountable and following through on the commitments we make. Stronger franchisee economics and thoughtful capital allocation put us in a better position to deliver durable earnings growth and long-term shareholder value.

I believe this business has significantly more potential and delivering on that potential is what I'm focused on every day.

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

Scott Oaksmith^ Good morning, everyone, and thanks, Dom. It's great to have you back on our quarterly earnings calls in your new role.

Our second quarter results demonstrate that improving U.S. operating fundamentals and the increasing contribution from our international business are translating into solid earnings growth.

For the second quarter, adjusted EBITDA increased 6% to $175 million, primarily reflecting higher U.S. royalties from improving RevPAR and royalty rate expansion, growth in our franchisee programs and services revenues and higher partnership revenues as well as the continued benefit of our transition to direct franchising in Canada. These benefits were partially offset by higher SG&A expenses which I'll discuss in more detail shortly.

Our adjusted earnings per share increased 5% to $2.02 while revenues, excluding reimbursable revenue from franchise and managed properties increased 7% year-over-year to $277 million.

I will focus on three key operating priorities before discussing how they are shaping our updated earnings outlook.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

First, the improving trajectory of U.S. net rooms growth supported by our stronger openings and lower exits; second, the acceleration of RevPAR from the first quarter and continued U.S. royalty rate expansion; and third, lower development spend as investments associated with Cambria and Everhome continue to moderate.

Net rooms growth remains one of our most important drivers of our long-term earnings growth and operating indicators across our development funnel continued to improve during the second quarter. Global rooms increased 2.6% year-over-year driven by a 16% increase in room openings.

In the U.S., gross room openings increased 27% year-over-year and 9% sequentially. At the same time room exits declined 50% year-over-year. Franchise agreements awarded in the U.S. increased 30% year-over-year in the second quarter. We also shortened the average time from signing to opening for conversions by nearly one month, reinforcing the speed and efficiency of our development model.

The important point is that the key stages of our U.S. development funnel are moving in the right direction from stronger signings and faster conversions to higher openings and lower exits. Additional information on our U.S. net rooms trends is included in today's supplemental materials on our Investor Relations website. Choice's conversion capabilities continue to provide an important competitive advantage with conversions expected to represent approximately 90% of our 2026 U.S. openings. Conversions generally enable owners to open hotels faster and with less capital than new construction which remains important in the current development environment.

During the quarter, U.S. conversion franchise agreements increased 82% year-over-year, reflecting the value of our conversion model delivers to hotel owners. Extended Stay remains a key growth driver with 12 consecutive quarters of double-digit rooms growth and representing more than 40% of our U.S. pipeline.

Within our mid-scale and economy transient brands, developer interest also continued to strengthen. U.S. franchise agreements awarded increased more than 40% year-over-year and the pipeline for these brands continues to build. Taken together, these trends reinforce our confidence that U.S. net rooms growth will return to positive territory in 2026.

Our operations outside the U.S. continue to perform well with international net rooms increasing 13% year-over-year reflecting growth across our EMEA, Asia Pacific and Americas regions. In Canada, net rooms increased 5.4% year-over-year. Our transition to a direct franchising model is producing both an immediate earnings benefit and a longer-term growth opportunity as the pipeline continues to expand.

Turning to RevPAR. Global RevPAR increased 1.7% year-over-year on a currency-neutral basis in the second quarter. In the U.S., RevPAR increased 1.3% year-over-year during the quarter, supported by improving occupancy and rate trends. Together with encouraging preliminary third quarter trends, this supports our improved full year outlook.

As anticipated, the FIFA World Cup contributed approximately 60 basis points to second quarter RevPAR. Because the event was concentrated in the second quarter with only a limited equity in our markets during the third quarter, we estimate the full year benefit at approximately 30 basis points.

Extended Stay continues to benefit from a diverse mix of longer stay demand drivers including workforce-related travel, relocations infrastructure investment and manufacturing activity. Approximately 45% of our U.S. extended stay portfolio is located within 10 miles of major data centers where those hotels generated approximately 100 basis points higher RevPAR growth than the system average during the second quarter. This highlights the benefits of our portfolio's exposure to durable project-based sources of demand.

International RevPAR was up 2.1% year-over-year on a currency-neutral basis, led by the Caribbean and Latin America and supported by continued strength across Canada and Asia Pacific. In addition to RevPAR and net rooms growth, we are also increasing the earnings contribution from each hotel in our system.

08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

During the second quarter, our U.S. average royalty rate increased 11 basis points. The increase reflects continued mix shift towards higher revenue brands and the benefits of the franchisee focused initiatives Dom discussed.

Our non-RevPAR fee streams also further diversify our earnings base. Franchisee adoption of our services continued to grow during the quarter, particularly our cloud-based property management system and revenue management solutions.

Partnership Services and fees increased 6% to $28.7 million in the quarter, mainly driven by higher procurement revenues. Together, royalty rate expansion and growth in our partnership services and fees reflect our strategy of creating more value for franchisees while generating higher-fee revenue from each hotel in our system. Adjusted SG&A increased 7% during the quarter. The increase in our operating costs reflect our transition to direct franchising in Canada which also contributed to the higher international earnings I discussed earlier. The remaining increase primarily reflected higher account receivable reserves.

We expect adjusted SG&A growth in the second half of the year to moderate from the first half run rate positioning us to deliver our full year guidance.

Turning to capital allocation. Our framework remains unchanged. We prioritize high-return investments, maintaining a stable dividend and returning excess capital to shareholders through share repurchases.

Our wholly owned hotels were originally developed to establish and scale the Cambria and Everhome brands or were acquired as part of the Radisson Americas acquisition. Today we wholly own 19 operating hotels and one hotel under construction.

With no additional wholly owned hotels in our pipeline, we have substantially completed the capital-intensive phase of building them. As a result, future growth will be driven through our franchise model rather than hotel ownership. Reflecting that transition, capital outlays for hotel development declined 80% year-over-year in the first half of the year.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

We are now well positioned to monetize those assets while continuing to grow through our franchise model. We currently expect the first disposition to occur in the first half of 2027, subject to market conditions.

Turning to our balance sheet. We ended the quarter with total liquidity of $475 million, and net leverage of 3.1x adjusted EBITDA, comfortably within our target range of three to 4x.

During the first six months of the year, we generated $67 million of operating cash flow compared to $116 million in the prior year period. The year-over-year change primarily reflects two factors: first, franchise agreement acquisition costs increased as U.S. room openings grew 27% year-over-year.

Second, operating cash flow was affected by higher marketing and reservation system reimbursable expenses, driven by increased investment in franchisee-facing tools and guest delivery capabilities.

Year-to-date through July 31, we returned $172 million to shareholders including $133 million through share repurchases and $39 million through dividends.

We continue to expect repurchase between $175 million and $225 million of shares in 2026. Based on our second quarter performance and the underlying operating trends we discussed today we are raising our full year guidance for adjusted EBITDA, U.S. RevPAR, U.S. average royalty rate and global net rooms growth.

We are also raising the lower end of our global RevPAR guidance range. We now expect full year 2026 adjusted EBITDA of $635 million to $650 million. The increase primarily reflects stronger U.S. RevPAR, improved global net rooms growth and continued U.S. royalty rate expansion.

For modeling purposes, I'd note one item for the third quarter. The year-over-year adjusted EBITDA comparison includes approximately $9.5 million of liquidated damages within our other revenue line recognized in the prior year quarter that are not expected to occur reflecting continued improvement in our franchisee retention.

While our operating outlook has improved, we have updated our adjusted diluted earnings per share guidance to $6.86 to $7.10 primarily reflecting higher expected interest expense and a higher effective tax rate partially offset by the benefit of share repurchases.

We now expect full year 2026 U.S. RevPAR growth of 0% to 1.25% and global RevPAR growth of 0% to 1% reflecting stronger underlying operating trends and continued commercial execution. Consistent with that outlook, U.S. RevPAR trends remain encouraging, and we currently expect third quarter U.S. RevPAR growth to exceed second quarter levels before moderating in the fourth quarter.

We now expect U.S. average royalty rate expansion of seven to nine basis points for the full year, a range that incorporates tougher comparisons in the second half of the year.

When net rooms growth, we now expect global net rooms growth of approximately 1.5% for full year, up from our prior expectation of approximately 1%. This reflects increasing confidence in the trajectory of U.S. net rooms growth together with stronger international performance.

We remain on track to deliver positive U.S. net rooms growth for the full year, supported by both stronger gross openings and an expected 250 basis point improvement in our U.S. net exit rate compared with last year.

We expect the third quarter U.S. net rooms growth to remain broadly consistent with the second quarter levels with a more meaningful step-up expected in the fourth quarter as conversion openings seasonally increase and comparisons become more favorable.

Adjusted SG&A for the full year is expected to continue to grow in the mid-to digits benefiting from operating efficiencies across the business including the continued scaling of AI-enabled tools.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

We are also investing more this year in franchisee-facing tools and guest delivery capabilities which has increased our net reimbursable deficit expectations relative to last year. As a reminder, these programs are structured to operate at a breakeven over time.

Overall, the progress we've discussed this morning reinforces confidence that improving execution is translating into stronger operating performance, positioning us to create long-term shareholder value.

With that, Dom and I are happy to take your questions.

Operator?

QUESTION & ANSWER:

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

David Katz^ Thanks for all of the commentary, I appreciate it.

I'm sure that there's some nuance and complexity to having royalty rates go up and at the same time delivering greater value to franchisees.

Can you help us unpack, right, how that how that exactly works and why the royalty rate is up during a period of time where you're very obviously trying to increase the value proposition to franchisees?

Dominic Dragisich^ David, I'll kick things off and then if Scott wants add any color, you certainly can.

But I think first and foremost, this really goes back to the higher revenue per unit algorithm that we have. So when you take a look at the effect of royalty rates increasing, a lot of that is really represented by the mix shift, right?

So you're basically -- what's terming out of the portfolio is effectively our transient economy brands more heavily than what's coming into the portfolio.

So when you think about adding comfort, et cetera, and that mid-scale, upper mid-scale segment, you effectively have that higher royalty rate across that portfolio.

I think the other is really just the value that we are driving for our franchisees. The focus has always been on driving franchisee profitability. That comes through a lot of different approaches.

I think you heard that in the prepared remarks with regard to prototype costs being down 25%, our loyalty contribution has increased 250 basis points, FF&E is down 20%. You've got Charlie sitting in the property management system at this point. There's a lot of other things that we've done to work with our franchisees to reduce their fees.

I know one question has been in the past just with regards to how do you incentivize higher guest review scores?

We do have programs out there right now to reduce business as usual fees and other loyalty fees associated with those properties that are driving those higher guest demand scores.

So again, we're working very closely with our franchisees. And candidly, we think that the increased value that we're providing is showing up in the stronger development results.

Scott Oaksmith^ The only thing I'd ask because these are contractual rates.

As some of our older fee contracts have burned off or have been replaced with these new higher royalty rates that were put in really back in 2016, 2017, you're seeing that moved to more of the franchise agreements in the construct that we have today.

So this isn't raising rates on existing franchisees, but more contractual as new hotel owners come into the system and pay the published rates that we have today.

Operator^ (Operator Instructions) Your next question comes from the line of Lizzie Dove with Goldman Sachs.

Elizabeth Dove^ I just wanted to ask about the U.S. rooms growth trend which looks pretty encouraging this quarter. In the deck you posted, I think there was some interesting information about U.S. rooms exit this year versus last year which seemed to improve a lot.

So could you maybe just unpack that a little more. I'm curious how much of this is maybe that revenue intent strategy coming to an end versus just underlying improvement under the hood and what you're seeing there?

Dominic Dragisich^ Yes. And as I mentioned, just with regards to the net rooms growth, this continues to be my top priority, I think the entire management team's top priority.

The first thing I would just say is consistent progress leads to our confidence. Right now we are confident that we're doing the right things to drive that sustained net rooms growth well into the future.

I think you mentioned the Q2 results specifically that we posted on the website. And really, it's the strength that we saw in Q2 that reinforces that confidence.

Our openings for the quarter were up 27%. Our exits were down about 50%. Franchise agreements were up 30%.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

What's great about the franchise agreements is we have visibility, very strong visibility for the remainder of the year because 75% of those agreements that we sold this year, given the speed of the conversion engine will open this year.

So again, we've got pretty good line of sight here over the course of the next six months. Obviously it's early innings, but we're very much encouraged by that progress. I do believe that we're going to continue to see that acceleration.

One thing you did mention, Lizzie, obviously the confidence is even better because of the mix, right? You talked about the revenue intensity.

When you take a look at those net rooms growth figures that are in the higher revenue intense segments, we're actually seeing about 100 basis points higher. So it's 3.6% versus the 2.6%.

One of the things also you mentioned is that coming to an end. I think this is really important just sitting in the seat that I'm sitting in today. I absolutely think the net rooms growth algorithm can and should be a both end.

We're going to continue to drive higher quality units with a higher revenue per unit. But there's no reason why we shouldn't be winning in the economy segment and that lower mid-scale segment as well.

So we're going to continue to see improvements there. That's the goal. The reality is we're going to continue to see improvements on the retention side as well because retention is equally as important as the development algorithm.

So again, overall, this is an area that we're very satisfied with the continued progress. We are going to continue to push on this and then try to drive acceleration in the back half.

08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

Operator^ Your next question comes from the line of Daniel Politzer with JP Morgan.

Daniel Politzer^ I want to talk about the RevPAR for the quarter, I think domestically, up 1.3% which lagged your waiting change scale mix. I guess how do we reconcile that?

Then similarly, I think you mentioned on the third quarter and fourth quarter, the cadence, it looks like the fourth quarter RevPAR comparison is by far the easiest of the year.

So why should we think about RevPAR decelerating from 3Q to 4Q, if I had that right.

Dominic Dragisich^ Yes. I'll start at the top and just with regards to what we're seeing in the context of the current RevPAR performance.

Then Scott can walk you through the Q3 and Q4 in terms of what we're assuming from a modeling perspective. But on the RevPAR side, I would say we're encouraged by the sequential progress. Totally agree with there's still more work to do here as well.

The reality is, when you think about what we've invested in, we talked a lot about the $60 million of investments in the commercial engine that ultimately will be a huge driver for sustained RevPAR within the future.

So now it's just a matter of really executing, activating. We talked about easy bid, business direct loyalty. Those are the types of things that we're encouraged by. And candidly, we're encouraged by the broader macro backdrop which we can certainly get into as well.

But while we saw the sequential improvement when you take a look at just from an index perspective, there was a gap, right? And so I think when you peel back the onion, we are under-indexed in urban markets.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

We're under-indexed in business transient which had a pretty big bounce back in Q2. Obviously there was a World Cup tailwind as well. So having a lower number of units in those markets created that gap.

We are encouraged by one trend that we are seeing very much in that occupancy. So we're continuing to drive occupancy index gains.

So our biggest opportunity at this point right now is rate. When you take a look at the sequential improvement, it wasn't just quarter-over-quarter, actually saw July improved by about 100 basis points versus June as well.

So we're seeing progression there. There is some lumpiness and some timing phenomenon in the back half of the year that I think Scott can hit on as well.

Scott Oaksmith^ Yes, Dan.

So our second half of the year RevPAR guidance for the full six months is about 1.5%.

As we mentioned on the call we think that will be a little stronger in Q3, as Dom mentioned, we did see July up about 100 basis points. There are some calendar shifts in the August timeframe with the Labor Day holiday pushed deeper into September and fewer weekend days in August and previous which mitigates a little bit of our RevPAR performance given the higher competition of leisure travel that we have.

We do see that moderating a little bit in Q4. As we've talked about in the past, our booking windows are fairly short, so we don't have a lot of visibility in that Q4.

So I think when we gave our guidance of up to 1.25%, that does assume a little bit stronger Q4 if it ever take place.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

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

Michael Bellisario^ First question, can we dig into the -- I think you said moving with greater urgency as one of your priorities. Just maybe help us understand what people and processes have changed so far?

What have you already seen impact in 2Q?

Then what's still to come?

Dominic Dragisich^ Yes. So I think broadly speaking, stepping into the role really just reinforced rather than fundamentally changed a lot of the thinking that I had, right?

And I think one of the most important elements, and I mentioned this in my prepared remarks as well, it really is staying close to our franchisees. That's what matters most, really grounded in those relationships, the franchisee success system.

Owner economics is the linchpin. I talked a little bit about the net rooms growth side of the house as well. Where we made some significant changes, frankly, was on the retention side of the equation.

I think from a people, process and systems perspective, there were several investments that we made back half of last year. That's paying dividends today. I think you show -- you see it in the 50% reduction in this quarter alone with regards to the exits.

The last is really around just the commercial and technology capabilities. I think AI is obviously the flavor of the day so to speak, and I don't think it's just a flavor. I think it's going to be sustained. We see that as next part of our technology evolution, so making sure that we're holding those teams accountable.

I think what has changed is really just importance of accountability and communication, both internally and with all of you, I don't think we should ever be sitting on a quarterly earnings call and have surprises.

So that's going to continue to be something that I urge the team to do as well.

And we simplify parts of the organization by just realigning some of the functions that naturally work together, single points of accountability around key operating priorities and at the end of the day that's about reducing friction, making faster decisions and translating all the things I just talked about, into results, and ultimately, you're going to evaluate us based on the results that we deliver.

Michael Bellisario^ Got it. That's all very helpful.

Then just on your guidance, if I can ask a second one here. Just maybe remind us of your philosophy around conservatism, I think, if you just touched on communication too.

Then any puts and takes to call out with EBITDA up only 0.5 percentage point, but rent are up by more than that plus better net unit growth and higher expected royalty rate expansion.

Anything to call out there in the back half?

Dominic Dragisich^ Sure. I think at the highest level, we did beat the internal forecast that we had, and we flowed that beat through.

So very much encouraged by the trends we're seeing across every core revenue driver, rooms, RevPAR effective royalty rate. To Scott's point, some of this is timing related. There are a couple of puts and takes specifically in the back half.

And I think Scott mentioned that in his prepared remarks as well in Q3 of last year, we did have elevated liquidated damages that are tied to exit.

So we brought this number down which actually is a good news story for the algorithm. Obviously there's a one-time reduction in revenue associated with that. But given the fact that we are more encouraged by the room's progress, that's going to be a better long-term value driver for us.

So we're pretty excited about that one. I'd say we're taking a more cautious approach to EMEA, in particular, to Europe. And just given what you're seeing overseas.

The reality is if we continue to execute the way that I know we can, you could possibly get to the higher end of the guidance. But as of right now the midpoint is actively where we feel most comfortable.

Operator^ Your next question comes from the line of Shaun Kelley with Bank of America.

Shaun Kelley^ Dom, welcome back to the public calls. If I could just maybe have you guys elaborate on two areas.

First one, Dom, maybe a high-level owner health and the cost, I think all-inclusive costs of franchising to owners has been a theme throughout the entire lodging industry this quarter.

So I'm curious on how that impacts your philosophy or your thinking how you maybe weight your brands and your offering relative to some of the other things that are being done out there as you're starting to see other franchise companies starting to use some of their heft and weight to try and get, I think slightly better deals for their franchisees or charge them all-in fees that are a little lower.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

So that's the high-level one and then maybe one for Scott. If you could just quickly give a thought, I think on the key money environment on the one side, I think you said that contract acquisition costs were up pretty materially in the first half of the year.

But on the other side, I think all-in capital intensity with CapEx and some of the renovation stuff you're doing is down.

So just trying to weigh those two factors and think about key money investment for the balance of the year.

Dominic Dragisich^ So I'll start at the high level and then Scott can hit the second part of your question.

I mentioned a little bit of this and I think the first question, but when you take a look at what we're doing to lower the cost for our owners, I mean we don't have perfect visibility into their P&L.

So I'll start with the bottom line upfront. We believe it's still in that teams in terms of owner returns and whatnot. We're seeing the improved value proposition showing up in the development results.

So when you take a look at where we were last year versus this year, I mean we're lowering the cost of customer relations. We're exploring insurance options. We've reduced -- we're in the process of having conversations with regards to reduced commissions. The cost of prototypes being down 25%, FF&E down 20%.

So all in all, we feel like our value proposition is very much competitive against the competition. That's really, again, showing up, I think in the 30% higher development results this quarter versus where we were last year.

So again, the profitability is going to continue to be core to who we are.

What's been very consistent in every conversation I've had with franchisees and I've probably talked to 100 since I've stepped into this role now at this point. They want the lower cost, and those are all the things that I just talked about. They want to see stronger top line and a lot of those commercial capabilities that I talked about as well.

We are confident that it's going to show up in top line gains in the long term. They want tools that makes their lives a lot easier.

The one piece of feedback that we've gotten, in particular, is this AI-enabled teammate, Charlie, within the property management system. That alone has reduced operational request to corporate by 40%.

So if you have the ability to replace some of those -- some of that FTE time so that they could go spend with the guests, et cetera, that's a net benefit.

So again we feel like we're well positioned. We're going to continue to pound the pavement in the context of our development this year and looking forward to continuing to drive their profitability.

Scott Oaksmith^ Shaun, in terms of your question about capital intensity.

So as you mentioned, the key money was up from the first half of '25 into the first half of '26, was really driven by the rise in the number of room openings we've had during the quarter.

So we were up about 27% in room openings in the U.S. compared to the prior year. And additionally, the mix of hotels that opened has shifted.

We've seen a lot more stronger growth in our core brands of the mid-scale, upper mid-scale and upscale which bring us higher revenues, but also sometimes slightly higher key money checks.

But overall, we feel really good about where we are in terms of the amount of key money that it takes to win the deal we seen that increase.

We really have a disciplined strategy against that, and we underwrite those to really attractive returns with a reasonable payback period.

So what you're really seeing is a healthier pipeline coming in and more openings.

With that, we do believe that our use of key money will be slightly higher than we originally talked about earlier in the year, probably in the order of $15 million to $20 million higher.

But on the flip side, as you all mentioned, we are seeing less capital intensity as we wind down the development programs for both our Cambria and Everhome programs which were -- the use of that capital was down 80% for the first half of the year.

We expect that to be down about 70% for the full year. And as we wind up the more capital-intensive phase of building out those brands and return to asset franchising which is our core offerings, we will move now to start exploring the sale of those assets.

As we said in the prepared remarks, we have started to evaluate the timing of those sales. We do expect the first ones to happen in the first half of 2027.

Dominic Dragisich^ Shaun, the only thing that I would add just on the money side of the house, too, is we've been very -- sorry, Shaun, I was just saying the only thing I would add just on the key money is that we've been pretty disciplined in the context of tying that key money more closely to our property improvement plans. And just in terms of, obviously the cost to convert is a huge consideration for any owner.

So being able to effectively offer them property improvement plan that allows them to convert a project that is lower in cost but also ties that key money to ultimately improve the product and drive the better guest experience, AI, benefits and otherwise, something that we're being very disciplined in doing.

So again, feeling good about the way that we're using the key money to improve the product portfolio.

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

Charles Scholes^ Congratulations on the net rooms growth improvement.

I'd like to just step back and ask a high-level question here. When I think about two or so years ago with the failed Wyndham takeover, one of the things that really percolated up that maybe wasn't as well-known was some dissatisfaction from your franchisees or I should say less than ideal franchise or franchisee relationships versus perhaps that of some of your peers.

In that regard, I recall around that time you had folks had dropped out of the AHLA organization. Would you ever consider rejoining that organization, that's certainly being the largest franchisee organization out there.

Dominic Dragisich^ Yes. I mean I think first and foremost, we've said this previously, but we paused the membership. We never paused the relationship with AHLA.

So I think that's, first and foremost, we continue to work with them very collaboratively in the context of those items that ultimately support the broader franchise business model that ultimately support the hotel industry.

There are many, many things. And candidly, the vast majority, 99.99% of the things that we are more aligned on.

So I think there is one element in particular, where all the hotel companies paused that membership. Not saying that if there was an opportunity to rejoin that we wouldn't, it's a conversation that we would certainly entertain.

But the reality here is we work very collaboratively with our self-elected owners' councils that really addressed those items that our franchisees are dealing with day in and day out.

Many of those members are also members of AHLA, so again there's a collaborative effort on that side as well. And broadly speaking, we feel like the relationship that we've had with our franchisees has never been better.

We continue to see that, and we've had that experience that our franchisee convention just two months ago, and we're encouraged by the continued feedback that we're getting from our franchisees with regards to everything that we're doing to allow them to operate their businesses more effectively to drive their profitability.

It's showing up. I think it's showing up on the retention side of the house.

There's a reason why we believe that the numbers are down 50% in terms of the exit from the portfolio year-over-year, and that's because of not just the performance that we're driving, but the broader relationship that we have with them and the trust that they have in us.

Charles Scholes^ Okay.

Then a follow-up, not so much as a question, but just passing on quite a few thoughts or requests from a number of shareholders this morning. Certainly, what I'm hearing is, we, myself and shareholders, certainly would encourage more granularity.

You've certainly talked about from a high level on this, but certainly more granularity to address RevPAR improvement. When we look at the index, your performance, it looked to be about 300 basis points below.

I get it, some of it may be location or customer, but I don't think that explains the whole thing.

So certainly, going forward, providing as much granularity as far as your plan to improve that would certainly go a long way.

So just passing that on, and I appreciate your consideration.

Scott Oaksmith^ Absolutely. Thanks for that, Patrick.

Yes, the reality is communication and transparency are critical. I think we are doing a much better job as it pertains to showing the puts and takes on the net rooms growth in the prepared remarks on the RevPAR side. We obviously try to provide that, and we'll continue to do so in the future.

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

Robin Farley^ Two questions.

One is just going back the commentary about the expected increase in U.S. rooms really sounds like in Q4. Maybe I'm doing the math wrong on this, but it looks like your U.S. pipeline is down year-over-year.

Is the growth in U.S. rooms, is it more just these fewer exits?

Is that the right way to think about it?

And is there -- are you -- was there a purposeful program to the rate of certain properties that now is winding down?

Or just to understand the components of that U.S. growth.

Dominic Dragisich^ Robin, I'll hit it at a high level, and if Scott wanted to add anything, certainly can. But I think it is coming from both, right?

It's coming from an increase in openings. I think in this quarter, you actually did see a 27% or so increase in the openings.

And so we're very encouraged by what we're seeing and the reality is that the vast majority, about 90% of those openings that we expect in the full year as well are coming from conversions. And so we have that proven conversion engine.

We're actually seeing a reduction in the time between a franchise agreement being signed and when a hotel opens by almost one month and so again we're seeing speed open increasing as well.

So we're very encouraged by the fact that about 75% of the conversions that we're signing this year are going to open in year.

So we do expect to see a pretty significant -- well the increase that's in line with the guidance at least on the opening side. We also continue to see the trend that we're seeing on exits continuing in the back half of the year.

So it's going to be a both end as it pertains to the opening side and the exit side.

New construction obviously has been light across the industry, supply growth less than 1% which is one of the reasons why you're seeing the pipeline where it is. But we're not just looking at the pipeline in terms of the catalyst for future growth because of that conversion engine that we do have.

So again, very much excited about where we're heading there.

Scott Oaksmith^ Yes. As Dom mentioned, it really is a conversion story today.

If you look at our conversion pipeline in the U.S., it's up about 24% since last year at the same time and up about 6% sequentially since the end of March.

So really reflecting the success our franchise development team has done in signing agreements. And as Dom mentioned, new construction has declined year-over-year as we've seen less starts with the current economic conditions. But especially flat since the end of the year.

So really, it's both increasing conversion openings as well as a decline in our termination rate which is expected to be down about 250 basis points year-over-year.

Robin Farley^ Okay. Great.

Then my other question was -- just if you could help us understand, you talked about the net capital outlay for hotel development declining pretty significantly. But also in the quarter, you talked about the increase in franchise agreement acquisition costs.

Can you just help us understand what is different about those two buckets?

Scott Oaksmith^ Yes. The net development outlays are really focused specifically on building hotels through wholly owned ownership, joint ventures as well as loans.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

So those were specific programs that we have done to launch our both Cambria and Everhome brands. And now that we've gotten both of those to the scale that we believe is necessary for them to grow more in an asset-light major and franchising only, we're able to pull back the spending on those programs and now move to recycle that capital.

So that will be a capital that comes back in. Key money is more focused on cost of acquiring a franchise agreement. And as Dom mentioned earlier, really, it's around helping the owner as they transition to our brand to upgrade the hotel, make sure the quality is in the right spot for each one of the brands to make sure we're enhancing guest experience.

So those come with a very long franchise agreement and assuming the franchisee operates within our system over the term of the agreement, the key money is forgiven over time.

So really it's a cost of acquiring the contract, but very high IRRs on that as we go forward.

So a little bit different when you look at the overall capital intensity of the business, it's certainly declining, and we expect free cash flow conversion over the next several years to get back to more historical levels that we've had.

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

Stephen Grambling^ So maybe just a follow-up there and I guess in the vein of disclosure.

I guess what percentage of the key money that you expect this year is for supporting existing owners versus what's in the pipeline?

Then some of your peers have also talked about supporting owners through programs to incentivize them spending on properties and aligning the brand with owners. Sounds like you're alluding to a bit of a similar dynamic with your own cost reductions, but should investors anticipate this will be funded through your P&L or the system fund?

Or are you finding outright reductions in the system funds us still be breakeven longer term?

Dominic Dragisich^ Yes. So I'll hit the cost and the key money associated with the existing owners.

The reality is when an owner is coming up on an exploration or whatnot, obviously in order to retain that owner if we expect for them to have a capital outlay associated with improving that particular hotel. That's our opportunity to work with them on what that property improvement plan looks like, making sure that we're ultimately tailoring in such a way that meets their needs, but more importantly, the needs of the guests in terms of those longer-term guest reviews and whatnot.

And so you are seeing us being able to meet the owner where they are as it pertains to retaining them. And as it pertains to supporting that property improvement plan. There's other creative things that we've always done in the past, candidly, I know some of our competitors are talking about today with regards to reducing certain fees as well based on guest review scores.

We have an internal acronym for it, but it's effectively your guest review scores around hitting a certain threshold and having a reduction in loyalty fee hitting a certain score and having a reduction to other business as usual fees and customer relations and whatnot.

And so, again, there's the capital piece that ultimately flows through the P&L.

Then there's the P&L piece that does not have a material impact on the effective royalty rate and the overall royalty fees as well.

Scott Oaksmith^ In terms of your question on key money, so we have -- at this point in the year, we have fairly good visibility in terms of how much key money is tied up into the pipeline today. Certainly, the timing of disbursement can fluctuate over periods as our hotels, particularly as we mentioned earlier, 90% of our openings this year will be conversion open within three to six months.

But there can be unforeseen circumstances as people do their property improvement plans that could either accelerate or push that into the next year. There will be still deals that we'll do for the remainder of the year that will open in the year that we have not executed yet.

So there's always a little bit of volatility in terms of predicting the key money in any one period. But generally, we have a very good sense of the total outlays over an 18-month period.

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

Raymond Bowers^ I guess in the vein of what have you done for me lately. You guys have done a great job breaking out the net capital outlays and the improvement from last year. But as we look out to 2027 and think about free cash flow dynamics, should we expect that to be a net positive number next year, less negative?

Just any framework as you guys look to start to distribute some of these assets, what that could mean?

Scott Oaksmith^ Yes. At this point in time, that's right. We're done on -- at the end of this year for the most part and maybe a few dollars that trickle into 2027. But as the final projects are finished.

But the capital outlay there's no more commitments to that.

So at this point in time in terms of our support of Cambria and Everhome, we should -- we will be net recyclers of that.

So as we wind up some of the joint ventures we have as we sell the wholly-owned assets as we collect the outstanding loans we have, we will be in a net surplus position which will obviously be a tailwind to our cash flow.

So we expect no more substantial money to go out and really over the next 12 to 24 months as we work through the market conditions and take those assets to market to be net recyclers of capital.

Raymond Bowers^ Then I guess as a follow-up, if I think about the owned portfolio, is that a number that over time should go to zero?

Would you like to be 100% franchised?

Or will there always be some small portion of the portfolio that you guys want to hold on to just to control brand standards?

Then finally, against that, any sense of magnitude if you were to execute all these sales, what that would mean?

Scott Oaksmith^ Yes. In terms of ownership, that's really not in our long-term plans. The hotels we own really are concentrated in three different ways, as I mentioned earlier, building some Cambrias and early Everhomes to get the brands launched.

Then we did acquire three assets when we acquired Radisson. At this point in time we don't see any long-term strategic value into owning them.

We are an asset-light franchising company. So we do not plan on holding any of the assets really around -- now it's around making sure that we're maximizing the value on sales as well as retaining franchise agreements is really what we're focused on.

In terms of magnitude, we've got about $650 million on our balance sheet related to those programs. It is mix between owned hotels, some joint ventures we have as well as lending. About $450 million of it is on owned hotels.

So that would be the more immediate area that we have the ability to go sell and monetize those prior investments.

Operator^ Your next question comes from the line of Meredith Jensen with HSBC.

Meredith Jensen^ Two very quick things.

One, Scott, I think you mentioned penetration in terms of loyalty. I was hoping you might discuss a little bit further what you're seeing since the refresh what some opportunities you're seeing maybe in the future given that increase of engagement?

And secondly, if you might speak a little bit more about the partnership revenues in terms of the moving parts from there and the sustainability of how we might model that over the longer term.

Dominic Dragisich^ And I'll start with the loyalty piece.

The reality is we're very -- we're encouraged by the progress that we're seeing. I think the most important result that we wanted to highlight there is just the increase in loyalty contribution which is in that 250 basis point range. And at the end of the day that's all about driving our franchisees' profitability.

So the more direct business that we're driving to them through the loyalty program, the better their economics are going to be.

And so, again, the relaunch of the loyalty program in isolation was a great win for us but it's a bigger part of that commercial ecosystem that we've invested in to really close that RevPAR gap and to really drive the same-store sale number higher in the future.

So that's part of a loyalty tool, a guest data platform, the relaunch of our -- or the launch, I should say of our easy bid RFP response tool.

So it's consolidated ecosystem, candidly, that's made up of a number of different programs that we think is going to be a net tailwind for us from a RevPAR perspective into the future. We're also seeing an increase in active members within the loyalty program itself at the highest level.

Then the last piece is really those new loyalty program members are actually driving more RevPAR than the loyalty program members that we added during the same period last year.

So again, all encouraging signs. I'm not going to take a victory lap just yet. It's early days, but we feel like this is going to be a big part of that commercial engine into the future.

Scott Oaksmith^ And it dovetails well into the partnership question you had as we continue to bring more guests into our ecosystem and a higher-value guests, they're very valuable to the various partners that we have.

So gives us the ability to cross-sell different services, whether they're travel adjacent or something else to our most loyal members which we then earn fees off of.

So the growth of the loyalty program really sets us up well to continue to monetize that guest in other ways to drive that revenue line item. The other area for the partnership services and fees that we focus on very much, and it's been the theme of this call is franchisee economics.

So leveraging the size and scale of our overall franchise system to drive down the cost of operating a hotel, whether that's through the various procurement of the types of items that are used in the hotel, whether that's driving down cost of converting the hotels that we talked about the 25% reduction in prototype costs. As we do that, we're able to both lower cost for our franchisees, but also then earn fees from those third-party vendors.

So we feel good about where we are on those programs.

Our guide for this year is that mid-single-digit increase, but I think we have a lot of opportunity in the future to accelerate that growth.

Meredith Jensen^ That's super helpful. Dom, did you mention the actual -- the penetration or the contribution for the loyalty, just so we can keep track on the progress.

Dominic Dragisich^ We didn't disclose that, but I mean it's different across the chain scales. In the past, we've talked about it being a little north of 40% across. But again, in the mid-scale and above, you see a much higher loyalty penetration.

Scott Oaksmith^ Yes. Really, the portfolio is very different.

So below the 30% in our economy brands, but when we get to the upper mid-scale and upscale hotels more in that 50% to 60% -- close to 50% to 60% range, where it blends to 40%.

I think that's pretty common across the industry, particularly in the economy segment where it tends to be a little more cost conscious and less value guests. But as you move up the chain scale, a lot more loyalty from your guests.

Operator^ Your last question comes from the line of Alex Brignall with Rothschild & Co.

Alex Brignall^ The first one is just on the churn rate, massively appreciate the new color that you've given for the U.S.

Is there anything that you could just tell us whether it's directional in terms of the international piece or just what it would look like on a whole system basis and whether that 250 basis point reduction in churn would apply across the whole group?

And if not, why there are differences?

Then just in terms of the reimbursable revenue and expenses, obviously the gap has widened a little bit. Could you just talk about how this will progress in outer years?

Dominic Dragisich^ Yes. I'll hit the international and just the broader portfolio, net rooms growth question, specifically on the churn rate and then Scott get on the reimbursable.

But when you take a look at just where we are from a net rooms growth perspective, we would expect to see international consistent into the future as it pertains to the churn rates. International growth this year was pretty significant.

So we're lapping a pretty tough comp in the back half of the year.

So right now with the net rooms growth, at 2%, and we're guiding globally about 1.5%, that's because of the fact that we're lapping that pretty difficult comp. But we do expect to still grow our international portfolio and, call it, the low to mid-single digits after 13% growth year-over-year.

And so those churn rates, we expect to stay stable. Obviously we're continuing to see the openings as well throughout that portfolio.

We are seeing significant momentum in Canada following the transition to direct franchising or I should at least say momentum where we're driving mid-single-digit net rooms growth, low to mid-single-digit RevPAR growth. We also do see an opportunity in CALA following the Radisson acquisition. And Asia Pac remains a little bit of a distribution market for us outside of Australia.

So again, encouraged by the continued progress there. I wouldn't sit here and say you should expect to see 13% rooms growth internationally over the course of the next six to 12 months, but

I think you're going to see more of a moderation which means as U.S. growth picks up, we feel confident in that 1.5% guide.

Scott Oaksmith^ Yes. So in terms of your question about the marketing and reservation reimbursable.

So yes, we have had a temporary acceleration of the investments really around our franchisee and guest value proposition.

So we've been investing in capabilities that improve distribution, strengthen our reservation delivery, modernize our loyalty technology and improve our rate setting abilities which ultimately will help franchisees acquire customers and operate their hotels more efficiently.

The current level of spending is not intended to represent a permanent run rate. We did have some accumulated surpluses from prior years, where we're able to fund this defined period of elevated investment.

So as we wind up those, I would expect this to be the high watermark in terms of the amount of spending into this year, we'll see that start to come down as these investments are completed this year and going into the following years.

So those reimbursable expenses as measured against revenues, we'll be more aligned.

Alex Brignall^ Could you quantify the surplus that you had there, please?

Scott Oaksmith^ Yes. Coming into the year, we had a little over -- I think it was about $25 million in surpluses.

So we are going into more of a deficit with the spending levels this year. But the way our contracts work is we will then recover that over the next several years back to breakeven.

08 - 05 - 2026

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

Operator^ A final question coming from Brandt Montour with Barclays.

Brandt Montour^ I apologize if I missed this. I wanted to ask about the pipeline, the domestic pipeline specifically.

The fact that it's down quarter-over-quarter, down year-over-year. I know franchise agreements and signings are up and they're moving in a better direction off the direction. I know the pipeline is not really representative of the science because you're conversion heavy, but you always have been conversion heavy.

So I guess the question is why are those numbers moving in the opposite direction?

And if there is a significant change of mix toward closer in conversions and why not just put them in the pipeline?

Dominic Dragisich^ Yes. There's a couple of stories within the story there, Brandt.

I think when you take a look at the pipeline, year-over-year, there was a pretty significant set of hotels that were in the pipeline globally, so at our International division which led to the 13% growth.

So those effectively were open hotels that brought the pipeline down. When you take a look at the domestic pipeline year-over-year, it's effectively flat and I think it's down 40 basis points, 1.4%.

So a lot of that has to do with the fact that, again, new construction has been pretty muted. And I think we are encouraged by new construction of seeing on extended stay which now represents about 40% of the pipeline, 13% unit growth.

So we continue to see that momentum on the extended state portfolio but broadly speaking, you are seeing just a higher velocity within that those conversion development agreements where we actually reduced time to open by, I think it was between 10% and 15%.

And so, again, the more development agreements that are being signed, the more you're basically seeing open in year or in some cases, even within the quarter.

So those aren't even showing up in the pipeline.

So again, we're still pretty darn confident about where we're heading from a net rooms growth perspective which is why we guided even with the pipeline effectively staying flat year-over-year domestically.

Scott Oaksmith^ Yes, Brandt, I think to the point we made earlier, we really are more in a heavier conversion, especially in the U.S. environment.

We have about 90% of our U.S. openings this year. Historically, it's been more mid-60s just with the lack of supply growth across the entire U.S. industry.

So really, if you focus where we've been focused on is our U.S. conversion pipeline is up 24% year-over-year and 6% sequentially since March 31 of this year.

So we are seeing, to your point earlier about the increase in franchise agreements, we are seeing that more on the conversion side, and they're moving through the pipeline really quickly.

So the pipeline is not always representative at any point in time of the velocity and the unit growth potential.

Operator^ There are no further questions at this time. I will now turn the call back to Dom Dragisich for closing remarks.

Choice Hotels International, Inc.

Choice Hotels International Inc. Q2 2026 Earnings Call

Dominic Dragisich^ Thank you, Operator, and thanks, everyone, for joining us this morning. We're looking forward to meeting with you again in November when we report our third quarter results.

But in the meantime, we both hope you have a great rest of your summer.

Operator^ This concludes today's call. Thank you for attending.

You may now disconnect.