TRANSCRIPT

05 - 08 - 2024

Choice Hotels International, Inc.

Q1 2024 Earnings Call

TOTAL PAGES: 26

Choice Hotels International, Inc.

Q1 2024 Earnings Call

CORPORATE SPEAKERS:

Allie Summers
Choice Hotels International, Inc.; Investor Relations Senior Director
Patrick Pacious
Choice Hotels International, Inc.; President and Chief Executive Officer
Scott Oaksmith
Choice Hotels International, Inc.; Chief Financial Officer

PARTICIPANTS:

Shaun Kelley
Bank of America; Analyst
Michael Bellisario
Baird; Analyst
Stephen Grambling
Morgan Stanley; Analyst
David Katz
Jefferies; Analyst
Robin Farley
UBS; Analyst
Joseph Greff
JPMorgan; Analyst
Charles Scholes
Truist Securities; Analyst
Alex Brignall
Redburn Atlantic; Analyst

PRESENTATION:

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to Choice Hotels International's First Quarter 2024 Earnings Call. (Operator Instructions)

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

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

Choice Hotels International, Inc.

Q1 2024 Earnings Call

Before we begin, we'd like to remind you that during this conference call certain predictive or forward-looking statements will be used to assist you in understanding the company and its results.

Actual results may differ materially from those indicated in the forward-looking statements.

And you should consult the company's Forms 10-Q, 10-K and other SEC filings for information about important risk factors affecting the company that you should consider.

These forward-looking statements speak as of today's date.

And we undertake no obligation to publicly update them to reflect subsequent events or circumstances.

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

This morning, Pat Pacious, President and Chief Executive Officer, will speak to our first quarter operating results; while Scott Oaksmith, Chief Financial Officer, will discuss our financial performance and 2024 outlook.

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

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

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

We appreciate you taking the time to join us. It has been a successful start to the year. We drove our adjusted EBITDA 17% higher and our adjusted EPS, 14% higher year-over-year to record first quarter levels, and we expect to carry this strong momentum through the rest of the year. The impressive results we delivered in the first quarter clearly demonstrate that we are unlocking the revenue synergies from the Radisson Americas integration.

The Radisson Americas acquisition has meaningfully enhanced our growth profile as it created a step function change in the size of our business, expanded our rewards program, broaden our geographic reach, unlocked new value through our platform capabilities and opened new incremental, non-RevPAR-related earnings streams, which are resulting in additional profitability.

By increasing our scale, network of franchisee relationships and customer reach, we have significantly increased our future growth opportunities, resulting in a record global pipeline of over 115,000 rooms at quarter end, which is a 10% increase quarter-over-quarter.

And our strategic focus on more revenue-intense hotels means that the pipeline continues to be a significantly higher value than the current hotel portfolio.

Importantly, the hotels in our domestic pipeline now represent a more than 30% RevPAR premium compared to our existing portfolio, a meaningfully higher average effective royalty rate, driven by our strengthened value proposition to franchisees, and they have, on average, a 40% higher room count per hotel as compared to our current domestic system.

With this positive momentum, we are very encouraged by our existing and future portfolio prospects.

At the same time, the strategic investments we continue to make in our franchisee-facing systems and tools, our brand portfolio and our platform capabilities are increasingly contributing to our earnings results and are providing additional levers for us to drive our growth. The successful execution of our strategy which has accelerated over the past year demonstrates the versatility of our business model. The four growth drivers each uniquely contributing to our performance include: First, driving the revenue-intense growth of our brand portfolio, with a focus on hotels that generate higher-than-brand average royalties per unit.

Second, increasing the velocity of new hotel openings as we leverage our best-in-class hotel conversion capability, which remains a distinct advantage in today's development environment.

Third, expanding our international growth. And finally, bolstering our platform earnings capabilities through strategic partnerships and other ancillary revenue opportunities.

Just last week, we hosted our 68th Annual Convention, which is a hallmark of Choice Hotels, a record number of our franchisees joined us and the level of enthusiasm and support we heard about the upward trajectory of our brands and our plans to build on that momentum was remarkable. The success of this event every year is a direct outcome of our steadfast commitment to our franchise owners and the deep personal relationships we've developed with them over the years.

The convention is always a significant new hotel business development opportunity. The event was a chance for us to award new franchise agreements, share our long-term brand growth plans, and discuss many new investment opportunities across the portfolio.

One of the most exciting announcements we made was the relaunch of Park Inn by Radisson. This conversion brand is a part of our portfolio of revenue intense brands. The brand delivers a premium lodging option aimed at the younger, value-conscious traveler, which we know is a growing segment.

The innovative conversion model offers a compelling investment for our franchise owners while filling a market opportunity in our portfolio just below the Quality Inn brand.

Over the past several months, hundreds of prospective owners have expressed interest in opening a Park Inn by Radisson franchise.

In fact, we expect our first Park Inn by Radisson to open next quarter.

We are encouraged by the initial reception, and we believe there is a meaningful opportunity for this brand offering in the coming years.

Our Annual Convention, which is a significant learning opportunity for our franchisees and the enhanced value proposition we continue to deliver are among the reasons why our existing owners choose to expand their hotel portfolio with Choice Hotels and contribute to our industry-leading voluntary franchisee retention rate.

Our distinct unit growth strategy continues to deliver results and enriches the attractiveness of our brands.

Since we embarked on our strategy of enhancing our franchise business, with more revenue-intense hotels, we have meaningfully expanded our mix of higher revenue-generating hotels and importantly, we expect it to continue to increase in the coming years.

These new revenue-intense franchises are more accretive to our earnings and are a key driver of future growth as hotels within a brand, on average, generated royalty revenue over 20% higher than hotels exiting the brand.

In the current hotel development environment, our core competency of a best-in-class hotel conversion capability has an even greater impact. Through our superior speed-to-market conversion processes and best-in-class franchisee support, we are able to move projects quickly through the pipeline, which allows Choice to start generating revenues sooner.

In fact, of the domestic franchise agreements we executed for conversion hotels over the trailing 12 months, we opened 113 during the same period, a 43% increase over the same period of the prior year. This core competency will continue to be a key growth driver throughout this year as developers choose to convert to our brands.

Specifically, as of the end of March, we grew our global rooms pipeline for conversion hotels by 36% quarter-over-quarter including a 9% increase coming from our Radisson upscale brand.

We are especially encouraged by the prospects for this brand given that each hotel generates on average, 6x more royalty revenue than our economy portfolio.

Fueling our success is our ongoing commitment to strengthening the value proposition we provide to our franchise owners. This is supported by our investments in creating a best-in-class franchisee success system.

In fact, over the past two years, we have grown the direct online contribution to our franchisees by over 10%.

We continue to meaningfully enhance the performance of our Radisson Americas hotels by driving higher traffic and booking conversion rates, which in turn lowers customer acquisition costs for our franchisees.

Specifically, since the digital integration back in August last year through March of 2024, we drove over a 20% increase in stays through our domestic, direct online channels for the Radisson Americas brands year-over-year with particularly strong results for the Country Inn & Suites brand, which grew by over 30%. The significant performance lift since the integration is attracting new hotel development commitments.

In fact, in the first quarter, we saw a 60% year-over-year increase in new applications for domestic franchise agreements for Country Inn & Suites by Radisson brand.

Thanks to our portfolio being better positioned, we organically grew our rewards program by 9% in the first quarter year-over-year. And this increase is exclusive of the Radisson Americas Rewards program integration.

We now have approximately 65 million Choice Privileges members, and these loyal guests booked directly through our lowest-cost channels. They drive more revenue and return more often than nonmembers, which translates to lower customer acquisition costs and higher margins for our franchisees.

In addition, our recently enhanced partnership with the world's largest independent hotel brand, Preferred Hotels & Resorts is expected to provide expanded opportunities for our rewards members to redeem their stays at more than 300 luxury properties. Another benefit of our broader and higher-quality portfolio of hotels is that it allows us to attract more blue-chip national travel brands, and it strengthens our existing strategic partnerships.

For example, we were recently named the first new AAA Preferred Hotel supplier in a decade. All our key brands were awarded the prestigious AAAs Diamond designated status, which brings added visibility and credibility to our hotels.

This endorsement is particularly meaningful given that AAA and its Canadian counterpart CAA's 64 million members account for over 30% of paid room nights annually across North America and look to these exclusive designations to help them make travel choices.

We are excited about the long-term opportunity from this partnership and anticipate that it will start to deliver more business to our franchisees as we enter the busy summer leisure travel season.

Turning now to our international business.

We had another strong quarter with growth across all our key metrics including unit growth, RevPAR, EBITDA performance and guest satisfaction scores.

Importantly, in France, we recently signed a franchise agreement with Zenitude Residential Hotels, representing more than 4,000 rooms. And as the Summer Olympics approach, I'm pleased to say we are on track to onboard these units which will double our hotel footprint in the country.

We believe we have a significant opportunity to further gain international market share and realize additional EBITDA growth in the coming years. Moving on to our platform business.

We are very encouraged by the traction we are gaining in our efforts to expand that business and our non-RevPAR ancillary revenue growth opportunities.

One of these revenue streams is our new co-brand credit cards, which have exceeded our target for new account sign-ups in the first quarter. This strategic partnership is a long-term tailwind and given that it drives loyalty to our brands as our rewards members with credit cards stay with us on average 4x as often as nonrewards members.

And it delivers revenues based on cardholder spend.

In closing, we remain focused and committed to executing on each of our long-term growth drivers that I have discussed. Choice Hotels has a meaningfully enhanced growth profile with additional embedded value, which we will continue to unlock as we move forward to create incremental shareholder value.

We have positioned the company with a portfolio of brands and a value proposition that allows our franchisees to capitalize on the long-term trends propelling travel.

Specifically, we are capitalizing on the increasing number of retirees, the continuation of remote work, rising middle-class wages and the rebuilding of American manufacturing and infrastructure, all of which expand the pool of our target travelers.

Furthermore, with more than 5,000 Choice Hotels within two minutes of a highway, our portfolio is well positioned to continue to benefit from the ongoing affinity for drive to vacations.

We are confident that these long-term trends that favor our brands will allow us to attract and capture an even larger share of leisure and business travel demand and enable us to maximize growth opportunities well into the future.

I will now be turning the call over to our CFO, Scott?

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

Today I will discuss our first quarter results, update you on our balance sheet and allocation of capital and comment on our outlook for the remainder of 2024. Throughout my remarks today, I would like to note that our figures exclude certain onetime items including transaction pursuit costs, which impacted our reported results.

Choice Hotels International, Inc.

Q1 2024 Earnings Call

For first quarter 2024 compared to the same period of 2023, revenues, excluding reimbursable revenue from franchised and managed properties increased 16% to $203 million and our adjusted EBITDA grew 17% to a record $124.3 million. This was driven by a combination of the successful integration of the Radisson Americas portfolio, organic growth in more revenue intense segments and markets, strong effective royalty rate growth and the robust performance of our international businesses and non-RevPAR dependent programs.

Our first quarter adjusted earnings per share reached a record $1.28 per share, a 14% increase year-over-year. Let me first discuss our key revenue levers, which include our unit growth, royalty rate and RevPAR performance.

In terms of unit growth, our strategic goal has been to accelerate quality room growth across more revenue intense brands and markets, while simultaneously growing our effective royalty rates, which ultimately results in an outsized increase in royalties.

We have successfully increased our portfolio of these revenue-intense brands to now comprise 82% of our total domestic hotels.

For the first quarter, we reported domestic unit growth of 1.2% year-over-year across our more revenue intense, upscale, extended-stay and mid-scale portfolio.

We expect to see an acceleration for the remainder of the year and continue to anticipate achieving our full year target of approximately 2%.

At the same time, we increased the number of domestic franchise agreements for our revenue intense brands awarded in the first quarter by 7% over the prior year.

We also executed new hotel openings at an impressive pace. Through March, we averaged more than four openings per week. This resulted in a 20% increase in openings year-over-year with 55 domestic hotel openings.

We are also pleased to report that our international rooms portfolio grew by 2.3% year-over-year.

As a result of our strong organic growth and the acquisition of Radisson Americas, we also increased our international EBITDA contribution to over $9 million in the first quarter.

These results demonstrate that the deliberate decisions and strategic investments in our franchise tools, brand portfolio and platform capabilities are delivering strong returns across our company.

First, we strengthened our upscale franchise business. For the first quarter, we nearly doubled our domestic rooms pipeline quarter-over-quarter. We expect to see continued strength in this segment over the coming years, fueled by strategic investments in transforming our upscale brands.

Second, we accelerated our growth across the Extended Stay brands portfolio. For the first quarter, we grew our domestic Extended-stay Unit system size by 17% year-over-year, highlighted by more than 10 incremental new hotel openings.

We are seeing particularly strong traction with our newest Extended Stay brand, Everhome Suites, with four hotels now open and nearly 70 domestic projects in the pipeline including 20 under construction, we continue to be very optimistic about our extended-stay Franchise business.

Last year, we communicated an anticipated 15% average annual extended stay unit growth through 2027, and we are pleased that we remain on track to achieve this impressive growth rate. And third, we continue to invest in our mid-scale portfolio with our overall domestic mid-scale rooms pipeline at quarter end totaling approximately 22,000 rooms, which represents nearly 1/4 of our total domestic pipeline.

Our effective royalty rate also continues to be a significant source of revenue growth.

Our domestic system effective royalty rate for first quarter 2024 increased 4 basis points to over 5% year-over-year, representing approximately $4 million of incremental royalties on an annual basis.

We continue to expect our full year effective royalty rate to increase in the mid-single digits, driving significant growth in our overall adjusted EBITDA. This performance demonstrates the positive impact of our strategy to drive the growth of our revenue intense brand portfolio and our enhanced value proposition to franchise owners.

We are very optimistic about the continued upward trajectory of our effective royalty rate for years to come given that contracts in our domestic pipeline have, on average, a 70 basis point higher effective royalty rate than those in our current portfolio of open hotels.

The third revenue lever I will discuss is our RevPAR performance.

Our first quarter domestic RevPAR increased 8.2% from the same quarter of 2019. RevPAR was down 5.9% year-over-year in the quarter, reflecting the timing of the Easter weekend and tougher year-over-year comps as we were the first hotel company to return to and significantly exceed pre-pandemic RevPAR levels.

For the first quarter, our overall domestic upscale portfolio delivered RevPAR growth led by our Radisson upscale brand, increasing by 8.5% year-over-year.

Importantly, our Radisson upscale brand outperformed STR's upscale segment by 8 percentage points and achieve RevPAR index share gains versus competitors.

For the remainder of the portfolio, we had anticipated year-over-year softness in domestic RevPAR at the start of this year, followed by improvements beginning in the second quarter.

Importantly, we are pleased to see favorable RevPAR trends from March to April. When combining the recent RevPAR trajectory with the initiatives we implemented to capitalize on long-term business and leisure trends, resilient domestic consumer spending and the first quarter being the lightest due to seasonality, we continue to project full year domestic RevPAR growth to range between flat and 2%.

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

Our platform and procurement services fees benefit from expanded offerings to our franchisees and guests, increased transaction volume with our qualified vendors and the broader reach of our initiatives.

While for the first quarter, these fees were essentially flat at $13.8 million year-over-year, it was driven by timing. Excluding this impact, the platform and procurement services fees would have increased by 9%, continuing to expand our platform business and increase the number of products and services we offer is one of our key initiatives. And we believe that we can drive this strong revenue growth in the years ahead.

As Pat mentioned, what gives us even more optimism is a continuation of the realization of benefits from the Radisson Americas integration that is driving additional profitability.

In 2023, the synergies were more cost driven.

While this year, we expect these to be revenue synergies. This is not a onetime benefit for an ongoing earnings streams that we have unlocked from the combination of the two companies as we serve more customers and maximize other revenue-generating opportunities.

As we have discussed in our prior calls, the opportunity to unlock these ancillary revenue streams began in the fourth quarter of 2023 upon the successful integration of Radisson Americas. These revenue synergies generated incremental EBITDA of approximately $10 million in the first quarter.

In terms of capital allocation, our well-positioned balance sheet and growth trajectory, coupled with a significant valuation discount provides a very attractive return opportunity for the repurchase of shares.

In March, the company's Board of Directors increased the authorization of our share purchase program by 5 million shares. Year-to-date through April, we returned approximately $226 million to shareholders including $29 million in cash dividends and $197 million in share repurchases.

We repurchased 1.5 million shares, representing over 3% of our outstanding share count, and we had approximately 5.3 million shares remaining in our authorization as of the end of April.

With a strong cash position and total available liquidity of nearly $540 million, our capital allocation priorities remain unchanged.

We intend to build on our long record of delivering outsized value by accretively investing to further expand our business while returning excess cash to shareholders.

I'd like to now turn to our expectations for what lies ahead.

For the full year 2024, we are reaffirming our adjusted EBITDA and adjusted earnings per share guidance.

We continue to expect adjusted EBITDA to be in the range of $580 million and $600 million and adjusted earnings per share to range between $6.30 and $6.60 per share.

We anticipate this growth to be driven by incremental contribution from Radisson Americas including revenue synergies and the expected additional cost synergies of approximately $2 million.

Organic growth across more revenue-intense hotels and markets, robust effective royalty rate growth, continued growth from our co-branded credit card, strong international business and other factors. This outlook does not account for any M&A or purchase of the company's stock after April 30 or other capital markets activity.

Today's results are a testament that our strategy is working, and we intend to keep investing in those areas of our business that will generate the highest return on our capital.

At this time, Pat and I would be happy to answer any of your questions.

Operator?

Choice Hotels International, Inc.

Q1 2024 Earnings Call

Operator^ (Operator Instructions) Your first question comes from the line of Shaun Kelley from Bank of America.

Shaun Kelley^ Thank you for the all the prepared remarks and the overview.

If I could, for Scott or Pat, would love to just kind of run through a little bit on the cash flow side. So we've talked a lot about investments across the platform, obviously what you're doing to drive the revenue intense strategy. We're getting a lot of questions around sort of the free cash flow conversion and free cash flow bridge. So specifically, I just want to drill in a little bit more.

If you could help us kind of think through the major buckets, what's your expectation for key money that's going into some of the franchise support side, what's the expected investment for Cambria. And then I think third and most important, we're seeing a pretty big set of just pure CapEx and would love to kind of understand a little bit more about is that the platform that you're investing in? Or what's driving that? Because it is pretty high relative to a lot of your peers in the asset-light hospitality space?

Scott Oaksmith^ Thanks, Shaun. I'll take that one.

So in terms of our operating cash flow, we expect to continue to increase that over the 2023 levels.

In terms of key money, last year, we were about $98 million for the full year. And as we talked about on our prior call we expect to be generally in line with that, maybe a little bit slightly higher, really reflecting higher openings for the year.

For instance, in the first quarter, our openings were up 20%. So our key money was up about the same amount, but the actual average amount per deal was slightly less than what it was in the first quarter of 2023.

In terms of our recycled capital support, we should be roughly around about $130 million of capital that for this year. And really, that's a mix of the support we've done for both the Cambria and the Everhome brand.

As a reminder, that is really around joint venture investing, some small mezz lending as well as a few self-developed assets to really get those brands going with the idea of being -- growing those brands to scale quickly, then recycling the capital and (inaudible) franchise model with those brands.

So when you take those puts and takes, and I think the other question was around CapEx, some of that self-development assets does show up in the capital expenditure line item.

So if you kind of look at the capital expenditures, the investment in joint ventures and lending, all of that is what I refer to as about $130 million for the year.

So when you look at those just our normal CapEx, we look at cash flow conversion, looking at our free cash flow, which is defined as operating cash flow excluding key money and those support -- recyclable support programs, we should be in that kind of mid-60%, 65% free cash flow conversion from EBITDA to free cash flow for the year.

Shaun Kelley^ Okay. And then just could you just give us the latest update on what you're seeing across the consumer? Obviously you talked about April, you saw some improvement. Could you help us put a little bit of a number around that? And I'll ask -- I'll tell you why. I mean we've certainly heard -- some people tell us that later in April, they saw sort of a reversal back after Easter because of passover. And then we've heard others, particularly some of the lower-end chain scales, actually tell us that April is fantastic and is really robust.

So just give us a little bit of a maybe a teaser on how Q2 is starting. We appreciate the visibility is pretty short here.

Patrick Pacious^ Yes. Thanks, Sean. I mean it's -- our forecast sort of how we're progressing is very consistent. We expected Q1 to be softer. April did turn positive.

So we are feeling pretty good about the trend. And as we expect to see both in our forecast and is in our guidance, we expect to see RevPAR improvement from here forward.

So we would be in the camp where April was better and not seeing a shift backwards.

When you look forward, the research that we're looking at shows that family travel, in particular, is really up this year and families do expect to travel and we have effectively the right brands for that type of traveling consumer. Their budgets are higher.

We look at consumers that are continuing to prioritize travel, the employment numbers are strong.

And when people have a job, they're going to travel, so they might cut back in other areas like fast food or retail, but travel has been pretty resilient and the research shows that's expected to continue. And the thing we keep looking at, and which I think people keep missing is, if you look at the

Atlanta Fed numbers, the middle-class wages have grown 5%, which is now ahead of where inflation is. And that continuation of continuing to outpace inflation gives us a lot of confidence that the RevPAR expectations we expect to see, particularly for our brands and for our segments will be pretty strong throughout the rest of the year.

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

Michael Bellisario^ for Scott. Just can you add some color on the reservation income that you guys record and help us understand the mismatch between the reimbursable line items on the income statement versus what gets added back in the EBITDA reconciliation. It looks like you got about $12 million of earnings in the first quarter. Any one-timers in there? Is that the right run rate? And then what's assumed in your full year guide would be helpful.

Scott Oaksmith^ Thanks, Michael.

So as we discussed in prior calls, the full integration of the Choice and the Radisson platforms at the beginning of the fourth quarter of 2023 provided us an opportunity to unlock the ancillary incremental revenue streams. These are not onetime benefits, but ongoing earnings streams, and we believe that we can further drive additional profitability through these as we expand our scale of our portfolio of network of franchise relationships and customer reach.

In terms of kind of run rate during the fourth quarter of last year, these generated about $8 million of incremental EBITDA, and we were about $10 million in the first quarter of 2024, we would expect this run rate of about $8 million to $10 million to continue per quarter for the remainder of the year.

Michael Bellisario^ And then just on the Wyndham shares, it looks like you did not sell any in late March, if you could comment on what you did in April and how you've funded the buybacks quarter-to-date so far that would be helpful and that's all for me.

Scott Oaksmith^ Yes.

At the end of March, we still own about 1.3 million shares of the Wyndham stock, which was valued at around about $110 million.

But as we discussed, we're not long-term holders of the stock and the proceeds of those sales will be available along with our outstanding debt capacity and free cash flow to execute our share repurchase program.

So we'll be unwinding those shares over time and the initial share buybacks in April were mainly funded with debt.

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

Stephen Grambling^ You mentioned that your capital allocation priorities are unchanged, and you just talked about this a little bit. But I think you had mentioned that you were willing to take up the leverage to a degree now that you're not pursuing the Wyndham transaction. Can you just remind us maybe where you are, where that could go and how you think about buyback versus other areas of investment?

Patrick Pacious^ Yes, Steve, I mean our target range has been three to 4x gross debt to EBITDA. That's been -- we've traditionally been more at the lower end of that just because of the free cash flow generation that Scott mentioned earlier.

Over the years, we've looked at opportunities where we can find sort of a transformational acquisition, where the leverage levels would be closer to the high end or slightly above with a path to get that back down below. That's where we've looked at that opportunity.

But we've been able to successfully -- if you look at last year, we bought back a lot of stock. We invested in our brands. We did a lot of key investments, all staying within that sort of lower end of the leverage ranges that we set out as targets.

So as Scott mentioned, our capital allocation strategy is unchanged. We're going to continue to invest in our brands and in our business.

And a lot of what we talked about in the prepared remarks was really related to those, and those are really paying off. When you look at the convention we had last week, we had 6,500 -- over 6,500 people at that convention. And a lot of the excitement around brand refreshes for Sleep Inn, for the Comfort Inn, Rise & Shine prototype. All of those investments are things that we are going to continue to make to keep the brands relevant and fresh, and then look to launch new brands or relaunch in the case of the Park Inn brand.

So those investments continue to be something we're able to do including looking at the tuck-in M&A. When we did the Radisson acquisition that was something we were able to do effectively with our current capacity without taking the leverage levels up.

So it's a really a reflection, I think, of the growth of the business, the size of the business and the free cash flow generation we have that allows us to do all of that but stay within that three to 4x range.

Stephen Grambling^ And then one other clarification. Just in response to the last question, we you were referencing the mismatch and the reimbursed costs versus reimbursed expenses, and I think you said $10 million a quarter.

Is that going to continue into next year (inaudible) I guess I just want to make sure that I understand if that's recurring or not.

Scott Oaksmith^ Yes. Those are recurring fees. So on an ongoing basis going forward for the quarter -- for the rest of the year, it's $8 million to $10 million per quarter, but that will continue into 2025. And then obviously we'll be looking to grow that as the size of our portfolio continues to grow and our consumer reach continues to grow.

Operator^ Your next question comes from the line of David Katz from Jefferies.

David Katz^ Number one, I know you sort of talked about RevPAR. But could you maybe give us a bit more insight about RevPAR cadence for the remainder of the year, whether that's exactly or relative or qualitative as possible. And then my follow-up is, post the endeavors with Wyndham, were there or are there any opportunities that may have been on hold that may be coming back to life or becoming more active now that you've moved on from that.

Patrick Pacious^ Sure, David.

So let me just start with the sort of seasonality of RevPAR, just as a reminder.

So when you look at the weighting of each quarter for us, about 20% of the RevPAR for the year is in the first quarter, you get about 60%-ish in Q2 and Q3 and then another sort of 20% in Q4. The fact that Q1 is -- was softer and we're seeing the trend turn is the reason why we feel pretty good about the cadence as you call it, going forward.

And I mentioned the drivers that that we feel really good about with regard to employment numbers and wages and the like. When you look at projects that were on pause, if you will, during the Wyndham pursuit, there's always opportunity out there for additional tuck-in acquisitions. There's opportunity for us to launch brands. And so some of those things, while we have the -- in our long-range plan, we might have hit the pause button just as we were reflecting on how putting the two companies together would create a lot of value and maybe there's no need to do a specific project. But there's certainly a number of things that we have in the queue to continue to sort of grow our portfolio.

As we've mentioned in past calls, we have some white space in our portfolio.

I think the relaunch of Park Inn as that sort of gap filler between Quality Inn and Econo Lodge is a key aspect of that.

We're really excited about what we're seeing in upscale. We had a really fantastic set of sessions with our upscale owners at convention last week and the growth we have in now eight brands that are in that segment for us, we feel really good about that.

And then the one that's sort of lying in front of all of us is the international front. And there are a lot of what we do last week is meet with our international franchisees in Asia Pac, in the Americas and in EMEA. And there's a lot of interest in growing with us with regard to our brands and other brands that might be available out there.

So to your point, there are a lot of future growth opportunities, both organic and inorganic that will present themselves to us. And that as we have in the past, we're going to continue to take advantage of.

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

Robin Farley^ I wonder if you could tell us if you're still expecting a full year increase in total units.

I know the revenue-intense units, it sounds like your view on that is unchanged. Just wondering what's happening outside of that segment? And then also, can you help us think about how to size the opportunity of the Park Inn by Radisson where you think that could (inaudible), on a full year basis in '25. And you kind of alluded to -- you referenced you potentially still looking at acquisitions, I think.

So I wonder if you could just clarify that a little bit more. You kind of made the comment, I think, more having to do with your leverage levels.

But if you could talk about what your latest thoughts are on that.

Patrick Pacious^ Sure. So the first question with regard to total units, we do expect to grow total units.

If you look, Robin, at the pipeline, we're really excited by what we're seeing. And I'll just remind everybody what's in that pipeline is worth double what's in our existing system.

So we talked about a 30% RevPAR premium, 40% more rooms and a higher effective royalty rate.

It translates to what we've been saying on prior calls that what's coming is worth double what's leaving. So that pipeline of 115,000 rooms, that grew 10% quarter-over-quarter.

It's grown 20% year-over-year. And as Scott mentioned, our Q1 openings grew by 20%.

So that more robust earnings potential per unit is starting to flow into the system. With regard to Park Inn by Radisson, if you look at that segment, there's about 20,000 existing properties that are in the independent sector unbranded, which are ripe for conversion. So the total available market there is significant.

We mentioned that the enthusiasm at last week's convention, the booth around Park Inn was full for the full three days that we were there.

A lot of owners who are looking for that opportunity and looking for a fresh brand that's connected to a robust delivery platform that we offer we're pretty excited about where that can go.

But I wouldn't try to put a number on it yet. I think we want to try to get some traction here first. And then just to clarify on acquisitions.

As a company, if you look at our current portfolio today, probably half of the brands are ones we've grown ourselves, half are ones we've acquired over time.

This is a scale business and finding the right acquisitions, be they transformational like Radisson or more tuck-in like WoodSpring, that's something we're going to continue to look at.

We don't have anything that we're pursuing today, but it is something that I think when you look out in the near term here, there'll be more domestic opportunities, but also more international opportunities that come available. And just given the strength we have internally, to acquire brands, integrate them and grow them.

It's what we did with WoodSpring. It's clearly what's happening with Radisson and Country Inn & Suites. We feel really good about our internal capability and core competency to execute M&A really well and create a lot of shareholder value and value for our franchisees.

Operator^ Your next question comes from the line of Joe Greff from JPMorgan.

Joseph Greff^ A couple of quick questions here.

Looking at your 2024 guidance, what's embedded for royalty fee growth this year? Can that match the level of EBITDA growth? Or does it lag? And then I have a follow-up.

Scott Oaksmith^ If you look at the building blocks of our royalty growth, so we've guided to our (inaudible) net unit growth of 2% and our RevPAR of 0 to 2%, so the midpoint of that being one. And then obviously royalty rate in the mid-single digits. So that should be a good growth lever.

But EBITDA should actually grow at a faster pace than that. Our EBITDA at the midpoint is between 9% and 10%.

So with our ancillary revenues, cost control and other levers will actually grow our EBITDA faster than the royalty line item.

Joseph Greff^ And then within that royalty line item, can you remind us maybe you talked about it and I didn't catch it.

What the composition within that royalty line is between the higher RevPAR intensive chain scale segment brands versus the lower ones.

I don't know if you want to look at it on the first quarter or last 12 months? Or how do you see that for this year, but just to give us some proportionate weighting related to those segments that have better growth, that would be helpful.

Scott Oaksmith^ Yes. If you look at our overall portfolio, 82% of that in hotels is our revenue-intensive brands. It's actually a little bit stronger when you look in terms of rooms. It's 87% of that.

So the lion's share of our royalties are generated from our revenue-intensive brands. So most of the growth will be coming from there.

We've talked about the 2% target for the revenue intense brand growth. Overall portfolio for the U.S. will be positive. We do expect the Econo Lodge and Rodeway to be slightly negative for the year.

So most of that revenue intensity will come through there, which is obviously where we want to grow stronger RevPAR, a stronger number of rooms per hotel and a higher effective royalty rate for those brands.

So we feel good about the way we can grow those brands to really drive our overall royalty revenue.

Patrick Pacious^ Joe, it's important to look at the pipeline, too, because while 82% of the system today is revenue, intense over 90% of the pipeline is revenue intense. So it speaks to the sort of future growth that, that trend is going to continue here.

Scott Oaksmith^ And I think the last thing I would just add, as we've talked about in the past with our revenue intention strategy, it's not just between the brands, it's within the brands, too.

So despite the fact Econo Lodge and Rodeway may decline in overall number of units, the royalty contribution of them should be relatively flat as we're bringing in on hotels that are generating 20% higher revenue than the ones we're exiting.

So while the absolute number of hotels may be declining, the royalty contribution is not.

Joseph Greff^ Actually, one final question or maybe a comment. Are you guys thinking at all to disclose and guide similar to your peers? And just in terms of net rooms growth, and I don't know if it's an absolute RevPAR, but just to kind of validate some of the targets that you set for your peers, it's a much more straightforward way of disclosure. And to be honest if you changed your disclosures or is this probably beneficial in your best interest to do it, but I don't know if you've given got any thought to that, but that's all for me.

Scott Oaksmith^ It's something that, I know we've talked about this in the past, Joe, and we'll continue to look at that.

But of switching as we've started to talk more about our pipeline and number of rooms and starting to talk more about the system as international. Full global system as our international continues to grow. So we've given out guidance on a number of units, so we've stayed with that for now.

But something we'll take under advisement as far as guiding to more on our rooms growth on a global basis on a go-forward basis.

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

Charles Scholes^ My first question, then I'll have a follow-up question. Pat, would you completely rule out trying again for Wyndham and sort of lay out a scenario here. Let's say Wyndham stock a year from now is still hovering at $75. And we all know they've laid out a plan sort of in defense to your proposed acquisition to organically get their stock at least to $90 or above. But hypothetically, if the stock was still at $75 a year from now would you try again for Wyndham? Or because of concern -- hovering concerns around FTC and Department of Justice and all that, would that not be something you would be interested in, in that scenario? I'm just trying to see if it's something at this point you would completely rule out if that were the case, say, a year from now?

Patrick Pacious^ Yes, Patrick. I mean I think if you look at the press release we put out when we pivoted away from trying to acquire the business, the strategic rationale still makes sense. So that's really a question for the Wyndham shareholders to answer.

I think the other aspects you mentioned around regulatory, as we said in our press release, we felt very confident about the progress we were making on that front.

So this is more back to -- we really got no price discovery, and we had laid out a $90 offer, we felt that was a full premium value for the value that could be created.

And you don't see a lot of opportunities to create over $2 billion in value creation for shareholders on both sides. And so it's really a question, I think, which should be answered by the Wyndham shareholders in the future.

Charles Scholes^ Okay. I did not hear a definitive no in there. My next question, a little bit more straightforward here. On your earnings, it looks like your other revenue line was up materially year-over-year. Can you talk about what drove that? I think it was up 55% year-over-year. I know in the past, when we've seen outsized growth that's from termination fees. Just a little bit more color on that and then expectations for that revenue line item for the rest of the year.

Scott Oaksmith^ Yes. So to your point, that line item has various revenue streams including termination awards, which were -- there was one larger termination award that we received during the quarter.

We would expect that line item to be up kind of in the mid-single digits for the year.

So a little bit of timing on the recognition of some revenue in the first quarter compared to the rest of the year.

Operator^ Your next question comes from the line of Alex Brignall from Redburn Atlantic.

Alex Brignall^ The first one, just on the reimbursed revenue and cost dynamic. It's slightly different. IHG has had something slightly similar in that quarter, but it is a slightly different methodology to some of your peers in terms of the accounting for other fee types and suggest that you're not going to be running that line item to break even.

Is that going to move into a different line in terms of where you account for those revenues. And the revenues or the kind of permanent gains, the $8 million to $10 million a quarter that you talked about, do they come into your guidance of mid-single-digit royalty rate increases because you're kind of (inaudible) permanent net revenue that you got to keep?

Scott Oaksmith^ Yes. In terms of presentation, we talked about this a little bit since the acquisition of Radisson just because of the way our contracts were structured a little differently, some of the fees were treated differently. They've been in that other revenue.

Once we get a full year behind us, we do expect in Q1 of 2025 to be able to break out those line items into separate categories where we'll get back to the traditional presentation of where other reimbursable revenue equals -- that line item is truly just the reimbursable line items.

But due to some of the accounting requirements and consistency of where it's reported in the financials there in that line item.

So we do expect in Q1 to break those out. Those are ancillary revenue streams that are not royalty related.

So there will be a separate earnings stream for us that will be outside of the royalties that we earn, but they certainly will be dependent on the ability for us to continue to grow our scale, add more services that improve the operations of our franchisees to be able to grow those in the future.

So we'll be more on the non-RevPAR-related growth vectors that we have, which actually plays into the versatility of the business to be able to grow not only through unit growth and RevPAR but through other value-added services that we can provide to our franchisees.

Alex Brignall^ Fantastic. And then just as a follow-up, your -- obviously a big part of that pipeline increase came from the rooms that you signed in France. Could you just talk about the economics of that deal? Is that a kind of (inaudible) conversion deal? What's the source specifically of the sort of owners of those properties? And how does kind of fee stream and key money going into any brand changes or property changes working?

Patrick Pacious^ Yes, Alex, that's -- it's a direct franchise market for us. So those are direct franchise agreements. It's a full fee sort of model there. And it's effectively doubled the size of our footprint in France. So that's kind of how we're doing it.

The brand is (inaudible). So they're going to continue to sort of operate with that flag as well. So it's a good opportunity for us to continue to drive the growth of our direct franchise business in Europe on the continent in particular.

Alex Brignall^ So sorry, just to be clear, what kind of franchise fee do they come with relative to the group?

Scott Oaksmith^ Yes. So they're paying. They're paying full fees in line with what we receive in the French market.

Operator^ There are no further questions at this time.

I will turn the call back to our speakers for any closing remarks.

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

We'll talk to you again in August when we announce our second quarter results.

Have a great rest of your day.

Operator^ Ladies and gentlemen, this concludes today's conference call.

You may now disconnect.