

Our business model

We predominantly franchise our brands and manage hotels on behalf of third-party hotel owners. As an asset-light business, we focus on growing our fee revenues and fee margins, with limited requirements for capital. This enables us to grow our business whilst generating high returns on invested capital.

Whether we franchise or manage hotels is largely determined by market maturity, owner preference and, in certain cases, the particular brand. For instance, in more developed markets such as the US and Europe, over 90% of IHG hotels are franchised. These hotels tend to be limited service. By contrast, in emerging markets such as Greater China over 80% of IHG hotels are managed by IHG, where we look after the day-to-day running of the hotel on behalf of the owner. These hotels tend to be full service.

Over time, we expect the Chinese market to move towards a franchised model. We successfully launched the first tailored franchised offer for Holiday Inn Express® in 2016, and have since extended this to include Holiday Inn® and Crowne Plaza®.

Since launch, we have signed over 200 franchise hotels in Greater China, which attract full franchise fees.

Our asset-light business model means that we do not generally employ colleagues in franchised hotels, nor do we control their day-to-day operations, policies or procedures. That being said, IHG and our franchised hotels are committed to delivering a consistent brand experience, conducting business responsibly and delivering our purpose of providing True Hospitality for everyone. See page 28 for more information.

IHG owner proposition

We focus on ensuring our brand portfolio, loyalty proposition, systems and expertise provide a rich and distinctive offer that stands out to consumers and is attractive to owners.

To keep our brands relevant to guests and evolving trends, we commit to developing our established brands with new designs, service enhancements and operational support that drive demand and returns, and keeps True Hospitality at the heart of our offer.

In addition to our core brands, we are focused on growing our portfolio in high-potential areas, and have launched and acquired new brands in the mainstream, upscale and luxury segments in recent years.

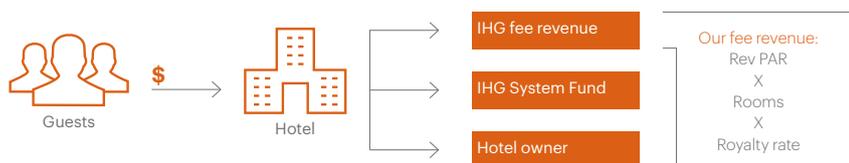
We have also developed state-of-the-art technology to drive hotel demand, be it through our mobile booking app or cloud-based hotel solutions. Our distribution channels (booking sites and call centres through which hotel rooms are marketed and booked) allow hotel owners to reach potential guests at lower costs of sale, with the proportion of revenue from rooms booked through IHG's direct and indirect channels having steadily increased over the last few years.

Our investments in development resources has meant that we can provide outstanding operational support to owners. We have embedded new processes to help reduce the time taken from hotel signing to ground break and opening. Our hotels also have access to a suite of applications designed to help them manage and improve performance, with the aim of further boosting returns.

How we generate revenue

Franchised hotels

We receive a fixed percentage of rooms revenue following a guest staying at a hotel. This is our fee revenue.



Managed hotels

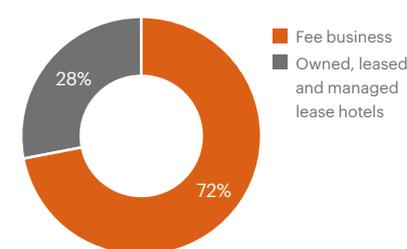
From our managed hotels, we generate revenue through a fixed percentage of the total hotel revenue and a proportion of each hotel's profit.

Owned, leased & managed lease hotels

For hotels which we own or lease, we record the entire revenue and profit of the hotel in our financial statements. Our owned, leased and managed lease hotels have reduced from over 180 hotels 18 years ago, to 26 hotels at 31 December 2019.

Revenue from reportable segments^a

Our revenue is directly linked to the revenue generated by the hotels in our system.



Franchised
614,974
rooms

Managed
262,253
rooms

Central
Revenue is principally technology fee income see page 72

Owned, leased and managed lease
6,336
rooms

How we deliver value

Franchised hotels

We deliver value to our hotel owners through the cultivation of hotel brands, economies of scale, access to shared systems and resources, and centralised marketing activity to drive hotel guest bookings.

and managed lease hotels, by optimising the performance of these hotels.

Managed hotels and owned, leased and managed lease hotels

As well as the benefits we deliver through our franchise model, we drive value to our managed hotel owners, and owned, leased

Other stakeholders

As part of our purpose to provide True Hospitality for everyone we believe it is important that we deliver value to all our stakeholders. Whether it is our workforce, hotel owners, guests, suppliers, shareholders or society, we want to create a positive impact on them and the world around us. See pages 24 to 40 for more information.

^a Excludes System Fund results, hotel cost reimbursements and exceptional items.

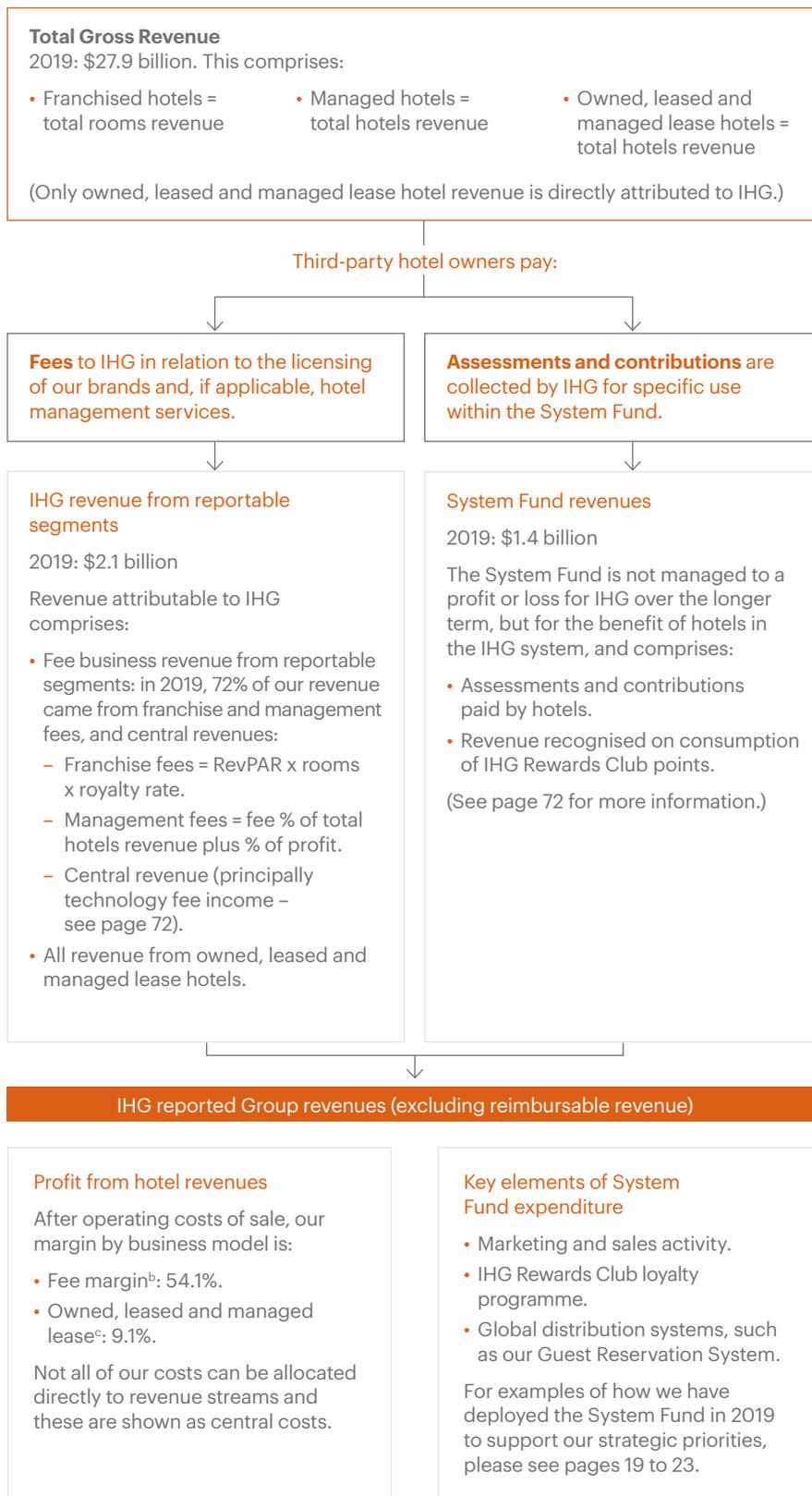
IHG revenue from reportable segments^a and the System Fund

System Fund

IHG manages a System Fund on behalf of our third-party hotel owners, who pay contributions into it. This includes a marketing and reservation assessment and a loyalty assessment.

The System Fund also receives proceeds from the sale of IHG Rewards Club points under third-party co-branding arrangements.

The System Fund is managed by IHG for the benefit of hotels within the IHG system and is run at no profit or loss over the long-term. In 2019, IHG recognised \$1.4 billion of System Fund revenue.



^a Excludes System Fund results, hotel cost reimbursements and exceptional items.

^b Definitions for Non-GAAP measures can be found on pages 55 to 59. The reconciliation for fee margin can be found on page 216.

^c The margin for owned, leased and managed lease is calculated from the results related to owned, leased and managed lease included within reportable segments (see page 214 revenue of \$573m and operating profit of \$52m).

Our business model continued

Disciplined approach to capital allocation

Our asset-light business model is highly cash generative and enables us to invest in our brands and strengthen our enterprise. We have a disciplined approach to capital allocation which ensures that the business is appropriately invested in, whilst maintaining an efficient balance sheet.

Beyond this, we look to return surplus cash to shareholders through ordinary and special dividends and share buybacks.

Our objective is to maintain an investment-grade credit rating. One of the measures we use to monitor this is net debt: EBITDA and we aim for a ratio of 2.5-3.0x. This is equivalent to our previous guidance of 2.0-2.5x before the adoption of IFRS 16 'Leases'.

Dividend policy

The Board consistently reviews the Group's approach to capital allocation and seeks to maintain an efficient balance sheet and investment-grade credit rating. IHG has a progressive dividend policy and an excellent track record of returning funds to shareholders through ordinary and special dividends, and share buybacks, with the ordinary dividend seeing 11% CAGR since 2003. This is in addition to special returns of funds detailed on page 242. When reviewing dividend recommendations, the Directors take into account the long-term consequences of any recommendation. The Company looks to ensure that any recommendation does not harm the long-term sustainable success of the Company and that there are sufficient distributable reserves to pay any recommended dividend.



For more details on our dividend policy and approach, see pages 4 and 73.

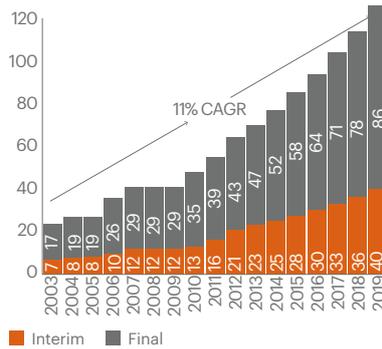
Our priorities for the uses of cash are consistent with previous years and comprise of three pillars:



1 Invest in the business to drive growth

Through strategic investments and our day-to-day capital expenditures, we continue to drive growth.

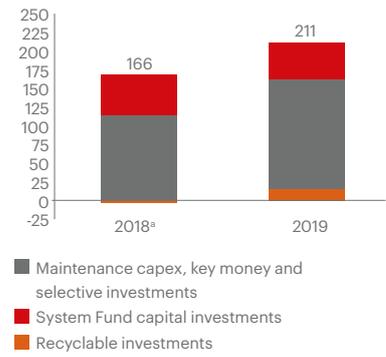
Ordinary dividend progression (¢)



3 Return surplus funds to shareholders

In January 2019, we paid a \$500m capital return to shareholders via a special dividend and share consolidation.

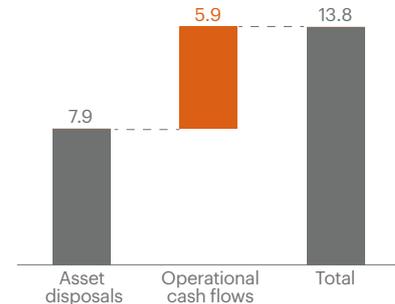
Capital investments net (\$m)



2 Maintain sustainable growth in the ordinary dividend

IHG has a progressive dividend policy which means we look to grow the dividend per ordinary share each year.

Shareholder returns 2003-19 (\$bn)



^a The 2018 comparatives have been restated to reflect the adoption of IFRS 16 'Leases'

Disciplined approach to capital expenditure

Capital expenditure incurred by IHG can be summarised as follows.

Type	What is it?	Recent examples
<p>Maintenance capital expenditure, key money and selective investment to access strategic growth.</p>	<p>Maintenance capital expenditure is devoted to the maintenance of our systems and corporate offices along with our owned, leased and managed lease hotels.</p> <p>Key money is expenditure used to access strategic opportunities, particularly in high-quality and sought-after locations when returns are financially and/or strategically attractive.</p>	<p>Examples of maintenance spend include maintenance of our offices, systems and our owned, leased and managed lease hotels.</p> <p>Examples of key money include investments to secure representation for our brands in prime city locations.</p>
<p>Recyclable investments to drive the growth of our brands and our expansion in priority markets.</p>	<p>Recyclable investments are capital used to acquire real estate or investment through joint ventures or equity capital. This expenditure is strategic to help build brand presence.</p> <p>We would look to divest these investments at an appropriate time and reinvest the proceeds across the business.</p>	<p>Examples of recyclable investments in prior years include our EVEN Hotels brand, where we used our capital to develop three hotel properties in the US to showcase the brand. Over time, we expect to divest our interest in these hotels.</p>
<p>System Fund capital investments for strategic investment to drive growth at hotel level.</p>	<p>The development of tools and systems that hotels use to drive performance. This is charged back to the System Fund over the life of the asset.</p>	<p>Recently, we rolled out our new pioneering cloud-based Guest Reservation System (GRS), one of IHG Concerto's comprehensive set of capabilities, which we developed with Amadeus (see page 224). In addition, during the year we made a strategic investment, alongside other large hotel companies, in Groups360 to create an online sourcing and booking solution for meetings.</p>