



IHG 2020 Interim Results Presentation

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Introduction

Stuart Ford

Head of Investor Relations, IHG

Good morning everyone and welcome to IHG's 2020 half year results conference call. I am Stuart Ford, Head of Investor Relations at IHG, and I am joined this morning by Keith Barr, our Chief Executive Officer and Paul Edgecliffe-Johnson, our Chief Financial Officer. Just to remind listeners on the call that in the discussions today the company may make certain forward-looking statements as defined under US law. Please refer to this morning's announcement and the company's SEC filings for factors that could lead actual results to differ materially from those expressed in or implied by any such forward-looking statements. For those analysts or institutional investors who are listening on the webcast to following the presentation, may I remind you that in order to ask questions you will need to dial in using the details on page ten of the RNS or as supplied in your email invite. If you are dialled in over the phone, the presentation can be downloaded, and the webcast can be viewed via ihgplc.com or click through from the link on page ten of the RNS.

Opening Remarks

Keith Barr

Chief Executive Officer, IHG

Good morning everyone. The impact of Covid-19 continues to be felt across the global economy as the biggest challenge the travel and tourism industry has ever faced. As a company we have acted quickly, effectively and responsibly to provide support to our people, to our owners and to our guests, focusing on what is needed both now and for the longer-term. We know it is going to take time for things to recover but as the world rediscovers travel, and restrictions are lifted we continue to work hard market by market to provide the reassurance, and true hospitality that guests need and the support that is so important to our owners right now.

Our global RevPAR declined 52% in the first half and 75% in the second quarter as hotel demand fell to the lowest levels we have ever seen, on the back of government travel restrictions around the world. In most markets these have now started to ease to varying degrees and we currently have 95% of our estate open. In July we expect our RevPAR decline to have improved to around 58% with global occupancy hitting 45%, up from the low point of 20% back in April. The first half RevPAR decline led to an 83% fall in underlying operating profit.

As we have talked about previously, we have taken decisive action to preserve cash throughout the crisis, which meant that free cash flow was contained to a \$66 million outflow in the half and was broadly neutral in the second quarter. This meant that we have been able to maintain the \$2 billion of liquidity we disclosed back in May. However, with visibility still remaining limited as to the pace and scale of market recovery, we are not proposing an interim dividend.

One of the measures we have taken to protect the business this year is to make up to \$150 million of cost reductions in the fee business. We now plan to make around half of this cost

saving sustainable into 2021, which includes a rebalancing of our resource to meet expected demand whilst still allowing us to focus on investing in our business and growth initiatives.

As ever, it is a delicate balancing act and, as with many companies, this necessary reduction in cost has sadly had to involve looking at headcount across the business. Our changes include a reduction in roles of around 10% at a corporate level, which we announced internally in July, and we are doing all we can to support any impacted colleague through this really difficult time.

Ultimately, making sure we are best positioned to outperform through this recovery remains at the core of our actions and I will talk more a little later about how we have worked closely with our owners, how we are responding to consumer needs and how we continue to progress in important areas such as system size growth, growing our brands in new markets and using investments in technology and loyalty to maximise our share of demand as it returns.

H1 2020 Financial Review

Paul Edgecliffe-Johnson

Chief Financial Officer & Group Head of Strategy, IHG

Good morning everyone. Firstly, starting as usual with our headline results from reportable segments. Revenue decreased 52% to \$488 million and operating profit decreased 82% to \$74 million. On an underlying basis, excluding current year disposals, individually significant liquidated damages, and at constant currency revenue decreased 51%. Underlying revenue from the fee business decreased 48% and operating profit decreased 75% driven by the adverse mix effect of weaker performance in the managed business. As a result, fee margin decreased to 26.1%.

The operating profit performance reflects the decline in the fee business, together with the impact of the owned, leased and managed lease estate which went from a \$16 million profit in the first half of last year to a \$23 million loss in the first half of this year. This reflected the majority of these hotels being closed throughout Q2 with those that remained open operating at very low occupancies.

In terms of central operations and overheads the net operating loss was held flat at \$58 million with the impact from technology fee discounts offset by other cost saving measures. Adjusted interest, including charges relating to the System Fund, reduced by \$4 million to \$62 million. Our interim effective tax rate differs from our previously mid-to-low 20% guidance range. The significantly reduced level of profit before tax, combined with the impact of a tax credit on one-off items, results in a somewhat anomalous rate of -127%. Excluding these items our effective tax rate for the half would have been 45%.

When considering H2 expected movements, we estimate the effective tax rate for the full year to be around 45%, although forecasting in this area remains challenging given the sensitivities in the calculation and the uncertainties in the near-term outlook. In aggregate, this performance has resulted in an adjusted earnings per share of 14.3 cents.

Before moving on, I wanted to take a moment to outline some of the more significant exceptional items we recognised in our reported financial statement. The impact of reductions to industry RevPAR forecasts across key markets in which we operate has created a trigger event for impairment testing. We have therefore recognised a number of predominantly non-cash impairment charges across our asset base, including the intangible asset value ascribed to hotel management agreements relating to previous acquisitions. There are also Property, Plant and Equipment impairments in our owned, leased and managed leased estate, together with the value of investments we hold in associates. Other impairment charges include the trade deposits and loans, together with related contract assets, and a \$22 million impairment to trade and other receivables to reflect the expected increase in credit losses as a result of Covid-19.

The other main category of exceptional items I want to talk about is the derecognition of hotel leases which relate to our UK lease portfolio and two leased hotels in Germany. These are structured as variable leases with minimum guarantees in place and resulted in recognition of lease liabilities and associated right-of-use assets on our balance sheet following the adoption of IFRS 16. These hotels have been closed for large parts of the year-to-date prompting a reassessment of this treatment. As a result, the associated liabilities and right-of-use assets have been derecognised. There has also been an adjustment to the fair value of contingent purchase considerations in relation to the UK leased portfolio. Further details of this and all the exceptional items we have recognised can be found in the appendix, along with the notes to our reported financial statements.

Looking now at our drivers of performance, Group RevPAR for the first half was down 52% on a comparable basis. Our RevPAR definition includes the adverse impact from hotels that were temporarily closed. The social distancing measures and travel restrictions in our key markets around the world contributed to an occupancy decline of just over 30 percentage points with rates down 12%. Despite these incredibly tough trading conditions, we have added 12,000 rooms to our system in the first half. Our continued focus on the long-term health and quality of our established brands resulted in the planned removal of 12,000 rooms, 2,000 of which related to a previously flagged portfolio of hotels in Germany. These additions and removals brought net system size growth on a year-on-year basis to 3.2%. Our usual summary of total RevPAR growth and total rooms available on an underlying basis can be found in the appendix.

Looking now at the shape of our performance over the first half, you can clearly see the variations in weekly RevPAR movements by region. Greater China saw a trough in early February with performance gradually improving through the second quarter. Both the Americas and EMEAA regions declined sharply toward the end of the first quarter but have shown signs of improvement in recent months, although EMEAA has remained effected for longer by the government-mandated hotel closures.

I will now take you through our first half regional performance in more detail starting with the Americas. RevPAR was down 48% for the half with the US down 47%. In the second quarter US RevPAR was down 69% which represents relative outperformance against both the overall industry and even more so against the segments in which we compete. I will come back to the main drivers of this shortly.

Underlying fee business revenue was down 46% and underlying fee operating profit was down 4% driven by greater levels of RevPAR decline in our US managed estate. Our managed estate is weighted towards luxury and upper upscale hotels in urban markets and so has seen a greater level of hotel closures and RevPAR declines than our franchise estate. This impact was partially offset by the benefit of a \$4 million litigation settlement relating to an individual hotel and a \$4 million payroll tax credit, of which we expect to recognise a further \$7 million in the second half.

Our owned, leased and managed lease profit was down \$31 million to a loss of \$10 million due to the temporary closure of a number of hotels, including the InterContinental in Boston. We now have all of our owned, leased and managed lease hotels back open, albeit trading at very low levels of occupancy. Looking at our most recent trading across the Americas, July RevPAR is expected to be down around 54% with occupancy in our comparable open hotels improving to around 45%. Just 3% of the estate remains closed at the end of the month.

Development activity has continued through the first half and we opened 5,000 rooms across the Americas with 2,500 of those in the second quarter, taking our net rooms growth to 1.7%. We signed a further 9,000 rooms, more than three quarters of which were for our mainstream brands, taking our Americas pipeline to 116,000 rooms.

Our quarter two US RevPAR outperformed the industry, driven in part by our weighting to the upper midscale segment, which accounts for over 65% of our hotels. I have said many times over the years that this segment has proved to be the most resilient, as we saw through the financial crisis in 2008 and 2009. Whilst we are seeing deeper levels of RevPAR decline this time round, the trends are similar with upper midscale RevPAR outperforming the upper upscale and luxury segments by around 20 percentage points through the second quarter.

The strength of our brands is also clearly evident. We are outperforming in the segments in which we compete and with Holiday Inn Express consistently outperforming the upper midscale segment. This has been helped by our hotels being well-placed to capture available demand. This supported being able to keep around 90% of our US hotels open even at the trough, with that figure now up to 97% at the end of July.

As you can see from the chart on the right of the slide, we have seen occupancy levels above 50% in more than half of our US estate through the month of July. This has been driven by our mainstream brands which are heavily weighted to non-urban, drive-to locations.

Moving now to Europe, Middle East, Asia and Africa where RevPAR was down almost 59% in the half with the second quarter down 88%. In the UK, RevPAR was down 59% with a 90% decline in the second quarter, during which most of our hotels were closed. Our German estate saw RevPAR decline 63% in the half and 93% in the second quarter. Travel suspensions and curfews across the Middle East drove RevPAR decline of 72% in the second quarter, and we have seen lower levels of international travel across South East Asia and Australasia with RevPAR in Australia and Japan down 79% and 88% respectively in the second quarter.

Underlying fee revenue was down 63% or \$95 million with underlying fee operating profit falling \$91 million to a loss of \$4 million. This was driven in part by performance across our managed estate which is weighted towards upscale and luxury hotels which generated \$35 million lower incentive management fees. Hotel closures impacted our owned, leased and

managed lease estate, which saw its operating loss increase by \$8 million to \$13 million. Whilst we expect our owned, leased and managed lease hotels to gradually reopen through the third quarter, we expect them to be trading at very low levels of occupancy as well as lower than usual non-rooms revenue.

Looking briefly at the development environment, we opened 3,000 rooms in the half and removed 5,000 rooms. We signed a further 4,000 rooms into our pipeline, including flagship properties across our InterContinental and Six Senses brands. Finally, looking at most recent trading, July RevPAR is expected to be down around 74% with 84% of the estate open and occupancy in our comparable open hotels improving to over 30%.

Turning now to Greater China where RevPAR was down 62% for the half and 59% in the second quarter. This has shown a trend of gradual improvement from February which was down 89%. Tier 1 cities were down 66% for the second quarter reflecting their greater weighting to upscale and luxury hotels and international inbound travel. Tier 2-4 cities saw RevPAR decline 50% for the second quarter, reflecting their greater mix of leisure and resort destinations and the pick-up in demand from domestic travel. Underlying revenue was down 72% or \$46 million and underlying operating profit was down \$40 million to a loss of \$5 million, impacted by \$23 million of lower incentive management fee income.

We opened 4,000 rooms in the half, driving net system size growth of just under 10%, and signed a further 13,000 rooms into our pipeline with 7,000 of these coming in the second quarter. In terms of the latest trading, July RevPAR is expected to be down around 36% with more than 99% of the estate open and occupancy in our comparable open hotels has risen to over 50%.

Moving on to look at the actions we have taken to manage our cost base across the business. We are on track to achieve our target of \$150 million of fee business cost savings in 2020. As previously guided at the end of March, these savings are being driven by temporary scaled salary reductions across the entire organisation, along with cuts to travel and other discretionary spend. We have taken similar actions across the System Fund and have reduced marketing spend in order to help mitigate the impact of lower assessment income from hotels, whilst protecting return on investment for our owners on our remaining activities.

Across our owned, leased and managed lease estate we reduced our overall cost base by \$130 million in the first half, driven by significant cost containment actions. We are also on track to reduce our gross capital expenditure by around \$100 million over last year and I will come on to talk about the drivers of that shortly.

As we look ahead to 2021, like the rest of the industry, we have limited visibility. Our focus is therefore on ensuring we have a cost structure that is appropriate for a recovery-led demand environment, whilst still being able to invest behind those growth initiatives that will drive our performance over the long-term. With that in mind, we are developing plans which we currently estimate will result in around \$75 million of fee business cost savings being sustainable into next year and beyond.

We also took action to support our owners in managing their cost base and cash flows, through the introduction of temporary fee discounts to technology and system fees and a small but meaningful discount on the prompt payment of franchise royalties. These actions have been well-received and we are seeing good levels of cash collections across our estate,

albeit we recognise this is taking a little longer than usual for owners to pay us given the challenges they are facing. As shown on the right-hand side, looking at the Americas as at the end of July we had collected 95% of our February invoices which fell due in March and we are currently seeing around 80% of billings paid within 90 days of being due.

Turning now to capex. We spent gross capex of \$85 million and net capex of \$39 million in the first half, a reduction of \$16 million and \$34 million respectively. As I have mentioned, we expect our gross capex to be around \$100 million lower than last year on a full year basis, with reductions across all of our main buckets of spend. As an asset light business, we have a relatively low level of capital intensity and we will continue to use our balance sheet to invest in growth opportunities, including the strategic use of key money and growing our enterprise capability through System Fund investments.

Moving on now to cash flow. In the first half, our free cash flow saw an outflow of \$66 million, which was down \$207 million on the first half of last year. This outflow was almost entirely weighted to the first quarter with free cash flow broadly neutral for Q2. We have worked hard to proactively manage working capital including extending payment terms with some of our largest suppliers whilst still continuing to support our smaller suppliers, reassessing committed spend across the business and reducing discretionary spend through the cost savings measures I discussed earlier. Our net cash outflow was more than offset by favourable exchange rate movements and the derecognition of lease liabilities from our balance sheet, leading to a \$150-million reduction to our net debt.

As you know, we have always run the business on a conservative basis and in addition to managing our cash flow we have also taken steps to strengthen our liquidity position. These include securing covenant waivers over our \$1.35 billion syndicated and bilateral credit facilities until December 2021, and extending the maturity of these facilities until September 2023. We also issued £600 million or around \$740 million of commercial paper under the UK Government's Covid Corporate Financing Facility. We are confident that we have sufficient headroom to manage the business through a recovery environment. However, our visibility over the scale and pace of the recovery in our markets remains limited. As Keith has already mentioned, we are therefore not proposing an interim dividend.

As at the end of June, we had over \$600 million of net cash on deposit and undrawn credit facilities of \$1.35 billion, taking our total available liquidity to \$2 billion. Over the last month, our net cash position has remained broadly neutral, meaning that our liquidity position is unchanged as at the end of July. The majority of our debt is held in bonds which have a staggered maturity profile with the first maturity of £400 million due in late 2022 and then nothing further until mid-2025.

We are well capitalised, we have taken swift and decisive action to scale our cost base so that it is appropriate for the current environment, whilst still allowing us to invest behind the strategic initiatives that will drive our growth as and when the market recovers. Thank you.

Business Review

Keith Barr

Chief Executive Officer, IHG

You can see the impact the crisis has had on our trading. We cannot control the broader macroeconomic environment but we are doing everything we can to help soften the impact it has on our business and our owners, whilst still focusing on the broader role we are able to play in the relief and recovery efforts around the world. I wanted to spend a few moments talking through how we have been doing just that, and I will start with people because this crisis affects all of us in different ways.

Front and centre of everything we do are our colleagues. Our hotels have new operating procedures in place to make sure that our people remain safe at all times, whether that be personal protective equipment, enhanced cleaning protocols or installing screens at front desks. At a corporate level, outside of Greater China, we are effectively operating the entire business remotely today, working from home. We focused a lot on providing training and resources to help our colleagues deal with the challenges, pressures and differences that entails.

We have also continued to work with our humanitarian aid partners to fund disaster relief efforts and get vital supplies to those most in need during the crisis. We have encouraged our IHG Rewards Club loyalty members to support our NGO partners, such as the International Federation of Red Cross and Red Crescent Societies, and our members have generously donated millions of points to those causes.

Looking in more detail at our response for owners, firstly it is important to recognise that most of them are small business owners, so this crisis has been unimaginably challenging. Some of them have had to temporarily close their doors and those that remained open have still had to deal with the lowest levels of occupancy they have ever seen. Being part of a branded system has meant that we have been able to capture and centrally coordinate Covid-19 related demand for hotels. Whether that is medical staff, family members who are quarantining or delivery drivers needing accommodation, we have been capturing that business for our hotels.

Our scale has also been important when it comes to helping owners with their cash flow. We have offered fee relief options, passed through all cost reductions we have achieved on their behalf with suppliers, temporarily relaxed brand standards and offered advice on how to flex operations in order to reduce costs and stay open. We have also moved quickly to adapt our operating models so that our hotels can adhere to new cleanliness and safety standards whilst at the same time reducing costs in other areas.

Having our cloud-based platform, IHG Concerto, has also meant that we have been able to rapidly deploy new training to our owners and hotel teams so that they can further automate front desk operations. Alongside this, whether at the White House or Number 10, we have been working on behalf of all of our owners at the highest level of government. In key markets globally we have helped secure invaluable stimulus packages to the hospitality industry that will further protect our owners and jobs. We continue to focus on that, alongside supporting a safe reopening of domestic and international travel.

Understandably, our guests' confidence in when to travel has been impacted. As the crisis began to unfold we immediately waived cancellation fees and made it very easy for our guests to cancel their stay. We've followed this up with a Book Now, Pay Later offer for the rest of 2020 which makes planning commitment-free and cancellation possible up to 24 hours before a stay for direct booking. For our valued IHG Rewards Club members, we have extended member status out to January 2022, reduced Elite qualification requirements by 25% and paused points expiry until the end of the year.

For our corporate guests, we have launched a new global Meet with Confidence offer, which gives our corporate bookers discounts and greater flexibility on cancellations. Our scale position has also meant we have been able to bring our largest corporate planners and travel managers together virtually to hear from our leadership teams on our enhanced cleaning standards and operating protocols in order to give them the confidence to book with us.

All of these actions have meant that our Guest Satisfaction Index has seen improvements every single month this year, and is outperforming our competitors.

I want to focus now on cleaning. Health and safety is top of mind for our guests and for everyone no matter what industry, so let me explain how we responded. Our hotels are already working to best practice Covid-specific training and procedures. But we have gone one step further for our guests and colleagues by strengthening our IHG Way of Clean programme. To do this, our newly formed Global Cleanliness Board has been working with the Cleveland Clinic, Ecolab and Diversey to develop new science-led protocols and service measures that can be sustainably implemented in our hotels.

For our guests, this has meant providing them with safety assurance throughout their stay. For example, sanitiser stations, social distancing floor markers and contactless room service. At the same time, guests will receive regular information on when areas were last cleaned and when items are ready to use. We're also exploring different ways we can use technology to minimise physical interaction when it comes to things like check-in or paying for items, and we are working with our scientific advisors on the latest cleaning technologies to pilot.

I mentioned earlier the steps we are taking to keep colleagues safe in our hotels too, and that also includes making sure they have the training and certification to protect both themselves and our guests. Having clear standards, protocols and verification procedures in place means that wherever in the world a guest stays with us they can rely on our IHG Clean Promise which is a reassurance that their room meets industry-leading levels of cleanliness. Since we have launched this promise, we have seen a 30% uplift in positive comments on cleanliness from guests on social media reviews.

Even during a crisis of this nature, colleagues, guests, owners, suppliers, investors and partners all expect companies to make responsible and sustainable choices. As we look towards a recovery and beyond it is important that this continues, and we emerge from this period in a better, more sustainable position, both for people and our planet. Supporting our communities is core to our purpose of providing true hospitality for everyone. This has become even more important during the crisis. Our hotels have contributed in many ways, including providing rooms for frontline medical workers and some of the most vulnerable in society. We have extended our True Hospitality for Good programme to support food banks

and food provision charities across more than 70 countries, providing vital funds, training and resources to those in our communities who need it most.

We are further evolving our communities approach, and I look forward to taking you through this and our wider, long-term Responsible Business commitments early next year. This will also include pushing ahead with our environmental agenda. Work is underway developing a roadmap to achieve our 2030 Science-Based Target which we published in February. We have recently kicked off our project to report against the requirements of the Taskforce for Climate-Related Financial Disclosures which will allow us to improve the climate resilience of our business over the long-term. More broadly our teams are working with other companies and governments to ensure that we collaborate in the right way for a sustainable recovery.

Finally, as we look to our people, we have taken several important actions to build a more diverse and inclusive culture at IHG. This includes some new commitments for our Americas region and a new ethnic diversity network in Europe. As Chair of our Diversity and Inclusion Board, I will continue to lead our efforts to help develop IHG's longer-term ambitions in this space.

As we look ahead to the recovery it is vital that we continue to invest in key strategic areas such as loyalty and technology, which will drive competitive advantage for us as travel demand picks back up. Our IHG Rewards Club loyalty programme is critical to driving more revenue into our hotels. We have already seen that our most loyal members were the first to return as markets reopened. I have mentioned before the rollout of dynamic pricing for Reward Nights, which means members can use less points to book stays out of peak times. Since launch we have seen the proportion of Reward Nights booked by leisure significantly increase, which is extremely encouraging for us and for our owners.

We have also been able to leverage our cloud-based IHG Concerto platform to rapidly deploy new guest experience features such as contactless check-in. Linked to IHG Concerto, our new Owner Engagement Portal is also being rolled out globally too right now. This gives our owners real-time data on how their hotel is performing on a variety of different measures, but most importantly, suggests actions to improve performance. As we focus on maximising returns in every way we can, we are also enhancing our revenue management for hire programme with new machine learning technology that will ensure owners are able to optimise pricing for their hotels.

Stepping back for a moment to look across our portfolio of over 5,900 hotels, the picture has improved since we last spoke in May. 317 hotels or 5% of our estate is currently closed, compared to around 1,000 hotels at the end of April. Occupancy levels are also slowly starting to increase, reaching around 45% in the Americas and over 50% in Greater China. However, it is important to emphasise this has not been linear and the pace and scale of this recovery still remain unclear. Across the different chain scales, whilst we are seeing very limited improvements in upscale and luxury and many of our hotels in these segments remain closed, you can see that mainstream has the greatest improvement in occupancy. This is where we are weighted to and where we have our market-leading position.

As an asset light business most of our revenues are tied to hotel revenues, not profits. The strength of this model combined with the mix of our business should leave us well-placed to withstand the pressure from Covid-19 and benefit from any demand in recovery. First, as I

mentioned, we are heavily-weighted to and have a market-leading position within the mainstream segment, which continues to outpace overall industry RevPAR. For example, in the US more than 30% of all branded rooms sold last week by the industry were in the upper midscale segment of mainstream, which was more than upscale, upper upscale and luxury combined. Second, our broad geographical distribution is weighted towards domestic demand and third, it is mostly in non-urban markets, both of which are leading the recovery in our industry. Fourth, we are skewed towards transient business and leisure demand as opposed to large group bookings which are more impacted by social distancing measures and reduced travel budgets.

During the half our owners were able to keep open the vast majority of our mainstream hotels due to support they received from IHG as well as local governments. In particular, our Extended Stay brands saw occupancy levels of around 50% in Q2, which was about 20 percentage points ahead of the rest of mainstream. We also continued to grow our estate. While we opened 91 hotels in the half, we also signed double that number, equivalent to one hotel a day with signings for each of our brands, including nearly 100 across the Holiday Inn and Holiday Inn Express brand family. Recognising the benefits of being part of a branded system, we are starting to see an increase in conversion activity from owners as well, with an uplift in conversion signings during the half. When it comes to our new brands, we have talked before about the strategic approach we take when assessing the opportunities out there and we have seen momentum across these brands during the half.

Let me start with avid. We have now signed over 200 hotels since launch nearly three years ago and we continue to see strong interest from owners. There are 14 avid hotels now open which are gaining great guest reviews and seven openings were achieved in the half despite the challenging backdrop. The lower cost to build, staffing model and operating economics are appealing to owners in a more constrained macro environment but also to guests who look for the basics done exceptionally well. With around 90 hotels under construction or planning approved, we expect further openings throughout the rest of the year.

Turning to our new all-suites brand, Atwell Suites, which launched franchise sales last September. We continue to see interest from both existing and new owners with 19 franchise agreements signed or approved since launch. The first hotels are expected to break ground this year and will open in 2021 in markets such as Charlotte, Miami and Denver.

Moving to upscale where we have seen strong interest in our conversion brand, voco. We have signed 40 properties, including locations like The Hague, Paris and Melbourne, since its launch in June 2018. After a strong start in EMEAA, we have now expanded into more markets globally, launching in the Americas and Greater China in the half, with signings in New York, Florida and Hangzhou.

There were some very strong luxury signings in the half too, including for InterContinental in Fiji and Italy, both of which were conversion deals. For Kimpton, the signing of the Shanghai New Bund is a key step for developing the brand in the region. We have also opened a Regent property in Shanghai which showcases a redefined design, hallmark and service ethos that will position Regent at the top tier of luxury. The Regent Shanghai Pudong was converted and opened in just 45 days and we have also begun the renovation of the InterContinental Hong Kong, which will rebrand to Regent as it was when it first opened in 1980. Finally, for Six Sense which we acquired last year, we signed two properties in the half

in Kyoto and Rome, increasing the global pipeline to 27, and just this last month a further property in Italy, at Antognolla in Umbria.

As you can see, whilst we have been dealing with our response to Covid-19 we have remained focused on our future growth as travel returns. To recap, we achieved 77 signings in Q2, opened 47 hotels and broke ground on 47 more. Construction is now resumed on 80% of the projects that were paused due to Covid, and while there is inevitably a delay in some openings, we expect a level of catch-up as government restrictions continue to ease. It is worth bearing in mind that whilst development activity will likely slow, our owners look at investments for the long-term based on the strength of our industry. Global brands with scale like IHG also provide value through our overall system with these factors reflected by those providing finance to owners. We continue to open and sign hotels on a weekly basis and in some markets, we are discussing more deals than ever before. The conversion opportunity is also a compelling one and we see strong opportunities across our brand portfolio.

To sum it up, our top priority remains the health and safety of our colleagues and guests. We will continue to do what is right for all our stakeholders whilst ensuring we are well-placed to capitalise on a recovery. In the last few months, we have seen an improvement in demand and it is clear that, albeit with bumps in the road, domestic mainstream is returning first with groups and international travel likely taking longer. The near-term outlook remains uncertain and the time period for a market recovery is unknown. However, as and when travel restrictions further ease and customer confidence improves, our industry-leading mainstream presence and largely domestic-focused business positions us well to drive demand back to our hotels.

Our industry continues to have secular growth characteristics that we strongly believe are undimmed by Covid. Within those long-term attractive market dynamics, we are confident that our cash generative, resilient fee-based model will enable us to continue meeting the needs of guests and owners, ensuring that we emerge strongly when markets recover. With that, Paul and I are happy to take your questions.

Q&A

Monique Pollard (Citi): Morning everyone, a few questions from me if I can. The first one was on room openings because when I look at the room openings for 1H, it is clear that in Q2 we saw a pickup in terms of openings from the levels that we had seen at the lowest point in March. I am wondering if we should be expecting the openings pace to accelerate into the second half, particularly given Keith's comments that some development activities will be caught up in the second half of the year. Secondly, I wanted to understand on conversions, obviously really strong numbers there, with 25% of the pipeline signings being conversions. That sounds very strong. I wanted to know what that is in a typical period, pre-Covid and the distress that that has been causing. Then the final question was on fee rates. Would you be able to give an update on the fee rates you are charging to owners? Now, I know you have been giving that technology discount that has been then reversed, but on an individual basis are there still asset owners that are getting fee reductions?

Keith Barr: In terms of room openings, are they going to accelerate moving forward? Clearly, we saw construction activity close in most of the markets around the world so you

would expect to see an acceleration now coming out of it. The real question though is, how long does that activity continue at this pace? Are there going to be any future potential shutdowns of market activity and so forth? I would suggest to you that our visibility is limited. We know though that owners who have properties under construction are very focused on getting those hotels open. We are still breaking ground on new projects, as we noted. It is really going to be driven by the availability of labour and the restrictions from market to market. Hopefully, we will see an ability to catch up some of this in the second half of the year but clearly the industry is not going to grow as fast in 2020 as it was expecting to.

In terms of conversion signings, we had around 24% in the first half of this year and last year it was around 17%. It is a step up with some great assets like the Regent in Shanghai which is an 'A' location. The Kimpton in Shanghai is going to be a conversion. The InterContinental, as we mentioned, in Rome and Fiji were conversions and we are looking at a number of voco projects which are of course conversions too. A high level and we expect to see projects still back under construction. We have limited visibility of what growth will look like on the full year basis because of the uncertainties of what will happen in markets but we are leaning more to conversion. Paul, do you want to talk about fee rates?

Paul Edgecliffe-Johnson: What we put in place a few months ago was a package of measures designed to help the owners. That went from reducing some of the things they had to do in the hotels and we could scale back the costs of what was effectively pass-through for them. It also included reducing our technology fees and System fees. Then we offered a reduction for owners who paid their franchise fees on time. I expect you are most interested in what we are doing with the franchise fee and the technology fee given that then impacts the P&L for the second half and beyond. Those discounts have now run their course. People are now back on their full fees. However, we are still continuing to do everything we can to help owners with cash flow. That will remain as long as it is needed. Thanks, Monique.

Vicki Stern (Barclays): Firstly, on the RevPAR, how would you characterise the sequential RevPAR improvement that you have been seeing in recent months? To what extent do you think in July that has been led by seasonality or as one of your peers was suggesting the other day, would you expect at this stage, albeit visibility clearly limited, to see a sequential improvement as we move into the autumn even though the mix becomes a bit more skewed to business travel? Secondly, I think Keith you were on an interview this morning discussing the opportunities for consolidation. I am keen to hear your thoughts about that a little bit more deeply. What sorts of opportunities would you see presenting themselves and bigger picture, where does it leave you in terms of thinking about unit growth, not this year but certainly over the next few years? Again, I appreciate visibility is not particularly high. Then finally on geographic differences, I guess that has been the interesting feature of the last couple of months, how different markets are progressing through this quite differently. From a net system growth standpoint, are there any differences you can call out in terms of that conversion activity or the health of the existing owners from a geographical perspective, what you are seeing market by market?

Paul Edgecliffe-Johnson: Vicki, it is quite pleasing RevPAR progression that we are seeing over the last few months of nine percentage point increases in each month. Given that we are largely a domestic mainstream business there is a fair way that it can grow back before we run up against the upper hurdles of the international traveller who I do not think any of us

think are going to be coming back in the very near-term. Our business is not particularly seasonal in terms of the mix of business, leisure and in terms of groups. There is not that much seasonality that would come into effect. It is all going to be down to how confident people feel about travel and what restrictions are placed on them. However, what we have seen from markets such as China, which have recovered earlier is that when people can, they will get back to their typical travel habits as quickly as they are allowed to. Certainly, the China data is pretty encouraging from that regard.

Keith Barr: In terms of the industry more broadly, Vicki, I think that one is going to have to assume, with this level of economic impact, that not every company or every player out there is going to be able to get through unscathed or get through this whole storm. Putting them in different buckets, there are going to be property portfolios out there now which are going to be quite challenged to perform with the existing branding and management. Then they may look to rebrand or trade effectively. I think that will happen. There will be some smaller regional players who do not have the liquidity or the depth that the big international players have, who may not be viable going forward and may have to either look to partner and/or potentially consolidate. Then additionally, I think that there will be some other companies out there in terms of global small brands who are saying, 'Is this the right opportunity for me and the right structure for me moving forward?' I think it is going to happen. I do not think it is going to happen tomorrow though because there is enough government support out there across a wide variety of mechanisms that are keeping companies afloat. I was having a conversation the other day with somebody in the US Government and they have to move on from keeping everybody afloat to making sure that the right companies stay afloat at the end of the day. That will happen at some point and that will mean that there will be a level of consolidation of small companies and then also partnerships forming up too. It is hard to predict it exactly but right now clearly what we are focused on is being positioned to take advantage of the longer-term opportunities that present themselves, if they do, but making sure that we are really focused on operational delivery, execution today, delivering a great clean stay and making sure we can weather through what was the most challenging period of time.

The geographic differences, I think what we are seeing already is the mature markets like China, for example, have quickly got back into the pipeline being under construction. The US is getting under construction. Clearly, with the markets that have struggled to reopen construction is lagging a little bit as well. That would be across Europe, Middle East, Africa and parts of Asia too. They are the two big bookends. You are seeing construction get back on track. It has been a little bit slower in the rest of the markets because the lockdowns were steeper and deeper or in some cases are still continuing on.

Vicki Stern: Thank you and on the conversion opportunities, would there be any obvious geographic differences in what you see there?

Keith Barr: Conversion, it seems to be across the board, to be very honest. We are signing things in New York with voco, now with China in voco. I think from a brand perspective though what we will look at is what brands of ours are really capable of. Six Senses, InterContinental, Kimpton, Hotel Indigo and voco without question give us five brands across multiple segments that can convert. There is no real geographic difference there to-date. We

will have to wait and see how much momentum has built up in the other half of this year and beginning of next year.

Jarrold Castle (UBS): Three from me as well, more around medium-term but some of the hoteliers and airlines have spoken about 2023/2024 getting back to 2019 levels in terms of RevPAR or volumes. I would be interested in your thoughts on that and related to that, if you think there is any reason why the fee margin could not get back to previous levels around the mid-50s? Secondly, you spoke a little bit about M&A but anything more specific. One of your competitors, for instance, has spoken about Travelodge so I would interested to get your thinking around that given your exposure with Holiday Inn Express, for instance. Then also medium-term, are you thinking differently about the design of new hotels? I am thinking more, not necessarily maybe material, but just changes in thinking linked to the implications from Covid or indeed another crisis later down the line. Thanks.

Paul Edgecliffe-Johnson: In trying to work out what might happen in a number of years' time, it is obviously a guessing game. Our booking windows are incredibly short at the moment. What I can say is that when we think about what the shape of growth into 2019 looks like, you had the strong recovery in RevPAR and then in 2017 we were really pretty close to the 2019 levels of growth. It petered out as we got up to that peak level. My expectation is that we will over a few years get back to close to 2019 and then getting right back up to the top there will again take some time while you build the compression you build the levels of demand to be able to revenue manage hotels, reset rates with corporates etc. In terms of fee margin, I would not see any reason why we would not be able to get back up to where we were over time.

Keith Barr: On M&A, we do not ever comment about specific M&A but all the big players look at most of the opportunities that present themselves out there and we take it from a very philosophical perspective of looking at would this make this company stronger? The brand portfolio, the geographic distribution and so forth too. We cannot comment on any specific M&A right now. We will constantly evaluate opportunities but being very thoughtful and prudent about how we manage the balance sheet during very uncertain times. Building on what Paul said, anyone who can really predict what 2022/23/24 are going to look like exactly has more insight than anybody on the planet because no one really knows. It will be directly tied to vaccine, scale and economic recovery. We all have our projections on that, as Paul said.

On design I think we are going to be building upon things that we have already been doing. If you look at avid, and I mentioned avid hotels and consumer feedback because I was reading a review the other day. It is literally an advertisement for why avid makes sense in a Covid environment: hardwood floors, hard surfaces, super-easy to clean, bright white bathrooms, there was such a focus on cleanliness when we were designing that brand. We have been lifting and shifting that over to our Extended Stay brands now. I think we are going to continue to progress our designs, recognising the importance of cleanliness, touched surfaces and so forth what materials we will use going forward and we already had world-class operating procedures in place beforehand. Working with the Cleveland Clinic we are actually asking them to advise us about what we should be thinking about going forward. We are looking at new technologies, so we are looking at electrostatic sprayers and ultraviolet technologies. We are looking at the future of buffets. All those questions will come into play.

The one thing I have urged the teams to do now though is not overreact in the short-term until we understand what the longer-term trends are. When you are in the middle of a crisis it is quite easy to believe that this is how things are going to operate going forward and that is never the case. There will be things that will change about this, about how we design and operate hotels and what stays in a post-Covid world we need to wait and see. However, we will make sure we design our hotels accordingly.

Tim Barrett (Numis): Morning everybody. Can I ask two things? Firstly, a bigger picture thing. You talked very helpfully about July. If we look at some of the weekly data that is coming out of the market, there is obviously some volatilities to expect, which I am guessing is to do with state by state policies. Can you help us around that, what you are looking at and where the risks and upsides are? Then a quick question on the SVC portfolio. It has obviously been a bit of a saga in that there is a note in the accounts. You say it is not material but what will happen if you part ways with them? What is the cash implication in the second half? Does it have any implications for the extended stay business?

Paul Edgecliffe-Johnson: In terms of the weekly versus monthly data, normally we would be talking quarterly RevPAR data rather than necessarily giving out month by month data. Normally we would not give the July data, but we think it is helpful now given that there are some trends going on in respect of recovery. Looking down into a week by week analysis can lead to some over-analysis, if I am honest. I think you need to step up a little bit and focus more on the months. In terms of risks, they are clearly around lockdown. If you see a lockdown in a state which has seen a heightened level of Covid cases that will impact on demand there. Those are the key things.

In terms of the SVC portfolio, I think we have said this is a fairly small portfolio from an earnings perspective. It is less than 0.5% of Group earnings with about 100 hotels or so. It is renamed HPT. Those of you who have followed us for a long time will remember the HPT portfolio. We will see what happens if we do part ways but there is still a period of time to go before that would happen towards the end of the year. In terms of cash not a significant impact there. You will have seen in the balance sheet that we have written off effectively the cash that we have as an owners deposit but that is not in our cash anyway. I would not really expect to see any further impact.

Tim Barrett: No, obviously I was not looking for a weekly commentary but which are the big states that you are keeping an eye on? Is there anything there that is impacted in the second quarter?

Paul Edgecliffe-Johnson: Florida and Texas are big states and obviously they have seen a heightened level of coronavirus. We are probably a little over-weighted there. Those are ones that in particular we would want to keep a close eye on. Equally, if we saw a recovery in some of the key urban markets where we still have owned and managed hotels that would have an impact on profitability. It is not just one location but Florida and Texas in particular.

Leo Carrington (Credit Suisse): Could you elaborate on the timing of recovery of different elements of the fee structure? I really mean relative timing because as you said it is very hard to forecast. To what extent would you expect the incentive fee-based revenue to recover compared to the franchise fee? To what extent is the managed portfolio skewed towards upscale, upper upscale and luxury and your views on whether that pushes the

recovery of incentive fee revenue out to the right? Also again thinking a bit further out, if you could comment on if you think the acceleration in conversions can actually offset the potential attrition in the new build pipeline? Thank you.

Paul Edgecliffe-Johnson: Clearly with the franchise income that is just a share of revenue so it is a direct correlation to the recovery we see in the business. In terms of the IMF percent it will be more sensitive. You will need to see more of a recovery before we get back to the full level of IMF. On some contracts it is a share of revenue and share of GOP and on some contracts you will have an owners priority return or dependent on the margin that the hotel is generating, the GOP margin, you will get different levels of IMF. That is certainly more sensitive and it tends to be on those larger upper upscale and luxury hotels which I think as we look at the shape of the recovery are going to take longer. They are more dependent on the international traveller and more dependent on groups. I would think that is the last bit of the earnings recovery that we will see. Exactly when that is obviously, Leo, is difficult to tell.

Keith Barr: On the conversion opportunity, it is an interesting one. If you take a step back and think about the portfolio, the mainstream segment, the core of our business is arguably the most resilient from a performance standpoint and a pipeline standpoint. From a pipeline standpoint, usually resilient due to the ability to maintain financing because of where the financing is coming from. However, funding is going to be the big question mark for the industry in the short-term. Understanding whether banks are willing to lend to new builds, things that are not already under construction and so forth and at what time. What we did see is the biggest brands, strongest brands got financing first at the last recovery and mainstream came through. A bit of luxury as well to the top end because of the residential component around it and the strength of the residential aspects. Then conversions did come into play. The question is will it offset parts of the pipeline that slowed down? It has the potential to do so but it is really hard to read directly across in the mid-term because you are going to see independents and small hotels potentially wanting to come into a big branded player, which is what we have seen in the past. We now have more brands than we used to in the past so we have more opportunity there. The last downturn we did see a lot of the upscale and upper upscale big box projects slow down a bit. I think you will see a bit of a slow and then a bit of an acceleration potentially with conversions coming into play to help smooth it. I am not sure it can make up completely and it would be a question about financing and the broader macroeconomic activity which I am not sure anyone has a clear line of sight on right now.

Alex Brignall (Redburn): Morning, thanks so much, I have a couple please. The first one is on mix of customers and whether you are seeing greater leisure mix. The OTAs spoke on their call about a shift from business to leisure being very helpful for the OTAs. They said the hotels are engaging a lot more with them because they wanted the OTAs to provide them with leisure traffic, which seems obvious. Could you tell us how a shift from business to leisure would affect your direct versus indirect mix? Then a lot of your forward guidance on how RevPAR can recover seems pinned on the fact that business travel will recover to full levels of what it was before. A lot of companies have said that is not going to be the case. Social and environmental issues suggest that that could be challenging. If we were to assume that that did not happen, how would that read through into the recovery in terms of an Accor sized view on business travel decline. What would that do for RevPAR recovery and

for the pipeline? Clearly pipeline is based on financing but also on views that there is going to be a full recovery of demand. Thank you so much.

Keith Barr: In terms of channel shift in OTA activity, it is really difficult to discern a trend right now because the last three months of occupancy levels are so low. We have not seen a significant shift or seen OTAs double in volume. There is a bit of a mix effect going on because you have got summer which is a bit more leisure oriented and you have got drive will lean towards OTAs. It is really hard to say that we have seen a material shift in channels to the OTAs because volumes are so down now from an occupancy standpoint. I think a few months from now as the recovery begins to continue will there be a different trend. Customers are really liking the book direct. Many of them had some very bad experiences in the downturn where they had not booked direct and had used third parties. They had a very difficult time getting refunds and cancellations through those third parties. I think it has been puts and takes here overall.

On business, some of you may have seen some of the TV I did today. I said it is pretty hard to Zoom yourself on a family holiday. It is pretty hard to Teams yourself on a big convention or Teams yourself to a big first-time meeting with a client that you are going to do a huge deal with. I do not think this is the death of business travel by any means. I think it will shift but there are some long-term trends when you fast forward of rising demand for travel, rising emerging markets and those tailwinds are going to come back. There had been again a growing shift to leisure. You have to remember there is a significant portion of business travel which is not non-discretionary, which is why I think you have seen us hold up quite well through this downturn. We still have a pretty significant amount of business travel in our hotels and it is people who have to travel from point A to point B to do their job. They cannot do it through technology. They have to be on site and that is not your top tier banker or anything like that. It is the individual who is driving from a Holiday Inn Express to a Holiday Inn Express to do a job. That is the core of what drives Holiday Inn, Holiday Inn Express and the mainstream segment too. That is here to stay.

I would be inaccurate to say it is not going to have some impact because I am sure that it will but I do not think it is a material shift that business travel is going to be 10%, 20% or 30% going forward. I do not think anyone has that real view on it yet. Again, you remember after 9/11 people said they would never get on planes again and we all know what happened, decades of travel from there too. I think it is just too early to call and also not all business travel is equal.

Jamie Rollo (Morgan Stanley): Thanks, I have got three questions please. The first one is on the EBIT sensitivity to 1% on RevPAR. It looks like that was nearly \$15 million in H1 if we adjust for the \$50 million savings so a little bit worse than your last update. Is that simply the temporary discounts on fees? Should we expect that sensitivity to get better in the second half? I think you said that fee release will not be carrying on. Secondly on the unit growth, lots of questions from other people there but to try and short circuit the answer, when do you see unit growth actually bottoming for the company? Is it more like next year, the year after or could it be H2? Finally, on SVC I appreciate it is not material to your fee income but I am a bit confused. In your Annual Report you give the maximum pay out under performance guarantees as \$85 million and in their report they quote \$217 million on

guarantees just for the contract with you. What is the disconnect there? Are there any other off balance sheet type items like that? Thank you.

Paul Edgecliffe-Johnson: In terms of EBIT sensitivity, we historically talked about 1% movement in RevPAR equating to approximately \$13 million of EBIT so that was at the beginning of the year. What we have seen as we have been through this period is that the managed hotels, the owned, leased and managed leased and the franchised hotels have moved out of sequence. They are not all in synchronisation anymore. Each of them has a different impact on RevPAR. It worked well to add those together and to get to \$13 million historically we assumed that they are in synchronicity. They are a little out of synch now in that you are seeing more of an impact from that owned and leased and from managed etc. That is why it is hard to just give a vanilla number like we were able to previously. It does triangulate to just under \$15 million for the first half and as you say, Jamie, with the fee discounts going away it is possible that that will be a little lower in half two. However, of course it will depend on what happens to the franchised, to the managed and how that mix evolves.

In terms of SVC, which was HPT, those of you with long memories will recall that in the financial crisis we did actually have a guarantee there and then we restructured that contract so there is not guarantee. There is an owners deposit which is what I was referring to earlier which is now written off. Beyond that fee the owner has a priority return which is effectively not the same as a guarantee because we are not obligated to pay that. Hence the difference. It is not a financial guarantee.

Keith Barr: Jamie, to be very open with you, I am not sure anyone knows the answer to your question. I think clearly we are going to see a slowing in development activity particularly in new-build while there is a level of uncertainty. Owners are not sure about what sort of economic environment they would be opening into in 2-3 years. It is all going to be predicated upon the pace and the slope of the recovery and how confident they feel. That is going to vary from market to market. You are seeing in China right now with an economic recovery and continued growth there, looking quite solid across the business overall. You are going to see muted activity in the more mature markets with that level of uncertainty. You will see a pivoting over to conversions and so forth too. It is really too early to call, Jamie, until we have more clarity about what the pace of the recovery looks like because if something bounces back quite quickly with strong economic growth you can see a smoothing out. If it is an extended downturn, which no one knows, you would see again a challenge in terms of longer-term growth too. We will have more as things evolve. We are only really part way through this in terms of a recovery standpoint in the crisis. I wish I could sit today and give you a firmer view on we are going to be at the bottom of growth at this point and then be in a recovery. I think it is too early to call it.

Jamie Rollo: What percent of the pipeline is actually funded? Apologies if you said that already. Also, the signings halved in the second quarter, in the discussions you are having, do you see that coming back in the back half of the year?

Keith Barr: I am not sure we have line of sight on funding. I know we have line of sight under construction.

Paul Edgecliffe-Johnson: Yes, in terms of the signings slowing, Jamie, I think as you can imagine, a lot of our owners who would otherwise have been signing contracts with us in the second quarter were working on getting their hotels reopened. That did slow things down somewhat. If you look in China where we saw a good level of signings and actually in South East Asia we saw quite a lot of activity there as well, that is where owners were more quickly moving back into growth mode and demonstrates what hopefully will happen when we see some sort of a new normal coming through there. The China signings were actually very strong.

In terms of the amount that are financed, we do not have clear line of sight on financing. What we know is that before owners want to sign up with us they have a good understanding of their ability to attract finance in a normal environment. There will likely be some contracts which the owner went into with best intentions having spoken to the vendor and thought that they would be able to get financing and that in the new environment they may not be able to. That is what we saw back in 2009/10 but we will have to keep an eye on that one.

Ivor Jones (Peel Hunt): Good morning, thank you. Could you help me think about the risk of bad debts, please? I am asking partly for a lesson in accounting for which I apologise. I have seen the first half revenue includes in it 100% of the fees that were expected to be invoiced but you were telling us that 20% of invoices were not being collected within 90 days and that gets me back to May when presumably hotels had relatively good funds. You clearly do not want me to have seen the 20% of fees will not be collected. How will that pressure show up and what is the risk of some of those invoices turning bad? Then the second question is, you have mentioned the marketing spend has been cut because assessment income is reduced. To what extent will the Group want to pump prime marketing spend and will that represent a cash outflow into System Fund from the Group? What would the scale be, so we have some sense of the risk there? Apologies for asking about the accounting within the Group. Thank you.

Paul Edgecliffe-Johnson: I think those ones are definitely for me. In terms of invoices, Ivor, we are actually pleased with what we are seeing. The communications we have had with our owners, the way that we have approached it, reducing their costs and doing everything we can to drive the maximum amount of revenues into their hotels, have meant that to the greatest extent owners can pay us and they are. There is a little delay in getting those fees in, in full. From an accounting standpoint when fees are more than 180 days in arrears then we will take a provision for that. If you look through the accounts you will see that we are making an exceptional charge for \$22 million of expected credit losses, which amounts to a mathematical formula looking at what has not been paid by what date. That has gone through the first half. We may see some more of that in the second half depending on what happens with the collections. That might then reverse out in future years when we do collect that money. What we have tended to see in the past is that when someone is not paying us eventually they will pay us. It may just take longer.

Ivor Jones: Sorry, Paul, can I just interrupt you before I forget what you just said? If we are not to be concerned by 20% of invoices not being paid within 90 days, is it normally at that level then?

Paul Edgecliffe-Johnson: You will always have some that are not paid by that date because there may be a discrepancy in the build. They may be saying, 'I do not quite understand

this.' There will always be a small number of owners who do not have enough cash for one reason or another and are asking for a payment plan. That is effectively what we do with owners. If they cannot pay we put them on a payment plan which is, 'Okay, pay us this much by month.' If they cannot then they eventually get into a point where they lose their franchise which then typically means that they also lose their funding on their hotel so that is a very draconian measure that we always try and avoid. We are there to support the owners. It is a symbiotic relationship where they want to stay working with us and we want to keep them as our owners.

Ivor Jones: It is a delay, it is not an amount of money, a material amount of which is likely to go bad.

Paul Edgecliffe-Johnson: That is the expectation. As I say, we have taken a \$22 million charge for the first half which is our best estimate on what could be a credit loss. That is the same methodology as banks have to use, for example. It is the expected credit loss accounting. Then we will have to look at that at the full year as well.

In terms of marketing spend we have cut back marketing spend. As you can imagine, in the second quarter there were not very many people travelling so it did not make a lot of sense to spend on marketing. We have promotional activity going on in our loyalty programme, which is not a cash cost. It is more of a points cost. We are trying to be very frugal with use of cash but still to drive business into our owners' hotels wherever there is business to do that. We have said that there will be a cash outflow from the System Fund in 2020. There was some in the first half and there will be more in the second half. In aggregate it might be \$100-110 million. That is the order of magnitude and then over the longer-term we would then collect back that cash because over the longer-term the System Fund runs net neutral.

Ivor Jones: Great, thank you very much.

Keith Barr: I think we should probably bring this to a close. I want to thank everyone for their attention. Stuart, do you have any other guide before we close it down?

Stuart Ford: Only to remind that there are details of the replay facility on page ten of the RNS and the next timetabled event is our Q3 Update on 23rd October.

Keith Barr: Excellent. Thanks everyone for attending. We appreciate the quality of the questions and the engagement there. Again, I am really proud of what the team has accomplished this year, managing through the biggest challenge this industry has ever faced. We are well-positioned for the future. I look forward to catching up with all of you later on. Take care and please stay safe.

[END OF TRANSCRIPT]