



# **IHG 2019 Full Year Results Presentation**

Tuesday, 18<sup>th</sup> February 2020

## Opening Remarks

Heather Wood

*Group Financial Controller, IHG*

### Welcome

Good morning everyone. Welcome to IHG's 2019 Full Year Results Presentation. I am Heather Wood, Group Financial Controller and I am joined this morning by Keith Barr, our Chief Executive Officer and Paul Edgecliffe-Johnson, our Chief Financial Officer. As you can see, we are holding today's results presentation by webcast and we will be taking you through some slides. You can find the link on our corporate website and on our stock exchange announcement. If you have not already, please do log on so you can follow the slides. The replay of this presentation will be available on our website. Let me remind you 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.

## 2019 Full Year Results Highlights

Keith Barr

*Chief Executive Officer, IHG*

Good morning everyone. In a moment I will talk about we are executing against our strategic initiatives and accelerating growth and Paul will take you through our financial performance in 2019. However, I would like to start by addressing the evolving situation around the outbreak of the Coronavirus. Having led the China business and lived there for a number of years, it is tough to see the impact this outbreak has had on so many people's lives. We are working closely with our hotel teams, local authorities and the government to provide our full support wherever we can and our top priority remains the health and wellbeing our guests, colleagues and partners on the ground.

One thing I do want to say is how proud I am of our colleagues and how they have stepped up and reacted to this. Our people across the region are doing an incredible job in very difficult circumstances, including our InterContinental Hotel in Wuhan where we are hosting medics and response teams. All of our hotels around the world have been provided with the support and guidance they need to respond and we have strong processes in place to help us manage this challenge.

From a Group perspective Greater China is an important part of our future and we see a compelling growth story for the longer-term with the region representing around 30% of our current global pipeline. However, today it is a small part of our business overall, representing 15% of our open rooms and less than 10% of our operating profit. There will clearly be some impact on our business which we started to see coming through in late January. We are still building a clearer picture but we are currently seeing less travel in the region which is leading to reduced occupancy and around 160 of our 470 hotels are closed or partially closed. Paul and I will be happy to take follow-up questions when we get to Q&A but let me now move on to our 2019 performance.

In 2019 we made excellent progress against our plans to deliver industry-leading net rooms growth over the medium-term. Our net system size growth of 5.6% was our strongest in over a decade driven by a record number of room openings in the year. Global RevPAR declined 0.3% reflecting the impact of ongoing unrest in the Hong Kong market, increased supply growth ahead of demand, particularly in the US upper-midscale segment where we are weighted, and uncertainties caused by geopolitical tension with the US/China trade discussions and Brexit just two examples.

Against this backdrop our focus on accelerating net system size growth delivered an underlying operating profit increase of 6% and an adjusted EPS increase of 3%. Our high quality fee streams and disciplined use of capital continued to generate significant cash flow, allowing us to increase our total annual ordinary dividend by 10%.

Our \$125 million efficiency programme is mostly complete with these savings being wholly reinvested back into our business in line with our strategy to achieve industry-leading net rooms growth and drive stronger commercial performance and returns for our owners. To that end, we have made further progress during the year to evolve and expand our brand portfolio, sharpen our operations, loyalty and owner offer, and ensure we put our global scale and resources to best use. All of which I will talk more about later on.

## **Financial Review**

Paul Edgecliffe-Johnson

*Chief Financial Officer, IHG*

Good morning everyone. First, starting with our headline results from reportable segments. Revenue increased 8% to \$2.1 billion and operating profit increased 4% to \$865 million. On an underlying basis, so excluding current year acquisitions, individually significant liquidated damages and at constant currency, we grew revenue 6%. Underlying revenue from the fee business grew 2% and operating profit grew 5% driven by growth in our net system size and disciplined cost control.

Fee margin was up 80 basis points. I will come back to the drivers of this shortly. Adjusted interest including charges relating to the System Fund increased by \$18 million to \$133 million. This is lower than my previous guidance of \$150 million principally due to the non-cash revaluation of contingent consideration from acquisitions which we now exclude from our adjusted numbers given its volatile nature. As expected, our reported tax rate increased to 24%. In aggregate this performance enabled us to increase our adjusted earnings per share by 3%.

Looking now at our levers of growth, we added 65,000 new rooms to the system, a record level of openings. At the same time 18,000 rooms were removed as we continued to focus on the long-term health and quality of our established brands. These additions and removals brought net system size growth to 5.6% or 5.0% excluding the rooms added from the Sands partnership in the Macau market. We signed 98,000 rooms taking our total pipeline to 283,000 rooms with 40% currently under construction. RevPAR was slightly down for the year or flat excluding the disrupted Hong Kong market. This RevPAR performance combined with 5.6% net system size growth resulted in a 2% increase in underlying fee revenue.

When looking at fee revenue both year-on-year rooms growth and comparable RevPAR are good proxies to understand how growing our net system size and revenue per open room translates into incremental fee revenue over time. However, they do not reflect several factors that impact in-the-year fee growth. The phasing of openings and removals, changes in relative brand and geographic mix, and the ramp-up of newly opened hotels. Therefore we have also shown total RevPAR growth and total rooms available on an underlying basis as these have a more linear relationship with fee revenue growth. More detail is in the appendix.

I will now take you through our 2019 regional performance in more detail starting with the Americas. RevPAR was down 0.1% with rate growth more than offset by occupancy declines. RevPAR in the US was down 0.2% with performance in line with the segments in which we compete. In the fourth quarter the softness in small groups business, which I noted throughout the year, continued. This along with an increase in room supply in the upper-midscale segment resulted in an occupancy-led RevPAR decline of 1.7%. I will come back to this shortly.

Underlying fee business revenue was flat or up 1% after adjusting the prior year for the \$9 million of marketing assessments we previously disclosed. Underlying fee operating profit was up 4%, largely driven by growth in fee revenue from incremental rooms and a continued focus on maintaining an efficient cost base.

In our reported financials we took a \$50 million impairment charge relating to the Kimpton management agreement acquired in 2015. This non-cash charge reflects changes in market RevPAR assumptions and a number of original hotels exiting the brand. The impairment test does not take into account the considerable value generated since the acquisition including the 40 hotels we have signed, the near-30 hotels we have opened and the expansion of the brand to 14 new markets internationally. More details on this are in the appendix.

Turning to the investments we have been making in development resources to increase our signings and openings pace. During the year we opened 26,000 rooms, our highest in eight years with nearly two thirds in the Holiday Inn Brand Family. With the continued focus on quality we grew our overall Americas estate by 2.8%, a marked acceleration from 1.8% in 2016. At the same time we signed a further 33,000 rooms into our pipeline, down from the previous year given the tighter signings environment and annualising the pent-up demand we experienced in 2018 following the launch of avid.

Using available industry data it is clear that we have grown our share of signings in the US upper-midscale segment through 2019 by over 200 basis points, extending our leadership position in this fast-growth segment.

Coming back now to the RevPAR environment in the fourth quarter, we continued to be impacted by the reduced level of demand in small groups business, which Holiday Inn and Crowne Plaza have a higher weighting to, with group-driven revenues for those brands down some 5% in the fourth quarter and around 3% for the full year. In part this is driven by demand weakness in certain sectors of the economy that are contracting, such as automotive. Meanwhile others such as professional services performed well, mirroring trends in the overall US economic activity.

Increasing reference from owners, lenders and guests for upper-midscale hotels means that Holiday Inn and Holiday Inn Express are competing in a segment where supply growth is now over 3%. This highlights the attractiveness of our market-leading position in this high-return segment but led to an occupancy-driven RevPAR decline as supply growth slightly outweighed demand growth. This will stabilise in time as new supply is absorbed and demand continues to reach new highs.

Moving now to Europe, Middle East, Asia and Africa where RevPAR was up 0.3% for the year. In the UK RevPAR was up 1% with 3% growth in London and a 1% decline in the provinces. In the fourth quarter we saw a 2% RevPAR decline in the capital. High supply growth and political unrest continued to weigh on demand in the Middle East where RevPAR was down 3% for the year. This RevPAR growth coupled with strong net rooms growth of 5.8% drove underlying fee revenue up 2% and underlying fee operating profit of 5%.

Owned, leased and managed lease operating profit increased \$11 million driven by solid trading at a number of hotels outside the UK and the benefit from partial usage of the IFRS 16 lease liability for our German leased hotels which I previously guided to. For the UK leased portfolio trading conditions were increasingly challenging through the second half of the year. The Brexit uncertainty and reduced UK consumer confidence meant the fourth quarter in particular was well-below our expectations. This had a minimal impact on our reported results as the \$17 million of lease top-up payments we made on the estate under IFRS 16 are charged against the balance sheet liability. They are similar in nature to payments made under guarantee arrangements and are able to be clawed back over time dependent on portfolio performance. Based on this weakened outturn we took a non-cash \$81 million impairment relating to the UK portfolio deal.

On completion of the deal to acquire the leased business we were required to establish its fair value and recognise on the balance sheet goodwill, property, plant & equipment, lease assets arising from adoption of IFRS 16, and the fair value of contingent consideration payable. Since the deal industry growth forecasts have reduced and we have re-evaluated our projection, resulting in this charge. As the same forecasts are used to value the contingent consideration we recorded an offsetting \$38 million exceptional credit as part of a fair value adjustment on this liability. More details on this can be found in the appendix.

Adding these 12 hotels to our UK portfolio has, as hoped, been a catalyst for the launch of the voco brand in EMEAA and Kimpton's international growth. We now have 12 voco hotels open and a further 21 in the pipeline with some of our most valuable deals such as Dubai directly linked to the showcasing of the brand through the UK portfolio. For Kimpton, being able to demonstrate to owners the product in the London market has helped us in signing up numerous high value hotels we now have in the pipeline outside of the US.

Finally moving to Greater China where we continued to outperform the industry. RevPAR across the region was down 4.5% for the year or broadly flat excluding the Hong Kong market where trading conditions have been challenging. Underlying revenue was up 2% and underlying profit up 16% which included the \$5 million fee income loss from the Hong Kong market which we guided to in October. This was more than offset by new business and disciplined cost control.

We opened 24,000 rooms including over 50 Holiday Inn Express hotels. A further 36,000 rooms entered our pipeline providing a clear runway for future growth. This was our best performance on record and included 76 franchise hotel signings for Holiday Inn Express.

Turning now to fee margin and our Group efficiency programme. As we have talked about before, we identified \$125 million efficiency savings delivered through simplifying our organisational structure making it leaner and flatter, outsourcing more non-core activities and introducing increased levels of automation. These savings have provided additional capacity for reinvestment into our strategic initiatives. This will drive industry-leading net system size growth fuelling future revenue growth and future margin accretion.

Fee margin for the year was up 80 basis points despite being held back by an operating loss from the acquisition of Six Senses in February last year. Excluding this and the one-off impact relating to marketing assessments in 2018, fee margin was up 160 basis points.

Moving on now to cash flow, our cash-generative business has enabled us over the past five years to generate on average over \$500 million of free cash flow per year. For 2019 free cash flow of \$509 million was down on last year primarily as a result of a \$75 million increase in cash tax as 2018 benefitted from a US tax refund. In the year we paid over \$700 million in dividends to shareholders, \$500 million of which we announced in 2018. After the acquisition of Six Senses net debt finished the year at \$2.7 billion.

Turning to capex we spent growth capex of \$255 million and net capex of \$211 million. Our medium-term guidance remains unchanged at up to \$350 million gross per annum. We expect our recyclable investment and system fund capital investment to net to zero over the medium-term, resulting in net capex of \$150 million per annum.

As well as using cash to reinvest behind our long-term growth, we continue to generate sufficient funds to support growth in our ordinary dividend. We have announced today that the 2019 total dividend will increase by 10%. Looking ahead, our long-term funding sources are secure. We have a staggered maturity profile with our first bond not due until 2022. We also have access to a \$1.4 billion revolving credit facility for additional cash requirements. Altogether our financial capacity remains strong and we are well-placed to withstand any market uncertainties.

Turning now to our strategy for uses of cash which remains unchanged. Our first focus is to reinvest capital to drive growth. Secondly we want to generate sufficient funds to support growth in the ordinary dividend which is well-covered. Lastly where there is further cash available which is truly surplus we will return this to shareholders as we have demonstrated over the past 16 years. Our efficiency programme is enabling us to reinvest and drive long-term sustainable growth. We remain committed to returning surplus funds to shareholders.

## Update on Strategic Initiatives

Keith Barr

*Chief Executive Officer, IHG*

I would like to first spend some time looking at the fundamentals of our industry. It is a fast-changing, dynamic sector that continues to see growing demand with industry revenues up 5% over the last three years. Within this we are seeing a shift to scale brand. The top-three branded global players of which IHG is one, now have 17% of the open rooms globally and notably 44% of the active pipeline. That is an incredibly strong position to be in and it means we will collectively continue to take share and increase our relative scale against the rest of the industry.

In terms of the key drivers we know that hotels are an attractive asset class and owners want to partner with the big branded players. With our scale and continued investment behind our brands, such as lower build costs for our new prototypes, we are helping our owners to maintain their high returns even with rising cost pressures. Consumer trends are also shifting with increasingly more demand for brands which can offer a mix of consistency and distinctive high quality experiences. The innovations we are rolling out across our existing brand continue to resonate with guests and each one of our newer brands targets an under-served segment from both an owner and guest perspective.

Furthermore consumers are increasingly looking for a seamless technology experience and have a growing preference for sustainable practices, both key focus areas in our strategy. It is considerations like these that are informing all the actions we are taking to enhance our offer right across both the guest journey and the life cycle of a hotel. Remember that two years ago we set out our strategy to make our model work harder and ensure we remain an industry leader for years to come.

Whilst we still have much to achieve we have already made important progress and are now a very different company. Our teams are deployed against key growth initiatives such as repositioning our portfolio, strengthening our loyalty programme and moving to a cloud-based hotel technology solution. Key to all of this has been the significant restructuring of our organisation which has allowed us to free-up capacity and drive efficiency that can be reinvested in our future growth. These investments coupled with strong industry drivers leave us very well-placed to capitalise for the long-term.

We are on track to achieve our ambition of industry-leading net rooms growth over the medium-term. Over the last three years we have accelerated our rate of growth from around 3% to 5.6%. This has come almost entirely from our established brands, led by our Holiday Inn Brand Family which delivered a record year of openings in 2019. Also driving this performance has been our investment in hotel life cycle management which have accelerated the pace hotels can move from signings to openings and then ramp up, all of which help maximise owner returns and our attractiveness as a partner.

As ever, while we are focused on growing our system it is important to highlight our commitment to protecting the high quality nature of our entire estate. We continue to remove underperforming hotels to protect the reputation of our brands globally. Our five newer brands, avid, Atwell Suites, voco, Regent and Six Senses, all enhance our future growth prospects. Each one taps into a deep pool of demand that will allow us to create scale positions with a differentiated guest and owner offer.

You will recognise our model on this slide. It is by making this work harder through our strategic investment that we can drive growth and deliver financial performance. Before taking each part in turn I want to touch on our commitment to operate a responsible business which underpins the model and sits at the core of our company.

How we operate responsibly on a daily basis and take decisions to grow in ways that are considerate of the world around us is a topic of discussion with an increasingly broad set of stakeholders. Colleagues, guests, owners, suppliers, investors and partners all expect companies to make responsible and sustainable choices, using their scale as a force for good and that is how we see it for IHG too. Our commitment to responsible business underpins our entire strategy and company culture. We continue to focus on ways to bring that to life across our hotel estate and thousands of communities worldwide. We have made further important progress.

Last July we were the first global hotel company to announce that our entire portfolio would switch to bulk-size bathroom amenities in 2021 and we are now seeing this great initiative being adopted by some of our peers. Today we have announced two more commitments, the first being to reduce our carbon emissions through a 2030 science-based target. The second is that we have also made a formal commitment to implement the recommendations of the Taskforce on Climate-related Financial Disclosures and we will be developing a roadmap for the coming years.

We have also made a number of important pledges becoming a signatory of the CEO Water Mandate, marking our commitment to the CEO Action for Diversity & Inclusion and becoming a member of The Valuable 500. Our responsible business agenda is something that we will continue to push and challenge ourselves on and I look forward to talking you through our plans beyond our current targets later this year.

Turning to the other elements of our strategic model, we continue to strengthen our IHG Rewards Club loyalty programme, which contributed around 46% of room nights in 2019. Looking at loyalty contribution on a room night basis rather than a room revenue basis better represents the full value of our loyalty programme, capturing revenue delivered to our hotels from both qualified and redeemed stays. Ensuring we continue to build lifetime relationships with our most valuable members is a big focus and in 2019 we added a number of world-class partnerships to our offer, alongside progressing important trials that will enhance the value of the programme for both guests and owners.

When it comes to enhancing revenue delivery we are making significant investments in our digital and technological capabilities that deliver lower-cost revenue to our owners and help engage customers along the guest journey. In 2019 we began piloting new functionality for our guest reservations system which will continue this year. Using investments our owners have made in our seamless Wi-Fi solution, IHG Connect, we launched IHG Studio which allows guests to stream content directly to their TVs or pay for services with their loyalty points.

Our award-winning mobile app is delivering more revenue year-on-year to our hotels and we are helping drive further meaningful uplifts through our Revenue Management for Hire programme which is now in more than 3,500 properties. Outside of our direct channels we have used our scale position to renegotiate more favourable OTA terms on behalf of our owners allowing them to drive lower cost revenue into their businesses.

You'll recognise our enhanced brand portfolio on this slide so let me talk about what we are doing with some of them in a little more detail.

Our Holiday Inn Brand Family is the growth engine of our business and we have made significant investments to ensure it remains the preferred choice for our guests and owners. The roll out of our Formula Blue hotel design for Holiday Inn Express has continued at pace. Over 1,600 open and pipeline hotels in the US and Canada have either adopted or committed to the new room and public space designs and we are already seeing uplifts in guest satisfaction and owner returns. We are also taking some of these designs to Europe and the successes have helped form a blueprint for enhancements to other brands too.

For example, last year we launched our new prototype for Holiday Inn which brings fresh and modern designs to our new hotels across the Americas. With a 15% reduction in building size, the concept brings our successful Open Lobby public space and guest room designs together in a more efficient and flexible way, helping create better returns for our owners. We have talked before about the success of Open Lobby in Europe and it is now being adopted in more than 90% of the estate generating meaningful uplift in guest satisfaction and increased food and beverage revenue for our owners. Combined, these types of investments led to a record year of openings in 2019 and notably to our share of openings in the US increasing by three percentage points over the last three years.

Our extensive expertise in the mainstream segment has enabled us to successfully launch two new brands in the high opportunity growth areas. Since September 2017 we have signed more than 200 avid hotels, with more than 80 under construction or with planning approved, and ten open, achieving strong guest satisfaction scores. Last September we also launched franchise sales for Atwell Suites with ten properties signed in 2019 and a further 11 applications approved. The first hotels are expected to break ground this year and will open in 2021 in markets such as Charlotte, Phoenix, Denver and the San Francisco Bay Area.

Turning now to the upscale segment and Crowne Plaza, we signed 29 hotels in 2019, our highest figure in a decade, and opened six flagship properties around the globe showcasing our new room and public space designs. In the Americas we are committed to improving the quality of our estate and have removed 23 hotels over the past three years. At the same time our owners are making significant investment into public spaces and guest rooms, which is critical to the brand's success.

Those that have completed the renovations, such as our hotel in Atlanta which you can see here, are growing RevPAR at double the industry rate with meaningful guest satisfaction uplifts. This investment alongside more modern service enhancements, are crucial to unlocking Crowne Plaza's full potential in the region and will help bring the estate closer in line with the excellent performance in EMEAA and in Greater China, where the brand is ranked top for guest satisfaction within its segment.

The acceleration of our boutique Hotel Indigo brand continues at pace with our best ever year for signings for the brand and with 16 new countries now secured into its pipeline. Over the next five years the estate is set to almost double in size.

Staying in upscale, we have seen strong interest in voco since launching the brand back in June 2018, signing 33 properties including locations like Cyprus, Bangkok and Johannesburg. After a strong start in EMEAA we plan to continue accelerating the brand's expansion into more markets globally with an expectation to grow to more than 200 hotels over the next decade.

Let me now focus on luxury and the opportunities we see in this fast-growing segment. Through targeted acquisitions we have expanded our luxury portfolio to four brands, each one serving a different but complementary part of this segment and well-positioned to help us increase our share of the growth opportunity. A fuller, more rounded luxury portfolio is enabling us to have more conversations with owners around multi-hotel developments and luxury residential deals. It also creates halo benefits like a stronger loyalty proposition and the ability to offer more differentiated guest stays.

Taking each brand in turn starting with Kimpton, where we signed our highest number of properties in the US since acquiring the brand five years ago. Outside of the US we opened three hotels and signed two more into the pipeline as we continue to expand the brand into key luxury destinations internationally. In 2020 we have openings lined up in Tokyo, Barcelona, Bangkok and Bali, to name a few.

It was also a busy year for our InterContinental brand. We opened nine hotels, including properties in Lyon, Hayman Island and the Maldives. Demonstrating the long-term commitment of our owners, there continues to be a significant amount of capital invested into the existing estate with a number of hotels currently undergoing or due to undergo refurbishment, alongside a really strong development pipeline.

Turning to Regent now, since acquiring the brand we have been focused on combining its deep heritage with a redefined design, hallmarks and service ethos, in order to reposition Regent within the top-tier of luxury. Three properties have been signed since acquisition and we remain on track to grow the portfolio to more than 40 hotels over the long term.

Finally, turning to Six Senses, a key reason for acquiring this brand was its strong pipeline and the potential for IHG to use our scale and expertise to accelerate its growth in key markets globally. We are already seeing that come to life, delivering the brand's highest ever number of signings in a year, including properties in London, the Galápagos Islands and the Loire Valley. We continue to see strong potential to grow the brand to more than 60 hotels over the next decade.

To sum it up, we are successfully executing against the key growth initiatives we set out two years ago. By making our strategic model work harder we are strengthening our business, accelerating net rooms growth and driving financial results. We are focusing on the parts of our business where it matters most, expanding and repositioning our brand portfolio, sharpening our operations and ensuring we put our scale to best use. Our business model continues to drive high quality, sustainable growth in free cash flow and we remain committed to returning surplus cash to our shareholders.

Whilst the Coronavirus is impacting our business in Greater China, our priority remains the health and safety of the people on the ground. We remain committed to the compelling long-term market fundamentals. The fundamentals of our industry remain strong and we are confident that our cash generative, resilient, fee-based model which is underpinned by our commitment to operate a responsible business, positions us well to continue making the strategic investments that will drive our long-term growth.

## Q&A

**Richard Clarke (AB Bernstein):** Good morning, three questions from me. The first one is the obvious one. What specifically are you seeing on coronavirus in terms of the impact on the Chinese hotels? What are you seeing in terms of the occupancy declines there? Is there any impact given your big Chinese footprint on the wider APAC and wider market? What are your expectations based on what you are seeing so far for the full year? Second question, we have seen luxury do extremely well in the US in the fourth quarter but InterContinental does not seem to follow that. I am wondering whether you could help us on that bridge as to why InterContinental is underperforming there. Then lastly Hilton suggested a small tentative optimism that some of that small group travel that has been impacting you so much was beginning to pick up based on their booking numbers. Is that something you are also seeing something we can maybe get a little bit optimistic about for 2020?

**Keith Barr:** I will cover coronavirus in a broad comprehensive answer, how it is impacting the business. First, our focus has been on taking care of our customers and our colleagues. There are some amazing things happening on the ground. Our hotels in Wuhan, as I noted, are actually hosting the medics. One of our hotels is making the meals for the workers that were assembled in the hospital. We are highly-engaged across Greater China looking after that. Taking a step back and giving you context about Group RevPAR, impact on profit and how that clicks into China. I think as you well know, a 1% in Group RevPAR is about \$13 million of Group EBIT on a full year basis. This is an evolving situation in China and across the business so it is pretty hard for us to predict where it will go. China today is less than 10% of our Group operating profit. We right now have about a 160 hotels closed or closed to arrival. Not surprisingly we are seeing significant reductions in occupancy in the month of February across the entirety of the business. To try to put some numbers to that, based upon the current level of disruption year-on-year we are seeing about a \$5 million fee impact for the month of February in the mainland China business. Our fee revenue for the full year is around \$100 million for mainland China. Q1 is one of the lower quarters and it gets progressively more as the year goes on with Q4 being one of the strongest quarters in terms of fee realisation as well. Again, we are seeing \$5 million in the month of February from a fee impact. Additionally, as you will remember, we quantified the \$5 million fee income impact

from the disruption in Hong Kong and that clearly has not improved and is going to carry over into 2020 as well.

Looking beyond China we are seeing some impact across Asia Pacific, some conferences and events shifting dates from Q1 into later on in the year. There have been some cancellations. It is really too hard to quantify it because things are picking up and moving around the world. Some things are being cancelled overall. The real question in front of us is, what is this going to look like in terms of a decline and then a recovery? We have looked at what happened during SARS. I lived there during H1N1 and SARS was clearly a sharp drop and then a sharp recovery. Then what I saw during H1N1 and other times in China the key thing to remember is the Chinese government's ability to stimulate economic growth and activity is unlike any other country. We cannot tell you today if this is a one-month impact, a two-month impact, a quarter or a half because that will be determined by the virus. It is a highly-resilient fee model that we have and the ability for the Chinese government to stimulate demand in the second half could cause a significant uptick in performance in the second half of the year or when this normalises overall too.

That gives you a bit of context about performance in the month, performance in Hong Kong and how the full year could play out depending upon the length of impact.

**Paul Edgecliffe-Johnson:** With InterContinental in the Americas market it is not fully penetrated into that market yet. It is not in every single one of the micro markets there. If you think that we have got about 50-odd InterContinentials across the Americas as a whole, quite a lot of those are down in Central and Latin America. Then it becomes very micro market by micro market dependent. It is hard to take a straight apples-to-apples comparison there. I think that is what is going on rather than anything more brand specific.

In terms of Hilton's comments on their first quarter, obviously we do not give guidance so that is the first thing. We would not comment on what they have seen in a couple of weeks. They are also obviously more penetrated into the group market, the large group market, so they have that additional forward visibility there. We are more into the smaller groups market which tends not to give us quite so much booking pace information. However, that said, there is nothing structurally different between Hilton's business and our business. If there were any pickup then we would expect that it would be relatively linear but nothing I can add on that today.

**Richard Clarke:** Maybe just a quick follow-up. We have had a couple of the other companies talking about some delays in construction in China. Is that something you would also mirror with regards to 2020?

**Keith Barr:** It is a great questions, Richard. We have actually already opened five or six hotels already this year and we signed a number of hotels so business is still moving ahead. There could be the potential for some disruption in two fronts. One is FF&E availability if they cannot be manufactured and delivered. Secondly, if some of the workers are not able to return to the sites but this is a delay and not a stop. Effectively there could be a slide from December into January next year or Q4 into Q1 next year but the long-term strength of the business is extraordinary in Greater China. Things reflect the pace and accelerations of signings and openings in growth. We are long-term very, very bullish on China and this is a short-term dip impact that will recover as it has previously.

**Vicki Stern (Barclays):** One more on coronavirus and then a couple of others. You touched on the impact outside of China in Asia more broadly and I appreciate it is pretty difficult to tell with lots of things moving around. However, are you seeing anything outside of Asia in terms of European or US business being touched, not just from the Chinese outbound tourism element but is Asia tourism outbound overall reduced right now? Second question, on margin growth, trying to strip out the impact of coronavirus, if we were not dealing with that this year would you generally be expecting this could be another year of 80-120 bps of margin growth performance? On cash returns obviously given the uncertainty of coronavirus it is certainly not a surprise that you have not announced anything today on cash returns. However, again trying to look forward to when that might be behind us, would you still in principle be happy operating in the upper part of that 2.5-3.0x leverage range at this point in the cycle? Are there any acquisitions or further investments that might require any significant sums of cash? Thanks.

**Keith Barr:** I will go from west to east. No impact on the US. Remember that the thing about IHG is whilst we are in 100 countries and territories we are principally domestic businesses. The key drivers are domestic travel and the shape of our portfolio in the US is again principally in the mainstream. We are not seeing any impact. There is clearly going to be some level of international inbound impact to the US but it would be on the margin for IHG so no impact on the US market. Similarly in Europe we are principally domestic markets there. There will be some impact but we have not seen anything significant at all that we can even quantify. You are really looking much more at Greater China and then into the Asia Pacific market in the countries that are adjacent there. Those are all being driven principally by either outbound travel from China or travel restrictions in the region. Those will really be driven by when coronavirus is considered to be contained. However, it is all manageable. I will come back and use China as an example. We were talking about it today. If you think about the China results for last year you saw -4.5% RevPAR in Greater China but you saw us grow 2% in revenue and 16% in profit underlying. I think that speaks to our focus as an executive team in the last few years of leaning into adding new brands, accelerating growth, recognising in a muted RevPAR environment or even macro events like this we can still grow the business, grow revenue and grow profit. That is a key focus and I think it is really paying dividends for us. More broadly I expect not to see significant impact outside of that region.

**Paul Edgecliffe-Johnson:** Our focus remains the same. We are very focused on costs in the business as we have been for multiple years in ensuring that we make the most of what we have. We invest where it helps drive the growth and you have seen us do that. That has paid off significantly in terms of more signings and more openings. Broadly we have the sort of cost base that we need in each of our regions and that cost base is very scalable. As we add more hotels as we have a high level of openings, it is able to support those hotels. That is what has allowed us over the long-term to drive this very high level of margin accretion. I would expect that over time it will continue to be 80-120 basis points. It may oscillate. I have said that before. You may see it be a little bit less one year and a little bit more one year. In 2019 on an underlying basis we saw 160 basis points of growth and I do not aspire to do that every year because we need to make sure we are investing behind the strong growth that we are seeing in the business. Broadly over time we are still comfortable with the 80-120 bps.

Then in terms of the cash returns hopefully our philosophy and our actions over the many years shows our intent there. There is no change to that. We are still happy to be in the top-end of the range. If you look at the global economy it remains strong with very low interest rates around the world, lower for longer. Permanent capex around the \$150 million mark is about the right level still so no change to that. In terms of M&A we have bought a number of things in recent years and there is a lot of work that we want to do with those to allow them to fulfil their potential. We are likely to be more focused on that than any opportunities that may come up but they are relatively limited in the industry at the moment. I think we have actually managed to take down some of the best brand opportunities that are out there and our focus is on growing those organically.

**Jamie Rollo (Morgan Stanley):** Morning everyone. The first question was on some of the benefits you saw in the second half of the year. It looks like there was the LD income. I saw \$10 million insurance proceeds but also some of the margin growth in America and China looks very high. It looks like costs fell by about 10% in those two regions. I am wondering whether some of those reverse in 2020, whether you are reinvesting the savings and whether you can continue to grow profits this year. Then the other question was on signings which are down year-on-year for the last three quarters. The pipeline I think was the first drop in about a decade so really wondering what has caused that. Clearly openings are good but is there any nervousness amongst owners or lenders? Thank you.

**Paul Edgecliffe-Johnson:** There is a little bit of noise and we called this out at the third quarter to try and explain some of the things that were creating that. In terms of the insurance proceeds that you referred to really that is just our business interruption insurance making good on profit we would have otherwise received at a hotel that was offline effectively. It does not impact the continuity of fee income. It just makes sure that something that would otherwise not have been there is there. The cost savings that we have taken out through our \$125 million restructuring plan are all being reinvested back into the business and that is really important for us that we continue to drive growth. Although you will sometimes see an element of cost may move one year from a regional cost base to a central cost base and that can explain some of these variances, there is nothing that is fundamental there. We have not been cutting costs that we need to put back in, in 2020, which I think was the thrust of the question.

In terms of signings we are actually very pleased with the 98,000 rooms that we signed. We did see in 2018 a supercharged avid performance. We only allowed the brand to be signed up right at the end of 2017 so there was a pent-up demand there. We saw a huge number of avid signings. If you normalise for the avid signings, take them out year-on-year, then signings in 2019 are actually up 7% so we are really pleased with that. Obviously we saw a high level of openings in particularly the fourth quarter of 2019 and that is what is impacting on the pipeline. As more rooms get opened and if the openings are higher the signings into the pipeline then you will naturally see that come off a little bit.

**Jamie Rollo:** On the first question, all I am trying to ask is, your fee income looks like it grew by about 1% in the second half of the year underlying, 1% total fee revenue but your fee profit looks like it goes up 6%. I was wondering, can that disconnect continue?

**Paul Edgecliffe-Johnson:** Half-on-half there will always be some variation. You may see some things are in one half and then they are not in another. There is some income that

comes into one half and does not come into another. If you look at the underlying trends over the years there is nothing particular that I would pull out, other than what we have talked about previously around some of the IFRS 16 benefits we got in the German lease, the liquidated damage we received. However, I think that is all out in the market. There is nothing else that I would call out today.

**Jaafar Mestari (BNP Paribas):** Good morning, three questions please for me. The first one, going back on the virus impact on the net openings. You sounded pretty dismissive of any impact on your openings. I think you mentioned maybe worst case a few of the openings move from Q4 to Q1 next year. To be clear on that, I think a third of your hotels are closed, if there is potential for a property to open and to be in the middle of disruption you still think you are going to go ahead with most of the openings. Then just to clarify, if there is a risk to one quarter in 2020 in terms of openings in China do you think it is Q4 or do you think it is actually Q1/Q2, everything freezes and the openings do not happen but then they will catch up in H2? That is the first question. Then on the net openings it is very honest of you to flag the benefit of some of the large portfolio deals or partnerships. I am wondering, over the medium-term are you going to be looking to do more of those? There is an area where my own estimate is you have not necessarily had very large market share, which is with very large read doing portfolio deals. Now that the brand portfolio is more complex, more comprehensive do you think structurally you are going to do a couple of the very large 5,000-room deals every single year? Then the last question, you have talked a lot about the top-three brands and a lot about the very recent launches. Maybe is there anything on Staybridge, Candlewood, EVEN, HUALUXE, that you can do to accelerate the signings there similar to what you did with the very large brands in the last two years?

**Keith Barr:** I did not want to be dismissive but it was more about our view is today, based upon what we know, it is short-term delays. Again, we were talking, our teams every single day, right now in Greater China, are contacting the owners, working through the pipeline. Interestingly enough, China has our highest percentage of hotel rooms under construction at 60% of the pipeline under construction. The hotels that are under construction are going to open. There may be a short-term dip in terms of system size openings in China but these are just short-term delays and should normalise themselves because the government is highly invested in seeing the tourism industry grow in China. These properties continue to open too so everything we are hearing on the ground is that these are going to be short-term delays that may materialise.

**Paul Edgecliffe-Johnson:** In terms of the net system size we are really pleased with that 5.6% but we did call out that that benefits from the Sands deal that we did back in the second quarter which added a lot of rooms. I think if you look at progression over the years we have moved from our net system size growth being in the mid-threes to now on an underlying basis being five. We have talked about our ambition to be industry-leading. If you look at what we are doing with signings, if you look at the scale of our pipeline, then I think we are certainly on track for that. That is after taking out a higher level of rooms than our competitors in the industry are doing. Over recent years it has averaged about 2.2% and that is significantly more than others are. Quality is so important to us and making sure that we are taking out the lower performers so that we can ensure that the guest experience is consistent and is very high.

In terms of the ability to mass convert and other portfolios again it comes down to the question of quality. If the hotels are good enough to be under our brand then we will certainly consider it but we would not want to take in hotels that will average down the quality. That is the key determinant really, Jaafar. If the portfolio is right then we will certainly consider it.

**Keith Barr:** On the other brands, I mentioned in my comments how we are taking the learning from the new brands, avid and Atwell Suites, and how we are taking the customer insight in doing that product design to be able to move faster. That team has done an extraordinary job with those brands. Now we are leveraging that. We just launched a new prototype for Candlewood and new prototype for Staybridge, more efficient build costs, much more contemporary design, helping continue to accelerate growth. Staybridge opened its 300<sup>th</sup> hotel last year, Candlewood opened its 400<sup>th</sup> hotel last year. Staybridge saw about 44 hotels being signed, Candlewood 22. We expect with the new prototype the continued great performance in the segments that we can hopefully see those brands accelerate growth going forward. They are exceptional brands. EVEN had a great year last year. We signed 11 hotels. We really are seeing some fantastic performance in the existing estate. We are focused on how we can refine that execution to drive even stronger returns for owners to accelerate growth going forward. HUALUXE had a really positive year of signings as well too with a number of signings. We are very focused but we have been really prioritising, launching new brands to capture segments of those markets, strengthening our existing brands and now working through the rest of the portfolio. It is natural for us to lean into Staybridge, Candlewood, EVEN and HUALUXE going forward to maximise performance.

**Jaafar Mestari:** Maybe just going back to the portfolio comments again. Very honest of you saying on a completely adjusted basis let us say room openings are 5% but you already flagged one-off in terms of 2017 and yet on the reported numbers you did see an acceleration. Is there any reason why we should say actually the underlying net openings are 5% so for full year 2020 let us think about an acceleration from 5%? Or is it realistic that you accelerate from the 5.6%, reach 6%? When you say industry-leading it sounds like it is between 6% and 7% that industry-leading peers have been doing.

**Paul Edgecliffe-Johnson:** The reason for calling out that it is 5% excluding Sands is that it would be fair to expect progression from the 5% but the 2019 number did benefit from that Sands deal which we may find other opportunities to do deals like that but we cannot guarantee that. I would expect to see progression from that. In terms of what is industry-leading I think that if you look at Marriott they are a little shy of 5% now and Hilton are doing 6-and-a-bit%. However, that of course includes their master franchise in China which is a slightly different arrangement. If you normalise for that it is high 5%. Mid-to-high 5% is probably industry-leading and as Keith has talked about before, there is potential for some shift out of quarter four of 2020 into quarter one of 2021 in terms of openings. That may have some sort of an impact. We will keep that under review but certainly expect that there is further potential from our 5% in terms of our net system size growth in future.

**Alex Bignall (Redburn):** Morning, thank you for taking my questions. I have a couple mainly on RevPAR pricing. At Q3 you called out that the weakness in the US would probably be an early indicator that the US economy might be a bit weaker and that has not transpired but RevPAR has been a little weaker. Some of that is coming in small group bookings which

the OTAs are saying that they are seeing a little bit more of. What do you think is causing the overall weakness to RevPAR for the industry data that we see for big hotels? Then the second question on brand you have called out the increasing importance of brands Keith, but some of your peers have said that they think brands are getting less important and other industries definitely argue that that is the case. I am trying to reconcile your views on your specific brands with those that other people have said. Thank you very much.

**Paul Edgecliffe-Johnson:** In terms of the quarter-by-quarter RevPAR in the US we try and give the best indicators that we can as to what we are seeing in those quarters. I talked in the third quarter about the weakness in the small groups market and also the weakness in the industrial segment of the US economy, particularly manufacturing and automotive and that that is down. Demand from those sectors is down which if you look at what is happening in the US economy you are seeing that various segments are down and then other segments like the new technology segments are seeing much higher growth. There is a mix in the economic growth in the US and that then has an impact on hotel demand. In the fourth quarter we are seeing a continuation of those. I also called out that we are seeing an increase of supply in the upper-midscale because it is such an attractive proposition for guests and owners. As more demand comes in there then owners are building more hotels and opening up more hotels. We are seeing around 3% growth there with demand growth about 50 bps shy of that. That is having a little bit of an impact as well. That will get absorbed in due course and if you look at the forward projections it is expected to come back into equilibrium. It may just cause a little bit of noise before we get back to equilibrium.

**Keith Barr:** It is a fascinating question because when we talk about brands we are probably talking something more than just Holiday Inn or InterContinental. I think we are talking about the branded relationship of the key players. Going back to my comments, we have got 17% of existing supply but 44% of the pipeline so clearly the industry is shifting over to the biggest branded players for a variety of reasons. I think it is underpinned by customers and by owners driving it both in that direction. From an owners perspective the biggest branded players can create value for owners versus the smaller companies and independents. Additionally from a financing perspective the biggest branded players are always going to get the most preferential financing treatment from a lender standpoint as well. It is the power of scale. It is the power of our purchasing programmes, driving down contributions. There is the owner piece pushing it to branded.

From a customer perspective it is about the totality of what we deliver with our platforms and with our brands. It is going to be looking at the things of the scale of the company so we are in the locations where people want to be. You could have a great brand but if you are not everywhere then it does not really work from a travel perspective. The scale that we have is critical, underpinned by a great branded experience. Each one of our brands is quite differentiated against its brothers and sisters in our portfolio. They have become sharper and better overall at delivering better experiences and our customer satisfaction scores continue to go up. That is underpinned by the platform of loyalty and our technology platforms. It is a combination of those experiences of being in the locations. It is having the right brand portfolio, the right technology and the loyalty which is the totality of the brand experience which creates value and loyalty with customers. Then you layer on other things like credit

cards and time shares as well. We are much deeper engrained into the lives of our customers than in other industries where it can be commoditised quite easily.

**Alex Bignall:** A follow-up to that and it relates to both questions, the OTAs are seeing a lot more small hotels which are not part of the STR data added to their systems and those hotels are seeing growth. Do you look at it and think maybe outside of STR and the big hotels where brands are taking share, we are losing some traffic to some of the smaller properties? Or does that not come into your thinking?

**Keith Barr:** I do not really see it. When we launched voco the whole premise was that there are a number of high quality independent hotels that are going to want to come into the scale platform of IHG. We have 33 already out of the gate too so I see that being a key driver coming into it overall. I guess we do not really see any impact from small independent hotels but then we can also do unique partnerships too. Whereas with Mr & Mrs Smith their loyalty extension we have done from 500 of their hotels coming in as a partner for our platform. In markets today where we do not have a hotel they can earn and burn. We can also show the value proposition, the strength of our platform to those hotels and who knows over time what may happen.

**Monique Pollard (Citi):** Morning everyone, just a couple for me if I could. Firstly, on the Macao Sands partnership to be clear that does not generate mature incremental fee revenue for the Group, does it? It is just a partnership about redeeming loyalty and getting loyalty members engaged. The second question, given the impairments that we have seen in the UK portfolio, perhaps you can particularly address how we should expect that UK portfolio EBIT to progress in 2020. Is that going to be a year of negative EBIT? Then finally when we are thinking about the net rooms growth and given that the pipeline is not growing anymore, I understand the 5% in acceleration from there. Are there any things that you are seeing on China that could concern you over the next year at least in terms of the pace of signings given the level of disruption?

**Paul Edgecliffe-Johnson:** In terms of Macao, we called out at the time, this is a deal that is more like a pay-for-performance type arrangement. It can generate attractive income for us. It depends on how much business comes through our channels into the complex there. It is a lower financial take for us than a usual rooms arrangement because it is a very different and complex arrangement. However, it is very good for our loyalty programme members and that is a key driver of that deal.

In terms of impairment and the UK portfolio the accounting under IFRS 16 is that that does not effectively hit the P&L so I would not expect to see any impact to the 2020 P&L there. In terms of the net rooms growth what we would quite like to see in a way is the pipeline reducing because we are getting rooms moving through it as quickly as we possibly can. We make money when we have hotels open so we are signing at a very rapid rate and ex-avid the signings were up 7% in 2019. The more rooms that we can get open and the faster we can do it then the more income that comes into the Group. There is still a lot of demand. Even currently we are signing a number of deals in China.

**Keith Barr:** I was going to add onto that. I was looking at the numbers. If you think about in China we opened six hotels in January and signed 11 hotels. In February we already opened one hotel and signed three as of a week ago. Business is still moving ahead in China

and as Paul said earlier, we are talking about short-term delays. It will depend upon the length of coronavirus and so forth but the long-term fundamentals in China remain absolutely sure. The scale of what that will look like, the number of new rooms that will be added over the next decade or more, it is extraordinary. This is a short-term blip in China. We have long-term confidence in the scale, the value in that market and being a leader in that market.

**Stuart Gordon (Berenberg):** Good morning, a couple of questions. The first one in 2020 in deletions should we expect this to have a run rate similar to recent years? Secondly, on avid it is doing reasonably well but you do still seem to be trailing quite away behind Tru openings and signings. Is that a gap that you think can be closed and how could you go about that? On that UK portfolio again it does appear as if that portfolio did miss targets by a fair bit even allowing for Brexit. Was there any sort of exceptional delays or anything that was happening there that should turnaround in 2020? Thanks.

**Paul Edgecliffe-Johnson:** In terms of exits from the system we have talked about before that 2-3% is the right sort of level of removals for us to do on a year-by-year basis to make sure that the brand stays as healthy as it can be. Actually over the last three or four years it has been really consistent at 2.2% and there is nothing that I can see in 2020 that would significantly move it outside that range. We may always see an opportunity to take out a few more hotels. If we do and we think it is the right thing with the brand then we will do that but nothing that I would call out today on that.

In terms of the UK portfolio when you bring on a new set of hotels and then you are converting them into your brand, which we did, you are doing some refurbishments, doing some improvements, then it is always quite challenging. Getting the hotels fully ready to come under the voco brand and under the Kimpton brand took on occasion a little bit longer. We have very exacting standards and requirements before something can take on our brand. That slows things down a bit. We saw some cost increases in the fourth quarter, energy costs and input costs, food costs etc. Then just the lower level of demand with the uncertainty in the market impacted as well, which hopefully now there is more clarity on Brexit etc. 2020 will be clearer on that.

In terms of avid we are really pleased with the performance there. It is hitting all our internal expectations. Tru obviously did launch before at a time that there was a higher level of signings in the market. If you look at our market share of midscale and upper-midscale pipeline signings we increased that quite significantly so we are very happy with what we are doing there.

**Keith Barr:** I would agree with what Paul said there. To put it into context, they were the only high quality game in town for that segment. Now there are two players forward so we are both taking up share in that segment overall. There are overall fewer signings happening in the US.

**Julian Easthope (RBC):** Good morning everyone. I have got three questions as well. The first one concerns the fee structure for 2019. If we take a look at it base fees increased by \$18 million. Incentive fees actually fell \$9 million and central fees rose \$15 million. Do I take it from the incentive fee perspective, that the IMF of your managed hotels actually fell last year by around 6%? It was obviously made up for in central fees. I wonder if you could give some sort of further guidance as to how that is likely to go because it is obviously about 12%

to your fee revenue now. The second question surrounds you have obviously got about 5% new rooms coming through. Can we assume therefore looking at the sensitivity that you would actually need a 3-4 point decline in RevPAR just to maintain profits? It would actually require quite a big RevPAR reduction to actually see a decline in profits year-on-year. Just as a point of clarification on the last bit, your China business are there any minimum guarantees in there that were likely to significantly enhance the losses in this difficult period? Thank you.

**Paul Edgecliffe-Johnson:** In terms of fee structures we do not have a significant amount of incentive management fee income. Our business is much more orientated into revenue share. It is franchise, contract and then on the management contracts that we have we always try to orientate that to take a share of the top line. Then there is some share of the bottom line through the IMF as well. What you may find sometimes is on a portfolio on a previous year we have gone over a certain threshold so then we get almost a super-incentive fee and if we do not achieve that in the same way in the next year then you will see some variability. It is not about the overall cash flow out of the portfolio and being able to read across on a more linear basis as I think you are trying to do there. It can just be a little bit lumpy. There can be some noise in those numbers.

In terms of what level of RevPAR reduction you would need for EBIT to go backwards, there is always a blend in where the rooms come in. That 5% rooms addition will not add on a proportional basis 5% growth in the revenues. You are right it is somewhere around that 3%, depending on what we were able to do on costs, decline that you would need to see before you would see EBIT go backwards. There are levers that we can pull as we have talked about before but structurally having the benefit of multiple levers of growth is something that we are very focused on.

In China, no, our contracts are very simple there. It is franchises or it is management contracts and the management contracts are pretty standard. I cannot think of any that have got those minimum guarantees on them.

**Ben Andrews (Goldman Sachs):** Thanks for taking my questions. The net capex for the year was about \$60 million higher than medium-term guidance and about \$45 million higher year-on-year even though the gross capex is similar. Could you provide a bit more colour on the year-on-year changes in capex, especially the high maintenance capex, and how we should think about the net capex figure in 2020? Thank you.

**Paul Edgecliffe-Johnson:** In terms of the capex we said we will spend up to around \$350 million a year but our permanently invested capex will be around that £150 million mark, which is a combination of key money and then maintenance into hotels, into corporate IT systems, into offices and then into any remaining owned and leased hotels that we have. There was a little bit more capex that went in around the principle estate in that UK portfolio that we talked about to make sure that those hotels are exemplars of the brand that we want it to be. Remember the whole point of doing this portfolio deal was to have the shop windows so we can demonstrate what our brand looked like to owners. As I mentioned earlier, that has been super-successful for us in terms of driving demand from owners for voco and for Kimpton. I would not see any changes to that \$150 million of permanent capex going forward. There will always be a little bit of variability year-by-year but nothing that has structurally changed there.

**Keith Barr:** Great, thanks everyone. Since there does not appear to be any more questions I really appreciate you taking the time to join us today and look forward to continuing to engage with you throughout the year. It has been a really solid year last year and a great momentum into this year. We will continue to work with our teams across the business to manage through the challenge in front of us. Thank you very much and have a great day.

[END OF TRANSCRIPT]