



**InterContinental Hotels Group PLC**  
**Q1 2020 Results**

Thursday, 7<sup>th</sup> May 2020

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Stuart Ford

*Head of Investor Relations, InterContinental Hotels Group PLC*

Good morning everyone and welcome to IHG's 2020 first quarter trading update conference call. Apologies to anyone receiving a delay getting on the line. There was congestion on the phone lines. 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.

I need 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 expected in or implied by any such forward-looking statements.

Finally, as we will be holding our Annual General Meeting later this morning, Paul and Keith will have to dial off at around 10.00. May I therefore ask that you prioritise any questions you may have so that we can get around everyone during our Q&A session. I will now hand the call over to Keith.

Keith Barr

*Chief Executive Officer, IHG*

Good morning everyone. The impact of Covid-19 on the global economy continues to deepen and as communities, businesses and governments respond to this crisis our travel and hospitality industry has been faced with the biggest challenge we have ever seen. As a company we continue to act quickly and thoughtfully to ensure that we are providing as much support as possible to all our stakeholders whilst protecting the long-term health of our business.

I am so proud of the manner of our response and thankful to our colleagues and owners around the world. They have really stepped up and selflessly responded at the frontline working tirelessly to give our guests and hotel teams the support they need during these very difficult circumstances. Since the outset in Wuhan our people have shown what true hospitality means to IHG such as making meals for crews, building temporary hospitals there and reopening hotels with just one day's notice for support workers flown in.

That sentiment continues today from providing accommodation to thousands of healthcare and support workers globally to donating beds to local hospitals in Madrid, sheltering the homeless in the UK and Australia, and reopening our hotel kitchens to prepare and distribute meals to the elderly, food bank organisations or colleagues from our own industry who find themselves out of work. Our purpose of true hospitality for everyone sits at the heart of our business and we are focused on making thoughtful choices at the right time in the right way.

I will talk more about our broad response in a moment, including the importance of our close working relationship with owners and the mutual efforts we are making to keep hotels open, but first let me hand over to Paul to take you through our first quarter financial performance.

Paul Edgecliffe-Johnson  
*Chief Financial Officer, IHG*

Good morning everyone. I will start first with the RevPAR. You will have seen that this time round we have provided monthly RevPAR data in our release and I will focus my remarks on the month of March as well as what we have seen subsequently in April. Our global RevPAR declined 25% in the first quarter and 55% in March. By late March demand for hotels has fallen to the lowest levels ever seen as governments around the world began to impose social distancing measures and travel restrictions. These restrictions remain in place in most of our key markets and we estimate that April RevPAR decline will be around 80%.

Turning now to our regional performance. Across the first quarter RevPAR fell 19% in the Americas and just under 20% in the US. In March US RevPAR fell 49%, outperforming the overall industry and our weighted segments. This has been driven by a number of factors. First, our weighting in the upper-midscale segment, which accounts for around 65% of our hotels. This segment has proved to be more resilient, as it was through previous downturns. Through the financial crisis in 2008/2009 upper-midscale RevPAR fell around 15% compared to luxury and upper-upscale which fell between 18% and 25%. We are seeing similar trends in March when upper-midscale RevPAR outperformed both of these segments combined by around 16 percentage points. We also have the strongest brand in this segment with Holiday Inn Express outperforming the upper-midscale by nearly three percentage points in March.

Combined with our weighting in the more resilient segments, around 85% of our rooms are in non-urban markets which also tend to hold up better in tough economic conditions. RevPAR in our non-urban market declined 45% in March against an over 60% decline for hotels in urban markets. In addition, our hotels are less reliant on international inbound travel with around 95% of our demand typically being domestically-driven. Finally, we are less exposed to large group meetings and events which tend to be the first to fall away and the last to recover in a recessionary environment.

Informed by the trends we are seeing now, our experience of previous downturns and the insights we are getting from China, our expectation is that during these times of weaker demand and as the industry starts to recover, we should be relatively well-placed. Domestic demand is likely to recover first as international travel remains restricted. Transient business is likely to drive the recovery as lingering social distancing measures limit group business and suburban markets will be driven by the domestic economy which will recover before urban.

The fact that our hotels are well-placed to capture available demand can be seen in the low percentage of our hotels that are closed, just 10%. We are working closely with our franchisees and owners to support them in keeping their hotels open by relaxing brand standards, pausing renovation work and offering fee release and increased payment flexibility. We have also been strong advocates for our owners through lobbying for greater support from government funding schemes and we are working hard to drive business into their hotels through securing government contract business.

Finishing up on the Americas with our most recent trading, we expect April RevPAR to have fallen by around 80% with occupancy levels at our open comparable hotels showing sometimes improvement through the month and currently in the mid-20%s.

Moving on now to our Europe, Middle East, Asia and Africa region. RevPAR for the first quarter fell 26% with declines in each of our markets reflecting the spread of Covid-19 which impacted the region from the second half of February. In the UK RevPAR was down 22%, including a 55% decline in March. RevPAR in Continental Europe was down 28% in the quarter with March down over 70%. Within this, Germany was down just over 70% following the cancellation of major trade fairs. Elsewhere, in the Middle East, RevPAR fell 60% in March largely due to the partial lockdown in a number of countries. In Australia restrictions on both domestic and international flights led to a RevPAR decline of 50% in March and in Japan RevPAR fell 70% driven by a reduced tourist and corporate demand from China. As of the end of April, we have around 560 hotels closed or approximately 50% across the EMEAA region, largely reflecting the timing of government-mandated closures. Occupancy levels are running in the low 20%s for comparable open hotels. We expect RevPAR in April to decline around 90% in EMEAA.

Finally, moving to Greater China, RevPAR across the region was down 65% in the quarter. This reflects the COVID-19 outbreak which impacted the region from late January with RevPAR down 89% in February before a modest improvement to an 81% decline in March. This trend of improvement has continued into April where we expect RevPAR to be down around 75%. As restrictions have been lifted, we have seen hotels reopen and at the end of April only ten hotels are closed compared to nearly 180 at the peak in February. Occupancy levels in comparable open hotels are also starting to rebuild, currently being in the mid-20%s range compared to the trough of around 5% in February with demand being led by domestic corporate and transient travel. As we look to the recovery in China, we are again well-placed to capture demand. Our focus on building an in-China, for-China business will benefit us with around 90% of demand into our hotels being domestic.

Moving now to net system size. During the quarter we opened 6,000 rooms, the majority of which opened in the first two months of the year, although there were still 1,100 rooms that opened in the month of March. We removed 8,000 rooms, 2,000 of which relate to a previously-announced portfolio of hotels in Germany from which we have received significant liquidated damages. The combination of additions of removals took our net system size to 882,000 rooms, up 4.6% since this time last year.

We signed 14,000 rooms in the quarter, of which 4,000 rooms signed in March taking our total pipeline to 288,000 rooms. This included 12 avid Hotels and five Atwell Suites in the US, two further hotels to Six Senses in EMEAA and 22 franchise signings in Greater China.

Since the quarter end development activity is continuing, albeit at a slower pace. In the US ten hotels broke ground in April and in Greater China construction crews are back on site. Work has resumed on around 95% of hotels that are due to open this year. We also continued to sign strategically important landmark hotels including the InterContinental Hotel in Rome and the Regent Shanghai.

As we scenario plan for the balance of the year, like the rest of the industry, we have limited visibility. Given the level of cancellation activity we are seeing for the second quarter and just applying common sense, it is clear the conditions will continue to remain challenging over the coming months. This much is also evident from the weekly RevPAR data published by industry organisations and their analysis of what the rest of 2020 could look like in terms of industry RevPAR.

To prepare for this we have taken rapid and decisive action to reduce costs, preserve cash and bolster liquidity. We have implemented temporary scaled payroll reductions across the entire organisation, along with cuts to travel and other discretionary spends and remain on track to reduce our fee business costs back up to \$150 million as previously guided on 20<sup>th</sup> March.

We have made similar reductions to discretionary costs across the System Fund, including reductions to marketing spend in order to help mitigate the impact of lower assessment fees from hotels whilst ensuring the best returns for our owners on our remaining activities. We have also taken action in our owned leased and managed leased hotels. We will implement further cost reductions as necessary in each and every part of our business to manage the Group appropriately through the evolving trading environment.

We are taking steps to protect our cash flow which includes reducing our gross capital expenditure by around \$100 million from last year's level and ensuring that we are proactively managing our working capital. We are already seeing the benefit of this in reduced cash outflows. We received good levels of payments from owners through April, who appreciated our owner offer with managing their cash flow. All in all, this meant the business was net cash flow positive in April. Albeit we recognise that owners are entering a more challenging cash flow environment, so a deterioration is possible in the coming months.

In addition, as noted in our March update, we have also withdrawn the Board's recommendation to pay the final dividend that we announced in our results in February. We will defer consideration of further dividends until visibility has improved.

As you know, we have always run the business on a conservative basis. We are well-capitalised with the majority of our debt being in bonds which have a staggered maturity profile with the first maturity of £400 million due in late 2022 and no others for five years. In recent days we have extended our \$1.275 billion syndicated revolving credit facility by 18 months out to September 2023 and, as announced ten days ago, we have agreed with our lending syndicate the waiver of our existing covenants for the next three tests. This means that our standard net debt to EBITDA and interest cover covenants will not be tested until 31<sup>st</sup> December 2021. Instead there is a \$400 million minimum liquidity covenant tested every six months.

We also issued £600 million or around \$750 million of commercial paper from the Bank of England's COVID-19 corporate financing facility.

As at the end of April \$850 million of our revolving credit facility is undrawn and we have \$1.2 billion of cash on deposit. This brings our total available liquidity to around \$2 billion which we estimate in a theoretical zero occupancy environment would provide at least 18 months of headroom.

This takes into account the cost base across the fee business, our Owned, Leased and Managed Leased hotels, and the System Fund. This assessment is also before any further cost and cash actions.

It is worth noting at this point our previously-stated sensitivity of a 1% movement in RevPAR results in approximately a \$13 million movement in EBIT still holds. However, we expect the sensitivity to be around \$1 million higher through 2020 due to taking into account the hotel closures in our owned leased and managed leased estate. This sensitivity is before the cost savings which we have announced. We are also expecting a reduction in our technology fee income where we have offered a temporary discount to owners as part of our response to COVID-19, as well as in other revenues such as trading fees which are impacted by hotel closures and social distancing measures. In total our best current expectations is that this will reduce income by \$20-\$30 million in 2020.

To summarise, the cost reductions, cash flow and liquidity measures that we are taking will enable us to meet the immediate challenges facing the business. Combined with our weighting to more resilient domestic mainstream travel demand, this positions us well to emerge stronger and deliver on our long-term growth ambitions. With that, I will hand the call back to Keith.

Keith Barr

*Chief Executive Officer, IHG*

We can see quite clearly the impact this crisis is having on our trading. We cannot control that, but we can do everything in our power to help mitigate the effect it has on our business and our owners' businesses and also shift some of our focus onto the broader role we play in relief efforts around the world. I want to spend a few moments talking through how we are doing that in three different ways.

Firstly, caring for our communities. We are working with governments around the world to help provide hotel accommodation to those who need it the most, including 1,000s of frontline workers leading the relief efforts as well as some of the most vulnerable in society, such as the homeless. We currently have around 290 hotels across our business that have been repurposed, including InterContinental Sydney where the team reopened within 24 hours' notice to accommodate travellers sent directly to them after returning to the country. We have also continued to work with our humanitarian aid partners to fund disaster relief efforts such as helping food banks and charities in more than 70 countries get vital supplies to those most in need during this crisis.

Our own colleagues continue to inspire us too, volunteering their time, cooking and delivering meals and donating vital supplies to hospitals. The InterContinental Bali, for instance, have been sewing masks made from linen for the local community, while our support for CARE International is helping provide PPE equipment in developing markets. We have also seen our IHG Rewards Club loyalty members generously donate millions of loyalty points in recent weeks to support our True Hospitality for Good community partners such as the International Federation of Red Cross and Red Crescent Societies.

The second area is how we support our guests, hotel colleagues and owners. For our guest's health and safety are paramount and we want them to feel confident in booking an IHG hotel, knowing that we are consistently delivering a safe, healthy and clean stay. Our IHG Way of Clean programme is already a key part of how we operate, and we are extending this to become a global brand standard. We continue to follow the advice from the World Health Organisation and the Centre for Disease Control & Prevention to ensure that we have the most up-to-date safety and security procedures in place for our guests and colleagues.

We understand that not everyone wants to travel right now so we have waived cancellation fees and created Book Now, Pay Later options for the rest of 2020. We're also protecting the loyalty points and status for IHG Rewards Club members by extending membership status and deferring the expiration date of points.

For our owners it is important to recognise many of them run small businesses and so they are currently facing real challenges, either temporarily closing their doors or running at the lowest level of occupancy they have ever seen. We are standing beside them to help get through this, hosting webinars on how to flex operations, to stay open and reduce costs; or how to secure government financial support that may be available to them.

Furthermore, we are giving our owners an opportunity to pause all renovation work and offering fee relief options, passing through all cost reductions we are achieving on their behalf and providing increased payment flexibility so they can reduce their cash pressures and manage through this time.

If they are in the unfortunate position of having to furlough hotel staff or worse still let people go, we are also supporting these people with dedicated website of temporary vacancies with hiring companies like Amazon and Walmart.

Alongside this, whether at the White House or at Number 10, we are working on behalf of all of our owners with the highest levels of governments in key markets globally to secure invaluable stimulus packages for the hospitality industry that will further protect our owners and jobs.

The third area is that we have to manage sensitively through what is a very challenging time at the corporate level. Outside of Greater China we are effectively operating the entire business remotely today, having swiftly put in place all necessary organisational process changes and strengthening our IT systems. It is vital that we recognise the pressure of remote working and stay focused on ensuring our colleagues feel properly supported during this time and able to adjust to such a unique environment both professionally and personally.

We are encouraging our colleagues to take part in leadership Q&As and have invested in a range of digital resources designed to offer personal development and help create as much of a work/life balance as is possible. All of our time and resource is being focused on responding to this crisis in the here and now and ensuring that we proactively plan what a recovery will look like market-by-market and to some degree hotel-by-hotel.

If we look across our portfolio of almost 5,900 hotels right now it is no doubt a tough picture. Around a thousand hotels are closed and occupancy levels at other properties are low. However, it is important to underline the strength of our business model and why it has positioned us well to withstand this pressure.

Firstly, we are an asset-light business with most of our revenues tied to hotel revenues, not profits. Secondly, we are skewed towards transient demand as opposed to large group bookings which are more impacted by social distancing measures and reduced travel budgets. Thirdly, our broad geographical distribution is weighted towards domestic demand, mostly in non-urban markets, both of which are expected to lead the recovery in our industry if international travel restrictions persist. The fourth point is that we have a market-leading position within the upper-midscale segment which has historically outperformed during downturns.

As Paul spoke about earlier, we are still seeing hotel openings and signings in this challenging environment. In April we signed the Regent Shanghai Pudong which will become the first opening for the brand since the acquisition. In the same month, the InterContinental Hong Kong also started its biggest renovation in 30 years as we prepare to reopen it under the Regent brand in 2022.

In summary, our top priorities remain the health and safety of our stakeholders, ensuring we stay true to our purpose, culture and values, and to protect the long-term future of our business.

We anticipate continued disruption in travel for the months ahead and forward visibility remains very limited. We are focused on taking the necessary actions to reduce costs, preserve cash and further strengthen our liquidity position.

Our strategy remains intact and we will continue to build on the relative resilience of our business model. With that, Paul and I are happy to take your questions.

## Q&A

**Richard Clarke (Bernstein):** Good morning, if you could indulge me with three questions, please. The first one, I want to unpick your comment on the fact you are cash flow positive in April. It looks like from your liquidity statement you would be eating through over \$100 million of cash at zero occupancy but you cannot be making \$100 million of revenue at the moment. Is there anything funny in April that gets you to cash flow positive? Second question, I was wondering about the scope of that technology fee discount. How much is that and how much should we read into your willingness to support owners over the longer-term with further fee reductions, deferrals etc.? Lastly, an update on Concerto, it looks like some of the tech will now be more demanded in terms of choosing a room and mobile phone door entry. Any update on how quickly you can roll that out as we come out of the crisis? Thanks.

**Keith Barr:** Thanks, Richard. We fundamentally believe that technology will be more important going forward than it was today. We will continue to make the investment for it. We have completed some of the initial testing, the alpha and beta for Concerto. The rollout schedule is going to be contingent upon our ability to get people to travel and so it is difficult for us to map out exactly what the deployment schedule will look like on a global basis due to the nature of markets varying from country to country in the availability to get people to travel. We do have to touch every single hotel again and the training, so we have to think our training delivery method on that too. However, it is a top priority for us to deploy Concerto and continue to invest in other technologies to create competitive advantage which I think is one of the advantages that we have at IHG as being one of the leading players.

**Paul Edgecliffe-Johnson:** In terms of the April cash flow, we were pleased to be cash flow positive in the month. Obviously, when you think about cash flow it is a bit lumpy. Cash flow includes capex, includes interest and includes taxes etc. It is not going to be the same month-by-month. Obviously also the cash inflows in April do not relate to trading in April, they relate to earlier months, so March and some of February, when the business was stronger. We have done a lot on working capital which has also helped in April. It continued to be a major focus of ours to maximise our cash flows. We will continue to work on that. In terms of the tech discounts and your comment as to whether there is anything to read into it, we are working with our owners to achieve the best outcome for them. That is our philosophy and the tech fee does not vary with RevPAR. Most of our fees obviously do so we have reduced that for a temporary period by a small amount to share in the pain that they are seeing. It is a temporary reduction. It was well-received by the owners and it shows the spirit in which we are approaching this crisis.

**Vicki Stern (Barclays):** Firstly, coming back on the owners can you give a few comments about how you perceive the health of your owner community in general, perhaps touching on any geographic differences as well? Do you think, over and above what you have already announced, that there might be a need to take any additional measures? What measures could there be? The second one is around the additional cost savings that you said you are looking at. What sorts of areas might those include and a reminder on the \$150 million if that includes taking any advantage of the furlough schemes? Finally, any sense you could provide on what you think the breakeven occupancy level typically might be for one of your hotels, to give a sense as to when things might be open that are closed currently? Thanks.

**Keith Barr:** Thanks, Vicki. I think the health of our owners is generally good. If you think about the vast majority of our portfolio is in mainstream. They are small businesses and we have been able to lobby governments in different markets for support for colleagues and also support for their businesses. The CARES Act in particular, has provided a great bridge for small business in the US to be able to get that loan, have those loans turn to grants, that they utilise those proceeds to keep people employed too. Clearly, they are under incredible pressure but breakeven we estimate for the mainstream segment is around 30% occupancy and we are running around the mid-20% right now. With government support, with the cost reductions that we are putting through and working with them we think the general health of our owners is good.

There will be some owners that will run into significant issues during this. That is inevitable. We will continue to work with them and partner with them overall. That is the philosophy we have taken is to be a good partner and I think that has been paying dividends. The conversations that we have all been having with the Owners Association and the big owning groups has been they are in a pretty good place for the next few months. They expect as restrictions ease up over time that occupancies move up to some degree and get them back into a more comfortable position than they are today. Then when you go to Asia if you think in China you are dealing with a lot of state-owned enterprises and big property development companies which are well-capitalised and supported. We deal with a lot of sovereign wealth and high net worth individuals who are quite well capitalised too. In general, I would say the owner health is under pressure but is in a reasonably good place but we will expect to see some challenges along the way.

**Paul Edgecliffe-Johnson:** We spoke a while ago now about the \$150 million that we would be taking out of the cost base on the P&L this year. As you know, probably about two thirds of our normal cost base are people costs so we have made reductions to salaries across the organisation, scaled so at the senior level significantly higher than at the more junior levels of the organisation. We have also taken out our bonus. We have reduced our investment behind some of our new brand activity that you will remember we created the capacity for through our major cost reduction effort a few years ago. We put that behind building out the avid brand, Atwell brand, Regent brand and voco brand. In the current environment we have pulled back on that with a little bit of travel and discretionary cost. In total that has given us a significant reduction to our A&G expense. Equally in our System Fund we have reduced significantly our marketing spend etc. with similar reductions to employee costs. We have not taken advantage of the UK furlough scheme, no.

In relation to your question about the breakeven level for hotels and when they might want to reopen, for a lot of our mainstream brands it is somewhere in the high 20% to 30%. For a hotel like a Candlewood Suites you can run on a skeleton staff of two and these have maintained quite a high level of occupancy. They are well-used. Holiday Inn Express again you can run with a low staff level, so it does work to keep them open and most of them are open. If you look in the US 90% of our hotels across the region are reopened and we are in a net reopening environment. We are seeing more hotels open up and there are more that are talking to us about reopening. There is a protocol they have to go through to reopen but we are seeing those steadily come back. In China we had 180 closed at the trough and now we are back to only ten which are a few big urban hotels. However, it is a good trend. We want the hotels to stay open to continue to be part of the infrastructure of cities and be part of the community. Owners want their hotels open as soon as they can.

**Jamie Rollo (Morgan Stanley):** Morning everyone, three again, please. On the fees, I think you said \$20-\$30 million on the prepared comments. Is that just on the technology or is that on some of the other discounts? Could you talk a bit about all the discounts being offered and is that just a Q2 impact or should we expect that for the rest of the year? Does that change the \$14 million RevPAR sensitivity? Secondly, on the System Fund are you expecting that to break even this year? Could you talk a bit about the fixed/variable cost split? Finally, what is your expectation on unit growth over the next few years, particularly on conversions from independent hotels? Thank you.

**Paul Edgecliffe-Johnson:** In terms of the fees in the prepared remarks, we are trying to give you the best guidance that we can obviously in an uncertain environment. My best expectation right now is that the fees from technology costs, from training and a few other miscellaneous fees across 2020 will reduce by probably \$20-\$30 million. Depending on just how long we keep the discounts in place for. It is not just the second quarter, that is across the period of the year, across all those fees. We will give you some more updates through the year if we see that changing to any material extent.

In terms of the System Fund, we will get it as close to breakeven from a cash perspective as we can this year. My guess is it will probably be cash flow negative, maybe somewhere between \$50 million and \$100 million across the year. There are some costs there that we would not want to cut as we need to continue to drive business to our hotels to the extent that we can in a lower demand environment. In terms of your question about fixed versus

variable costs, we have always talked about the majority of our costs in a normal environment are of course people. Two thirds of our costs are there. We have brought that down somewhat already, as I have spoken about, and now probably it is about 50:50 people costs to non-people costs. However, we continue to look at all costs in the business.

**Keith Barr:** Jamie, if you think about the environment that we are in now there are headwinds and tailwinds to growth. What are the headwinds today in the short-term? Clearly, we have building sites being closed down, construction being stopped and social distancing which are going to slow the development pipeline and construction pipeline for this year, without question. The nature and the extent to which will really depend upon how countries open up and how businesses open up too. We are not going to be growing at the same levels we had previously planned to but we are still signing hotels. We signed 104 hotels in the first quarter. We opened 44 hotels. We are still signing hotels into April and having ground broken in April too. The growth is still going to occur, and the pipeline will still materialise but over a different period of time. The other headwind clearly will be the availability of capital. We saw it after the financial crisis, while this is a liquidity issue today, the lending in the sector will be constrained for a period of time. It will come back, and it will come back to the biggest and best companies like it did after the financial crisis. That is where IHG is well-positioned. Those are some of the headwinds that we are definitely facing.

What are the tailwinds? This I think will increase the movement of hotel supply into the biggest, best branded hotel companies. Customers are going to want to stay in branded hotel companies. This is going to put headwinds onto home sharing as well. I think this means that the power and the strength of the enterprises are going to deliver a superior return, lower cost of distribution. The trend that we saw happen over the last decade will continue to accelerate and the other opportunity it presents will be conversions. You will see weaker brands and/or independents convert over into the big branded players and the opportunity we have with voco, with Kimpton and Hotel Indigo, great conversion plays. The deal that we did in Shanghai for the Regent is a conversion of a leading luxury hotel brand and they wanted to come and be part of IHG. I think that will be something that will help us, but it is really hard to have any visibility on what growth is going to look like in the next 12 months until we have more of a sense for how the countries reopen and how construction reopens.

**Jamie Rollo:** Thanks. On that fee relief comment, Paul, did that include the discounts you are giving to owners for paying early, the 10% discount? What sort of additional dollar impact are we talking about, particularly if that carries on through the rest of the year?

**Paul Edgecliffe-Johnson:** It was just for the second quarter which is what we have done to-date. It actually has a pretty small impact, but we will continue to monitor what we need to do with the owners. As you know, we are in partnership with them and if it is the right thing to do, we would consider continuing with that discount through a longer period. There is nothing more I can say on that right now but thanks, Jamie. It is not included in the \$13 million. If we decide longer-term then that would increase.

**Jaafar Mestari (Exane BNP Paribas):** Good morning, two questions, please. Firstly, going back to the liquidity and cash burn mass, when you estimate that \$2 billion of liquidity leaves you at least 18 months of headroom, what is the monthly cash burn? How does it work? It is just \$2 billion divided by 18 or do you assume any one-off outflows or working capital inflows? You have just talked about the System Fund. Do you see a base level of liquidity

that you will not use? For example, is the monthly cash burn \$2 billion minus your \$400 million liquidity covenant then divided by 18? That is the first question, please. Then secondly, on the System Fund, I am curious if you have some track record that you could share because the reporting was obviously not the same in 2009? How agile have you been in the last recession in terms of removing costs? You obviously mentioned you do not want to remove everything, but could you reduce the cost of the System Fund almost one-to-one in line with RevPAR outside of those \$50-\$100 million that you want to keep there?

**Paul Edgecliffe-Johnson:** In terms of the liquidity and the cash flow, broadly, yes. It is if you take the \$2 billion and that will give us 18 months. There is a small element of non-occupancy-linked income cash that we get from our credit card relationship but it is not a significant number. That comes in irrespective of the occupancy in the hotels. It does not think about any base level of liquidity that would be required. It is simply saying this is how much we have and if we were getting nothing other than a small level of credit card income then that is how long that would last for.

In terms of the System Fund I would not actually relate back to what happened in 2008/2009 as a real read-across because back then, yes, of course we did reduce but you are looking at a different environment now. What I can say is that we have acted very quickly and we have managed to scale back the expenditure in the System Fund very significantly. There are some things that we do want to continue to spend because it is the right thing to do and will drive business. Certainly, if we were looking into a tough environment in 2021, for example, I would not expect that the System Fund would be cash consumptive. I think probably in 2020 it is going to be the right thing to keep it a little bit cash consumptive just so that we can keep some of that investment spending though.

**Jaafar Mestari:** Is it okay to follow up very quickly on that cash? Are you saying that it is basically \$110 million of cash burn per month or if I look it differently, are you saying it is about \$1.3 billion on an annual basis? This looks extremely high if I take just fee revenue, \$2 billion and fee EBIT, \$800 million. It looks like if you did nothing the cost base is \$1.2 billion. Could you help me understand that maths? Is it really \$110 million per month?

**Paul Edgecliffe-Johnson:** If you looked at the business and assumed we were getting no income at all and obviously the business has System Fund expenditure, you have got Owned and Leased dormant costs. The costs of running Owned and Leased hotels with zero income coming in then you have got your interest charges, your tax charges from prior years etc. However, that is on the basis of how we are looking at it. If you are looking at the level of business that we are currently seeing, clearly it is very significantly longer than the 18 months, maybe even approaching double that, but if you look at a zero occupancy environment then our best estimate is 18 months.

**Monique Pollard (Citi):** Morning everyone, three questions from me if I can. The first one, coming back to the cash burn, when I am looking at Q1 I am getting some of the numbers you have given a cash burn of \$230 million in the first quarter. I wanted to check if that is correct and within that what the level of working capital movement was? Then secondly in terms of fee payment could you comment on what you have seen in April in terms of deferrals. As you say, the April payment more relates to February and March so maybe it would be better to get an understanding from you in terms of the proportion of fees you think might be deferred through May and June. Then finally on room openings, you have flagged

that 1,100 rooms opened in March. At this point in time, is that our best estimate in terms of run rates for the rest of at least the first half of 2020?

**Keith Barr:** I think in terms of room openings you cannot take any month as a run rate because effectively if you look at historical performance we tend to accelerate as the year goes on. I would not take March as an indicative number to extrapolate out for the remainder of the year. Again, we are seeing construction activity begin robustly in Greater China where we have a significant pipeline. We are seeing other markets begin to return and so as markets open up we expect construction to start up again. Then seeing that accelerate growth in the latter portion of the year. However, it is really difficult to give any forward visibility until we have more sense for construction being open up around the world. Clearly we are not going to be growing at the same pace this year as we would have otherwise grown on a normal basis and the pipeline will be shifting into future years. However, we are quite confident that we will continue to sign and open hotels.

**Paul Edgecliffe-Johnson:** Year-to-date our cash is broadly neutral to the end of 2019. If you take out the movements around the RCF and the CCFF there is no real cash burn year-to-date. In terms of fee payments and what we are seeing around referrals, we saw a lot of owners in April who did pay their fees bang on time, which is mid-month, to take advantage of the discount that we offered for on-time payments. They very much appreciated what we are doing to help them. Some of course have spoken to us about deferrals and we will often have that. That is a continuation of what we have seen historically. It is early in this environment so we will come back if things change at the half-year and we will talk about that. We are in business together with owners for 20 years on a contract. If they are having trouble with their fees then we will consider deferrals, as necessary. We have to keep it under review.

**Monique Pollard:** What does that imply then if you think about the deferrals that you could see? What should we be expecting for the working capital movements for the first half?

**Paul Edgecliffe-Johnson:** It is very hard to speculate in this environment. As I say, our owners do want to remain current on their fees and the vast majority of them to-date are doing so. There are a significant minority that are talking to us about payment plans etc. I do not expect any significant impact in working capital from that. Remember, there are other things we can do around managing our working capital that go the other way around, supplier payments etc. We will come back through the year and continue to update on it. Clearly, it is a matter of focus.

**Alex Brignall (Redburn):** Morning guys, thanks so much for taking my questions. I have three, if possible. The first one is on a comment you made about passing cost savings on to owners. I do not know if you can expand on that or whether that is captured within the previous commentary that you had been making about how that affects your own financials. The second is on leisure and business. I guess the difference in this crisis versus previous ones is that there is mainly a consensual view that business travel will effectively be permanently impaired. If you could just talk about what that means for construction in the future and how that trends downwards and then back upwards and what your owners are saying on that, it would be great. Then the third one is on distribution. The OTAs have talked a lot about taking a lot of share in downturns because people start looking around more. Also when hotels are less full they obviously will take anyone to sell a room so it is

more difficult to negotiate with them when you are empty than when you are completely full, as you have been for many years. How do you expect that that might progress? Thank you so much.

**Paul Edgecliffe-Johnson:** In terms of the cost savings, we are doing all we can to reduce the costs for owners. Whether that is around reducing the cost that we require of them in the hotel around some brand standards, whether it is allowing them to delay some renovations or there are programmes that we run for them on an outsource basis, things like revenue management for hire which at the moment they are not needing. We have been managing to reduce the cost down for them on that. On the System Fund expenditure as we have reduced that down we have also reduced down their costs from that. We are doing, as I say, everything we can on these pass-through costs or System Fund costs to reduce their costs. We think that is just the right thing to do.

**Keith Barr:** I said this earlier, my crystal ball is a bit cloudy in terms of what the future really means for travel. I think we all agree it is going to change. It changed after 9/11. It changed after the financial crisis. I do not fundamentally believe this is the end of business travel. I think whether you are using Zoom or Teams that is going to replace a lot of conference calls now because people are enjoying using that technology. I know that we struggled to get people to use Teams and now we have 800 people using it in the first few weeks when we were working from home. I think there will be some impact on travel but I do not think it is going to fundamentally change the industry going forward because conferences, groups, meetings and events will come back over time. Business travel will return and we will be there. Leisure travel will continue to grow as it has. I am not one of these nay-sayers to say that business travel is done. I fundamentally do not believe that. I think that our owners really believe that travel will continue to grow as economies grow around the world. People are investing for 20, 30, 40, 50 years in hotels and seeing the returns delivered over that period of time too. Most of our owners are seeing through this disruption and recognising that long-term it is a great asset class to be involved in. They will continue to invest in it. However, travel will change and evolve. The way that we interact with customers in hotels will evolve. We are trying to stay on top of that by implementing new policies and procedures and understanding how our hotels might be designed differently in the future. It will force us to innovate and become how do we continually deliver better returns for our owners too. I think that is the way great businesses perform. They are challenged by this. How do they innovate? How do they get through this and continue to deliver a great business result?

In terms of distribution, I think that the industry is in a much different place today than it was in the financial crisis and it was in 9/11 in terms of its relationship with distribution and its control of its distribution channels. The agreements we have today are much more complex and give us much more control on what we choose to do and how we segment hotels. An owner is going to be very, very cost conscious about the cost of distribution too. We will continue to work with our owners but I would not expect to see a radical change in the distribution relationship between the OTAs and the hotel companies going forward with them gaining massive amounts of share because people are going to want to book with hotels. They want to book with hotel companies and the big branded players will continue to work on that too.

**Tim Barrett (Numis):** Morning everyone, two quick things if you have got time. One is the thing with owner economics again. Lots of investors are still interested in that, particularly around leverage and how leveraged your owners are. Clearly your comment about breakeven related to operating rather than below the line. Then China, a quick question on the recovery there. The high 20% occupancy is that a little bit below industry and has it been straight line? Anything you can generalise on there. Thanks.

**Paul Edgecliffe-Johnson:** Owner economics, most of our hotels certainly in the US are financed through regional banks. If you think about the period coming out of the financial crisis the leverage that was available there was on pretty strict credit terms, so much lower loan-to-value ratios than existed in the build-up to the financial crisis. It has been pretty sensibly managed which is one of the things that I have talked about many times as being a helpful constraint on supply over the years and ensured that banks have only gone for the strongest brands like ourselves. Around the world it may be a little different in some places. In China there is less of a reliance on bank finance but our owners are a pretty conservative bunch overall, although they will clearly be looking at their economics in a period where they have seen such a level of reduction. We are hopeful that they have got strong relationships with their banks and their banks will be supportive.

**Keith Barr:** In regard to China and the recovery it varies by segment and by geography. With 5% at the trough, now in the mid-20%. If you are seeing the Tier-1 cities where we have more big box hotels which have more groups, meetings and conferences, those hotels are running lower occupancies and you are seeing in Tier-3/tier-4 and some of the more Holiday Inn Express where there is less reliance upon big conferences, meetings and events, are running higher occupancies. We would expect again China to follow a similar pattern. It will be a domestic recovery. It will recovery mainstream first and then gradually move up. It is slowly moving in the right direction but it is a very slow movement. The bright spots, I talked to the team and they saw a definite uptick over the Labour Day holiday. Our Six Senses hotel in China was almost sold out. The same thing happened in Vietnam as well with Six Senses hotels there. We will see that uptick of leisure and this gradual movement but it is really dependent upon how countries control the virus and the movement of people. In places like Australia and New Zealand you expect again to see a recovery coming because the virus has been very well-contained. China it has been very well-contained and businesses are reopening and so forth too. The trajectory of recovery will depend upon how the virus is being managed in that geography and then what restrictions the governments are putting on to businesses overall. We are quite confident that we are well-positioned in this company to get through this, to support our owners and to support our customers. We will come out of the back-end of this being stronger than we entered into this.

Thanks everyone, really appreciate you joining us today. A bit more of a more detailed set of results than we normally do at Q1 but the situation dictated that. We need to head off to our AGM so hope you all are healthy and your loved ones safe. I look forward to catching up with you in the future.

[END OF TRANSCRIPT]