Our business model

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As at 31 December 2013:

<table>
<thead>
<tr>
<th></th>
<th>Brand ownership</th>
<th>Marketing and distribution</th>
<th>Employees</th>
<th>Hotel ownership</th>
<th>IHG capital intensity</th>
<th>IHG income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchised</td>
<td>IHG</td>
<td>Third-party</td>
<td>Low</td>
<td>Fee % of rooms revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We operate 3,977 hotels under franchise agreements (84.67%)</td>
<td>IHG</td>
<td>Third-party</td>
<td>Low</td>
<td>Fee % of total revenue plus % of profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managed</td>
<td>IHG &amp; Third-party*</td>
<td>Third-party</td>
<td>Low</td>
<td>Fee % of total revenue plus % of profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We manage 711 hotels (15.14%)</td>
<td>IHG</td>
<td>IHG</td>
<td>High</td>
<td>All revenues and profits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned and leased</td>
<td>IHG</td>
<td>IHG</td>
<td>High</td>
<td>All revenues and profits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We own and lease 9 hotels (less than 1%)</td>
<td>IHG</td>
<td>IHG</td>
<td>High</td>
<td>All revenues and profits</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*IHG often employs the General Manager only.

Managed and franchised model

Our business model is focused on franchising and managing hotels, rather than owning them, enabling us to grow at an accelerated pace with limited capital investment. Currently, 88 per cent of our Group operating profit (before regional and central overheads and exceptional items) is derived from franchised and managed operations. This business model allows us to focus on building preferred brands based on guests’ needs, and on strong delivery systems, such as our branded hotel websites and call centres. Our model allows us to create greater returns for owners whilst leaving asset management and real estate to our local third-party owners with the necessary expertise.

We adapt this business model by market as necessary, for example, in some markets we have in place managed leases to allow our business to grow. Managed leases are properties structured for legal reasons as operating leases but with the same characteristics as management contracts. In other markets we choose partnerships and joint ventures where appropriate.

A key characteristic of the franchised and managed business model is that it is highly cash generative, with a high return on capital employed. The asset-light approach means IHG benefits from the reduced volatility of fee-based income streams, as compared with the ownership of assets, resulting in a high-quality income stream. It enables us to focus on growing our fee revenues (Group revenue excluding owned and leased hotels, managed leases and significant liquidated damages) and fee margins (operating profit as a percentage of revenue, excluding revenue and operating profit from owned and leased hotels, managed leases and significant liquidated damages).

Dependent upon the market maturity, owner preference and, in certain cases, on the particular brand, hotels can be franchised or managed. For example, in the US, a mature market, IHG operates a largely franchised business, working together with our owners to deliver preferred brands. In contrast, in Greater China, IHG operates a predominantly managed business where IHG is responsible for operating the hotel on behalf of its owners.

Capital expenditure

In some situations, IHG supports its brands by using its capital to build or support the funding of flagship assets in high-demand locations in order to drive growth. We plan to recycle capital by selling these assets when the time is right and to reinvest elsewhere in the business and across our portfolio.

We have committed up to $150 million to assist with the launch of our EVEN Hotels brand to demonstrate the success and economics of the brand. In 2013, IHG acquired three existing hotels which are being converted to EVEN Hotels, the first of which are due to open in 2014. In the future, we would look to recycle this capital, just as we previously did for both the Staybridge Suites and Hotel Indigo brands.

Asset disposals

As part of our asset-light approach, in May 2013, we disposed of our leasehold interest in InterContinental London Park Lane for gross cash proceeds of £301.5 million ($469 million), IHG secured 80 per cent of our interest in the InterContinental New York Barclay for $240 million and retain the remaining 20 per cent in a joint venture with a total circa $175 million refurbishment. Under the agreement, IHG will secure a 30-year management contract on the hotel, with three 10-year extension options at IHG’s discretion, giving an expected contract length of 60 years.

In December 2013, we announced our agreement to dispose of 80 per cent of our interest in the InterContinental New York Barclay for $240 million and retain the remaining 20 per cent in a joint venture with a total circa $175 million refurbishment. Under the agreement, IHG will secure a 30-year management contract on the hotel, with two 10-year extension options at IHG’s discretion, giving an expected contract length of 50 years.

In February 2014, the Group signed an agreement to sell the InterContinental Mark Hopkins San Francisco for $120 million in cash and enter into a long-term management contract on the hotel.

Our breakdown by managed, franchised, owned and leased hotels for each region is set out on pages 40 to 50.

Fee revenues and Fee margins are KPIs – see pages 38 and 39.

The System Fund

In addition to management or franchise fees, hotels within the IHG System pay assessments and contributions which are collected by IHG for specific use within the System Fund. The System Fund also receives proceeds from the sale of IHG Rewards Club points (see page 50 for further information).

The System Fund is managed by IHG for the benefit of hotels in the IHG System with the objective of driving revenues for the hotels. Total income for the System Fund in 2013 was $1.35 billion (2012: $1.25 billion) and these funds are used to pay for marketing, the IHG Rewards Club loyalty programme and the global reservation system. The System Fund is planned to operate at break even and does not result in a profit or loss for IHG.
## Our preferred brands

Our portfolio of complementary and differentiated brands consistently deliver on guests’ needs.

Information on how we deliver our preferred brands is set out on page 20.

### InterContinental® Hotels & Resorts

Our international luxury brand is located in most of the world’s key cities and many resort destinations across more than 60 countries worldwide. The brand’s ethos is to provide insightful, meaningful experiences that enhance our guests’ feeling that they are in a global club.

- **178 hotels open**
- **51 hotels in the pipeline**

### HUALUXE® Hotels and Resorts

Launched in March 2012 as the first luxury international hotel brand where every element has been designed specifically to suit the tastes and sensibilities of the Chinese guest. It focuses on the unique aspects of Chinese etiquette, the importance of rejuvenation, status recognition, local customs and heritage.

- **21 hotels in the pipeline**

### Crowne Plaza® Hotels & Resorts

The brand supports career-focused travellers, putting them in control of their travel experience so they can be on top of their work and at the top of their game.

- **391 hotels open**
- **94 hotels in the pipeline**

### Hotel Indigo®

IHG’s boutique brand, artfully combines the modern design and intimate service associated with a boutique hotel with the peace of mind and ease of staying with one of the world’s largest branded hotel companies. Each Hotel Indigo hotel reflects the local culture, character and history of the surrounding area.

- **55 hotels open**
- **51 hotels in the pipeline**

### EVEN™ Hotels & Resorts

Launched in February 2012, the brand was created to meet the large and growing demand for a hotel brand to help wellness-minded travellers maintain their balance on the road.

- **5 hotels in the pipeline**

### Holiday Inn® Hotels & Resorts

Offers the perfect mix of business and pleasure for today’s comfort-seeking traveller by providing an inviting, familiar atmosphere where guests can relax and enjoy themselves.

- **1,168 hotels open**
- **249 hotels in the pipeline**

### Holiday Inn Resort®

Offers leisure guests fun and relaxation in some of the world’s best holiday destinations, with the peace of mind of a trusted brand name.

- **38 hotels open**
- **14 hotels in the pipeline**

### Holiday Inn Club Vacations®

Formed as IHG’s timeshare brand as part of a strategic alliance with the family of Orange Lake Resorts under an exclusive licensing and marketing agreement. The portfolio is a collection of resorts in the US, offering spacious villa accommodation for families in great vacation destinations.

- **10 properties open**
- **1 property in the pipeline**

### Holiday Inn Express®

Aimed at smart business or leisure travellers who appreciate value without compromising on efficiency and style.

- **2,258 hotels open**
- **473 hotels in the pipeline**

### Staybridge Suites®

IHG’s extended-stay brand for business and leisure travellers who are spending an extended time away from home and prefer a warm, home-like and community environment.

- **196 hotels open**
- **80 hotels in the pipeline**

### Candlewood Suites®

IHG’s extended-stay brand in North America aimed at providing guests with a relaxed, casual and home-like environment at a great value.

- **312 hotels open**
- **80 hotels in the pipeline**

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**Strategic Report**

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