



IHG Checks In On... Elie 1 year on as Group CEO

Transcript

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1 July is the first anniversary of Elie Maalouf becoming Group CEO of IHG Hotels & Resorts. Elie takes us through his first 12 months, recapping on many of the key highlights and achievements across the business that are putting IHG on a path to further success.

- Hello, I'm Elie Maalouf, Chief Executive Officer for IHG Hotels & Resorts. Thank you for your interest in IHG, and for joining this latest episode of "IHG Checks In On...". This series of videos, webinars and fireside chats is for investors, analysts and other stakeholders looking to learn more about how IHG operates and how we drive value for our shareholders.
- I'm here today to take a look back at my first year as IHG's Group Chief Executive Officer... And what an incredibly important and productive year it has been already! Together, we'll look at some of the key highlights and achievements across the business that are putting IHG on a path to further success.

July 2023

- I took over at the start of July last year from Keith Barr, who played a major role in laying the foundation for what we see as an exciting next chapter for the company.
- Prior to that, I had led IHG's Americas region for eight years, delivering during that time record profits, new brands and formats, and further growth of the hotel estate.
- I'd also worked closely with Keith, Executive Committee colleagues and the Board on shaping our strategy – and so I began as Group CEO with a real sense of confidence and excitement in the direction of this company.
- If I look back at just that first month of July, it is almost a microcosm of how IHG delivers growth.
- We took our brands into new markets for the first time – signing the first Regent in Saudi Arabia; launching Vignette Collection in Japan and Cambodia; and voco in Lebanon, which happens to be my home nation.
- Innovative formats such as our Holiday Inn Open Lobby concept were brought to markets such as the Middle East for the first time.
- In the UK, we signed voco Zeal Exeter Science Park, which will be our first lifecycle net zero carbon hotel.
- It was a month where we received prestigious hotel, marketing and employer awards for our market-leading business in China.
- If that wasn't enough for a month, the IHG Hotels & Resorts masterbrand could also be seen by sports-loving fans and by music lovers gearing up for Lollapalooza, which are amongst the many ways in which we've been hugely successful in driving ever higher brand awareness.

August 2023

- On to month 2!
- Across our key measures of RevPAR, System Size, Signings, Earnings, and Capital Returns, it was a very strong set of inaugural results for me to deliver, thanks to the hard work of our teams.
- One particular highlight that accompanied those results back in August was the launch of Garner, our new brand targeted at midscale conversion opportunities.

- We're proud of our industry-leading position in upper midscale with Holiday Inn and Holiday Inn Express, and we are confident we can achieve similar success in the midscale segment with Garner.
- This is a space worth \$14bn in the US market alone, and conversions are a major growth opportunity for IHG not just in the Americas, but globally.
- In fact, conversions have been rising as a proportion of our openings and signings globally for the last few years, and increasing in absolute numbers too.
- Garner was franchise-ready in the US in September, and just three months on from that, by the end of 2023, we had secured our first 7 signings and had our first 2 Garner hotels already open.
- And since then, we've launched Garner in many more markets around the world and continue to be very excited about prospects for the brand.

September 2023

- September was another busy month of developments, and I'd pick out three particular highlights – further updates to our award-winning IHG mobile app; an example of our marketing strength with the largest ever advertising campaign for our Hotel Indigo brand; and the Executive Committee's visit to China.
- Our IHG One Rewards mobile app has redefined the travel experience with greater emphasis on customer satisfaction, putting it at the centre of delivering choice and control to our guests.
- It's really standing out in the industry, earning strong reviews, an exceptional adoption rate, and numerous accolades.
- Developments included Wi-Fi Auto Connect, which automatically connects app users to hotel Wi-Fi, just like at home.
- We launched other features including the ability to customise, personalise and upgrade your stay; explore loyalty benefits and choose and redeem Milestone Rewards; an updated digital wallet function; the ability to see room charges in real time; and a new travel 'wishlists' function.
- I'm also pleased to say that the app is now available in 20 languages across six global app stores and this is just the beginning.
- September was also the month we introduced "The World's Neighbourhood Hotel" campaign for Hotel Indigo – the largest marketing campaign in the brand's history, which celebrates how guests can discover or rediscover some of the most inspiring and culturally rich neighbourhoods in and outside the hotel.
- Just as no two neighbourhoods are alike, no two Hotel Indigo properties are alike. This brand was created in-house by IHG 20 years ago, and is now experiencing an incredible acceleration in its growth.
- It now has more than 150 hotels open around the world or over 20,000 rooms, and the same amount in the pipeline, meaning its scale will double over the next few years.
- IHG's ability to fund technology developments and marketing campaigns such as these are great examples of the benefits of scale we leverage through the System Fund, which I will come back to.
- The Executive Committee and I spent a week in China in September. After several years away due to the pandemic, it was just fantastic to be there and to see first-hand the size and scale of the exciting growth opportunity IHG has in that part of the world.
- We have over 700 open hotels in China and over 500 in the pipeline, and with growing GDP, a middle class that is expected to double in the next decade, and hotel penetration per capita at one seventh of that in the United States, there is huge potential for us ahead.

October 2023

- October is the month we announce our Q3 Trading Update. This quarter marked the first in which our Greater China region reached a RevPAR performance above pre-Covid 2019 levels, with both our Americas and EMEAA regions having already fully recovered in the prior year. With group-wide occupancy of 72%, just one percentage point behind 2019 levels, this further confirmed the near-complete return to pre-Covid levels of demand.
- In October we also unveiled a distinctive global brand evolution for the InterContinental brand, demonstrating its pioneering spirit while paying homage to its rich heritage and paving the way for the luxury traveller of tomorrow.
- There are over 220 InterContinental hotels open today, and another 100 in the pipeline, so this really is a story of a brand that is “75 years young” and with an incredible future ahead of it.
- And it is worth remembering that InterContinental is just one of our 6 brands in our Luxury & Lifestyle category – across this category we have over 500 open hotels in more than 70 countries, and an incredible 360 hotels already in the pipeline that will open in the coming years. We are hugely excited about the global strength and leading brands that IHG has in Luxury & Lifestyle.

November 2023

- November brought with it one of the greatest privileges of my role, and that is to bring together IHG’s wider senior leadership team from around the world into one place. This is something we will typically try to do every couple of years, and last November we did so at the incredible InterContinental Le Grand in Paris.
- Why do we do this? Well, it’s important for the culture of the business and to drive understanding and alignment of our strategic priorities that we get together face-to-face. This in fact, is something recognised by businesses around the world, and is core to the reason that in our own hotels we’ve seen a full return of business travel and the hosting of groups and meetings and events.
- At the meeting we spent time working on an important evolution of IHG’s strategic priorities, and we subsequently updated our external stakeholders on this three months later.
- We also spoke with some of our hotel owners and shareholders, and looked at developments across our industry and the wider world.
- November was also marked by the celebration of the incredible Regent Hong Kong’s grand opening. This transformation of this property has re-established its position as a symbol of luxury in the heart of the city which represents a critical moment for our Regent brand as a pioneer of modern ultra luxury.
- Other recent openings for the brand are also fantastic exemplars of crafting the most refined experiences for modern trendsetters – Regent Shanghai on The Bund, Regent Carlton Cannes, Regent Phu Quoc and the soon-to-open Regent Santa Monica Beach.

December 2023

- That brings me to December, where I think a key highlight is to round-up on the broader signings and openings progress.
- The final quarter of the year is typically the biggest for signings and even more so for openings, and Q4 of 2023 was one of our biggest ever quarters for development activity at IHG.

- This meant that, for the year as a whole, a total of 275 hotels had been opened, or 48 thousand rooms, and 556 hotels or almost 80 thousand rooms had been signed into the pipeline. Adjusting for Iberostar, openings were up by 16% on the prior year, and signings were up by 26%.
- We closed 2023 with 6,363 hotels in our system, and 2,016 in the pipeline, equivalent to future system growth of over 30%, with each of our brands having over 20% growth in its pipeline today.
- One final milestone I'd like to add was the progress of integrating the Iberostar Beachfront Resorts properties.
- 49 of the up to 70 properties included in the agreement were in the IHG system by the end of the year, and we also achieved a key step in making it possible for IHG One Reward points to be redeemed for stays at an Iberostar property.

January 2024

- So, to the start of 2024!
- We began the year by being awarded a top score of 100 on the Human Rights Campaign Foundation's Corporate Equality Index. This recognition marked the ninth year in a row that IHG in the United States has earned the top rating on this index.
- IHG's Diversity and Inclusion strategy is guided by our Journey to Tomorrow 2030 responsible business plan. Our aspirations include driving gender balance and representation in leadership as well as cultivating inclusion and driving respect for human rights.
- In January we published our Diversity and Inclusion progress report in which we highlighted the great progress we've made on diversity of talent. At VP level and above, 35% of our corporate leaders are female, and 22% of leaders are ethnically diverse and represent 16 different nationalities. At IHG we are truly a global, multi-cultural business and are committed to providing everyone the same opportunity, no matter their background or identity.
- In further reflection of this, IHG was ranked in the top two of 850 companies in the Financial Times review of Europe's Diversity Leaders for 2024, recognising the sheer scale of our actions taken to promote change and create an inclusive environment.
- Moving to one of our priority growth markets, Japan, which I visited with my Executive Committee colleagues in January.
- Japan is highly developed, but there is a very focused strategy to attract international investment which is benefitting the hospitality industry and particularly international hotel brands.
- That month we entered into arrangements for Japan to be the first location outside of the U.S. to welcome the Garner brand, with three properties in Osaka set to open in the second half of this year. Japan is well-known for its high-quality domestic midscale hotels, and Garner is the perfect brand to help take them to a global stage with IHG's powerful systems, world-class technology, market-leading operations support and award-winning IHG One Rewards loyalty programme.

February 2024

- So, on to February, which of course marks the financial results season for most companies with a calendar year end like IHG, and for me, our first set of annual results. It was with enormous thanks to all of our teams around the business that we were able to deliver such an excellent set of results.

- With travel demand strong across all markets, RevPAR for 2023 was up 16% on the prior year and was 11% ahead of the 2019 pre-pandemic peak. This, combined with the power of our enterprise and efficient operating model, led to operating profit from our reportable segments growing 23% and exceeding one billion dollars for the first time.
- Among other key metrics, net system size growth was 3.8% for the year, our fee margin expanded to a new peak of 59%, operating profit exceeded \$1 billion, adjusted earnings per share were up by 33%, and those earnings fully converted into free cash flow generation.
- This supported growing the ordinary dividend payment to shareholders by 10% and launching a new \$800m share buyback programme. This share buyback programme and the ordinary dividend for 2024 are expected to return over \$1bn to shareholders this fiscal year.
- Alongside our financial results, we also hosted an extended presentation to provide an update on IHG's strategic priorities. This began with a background on our industry, then moved on to demonstrating the strength of IHG's business model and how it compounds growth and creates sustainable shareholder value, underpinned by a clear purpose, ambition and strategic priorities.
- I was joined by the leaders of our three regions, who shared insights on IHG's opportunities in their parts of the world, and also by our group CFO Michael Glover, who covered the fee margin potential, strong cash generation and IHG's approach to capital allocation.
- If you have not already watched the webcast replay of that event, I do encourage you to do so.
- Let me recap on how our clear purpose, ambition and strategic pillars underpin the growth we anticipate IHG delivering.
- The changes to our strategy build on the investments we have made to transform our business in recent years. We have already expanded our portfolio and significantly strengthened our enterprise, including a refreshed masterbrand, the relaunch of IHG One Rewards, and our advanced technology and commercial engine. And we also embarked on our "Journey to Tomorrow" to invest in our people, bring positive change in our communities, and deliver reductions in energy use and carbon emissions.
- IHG's purpose, to provide True Hospitality for Good, remains at the heart of our brands and culture, and is therefore unchanged. We bring opportunity and prosperity to communities around the world as a force for good, creating value and wealth that supports and stays in those communities.
- Our ambition has been simplified to focus on what is central to accelerating growth – being the hotel company of choice for guests and for owners.
- And we have evolved the pillars that guide the execution of our strategy.
- First, "Relentless Focus on Growth" brings a targeted approach to expanding our brands in high-value and high-growth markets. We are very intentional about our focus on growth and its importance.
- "Brands Guests and Owners Love" defines our explicit intention to deliver for both groups, every time. This precision and simplicity places the success and perception of our brands at the forefront of what we do.
- And "Leading Commercial Engine" emphasises the importance of investing in the technology and tools that deliver commercial success and make the biggest difference to guests, owners and our hotel teams. It is focused on driving high-value, low-cost revenue to our hotels through superior data and insights that lead to strong owner ROI.
- And our fourth pillar of "Care for our People, Communities and Planet" is timeless, and underpins our 2030 Journey to Tomorrow targets.
- In the presentation, I also talked about how, to realize the full potential from our evolved strategy and its four pillars, we had identified five areas of increased emphasis.

- First, a determined approach to realizing the full growth potential of each of our brands, which is vast for both our established and new brands.
- Second, going further into more markets with our portfolio and enterprise to capture high growth and high value opportunities from the secular trends of our industry.
- Third, a strong focus on valuable ancillaries like credit card and branded residences to capture growing and high margin revenues.
- Fourth, a deep owner value and returns mindset across our full enterprise.
- And fifth, a clear and updated surplus capital return philosophy within our stated capital allocation policy.
- You will see these new areas of emphasis instilled throughout the presentation we gave back in February.
- By way of a conclusion to the event, we laid out our IHG growth algorithm on a slide.
- This summarised on the left, how our growth algorithm had already delivered a very strong track record through to 2019.
- In the middle, we showed where IHG has come since 2019, completing a full recovery and much more. Compared to 2019, our RevPAR is 11% ahead, our system size is 7% larger, and our fee margin is 520 basis points higher. We've also converted more than a 100% of earnings into cash, which, after investing in the business, allowed us to grow the ordinary dividend by 21%, and return some 1.7 billion dollars in total to shareholders. Through the combination of these drivers, in 2023 our EPS was 24% higher than in 2019.
- And then we showed on the righthand side, what we see from here, which is strong potential for more.
- Looking ahead, we expect to deliver high single digit fee revenue growth, through a combination of RevPAR growth and net system size growth.
- With the revenue growth and cost base efficiency, we expect our operational leverage to drive fee margin expansion of 100 to 150 basis points per year.
- We then expect to maintain our strong record of converting approximately 100% of adjusted earnings into free cash flow, which will support our three capital allocation priorities.
- This strong revenue growth, margin expansion, and the resulting EBIT growth, plus the assumption of regular share buyback programmes, is expected to deliver EPS growth of 12 to 15% annually on average.
- We therefore set out that IHG has a strong track record, has delivered a strong recovery, culminating in an outstanding set of results in 2023, and we are excited about the vast opportunity ahead for our business.

March 2024

- February was quite a month! What would I pick out from March?
- Well, we hit a milestone of more than 1,000 hotels open across Asia Pacific. That is the combination of 700 in Greater China and another 300 across the rest of Asia Pacific. On top of that 1,000 open hotels, there is a pipeline of over 700 more across 22 countries in Asia Pacific.
- We also carried out the 2024 Greater China Expo Roadshow in March in Beijing, Shenzhen and Shanghai. With IHG's leading position in this market, the initiative bolstered the revival of business travel and showcased IHG's expansion plans across the region.

- One of the incredible facts about our China business is how we have significantly accelerated our hotel opening rate. It took us 24 years to open the first 100 hotels and just 18 months to open the last 100 hotels, that brought us to 700.
- And we never stop innovating in this market, or any other for that matter. In March, we partnered our masterbrand with Hainan Airlines for example, to create unique ground-to-air travel experiences, and the “IHG Explorer” branded aircraft featuring bespoke business class dining options.

April 2024

- In April, I had the opportunity to visit Spain, Germany, the United States, and India.
- In Germany, we were delighted to announce an agreement with NOVUM Hospitality that will double IHG’s presence and strengthen our position in a priority market for domestic, inbound and outbound travel. This deal adds up to 119 hotels or 17,700 rooms, equivalent to adding nearly 2% to our global system over the coming years.
- 52 of the hotels will join through a distinctive collaboration between Holiday Inn and ‘the niu’, NOVUM Hospitality’s stylish, flagship upper midscale brand. Then there are 56 hotels that will convert to Garner and then 11 to Candlewood Suites, representing European debuts for these two brands.
- Germany is one of Europe’s largest hotel markets, with strong domestic consumption, inbound and outbound travel. In 2022, there were over 450 million overnight stays in Germany, the second highest in Europe, and the country generated the highest number of international outbound trips globally, at around 100 million.
- The agreement also includes an exclusive arrangement for future NOVUM Hospitality hotels to join IHG’s leading brands and enterprise system.
- And regarding India, it was a pleasure for me to explore this key growth market.
- India’s hospitality sector is experiencing a dynamic transformation, driven by a confluence of factors including increased disposable income, a growing middle class with an appetite for travel, and the development of new tourism destinations.
- We currently have nearly 50 open hotels there, and a pipeline for another 50, which will therefore double our portfolio over the next 5 years.
- There were 13 signings in 2023, reflecting the speed at which we can rapidly expand in developing markets, and we are expecting another strong performance in 2024.
- One further development we announced in April is an expanded partnership with Google Cloud and the launch of a generative AI-powered travel planner within the IHG One Rewards mobile app. This will help guests easily plan their next trip, offer personalised travel recommendations, and create an even more dynamic digital experience to build a full itinerary and book hotels in just a few taps.

May 2024

- As we near the end of the recap of my first 12 months as Group CEO, the month of May is when we give another trading update.
- Global RevPAR in Q1 2024 continued to grow, up 2.6%, reflecting the strength of our globally diverse footprint and the complete return of leisure, business and group travel.
- Compared to the same quarter a year earlier, room openings rose 11%, adjusted for Iberostar, and signings grew by 7%.

- In an announcement the same day, we also set out some changes to System Fund arrangements.
- Let me remind you of the System Fund revenue sources.
- Our hotel owners are the primary contributors to the System Fund, and all of that revenue, 100% of it, stays in the System Fund and will still be deployed for marketing, reservation services, running the loyalty programme, and all other areas of brand and owner support.
- A secondary source of revenues is from consumers, who engage with our brands, our IHG masterbrand, and our loyalty plan directly by buying loyalty points. These are IHG assets, and we had long ago chosen to place some of that revenue in the System Fund when it was much smaller.
- Today the System Fund is much larger than it used to be – it has grown nearly 30% over the last 5 years alone – and continues to grow with RevPAR and system size growth. So, we have decided to now keep more of that direct-from-consumer revenue in the P&L. In 2025, this fee stream is expected to be over \$50m a year to IHG, is fully cash-backed, and is expected to grow into perpetuity.
- This change is consistent with the strategic priorities we shared in February, which drive value for owners through our leading commercial engine and grow ancillary fee revenue and driving margin improvements for IHG, all part of our growth algorithm.
- The ability to make these changes – which include for owners a lowering of the loyalty assessment they pay into the Fund and an increase in the reimbursements they receive back out of the Fund – are all borne out of the strength of the funding position due to our growth.
- There’s no change in the capacity of the Fund to invest – the Marketing & Reservation assessment is unchanged and continues to grow as RevPAR and system size grows.
- The changes we have made are all about how loyalty has been growing, which created the ability for a ‘win-win’ set of changes to benefit both IHG and our hotel owners.
- For more background on the System Fund, this is covered in the first episode of “IHG Checks In On...”.

June 2024

- And so to June, which is the final month that completes my first 12.
- Fittingly, what I’d pulled out as the highlight is the annual “NYU International Hospitality Industry Investment Conference”.
- It’s always an important moment for the industry and many of our owners, and I took part on a CEO panel where we shared our insights on the shifts in hospitality, travel and real estate markets, we discussed macro trends, and the events and strategies that will reshape the industry. This event is also one of the many examples of how we are very active in our role of advocating for the industry on behalf of our owners.
- Well, thank you for your interest and attention.
- I hope you’ve gained some insights from this latest addition of “IHG Checks In On...”.
- I was honoured to take over as IHG’s group CEO in July 2023, and I am proud of what we have been able to achieve in those first 12 months.
- I strongly believe that the evolved strategic priorities and clear plans we have in place will further reinforce IHG Hotels & Resorts as the hotel company of choice for guests and owners.
- And we are already delivering in the 5 areas of strategic focus that I laid out in February.
- The travel industry has attractive, long-term drivers of demand, and the strength of our brand portfolio and enterprise platform will continue to boost our RevPAR and system size growth.

- Combined with our scale and cost base efficiencies, this will further expand our fee margin.
- IHG's strong cash generation supports investment in growth initiatives, sustainably increasing our ordinary dividend and the regular return of surplus capital such as through share buybacks.
- We look forward to an important next chapter of growth for IHG that creates long-term sustainable value for our shareholders and benefits our employees, hotel owners and our communities.
- Many thanks.

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