



IHG - First Quarter Trading Update

Friday, 7th May 2021

Introduction

Stuart Ford

VP, Head of IR, IHG

Thank you, Nadia, and good morning, everyone. And welcome to IHG's conference call for the first quarter of 2021 trading update. I am Stuart Ford, Head of Investor Relations at IHG. And I am joined this morning by Paul Edgecliffe-Johnson, our Chief Financial Officer and Group Head of Strategy.

Just to remind listeners on the call that in the discussions today, the company may make certain forward-looking statements as defined under US law. Please refer to this morning's announcement and the company's SEC filings for factors that could lead actual results to differ materially from those expressed in or implied by any such forward-looking statements.

For those analysts or institutional investors who are listening via our website, I may remind that in order to ask questions, you will need to dial in using the details on page two of the RNS release. The release, together with the usual supplementary data pack, can be downloaded from the Results and Presentations section under the Investors tab on ihgplc.com.

Paul Edgecliffe-Johnson

CFO & Group Head of Strategy, IHG

Thanks Stuart, and good morning, everyone. I will start as usual with a review of our trading performance. You will have seen that we have provided monthly RevPAR data in our release, with both year-on-year movements and performance relative to 2019.

I will focus my commentary on our performance versus 2019, as this is the most meaningful way to understand our recovery trajectory, as it removes the different timings of when Covid-19 started to impact regions last year.

With an improvement in demand during the quarter, our global RevPAR saw a decline of 51%. There was a significant uplift in March where RevPAR declined 46.6%, after January and February's 53% declines. Occupancy was down 23 percentage points, and rate held at around 80% at 2019 levels. Absolute occupancy was 40% for the quarter as a whole. But for March it had risen to nearly 50%.

The US and China led the pick-up in demand, which continued into April, and forward-looking demand indicators point towards further improvement in trading in those regions in the months ahead. In contrast, travel restrictions remained in place across most of Europe, holding back the recovery in our EMEAA region.

The return of strong demand in virtually all markets where travel is permitted fits our expectations for the shape of the recovery and underpins our confidence in the industry fundamentals remaining attractive. That said, we do remain watchful for further bumps in the road to a full recovery.

Looking now in more detail at our regional performance.

Across the first quarter, RevPAR fell 43% in the Americas, and by just over 40% in the US. This represents outperformance against both the overall industry and the weighted segments in which we compete. This outperformance continues to be driven by our weighting and market-leading position in the midscale segments, by our distribution predominately in non-urban locations, and by our skew towards transient business and leisure demand, as opposed to large group business.

We continued to see a divergence in performance between our franchised and managed estates. Our franchise hotels, which are largely in the upper midscale segment and in non-urban locations, saw RevPAR fall 36%. Our managed estate, which is weighted towards luxury and upscale hotels in urban markets, experienced weaker demand, and has a higher proportion of hotels still closed. RevPAR at managed hotels fell 73%.

March saw a notable pick-up in demand with RevPAR in the US down 37%, benefiting from domestic leisure trips around Spring Break. Forward booking indicators suggest that this heightened level of demand will continue into the summer, with strength across a number of markets including Texas, the Florida panhandle and other leisure destinations. Current business 'On The Books' shows sequential improvement in each of the next few months, and that booking lead times are now lengthening to be close to where they were pre-pandemic.

Moving on now to our Europe, Middle East, Asia & Africa region, where RevPAR was down 71% relative to 2019. In the UK, RevPAR was down 75%. London, which has a higher weighting towards international demand, saw RevPAR fall 85%. Continental Europe declined 87%, given a larger proportion of closed hotels. A relaxation of inter-state travel restrictions saw RevPAR declines in Australia improve to 51%. In the Middle East, RevPAR fell 49%.

At the end of March, we had around 165 hotels closed, or approximately 14%, largely reflecting government-mandated closures. This is less than the 215 that were closed at the start of the year, and we expect further re-openings to occur in the next few months.

Finally, moving to Greater China, where we continued to outperform the industry. RevPAR across the region was down 38% across 2019. An increase in Covid cases in a number of Tier 1 and Tier 2 cities, together with government guidance not to travel during the Chinese New Year Holiday period, resulted in RevPAR falling between 40% and 50% in January and February. As restrictions eased demand recovered quickly in March, resulting in the rate of RevPAR decline improving to 23%, which was around the levels we saw in the second half of last year.

Across Mainland China, Tier 1 cities continued to see a greater level of RevPAR decline, down 41%, given their weighting to international travel. By contrast, RevPAR in Tier 2 to 4 cities, which are more weighted to domestic demand, declined 27%. Notably in March, RevPAR in these cities was down only 3% relative to 2019.

Given the more advanced recovery in China, looking ahead at forward booking indicators, we see encouraging signs for both domestic leisure, corporate and group demand.

Turning now to net system size. During the quarter, we opened 7,000 rooms. Our focus on quality and consistency meant that at the same time, we removed 9,000 rooms. This included an elevated level of exits in our Holiday Inn and Crowne Plaza estates in the

Americas and EMEAA, at over 6,000 rooms. The review of around 200 hotels across those two brands is progressing well, and we will provide an update on this at the half-year.

The combination of additions and removals took our net system size to 884,000 rooms, broadly flat since the start of the year.

In terms of pipeline, we signed 14,500 rooms in the quarter, ahead of the first quarter last year. The pipeline increased year-to-date to 274,000 rooms. We continue to see strong owner interest in conversion opportunities, with around a quarter of signings since the pandemic began being conversions, compared to less than 20% in 2019.

In the Americas, the pace of signing activity picked up from recent quarters, and saw nearly half of signings being for our Suites brands. In EMEAA, signings activity was ahead of the first quarter last year, also more weighted to conversions, including a further voco in Dubai and seven conversions across our other brands. In Greater China, there continues to be strong traction for our Holiday Inn Express Franchise product with 14 signings in the quarter, taking our total signings to nearly 300 since launch five years ago. We also signed a further four franchised hotels for Holiday Inn and Crowne Plaza.

Finally, a note on liquidity and cash flow. During the quarter, we repaid our maturity for £600 million from the UK Government's CCFF scheme. This took our overall liquidity to \$2.1 billion, which included a small free cash inflow in the quarter.

So, to summarise the first quarter. Overall trading improved across the US and Greater China, with forward booking data suggesting that this will continue in the months ahead.

Net system size growth was flat, with openings broadly offset by the removal of underperforming hotels. The strong performance in signings led to an increase in our pipeline.

Looking further ahead, as the rollout of vaccines becomes more established and travel restrictions ease, the strength of our brands and portfolio underpins our confidence that we are well positioned for future growth. We are already seeing evidence that demand rebounds strongly when restrictions are lifted and travellers are feeling assured. In such markets, our brands are performing well, and while the risk of volatility remains in the short-term, we expect the industry's recovery to generate further momentum over the course of the year.

And with that, Nadia, please could we open up the call for questions.

Q&A

Jamie Rollo (Morgan Stanley): Three questions, please. First, you have given us a bit of flavour on forward bookings. But are there any sort of figures you can share or maybe sort of break it down into buckets, maybe summer, leisure or Group? I appreciate Group is quite small for you. Just any feeling of when you think RevPAR might also get back to sort of normal pre-Covid levels?

And number two, I appreciate in the US your revenues are much more skewed to Holiday Inn and mid-scale, but EMEAA is sort of the opposite. It is much more skewed to InterContinental and Crowne Plaza. So, could you just break down the revenue mix comparing North America

to EMEAA between maybe business and leisure or domestic, international and what that might mean for recovery profile in EMEA?

And then finally, just thinking about unit growth this year. I think you said at the full year, it is probably another transition year. But thinking further ahead, are there any targets for unit growth for sort of 2022 onwards? I'm just noting that the timings although they were sort of similar to a year ago, they are still down quite a lot from 2018-2019. So, what might that do to openings in a year or two time? Thank you.

Paul Edgecliffe-Johnson: Thanks, Jamie. So, in terms of forward bookings, we are seeing a lot of demand. That said, our normal sort of booking window is relatively short. So normally, it is around three weeks or so. It went down to about 10 days during the pandemic. And it is now back up to approximately where it was before. So that is on average. But we are seeing a lot of bookings in the US and an elevated number.

In volume of rooms booked for the balance of the year, we are ahead of where we were in the same point in 2019, but not necessarily at the same price. But that is an indication of just how much demand there is out there, and I expect that to continue. I think it will be a very busy summer season for hotels, particularly leisure destinations in the US.

Exactly what we see in the urban locations and when demand comes back quite as strongly there remains to be seen. But we are seeing encouraging signs there as well. It is across leisure, it is across business and it is also across some Group business, which, as you know, our Group business tends to be more weighted to smaller group rather than large conference type business. But we are seeing recovery there.

And if I look at what is happening over in China where the recovery is most advanced, and as I referenced on the call, in the markets that are largely around domestic travel rather than the Tier 1 cities, which have a higher proportion of international travel, which still is not allowed into China, we are seeing the demand pretty much at parity now to where it was back in 2019. And that is across leisure, business and Group.

So, I think the question is when we get back to that parity level in the rest of the world, and that remains to be seen exactly what the gradient of that recovery curve is.

In relation to your second question about the mix, US versus EMEAA and the EMEAA recovery profile. I think the first point I would make is that when people are allowed to travel, the demand comes back very rapidly. So I have no doubt that there is an awful lot of pent-up demand in the EMEAA markets and it is just waiting for government restrictions to be released before that can manifest itself again.

We are more skewed in the US than in the rest of the world to midscale and the US is our largest domestic market. The US is 95% or so domestic, and other parts of the world less so. That said, a lot of the international inbounds that we have in parts of like the Middle East or in parts of Southeast Asia and Korea will be regional travel rather than necessary long-haul inbound. So it is still typically in the domestic or regional travel.

And I think that we will see EMEAA recovering rapidly, as I said, once restrictions are lifted, but it is a little early to say exactly when that is going to be.

In terms of unit growth, and thinking further ahead, I think what you are asking then is when do we get back to being industry-leading and the sort of performance that we saw in 2019.

And everything that we have been doing through the pandemic is to ensure that we do return back to that level, the way we have treated our owners, the way we have looked after our brands, the way we have managed our pipeline.

You will remember that back in 2019, our gross level of openings was the highest in the industry. We take out more rooms historically than some of our competitors. But at a gross level, we have the highest rated growth. And we expect we will get back to that level. A lot of those openings are from relatively small business owners who have one or two hotels with us, and their attention rightly during the pandemic period is going to be on managing their current operations, managing their teams, in many cases, even managing their family situations and ensuring that everybody is being well looked after.

But once there are more of an even keel, then they will return their attention back to signing hotels and getting the hotels in their pipeline to open because that is a very important part of the growth of their business. Once we return to normality with our strong brands, which deliver well for owners and are very well-regarded by lenders, I think we will see that high level of unit growth continue.

And the work that we are doing on improving the overall quality of our brands with the Holiday Inn and Crowne Plaza strategy that we talked about at the full year, and we will update further on at the half year, I think advances even further the customer experience at our brands, which will mean that there will be more demand, which in turn, will mean that there is more demand for signing those hotels and opening them up. I think there is a lot to look forward to from that regard.

Jamie Rollo: Can I just pick you up on the first point? I think you said US room volumes for the balance of the year are ahead at the same point in 2019. Did you also say that is across leisure, corporate and Group? And also, are we talking sort of single-digit percent that is on the books at this stage that's moved up to another single-digit percent? Or is it a bit more material? Just thinking about the visibility you mentioned earlier?

Paul Edgecliffe-Johnson: In terms of the volume of bookings, that is what I was referencing in the US. We have got more rooms booked in the balance of the year on sort of cumulative basis, if you like, than we had in 2019. It will be more leisure-orientated than it was in 2019, as I said, with a very strong summer of leisure bookings. So the mix may change a little.

When we look across the business for the whole of 2021, I do not think we will see a material change of business versus leisure. Historically, we have been 60-40 business, leisure, and we were last year. It might vary slightly this year. I think we will have to wait and see, but I do not see any longer-term changes from that. And in terms of the percentage of bookings that are on the books, I do not actually have a data point on that for you. But we will come back on that if we can, Jamie.

Vicki Stern (Barclays): Good morning. Just coming back on, again, sort of trying to triangulate the booking data with what that sort of means. I think you saw about a 7% sequential improvement month-on-month March on February if we are comparing against 2019. Based on sort of what you can see so far as far out as you have got sensible visibility, I mean, is that the sort of pace of expectation you would be thinking about sequentially in the next few months too?

Secondly, just coming back on that business transient, I suppose, obviously, a lot of debate about whether there will be a portion of business travel that does not come back. And I guess your skew is toward a lot of the activity that would not be so affected by that given you are less exposed to Group. But just if you could just talk around that because it is just quite interesting that you are not expecting that mix to be particularly different over the summer between business and leisure in light of how much leisure demand is coming back. And then just separately on use of cash, just how is the Board thinking now about the right time to sort of recommence dividend and share buybacks?

And sort of related to that, as you look across the portfolio of brands now, are there any further acquisitions you think you might be looking to make to sort of fill any gaps that might have sort of become available or apparent through Covid? Thanks.

Paul Edgecliffe-Johnson: Thanks, Vicki. In terms of the pace of recovery, yes, we were pleased with the step-up in demand that we saw in March. I do not have my final April RevPAR numbers. But when I look at the industry performance in the US for April, there was another sequential improvement across the segments for trading of 5% and 10%. So I think expecting a sequential improvement in April on March, similar to what we saw March on February, is reasonable.

And then looking at the months beyond that, I think that I would expect to see further sequential improvement and it is probably not unreasonable to expect that it is at a similar sort of pace. Of course, there is an element of projection there rather than certainty. But I do not think that is an unreasonable assumption.

In terms of the proportion of business travel that might not come back. I think when we think about the nature of most of our business travel, it is generated by people who, as long as they remain in employment, do travel. And I think if you look at the US employment stats and China employment stats, there is almost full employment in those markets particularly when you take out industries that have been impacted like hospitality.

And it is actually very difficult to hire more people back into our hotels as they are opening up. There is a shortage of labour. So that high level of employment, I think, will continue to drive a high level of business travel demand. I suspect that what we will see is that if we go into 2022 and 2023, as companies reset budgets and have a higher allowance for travel and entertaining, then we will see more step-up in international travel.

It is a relatively smaller part of our business mix, as I referenced. And similarly, with conferences and etc., it is a smaller part of our business mix. But we do not really think that it changes in any material way longer term. And in fact, the fact that more people will probably be spending a greater proportion of their work week at home may mean that they then need to have more facilities to meet in hotels with their teams, and that may actually be a further driver of demand for us. So no certainty on that, but it is something that we are monitoring.

In terms of the use of cash, well, we are very pleased last year with our cash management, generating cash through the pandemic, and what we have done in terms of our waivers, bank facilities, etc. We are in a very strong cash position with \$2.1 billion of liquidity. And I have spoken before about the comfort that we still have with our historic leverage ratios of 2.5 to 3 times on an IFRS 16 basis.

The EBITDA obviously will need to recover further before we are back into those levels, so I do not think it is the right time to be thinking about dividends and share buybacks just yet. But hopefully, our track record over for the last 18 years or so of returning cash, that is surplus to shareholders, is very clear and there is absolutely no change to that philosophy or strategy.

In terms of the opportunity for further growth, I think it is much more likely to be organic brand launches where we see opportunities. We have made some great acquisitions in recent years, Kimpton, Six Senses, Regent. We are growing those. It has given us a great position in the Luxury segment, and we have had some fantastic organic launches, avid, Atwell Suites, voco, all growing very well. And our preference is, particularly in below luxury for organic brand launches.

And we have got, we think, the leading portfolio of brands now in the Luxury segment, which we are growing out. So I do not think there is a need for any further acquisitions there. If something that is super attractive comes up and we can see that we get a very strong return on capital from it, then we would always evaluate it. But I think we have got a very attractive stable of brands right now that position us well for future growth.

Bilal Aziz (UBS): Two questions from me too, please. Firstly, as it feels like you might be starting to get a bit more visibility clearly on forward bookings, some of your peers have commented on the rate for those bookings, particularly on the business side. So can you give any comments on that, and perhaps your feelings on how you think rate should recover as occupancy clearly builds out?

Secondly, just an update on financing, please. Again, one of your peers suggested that those pressures are now starting to ease. So perhaps if you could update us there for some of your US owners.

And then finally, just on the US signings, a bit of an update on what you have seen for avid? How that has tracked so far? The build cost of that particular brand is somewhat lower than the rest of your brands, just keen to see how that's tracking.

Paul Edgecliffe-Johnson: Thanks, Bilal. Yes, so in terms of the rate recovery, I think the first point is that last year, I was actually pretty pleased with how rates held up despite the significant falloff in demand. And I think the discipline that is centred around revenue management and owners knowing that just dropping rate would not stimulate demand meant there was a pretty good outcome there. It will need to build back up to where it was pre-pandemic, of course, but I think we should just remember that the 2019 level that we saw there was after 10 years of a cycle where we had super normal levels of occupancy. So it grew up and up and up with more compression, mix changes so that we got that very high level of rate that was experienced there. But I do not think it would be right to think we suddenly bounce back into that. I think it will accrete back to that level over time as there is more compression, as mix changes in hotels.

So it will grow across the course of the year and across 2022. And at some point, I am sure it will get back to where it was before and then exceed it, as we have seen in previous cycles. But I think it will be a relatively steady trajectory.

In terms of the health of our US owners, well, I have talked before about the proportion of our fees due from our owners that we have been receiving, and that is continued to improve. So we are really back pretty much now in terms of owner health and in terms of when our bills paid, if you like, by our owners to where we were pre-pandemic. So further improvements there.

And in terms of avid, yes, I mean, you are absolutely right that avid is a brand that suits very well the development environment out at the moment in the US. It has tracked well. We have signed a lot of hotels for the brand. We have opened them up. They are performing well. They are low cost to build. The small land site means that the total cost is relatively low, and the cash and cash returns are very strong. And that is exactly what owners want to build. So I am sure that as owners refocus their attention on to development in due course as the pandemic runs its course, then avid will continue to see high signings and very strong growth.

Leo Carrington (Credit Suisse): If possible, I would just like to ask some more questions on the portfolio review. I know you said you will cover more at half year. But firstly, of the properties you looked at, more proportion ended up leaving the system. So I was trying to gauge what the final impact might be from the 200 hotels that you are looking at.

Secondly, you have helpfully disclosed proportion of removals in the quarter from Holiday Inn and Crowne Plaza brands. But that suggests the underlying exits and other brands might be a bit lower than usual. Do you agree with that? And is that lower run rate sustainable for the rest of the year? And lastly, openings in Q1 looks a bit lower than Q3, Q4 last year. Does that reflect any change in sort of owners' willingness to get the doors open as soon as possible given the track of the pandemic? Or is this just quarterly noise?

Paul Edgecliffe-Johnson: Thanks, Leo. In terms of the Holiday Inn and Crowne Plaza program, yes, this is the right time for us to have the conversations with the owners. Guest expectations have changed. And so while over some years, we have been working with the owners to take out the hotels in the system that have not met our vision for the brand as they move forward and not fulfilling on guest expectations, we are having to have conversations with owners around the future of their properties with us, and that is the 200.

The conversations are going well. Owners understand what we are trying to do. But there are further conversations to be had before I would be able to give you a meaningful level as to what proportion may stay, what proportion may go. And that is why I have said that I will come back at the half year and give an update on that rather than be able to do that today.

In terms of your point around the underlying exits from other brands being lower, once you exclude the Holiday Inn and Crowne Plaza exits, you are right. And if you look back over time, you will see that that is also what is manifested over probably a five-year period or so, the rate of exits from Holiday Inn and Crowne Plaza in the US and EMEAA has been sort of about doubled what it has from the other brands.

And that is mixed into the 2.1-2.2% exits that we have seen over time. But the non-Holiday Inn and Crowne Plaza portfolio has seen around 1.5% exits over that period, and Holiday Inn and Crowne Plaza is, I say, about double that. Q1 does tend to be a lower quarter for openings of hotels. There is just an element of seasonality, often weather-driven, and it is often a lower demand quarter.

So it is not when owners are most focused on getting their hotels open. I think that is all it is. But we are pleased with the level of signings. There was a pickup there and really pleased, in particular, with the 40 hotels we signed in China. Very strong demand for our brands out there. Pleased by the pickup we saw in the Americas. Quite a strong pickup from what we saw last year.

And EMEAA, we still signed more in the first quarter than we did in the first quarter of last year. So a lot of demand there, and these hotels will get opened up over time.

Richard Clarke (AB Bernstein): Three questions, if I may. You have very helpfully given some data on terminations for the pipeline. I guess what jumps out there is the 2,800 terminations in China. Just wondering, is that normal cleansing out, anything you would pull out there? And maybe what that means for Chinese system growth getting back toward the double-digit growth you have had in the past. And if I can ask a little cheeky sort of add-on that, how can you have a positive number in that terminations column which you have got for a few times?

Second question is on the US sort of distribution landscape seems to be getting quite complex and competitive, booking offering, cash back, TripAdvisor coming in with a discount subscription product, Costco getting more aggressive in that space. How much pressure does that put on the rates that you offer to your loyalty members? Are you seeing any pressure to offer more generous terms at all to match some of the stuff that the other players are doing?

And then the last question on the UK. Quite a few hotels, I think, are still closed there. Will they all be open in 10 days' time? And any commentary on how your demand environment is looking beyond the 17th May when hotels can reopen.

Paul Edgecliffe-Johnson: Thank you, Richard. In terms of how we manage the pipeline, the hotels signs, when they sign it is a signed contract with us, they pay us a fee and then we work with them to get those hotels open. Sometimes situations change for the owner. Sometimes situations change around the piece of land that they are intending to build on. And if it looks certain then that hotel would not get built, then we will remove it. So you are right that we did remove more in China in the first quarter.

It is just catch up and looking are all those hotels now going to get built. And particularly, when we have got so much demand from owners to build, we do not want to have sites, if you like, blocked by hotels being in the pipeline that are not actually going to manifest. We do try and keep a very healthy pipeline and remove things if we think that it is not actually going to turn into an open hotel. But it is a pretty small number. It is a few hotels, really.

Chinese growth continues to be robust and we got a lot of confidence in the future growth there. And even the recent communications from the Chinese government and how important they see hotels are in the overall economic growth of China indicates that it is going to be a very strong market for hotel unit additions for some time to come as it has been since 2003.

In terms of why you could see a positive number, they are just adjustments when you add more rooms onto a pipeline hotel. So if it was intended to be 100 rooms and then the owner comes back and says, actually, I have got more planning so I can build 200 rooms, then it will

just go through that line. So that is why you can have sometimes positive variances, pretty small numbers really.

In terms of pressure on rates on loyalty members, well, we have a very attractive offer to loyalty members as they are booked direct and as well as members. We are seeing good pickup on that. Nothing that we are currently envisaging that would suggest to us that we need to change the pricing on that. But equally, we are always monitoring all the dynamics out there in the consumer world to make sure that we are as competitive as we can be. But as I say, there is no current intention to change the pricing around that.

In terms of the UK, yes, a lot of the hotels still closed, and looking forward to when they are able to reopen. And the demand environment in the summer periods in hotels into the more leisure destinations is very strong. And we will have to wait and see in the big cities quite how that manifests and comes back. But we are certainly pleased to have the hotels open again. It will be good for the team to be able to interface with guests again and good for the owners to get some cash coming in. And what we have seen in other markets is that when restrictions are released, demand comes back pretty quickly. So we certainly have a positive outlook.

Tim Barrett (Numis): I just got one left. And I wanted to come back to the topic of corporate demand and just really match that with your comments around a three-week booking window, which is obviously fairly short. Where are you gauging the forward-looking indicators on corporate travel from? And is it things like conversations with your top 10 customers, top 10 groups, that kind of thing? It would be really helpful to understand the basis of the comment.

Paul Edgecliffe-Johnson: Thanks, Tim. So yes, we are seeing an improvement in that sort of corporate demand. And I think it was actually even slight surprise to me last year as to the corporate versus leisure mix did not really change, it stayed at 60-40. And I think it is just a reflection of the type of business that comes through in that corporate descriptor. So we have some, but it is not largely Wall Street going and staying at InterContinental in New York and doing a road show.

It is people staying at our Holiday Inns and Holiday Inn Expresses around the country as part of needing to be visiting clients, needing to do work at sites, etc. So that is the type of demand that is generated. As long as people keep their jobs, which they are, then that demand stays. And as we look at what is booked, it is encouraging. It is up. Similarly, the discussions we have had with corporates and some particular categories coming back faster, film and entertainment, where you are going to have hotel book-outs. But it is not the biggest part of our business mix from that segment, but perhaps just as an indicator of what will happen in due course. As I said before, our expectation is that there's no permanent diminution to the demand for business travel for our hotels.

Tim Barrett: Is that the same in all three regions pretty much?

Paul Edgecliffe-Johnson: Well, in China, the recovery is more advanced. And so we have seen business travel recover faster, particularly outside of Tier 1 markets, which is more weighted to international inbound than the other markets, so Tier 2-4. And we are seeing conferences in China. We are seeing weddings, large weddings. So a lot of businesses

largely recovered, particularly in markets where there is no longer any restrictions as to the size of groups that you can have, etc.

So just an indication again for us that we will return back to this pre-pandemic normality. It is still hard to say exactly when that is and call a date, but there is nothing that we see in the trends around the world that says that we would not return to that in due course. And return with a strengthened business. I would also add, we have done a lot of work on the business as we have gone through the pandemic. We are taking costs out, where the work we have done Holiday Inn and Crowne Plaza will advantage us. They will emerge from this with strong trends and an even strengthened business.

Jaafar Mestari (Exane): Just one from me, please. I was wondering if you could talk a little bit more about how pricing is trending in the specific regions and in the specific nights where occupancy is really starting to improve the most. And what sort of guidelines or data or support are you able to provide to franchisees to help them not price in a hurry and really take advantage of demand to price well?

Paul Edgecliffe-Johnson: Well, I slightly laughed at that, Jaafar, because it is something we have been working on for some time. As a hotel owner, when you have seen demand reduce and then it comes back rapidly, there can be a bias to just taking the demand early. And what we have been saying to our franchisees for a long time is that we do believe that demand will come back and hard, and that there will be an opportunity to get back closer than we are now to 2019 rates.

So we have, as you know, programmes like revenue management are higher, which is continually evolving. And we have added additional functionality into that. We are having intraday pricing algorithms. There, we are building in further capabilities around surge pricing so we can understand if something is happening in a particular market and we make sure that we can understand demand spikes like that. Because you are right, for an individual hotel owner, it is really important to get the maximum revenue out their property. And so they do not want to undersell just early, and they have to believe that demand will come back at a high price.

Jaafar Mestari: And I guess just in context of what you said that the volumes were ahead but not necessarily at the same price, so is that because of these data elements not being fully reflected yet? Or is that just the mix between leisure and business? Is that something you are accepting?

Paul Edgecliffe-Johnson: Well, it is a bit of both. I think that if we reference it back to 2019 and say, well, that is our starting point. Well, 2019, the rate and the occupancy there were the result of a 10-year cycle that resulted in very, very high levels of occupancy. You will remember over 70 consecutive months, which allowed the mix in business in the hotels to be changed, to take out the lower-rated business, to keep more rooms for the most highly rated business transient guests.

And so I think assuming that we get straight back into 2019 levels of average rate for this year is just not realistic. It will need to grow back to that, and it will over time. And owners have to believe that the demand is going to be there to sell out their hotels at a certain rate. Otherwise, they will build a book of business base and then they will try and revenue manage the remaining rooms.

So you do need to have a quite strong demand environment for an extended period to be able to get back to where we were in 2019. But I think that on a fundamental basis and looking beyond the current disruption, I don't think anything has changed that would suggest that we don't get back to where we are in due course.

Alex Brignall (Redburn): Just one on pricing, it is something you have talked about that a lot. And I sort of understand your point about the nature of the demand that you have has come back very quickly in terms of business. But I just want to ask about the ripple effects of lower demand in other areas. It is very uncommon, if not I cannot find a precedent, that pricing of different tier groups performs very, very differently to itself. So if we see a loss of business demand in Wall Street people going for conferences, and it tends to ripple down in time to the lower-end hotels. I am wondering about how you think that will manifest rather than people that are more blue-collar are coming back to your hotels already? And then that would then lead on what are in your assumptions for the recovery of unit growth? If there was a decline or resetting in RevPAR that affects you, does that affect people's appetite to build hotels given that it has an effect on their own profitability, the returns profile of the new hotel and things like that?

Paul Edgecliffe-Johnson: Thanks, Alex. Yes, it is an interesting area. I think if we look at rate, I mean, rate has been holding up best and did held up best in our in our Suites category and our Essentials category, which is just related to the level of demand. When we look at China, we are seeing good trends in ADR, in the leisure resort. So there is a lot of pricing capability there and strong demand in upscale and actually given domestic demand. So I think this is a temporary phenomenon and we will get back to rates that were across the different segments of the business, that we are back to where we were once we see demand recover back to the level we saw pre-pandemic.

I do not think there is really any change, therefore, in the attraction of building hotels in the different segments, albeit. But if you look back over the last five, six years and certainly in the US, I mean, most of the owner demand to build new product has been in the limited-service segment, so Holiday Inn Expresses, avids, Atwell Suites, etc., or Suites, so our Candlewood Suites and our Staybridge Suites rather. Because the returns, the GOP margins are extremely high and the returns are high, and you have fewer staff on property, employee costs are going up in the US.

And so that is one of the factors that will come into the equation for an owner as they think about what's the next product that they want to build. But I think we are very well situated from that regard.

Alex Brignall: So, to follow up, just going into that point about demand recover to where it was, so it suggests that within your assumption, there's effectively a few that all demand at all change scales including high-end business travel will recover to where it was pre-pandemic?

Paul Edgecliffe-Johnson: Well, I guess the first thing, Alex, is we don't claim to have a new colourful crystal ball. I think that will be asking too much of us. But I do think that we don't believe that there's a fundamental and structural meaningful change in the demand that's going to come into our hotels. So, might you see somewhat of a reduction in international demand? Possibly. If we saw that, then we're confident that there's enough other demand

that would soak up any reductions there. There wouldn't be a reduction in demand into our hotels. And my own experience is that structural change doesn't happen with the same frequency as people may believe. So I think we will go back to pretty much what we saw pre-pandemic over time.

Alex Brignall: Okay. Thanks very much.

Paul Edgecliffe-Johnson: Thanks Alex.

Stuart Ford: Well, thanks, everyone. And if you do have any follow-up questions, then myself and the team are around. So thank you. Enjoy the rest of the day. Many thanks.

[END OF TRANSCRIPT]