IHG Half Year Results 2019

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IHG 2019 Interims Results Presentation

Heather Wood

Head of Investor Relations, IHG PLC

Good morning everyone. I am joined this morning by Keith Barr, Chief Executive Officer and Paul Edgecliffe-Johnson, Chief Financial Officer.

As you can see, we are holding today's interim results presentation by webcast and we will be taking you through some slides over the next 30 minutes or so. You can find the link on our corporate website and on our stock exchange announcement so if you haven't already, please do log on so you can follow the slides.

We will not be holding a separate call for US investors today but will be making the replay of this presentation available on our website. Before I hand over to Keith and Paul, I need to remind you that in the discussions today, the company may make certain forward-looking statements as defined under US law.

Please refer to this morning's announcement and the company's SEC filings for factors that could lead actual results to differ materially from those expressed in or implied by any such forward-looking statements.

I will now turn the call over to Keith.

2019 Interims Results Overview

Keith Barr

Chief Executive Officer, IHG PLC

Thanks Heather. Good morning everyone and thank you for joining us today.

In a moment, Paul will talk you through our financial performance but first let me share some quick highlights from our half-year results.

18 months ago, we set out our plans to deliver industry-leading net rooms growth over the medium term. We have made good progress in the first half with 5.7% net system size growth, our best performance in over a decade.

Our flat RevPAR in the half, as anticipated, reflected a strong comparable from last year and a slower RevPAR growth environment where our hotels maintained near-record occupancies and rate. Overall, we performed in line with, or ahead of, the industry in key markets such as the US and China.

The strength of our model meant that 5.7% net rooms growth, combined with flat RevPAR, delivered 2% underlying operating profit growth, or 5% growth before the seasonal impact of the UK portfolio deal and the benefit of cost phasing in the first half last year.

Our high-quality fee streams and disciplined use of capital continue to generate good free cash flow, allowing us to increase our ordinary interim dividend by 10%.

We have made important progress during the first half of the year by strengthening our brand portfolio and investing in the enterprise that helps drive their success.

We have continued to evolve our established brands like Holiday Inn, Staybridge Suites and Candlewood Suites with new prototype designs and announced the upcoming opening of six Crowne Plaza hotels in key international markets that will be brand-defining flagships for the future.

We have also taken other brands to important new destinations, growing our international footprint for Kimpton and driving demand for Hotel Indigo, which is set to enter a further 16 countries in the next few years.

It has been equally busy when it comes to our new brands. We launched our all-suites brand, Atwell Suites, in May and we have continued to see strong demand for avid and voco. In the luxury space, a refreshed Regent brand is attracting significant owner interest and we've signed a number of great hotels for Six Senses since our acquisition in February.

Paul will now spend a few minutes taking you through our results in more detail and then I'll come back to take you through our growth strategy and outlook. We will then have time for questions.

Financial Results

Paul Edgecliffe-Johnson

Chief Financial Officer, IHG PLC

Thank you Keith, and good morning everyone.

Before I get into the details, I should highlight that there is a little more noise than usual in the numbers for this half, due to the accounting changes driven by IFRS 16, the impact of our recent acquisitions and the efficiency programme. I will therefore guide you to our underlying results where I can, which is the best way to understand our performance.

First, I must start with our headline reported results. Our reported revenue increased 12% to $1 billion and operating profit decreased 1% to $410 million.

On an underlying basis, so excluding current-year acquisitions, $4 million of individually significant liquidated damages and at constant currency, we grew revenue by 13% and operating profit increased by 2%. The $7 million seasonal loss from the UK portfolio transaction and the $6 million cost phasing benefit in the prior-year numbers has held this back. Excluding these, operating profit grew by 5%.

Underlying revenue from the fee business grew 3% and operating profit grew 4%, driving our underlying fee margin up 30 basis points. I will come back to the drivers of this shortly.

Interest, including charges relating to the System Fund, increased by $20 million year on year, due to higher net debt and finance charges on acquisitions.

For the full year, I continue to expect our underlying interest charge to be around $150 million, with the increase on the prior year due to higher levels of average net debt following the special dividend payment at the start of this year, charges relating to the adoption of IFRS 16, and finance charges on acquisitions.

In the first half, our reported tax rate was 21% and I still expect this to be in the low-to-mid twenties for the full year.

In aggregate, this performance enabled us to increase our underlying earnings per share by 2% and gave the board the confidence to raise the interim dividend by 10%.

Looking now at our levers of growth. We added 30,000 new rooms to the system, which is the highest level of openings we have had in over a decade. At the same time, 10,000 rooms exited as we continue to focus on the long-term health of our established brands. These additions and removals brought net system size growth to 5.7%.

RevPAR was broadly flat across the half, due to the headwinds from the shift in the timing of Easter, the lapping of hurricane-related demand, and the strong comparables in China. This RevPAR performance, combined with 5.7% net system size growth, resulted in a 3% increase in underlying fee revenue.

When looking at fee revenue, year-on-year rooms growth and comparable RevPAR are good proxies to understand how growing our net system size and revenue per open room translates into incremental fee revenue over time.

However, they do not reflect several factors that impact, in the year, fee growth: the phasing of openings and removals; changes in relative brand and geographic mix; and the ramp-up of newly-opened hotels. I have therefore also shown total RevPAR growth and total rooms available on an underlying basis as these have a more linear relationship with fee revenue growth. The regional detail on this is in the appendix.

I will now take you through the first-half performance in each of our regions in more detail.

Starting with the Americas, where in the first half RevPAR grew 0.1% as rate growth more than offset occupancy declines. RevPAR in the US was flat, with performance in line with the segments in which we compete. In the second quarter, the shift in the timing of Easter and the lapping of hurricane-related demand resulted in an occupancy-led RevPAR decline of 0.7%.

Underlying fee business profits were up 4%, largely driven by growth in fee revenue from incremental rooms and higher levels of termination fees which more than offset the net negative impact of previously disclosed items, including income relating to an equity investment, a payroll tax credit and legal costs.

We opened 11,000 rooms during the first half of the year, more than two-thirds of which were in the Holiday Inn brand family. We signed a further 14,000 rooms into our pipeline, down on the prior year as we annualised against the boost of signings following the launch of avid. Importantly, we continue to grow our share of branded industry signings, up 100 basis points over the last two years.

Moving now to our Europe, Middle East, Asia and Africa region, where RevPAR was up 0.2% for the first half of the year.

In the UK, RevPAR was up 2%, with 5% growth in London and 1% growth in the provinces. In the second quarter, we saw 4% RevPAR growth in the capital, due to strong international inbound demand.

Continental Europe was up almost 3%, with a strong performance in Germany, helped by a favourable trade fair calendar. France was down 1% impacted by social unrest in Paris.

High supply growth and political unrest continue to weigh on demand in the Middle East, where RevPAR was down 5% in the first half. Japan saw RevPAR growth of 3%, while Australia was down 2% due to continued supply growth and lapping the boost from the Commonwealth Games last year. South Korea was down 13% in the half, due to the lapping of the 2018 Winter Olympics in the first quarter.

Coupled with strong net rooms growth, this translated into 3% growth in underlying fee revenue and operating profit.

The first half includes the results from the UK portfolio transaction, which completed in July last year. This resulted in Owned, Leased and Managed Lease revenue increasing by $91 million, whilst operating profit decreased by $7 million due to the seasonality of profits in these hotels. As previously guided, we still expect that the portfolio will make a small operating profit in the full year.

In the half, we opened 6,000 rooms in the region and signed a further 11,000 into our pipeline. This strong momentum is a direct result of our increased focus on aligning our resources in the highest opportunity segments and markets across the region.

Finally, I will move onto Greater China, where we continued to outperform the industry throughout the first half of the year.

RevPAR across the region was down 0.3% in the first half, due to the lapping of strong comparables, and as softer corporate and meetings business offset strong domestic leisure demand.

Hong Kong RevPAR was down 0.4% in the first half, impacted in the second quarter from the political disputes, whilst Macau was up 5%. Underlying revenue was up 8% and underlying profit was up 32%, benefitting from some phasing of costs between the first and second half.

We opened 13,000 rooms, and signed a further 22,000 rooms, our best ever performance for a half. We now have over 800 hotels open and in the pipeline.

Altogether, this underlines the strength of our position and owner offer in Greater China. We are planning on holding an educational event on the 31st October which will explore our business in the region in more detail.

Turning now to our group efficiency programme. We are making good progress and remain on track to deliver $125 million of annualised savings by 2020, which are being reinvested behind our strategic initiatives to drive industry-leading net rooms growth over the medium term. We continue to expect that, on an annual basis, the delivery of these savings should match the ramp-up of spend on new initiatives.

Underlying fee margin at the half was up 30 basis points. This time last year, margin benefitted from $6 million of timing differences between the realisation of savings related to our group efficiency programme and the reinvestment back into growth initiatives. After taking this into account, along with the acquisition of Six Senses, which made a small operating loss in the half, fee margin is up 130 basis points. We continue to expect medium-term fee margin progression to be broadly in line with our historic average.

Moving on now to cash flow, underlying free cash flow of $141 million was down $120 million year on year. This was a result of movements in working capital, much of which we expect to reverse in the second half, and higher levels of cash tax, as the prior year result benefitted from a US tax refund.

Our gross capex was covered 1.8 times by our underlying operating cash flows, whilst our permanently invested maintenance capital and key money was covered nearly four times.

The overall net cash movement resulted in an $882 million increase in net debt to $2.8 billion, after the acquisition of Six Senses and payment of a $500 million special dividend.

Looking at capex in more detail, we spent gross capex of $101 million and net capex of $71 million. Our medium-term guidance remains unchanged, at up to $350 million gross per annum. We expect our recyclable investments and System Fund capital investments to net to zero over the medium term, resulting in net capex of $150 million per annum.

As well as using cash to reinvest behind our long-term growth, we continue to generate sufficient funds to support growth in the ordinary dividend. As such, today we have announced an increase in our interim dividend of 10%. This takes the total amount returned to shareholders since 2003 to $13.6 billion.

Thank you, and I will now hand back to Keith.

Strategy Update

Keith Barr

Chief Executive Officer, IHG PLC

Thanks Paul.

In February last year, I talked about our strategy to deliver industry-leading net rooms growth over the medium term and we are already seeing the results. It is worth noting that the acceleration in growth has come almost entirely from our portfolio of established brands. That is because of the constant innovation and investment we make to ensure they remain attractive to our guests and competitive for our owners.

Examples of this include our new Formula Blue guest room designs for Holiday Inn Express; our open lobby and guest room designs for Holiday Inn; and our Crowne Plaza accelerate programme, which is driving notable improvements in guest satisfaction in the Americas. All of these are elevating the guest experience and enhancing owner returns.

We have also expanded our brand portfolio, launching or acquiring five new brands over the past two years. Combined, these actions are fuelling an acceleration in our signings pace, which bodes well for delivering sustained industry-leading growth in the future.

All of this has been achieved by making our strategic model work harder and we have made more progress in the first six months of this year. Thanks to the organisational changes we have made, we are successfully redeploying resource across our business to better leverage our scale and drive an acceleration in growth. Our IHG Rewards Club loyalty programme is critical to driving more revenues into our hotels and we are working to create a more personalised and differentiated offer.

We have announced a partnership with the US Open Tennis Championships, one of the most highly-viewed sporting events globally, which will provide fantastic exposure for all our brands and give our most important guests a once-in-a-lifetime experience. We also extended our InterContinental Alliance partnership with Las Vegas Sands to Macau, which gives guests more opportunities to redeem points in some great locations.

There is a lot more to come. We are enriching the value proposition for our members by introducing variable pricing on reward night redemptions and increasing the number of opportunities guests have to pay with points during their stay: think of things like food and beverage, and spa sessions.

We have continued to strengthen our enterprise and enhance revenue delivery. Through our cloud-based technology platform, IHG Concerto, we are developing an updated arrivals platform which will give our guests an improved arrivals experience through features like mobile pre-check-in.

Through Concerto, our owners can also now use our proprietary price optimisation software for groups business to help them drive better yields. We also continue to iterate our new Guest Reservation System. With the first phase of the rollout completed, the development behind attribute inventory and pricing is well underway, and we expect to pilot this by the end of the year.

The investments we are making in our development capabilities, whether technology, engineering or people, are driving an increase in signings. Crucially, it is accelerating the pace at which we move our pipeline from signings to ground-break to opening.

The work we have done to help our owners drive better returns from their assets with more cost-efficient prototypes for Holiday Inn and across our extended-stay brands will continue to underpin our accelerating growth.

We are creating more franchise opportunities too. In Greater China, for example, we have over 200 Holiday Inn, Holiday Inn Express and Crowne Plaza properties signed up to this model, with 43 already open.

So, a huge amount of progress but today I am going to focus my attention on the work we have done to strengthen our established brands and broaden our portfolio.

Before I do that, I want to touch on something that is broader than any one brand or initiative. That is sustainability, a topic that is increasingly on the minds of our owners, guests and shareholders.

As a business operating in more than 100 countries, we have an opportunity to make a real difference through important community projects and charity partnerships but also through our day-to-day operations.

At each stage of the hotel's lifecycle we have been looking for more sustainable solutions that can be replicated at scale. For our new brands, we have been able to embed sustainability elements from the start. For instance, our voco hotels use recycled materials for bedding and large-format bathroom amenity dispensing solutions, meaning that we are able to reduce the plastic consumption in each guest room significantly.

Last week, we made another big step with the announcement that we will move our entire estate to bulk-size bathroom amenities and we will complete this transition during 2021. We use around 200 million miniature bathroom amenities in our hotels around the world every year and switching to larger formats will significantly reduce our plastic waste and reduce operating costs for owners.

We are also on track to reach our three-year carbon reduction target, helped by IHG Green Engage, our online sustainability platform, which holds our hotels accountable to certain standards and offers solutions to reduce their waste and carbon footprint.

Importantly, our colleagues are engaged by the direction we are taking the business in, reflected in our recognition earlier this year as a best global employer by Aon, who ranked IHG in the top quartile of the world's most engaged companies.

I will move now to look at the steps we are taking to strengthen our leading position in mainstream, accelerate growth in upscale, and broaden our offer and distribution in luxury.

Looking at our established brands, starting with Mainstream. At our owners conference in May, we launched a new prototype for Holiday Inn that will bring fresh and modern designs to our hotels across the Americas. The concept brings our successful open lobby public space and guest room designs together in a more efficient and flexible way with a 15% reduction in building size that will create better returns for our owners.

As you will have heard me say before, open lobby is already having a great impact in Europe, where it has been adopted in over 100 properties. Those hotels are seeing a meaningful uplift in guest satisfaction and our owners are benefiting from the increased food and beverage revenue.

Our Formula Blue hotel designs for Holiday Inn Express continue to evolve. We are on track to have it in two-thirds of the US estate by the end of 2020, and we've brought it to Europe too. These new designs are delivering strong results, with hotels seeing a five-point premium in their guest satisfaction scores.

Turning now to our extended stay brands, Candlewood Suites and Staybridge Suites, we have grown our system size by 6% a year, for the last three years.

Both of these brands are leaders in their category: in 2018, Candlewood Suites topped the Business Travel News Rankings of midscale extended stay brands for the second consecutive year and Staybridge had the highest ranking among upper extended stay hotel chains from JD Power for the second year in a row. But, there is more we can do to drive further improvements in the guest experience and deliver better returns for our owners.

We have done a full refresh of the Candlewood Suites hotel design, with a new brand prototype and an updated renovation solution for the existing estate. Similarly, for Staybridge Suites, we have launched a new prototype that redesigns the public space areas by creating multiple zones for different social interactions. These are proving popular with owners, as smaller land requirements and a flexible design approach will drive better returns.

In the Upscale segment, guest and owner appetite for reliable, yet individual boutique hotels continues to increase, and our Hotel Indigo brand is ideally positioned to take advantage. This brand has a successful mix of a locally-inspired, design-led approach and the reassurance of a consistent, upscale experience, a combination that resonates with the market.

During the half, we signed 18 Hotel Indigo properties with two-thirds coming from outside the Americas. Over the next few years, we will triple our footprint in Greater China, securing a presence in key cities such as Beijing, Chongqing and Shenzhen. We will also be opening more hotels across EMEAA in key locations such as Madrid, Vienna and Brussels. With over 100 hotels in the pipeline, we are set to double our global footprint within the next five years.

It has also been a busy first half for InterContinental, with a number of flagship openings including InterContinental Hayman Island, which you can see here and the stunning InterContinental Lyon. Furthermore, our owners continue to invest in the existing estate, with significant capital being deployed to refurbish a number of properties over the next couple of years.

Turning now to Kimpton, where we are seeing excellent growth and the emergence of a really impressive international portfolio. We now have three hotels open in the UK, in London, Glasgow and Edinburgh and our first Kimpton in Asia, in Greater China, in Taipei. We are also delighted to have signed two hotels in Beijing and Hong Kong during the half. Add to that locations like Bali, Bangkok, Barcelona and Paris and you can see the brand has an exciting future ahead.

When it comes to our new brands, we’ve talked before about the strategic approach we take when assessing the opportunities out there.

In short, we focus on two things:

- High-value markets where we can tap into deep pools of unmet consumer demand to create scale positions; and
- Developing a differentiated guest and owner offer.

This highly-targeted, rigorous, insights-driven approach has guided our decision-making for the recent launches of avid, Atwell Suites and voco and the acquisitions of Regent and Six Senses. We are seeing strong momentum across all these brands.

Let me start with our new all-suites brand, Atwell Suites, which we launched in May. The all-suites segment of the Americas upper-midscale market has grown in scale by 70% over the last four years and represents an $18 billion pool of guests.

Atwell Suites is designed to tap into this opportunity. The brand is targeted at guests who we call opportunity seekers – people who are looking for a design-led, authentic experience on what are typically longer stays than your normal transient guest. This is primarily a new-build opportunity for owners, where we can use our scale to procure materials at low cost to drive better returns. Since launch, we’ve had over 50 written expressions of owner interest and we expect the first hotels to break ground next year and open in 2021.

Turning to avid. We have now signed almost 200 hotels since launch just over two years ago and we continue to see strong interest from owners. There are three avid hotels now open, which are already proving a hit with guests, with great reviews across the hotel's website and other media. With planning approval obtained or ground broken on over 60 hotels, we expect to have around ten properties open by the end of 2019.

Initial demand for voco hotels has exceeded our expectations, with six hotels open across the UK, Australia and the Middle East since launching a year ago. Guest reviews are great, and our owners are seeing a mid-single-digit uplift in guest satisfaction for our recently-converted hotels. We have signed a further 15 properties to date in high-quality locations, including a 4,000-room hotel in Makkah. With a strong pipeline of deals under discussion, we are confident in reaching around 30 hotels signed by the end of this year.

I will turn now to our recent acquisition of Six Senses, which strengthens our guest and owner offer at the very top end of the luxury segment. As one of the world's leading operators of luxury hotels, resorts and spas, there is a real buzz around this fantastic addition to our brand portfolio.

Since completing the acquisition, we have signed five new resorts, including a property in the Loire Valley in France, and two resorts have opened in Bhutan and Cambodia. We now have more than 50 deals under active discussion and see us growing to more than 60 hotels over the next decade.

So, to sum it up, we are executing against the strategic initiatives which we outlined 18 months ago, all of which are being funded by our group-wide efficiency programme, which remains on track to deliver $125 million of savings by 2020. We have invested in our business to make our strategic model work harder; strengthening our established brands to drive an acceleration in our net rooms growth; and adding new brands targeted at high-value opportunities to support future growth.

Importantly, our owners are noticing the work we are doing too, responding through investment in existing hotels and new signings, and through exploring opportunities with new brands within our expanded portfolio.

Ensuring we are best setup to drive net rooms growth in a slower RevPAR environment is an effective strategy that will support our resilient fee business model and drive high-quality, sustainable free cash flow. Whilst there are always macroeconomic and geopolitical uncertainties in some markets, we have confidence in the outlook for the rest of 2019.

With that, Paul and I are happy to take your questions.

Q&A

Operator: Our first question comes from Jamie Rollo from Morgan Stanley. Jamie, your line is now open.

Jamie Rollo (Morgan Stanley): Thanks, morning everyone, three questions, please. First, can we just dig into some of the margin movements in the regions, please? The Americas are up 200 basis points and you mentioned higher termination fees and China is up 1,000 basis points; you mentioned cost phasing. Are there any sort of one-offs there, or any margin benefits that could reverse in the second half?

Secondly, I know you do not give formal guidance but I think your compiled consensus is about $870 million of EBIT, which needs about 10% growth in the second half. Your quoted peers have all just cut their guidance for the second half so if you could talk a bit about why you might sort of see that step up in the second half, that would be helpful.

Then, finally, on the dividend, obviously a good number, up 10% but a bit of a disconnect against the EPS. Could you remind us of the dividend policy, please?

Paul Edgecliffe-Johnson: Thanks Jamie. We have called out, particularly in China, that there is some cost phasing between the first and second half, so there has been very strong growth in EBIT as we benefited from that. A little bit more of the costs will come through in the second half. On your question about the US and whether there are other fees that are coming through which will impact that, we always call out things like liquidated damages if they are of material size, signing-on fees and PIP fees, etc. They are now actually disclosed quite handily under IFRS 15 in the annual accounts, so it is a little easier to see those than it used to be. It is not a very significant number; it does not vary a lot year on year. So, there are no major one-offs, other than timing, in China which I would call out.

In terms of the RevPAR and what is going on around the world on that, the first half was against some tough comparables, both in the US and in China so we are going to have an easier comparable in the second half. If you look at the US last year, the first half was up considerably more than the second half, which was pretty much flat and it was, too, unchanged for the first half. Then the first half in China was up the best part of 10% and then lighter in the second half. So that will certainly be a benefit for us.

In terms of the dividend, yes, over many years we have grown in line with earnings per share. 10% for this year for the interim perhaps a little ahead of where we are at the half year on that but if we continue to be progressive, the dividend cover is very strong, so we will continue to keep that under review. It is not pegged, if you like, to earnings per share. We look at all the factors coming into play.

Jamie Rollo: Sorry, can I just follow-up on those? Could you please quantify the China cost-phasing number? Also, on the Americas, your costs must have gone down despite the one-off gains last year, so it is not just a revenue issue. You had very good profit growth there in excess of revenue growth.

Paul Edgecliffe-Johnson: Yes. Look, we are not going to call out the exact cost transfer for the second half in China. The problem with reporting numbers so frequently and in a relatively small region is that a few million dollars here and there, if we start calling that out every half, there is going to be so much information that we are going to have to provide to you which is just going to get a little bit confusing, I think. Similarly, with the Americas, these are not big numbers so it will all reverse out in the full year.

Jamie Rollo: Okay. Back on the second half, then, to get 10% in the second half, you are happy with that?

Paul Edgecliffe-Johnson: 10% growth in...

Jamie Rollo: EBIT, to hit consensus of $870 million.

Paul Edgecliffe-Johnson: Got you, thanks Jamie.

Jamie Rollo: No, no. Yes.

Paul Edgecliffe-Johnson: We are happy overall with consensus forecasts. I suspect that the net system size growth that we performed for the first half, of 5.7%, is a little higher than people's expectations but I would not think that that would materially move up anybody's EBIT expectations for the full year.

Jamie Rollo: Okay, thanks.

Paul Edgecliffe-Johnson: Thanks Jamie.

Operator: Our next question comes from Vicki Stern from Barclays. Vicki, your line is now open.

Vicki Stern (Barclays): Thanks, morning. Firstly, just following up on RevPAR and then a few on system growth. Aside from the easier comps point in North America in particular, is there anything else that you can talk to that is giving you comfort about that inflection in the back half? Is there anything around bookings that you are seeing currently? Is there anything on business mix between leisure and business, group versus transit, just a little bit more colour as to, I suppose, ex the comp, why one would expect the inflection?

On net unit growth, I think Marriott last night were suggesting they are seeing a slightly softer net year growth, blaming construction delays in US, the Middle East and Africa. Obviously, it does not appear from your figures as if you are seeing anything like that but just any comments there on any delays anywhere in your portfolio or any sort of slow-down in development activity?

Then, just finally, on net unit growth, just stripping back the Macau and Six Senses openings, I guess you are running around 5% or so. That is obviously quite a nice acceleration on where you have been. As you look out, given the signings, the pipeline, etc., are you still expecting that could accelerate further by, perhaps, 0.5% next year and the same the following year, so leaving you at 6% or so within the next few years? Thanks.

Keith Barr: Thanks Vicki. It is Keith. I will pick up the growth conversation and let Paul pick up the RevPAR one.

In terms of net unit growth, I guess it was about two years ago when we focused on kind of retooling the organisation. We were very focused on how do we accelerate our growth of our existing brands? That was investment in development; that was investing in our new hotels openings processes; that was beginning to take out cost to build, making a number of our brands procurement-ready with turnkey prototypes. So we were very, very focused on, in a rising cost environment for construction and a more challenging build environment, how do you tool the organisation to be able to continue to open up and accelerate and I think that is what you are seeing here now. So, it is a more challenging building environment but we are not seeing any material impacts on our pace of openings, pace of ground-breaks and we are continuing to accelerate growth in the US and also in Greater China as well, too. So, I guess, unlike our peers, we are not seeing that impact happen on a negative basis.

It is a challenging signings environment. We are increasing our share of signings, as we have done this year and last year, because of the stronger development organisation and the increase in brands, too.

Thanks for noting the 5%. It is a great number to post for the first half, net of the Macau and Six Senses rooms. I think that, overall, we are very, very confident that the core of our business today is growing at that 5% level. We said industry-leading was somewhere between 5–6%. As the new brands continue to come online, you will continue to see us accelerating into that 5–6% range. I am not going to give specific guidance on an exact number for 2020. However, again, if you think about accelerations of signings, accelerations of ground-breaks and openings, everything we have done, it is logical to assume that you are going to see our net system size numbers continue to grow.

Paul Edgecliffe-Johnson: Just coming onto the RevPAR again, Vicki, there are a few factors between the first and second half that come into play. The first is, if you look at Easter and the impact of Easter, you would expect that across Quarter one and Quarter two, so we get a little bit more into the first quarter and then lose into the second. Actually, the way that it fell, it was a net drag across the half as a whole, so we do not have that drag into the second half. Then of course there was the hurricanes, which in the first half of 2018 drove up demand. So, if you look at the shape of RevPAR, we saw rate growth and a bit of occupancy decline. I would put the occupancy decline down to Easter and to the hurricane headwinds, if you like. We do not have as much group business, as you know, as some of our peers so looking at group pace is a little bit harder for us and booking windows are quite short at the moment, so it is hard to look forward through to business on the books and say exactly what that will give us in the second half. However, the factors that I have called out are encouraging for a stronger second half performance.

There are a few areas around the world that we are watching closely. Hong Kong, for example, which is about 15% of the revenues of our China business, so it is still relatively small in the context of the group as a whole but we are big business and it should all average out overall for the second half.

Vicki Stern: Okay, thanks very much.

Paul Edgecliffe-Johnson: Thanks Vicki.

Operator: Our next question comes from Monique Pollard from Citi. Monique, your line is now open.

Monique Pollard (Citi): Hi, morning everyone. Three questions from me as well, if I can. The first one is just following up, Paul, on your point about the Easter impact in the first half, if you are seeing that sort of dragging on the occupancy. I can see the Americas occupancy was down 50 basis points in the first half. Is that roughly the scale of the Easter impact, or the drag that it had in the first half, in terms of what we could potentially expect to reverse into the second half of the year?

Then, secondly, in terms of China, as you flagged, in Tier one and Tier two cities, flat; Tier three and Tier four cities, the RevPAR is weaker. What is driving the particular weakness in the Tier three and four cities and should we expect any material improvement in that going through, particularly saying sort of corporate confidence is weaker but leisure demand is more resilient?

Then, finally, perhaps you could give some details of your master development agreement in Africa with Valor Hospitality and your plans for the region there over the next years?

Paul Edgecliffe-Johnson: Absolutely. In terms of the Easter impact, as I said, we think it is a drag. I do not want to get into a laundry list of whether it is 20 basis points from this, 30 basis points from that that is impacting performance because it is so hard to track that, year on year. However, we think that and the hurricane lapping is what drove the occupancy. It is probably a little bit more from Easter but hard to be absolutely precise.

In terms of China, we have continued to outperform the market there, which is important. If you look at the Tier three and the Tier four cities, those have been strong for some time but there is more supply coming in there. As you get the balance of demand growth, which is still there and supply growth, then you have a lot of new hotels opening up which will perhaps start with slightly lower rates. That can cause some volatility in the RevPAR you see there, so that is really what is driving the performance there.

In terms of the master development agreement with Valor, who is a company that we know well, we are looking at what we can do in Africa and using our partners. This is a good way for us to get in with our brands, which are very well-known in Africa and have been there for a very long time and expand our reach there.

Monique Pollard: Great, thank you.

Paul Edgecliffe-Johnson: Thanks Monique.

Operator: Our next question comes from Tim Barrett from Numis Securities. Tim, your line is now open.

Tim Barrett (Numis Securities): Morning both of you. I think I just have two things left, please. In relation to the first question, I did not catch it, but did you say what the termination fees were in the US in the half there? Are they material enough to call out? Then, a very big picture question around supply and demand in the US. Have you picked up any changes in the outlook for supply growth in 2020? How do you feel about that at this stage of the year?

Keith Barr: Why don't I pick up on the supply and demand in the US. Clearly you are seeing a long-term trend being sub-2% in terms of supply growth and we are pushing up against that right now. Then you have to kind of look at, by segments, where we compete. There are certain segments where we are seeing an acceleration of supply growth overall, disproportionately but it is being driven by IHG, being one of the biggest ones, as we are signing more hotels and taking more share, which is driving revenue too. So, while you may see some immediate RevPAR growth from quarter to quarter overall, we are seeing again increased revenue growth coming out of the US because of our disproportionate focus on Mainstream and growth in that segment overall too. So, we are not seeing a massive supply/demand imbalance in the US overall. There are certain cities and certain segments where we are seeing a bit more but again, we are fairly positive overall. As long as there is GDP growth in the US, you are going to see the RevPAR growth. We will continue to take more than our fair share in signings and openings, which will drive the revenue, the profit generation and the cash generation out of the US business.

The great thing about our model is when we are at 5–6% RevPAR markets it is great but also when we are at the more median growth, we can still generate the revenues and the cash. I will let Paul talk about the fees.

Paul Edgecliffe-Johnson: In terms of the termination fees, Tim, we do always pull them out if there is anything that is significant, as you will remember we did with the termination fee we got in Germany, which is going to be over a few years and again any liquidated damages. The point I was making is that under IFRS 15, if you look at deferred revenues in the accounts, it is actually quite a good way to look at how those fees are being generated. It is not going to vary much, year on year and it also tends to be fairly consistent half to half, so it is an easier way for you to unpack what is coming through from the non-rooms fees, if you like. Then we will call out any significant liquidated damages half by half.

Tim Barrett: Okay. Just going back to what Keith said, which are the segments that are accelerating? Is that extended stay?

Keith Barr: You are seeing a growth in a number of the Mainstream segments, across extended stay, upper midscale, midscale. So, in that whole segment you are seeing the launch of new brands, the acceleration of existing brands. So, supply growth numbers, I am just looking across the table: the full-year supply growth for upper midscale is 3.2%, so again above the industry average. That is going to actually have a bit of impact on some markets and some brands but again we are taking more than our fair share from the revenue side.

Tim Barrett: Okay, thanks both of you.

Operator: Our next question comes from Sophie Aldrich from Aberdeen Standard Investments. Sophie, your line is now open.

Sophie Aldrich: Good morning. Thank you very much for the results day and the presentation. I just had two questions from me. On the first one, I just wanted to get slightly more colour on whether you will be primarily focusing on internal growth and development of current brands or whether you might be looking externally for opportunities and whether or not you would consider something larger.

Then the second question would be relating to your balance sheet and where you are with leverage at present. Could you give some more colour on whether your intention is to delever from here or stay stable?

Paul Edgecliffe-Johnson: Sure.

Keith Barr: Thanks. So, I think it was 18 months ago we talked about how we thought about accelerating growth for the company. We talked first about strengthening our existing brands, so taking the existing brands, making them higher returns for owners, better products for customers and so forth. That is when we reduced the GFA for a number of the brands and the site plans and the procurement-ready. So that is one of the core pieces which is driving the growth today. Again, whilst all the new brand we have launched and acquired are excellent future growth drivers for us, the bulk is coming from our existing brands.

We launched the new brands in the segments where we had white space. We had identified those as really being the all-suites segment in midscale, voco being in the upscale conversion and avid sitting below Express. That kind of fills out the portfolio. Then we had identified the two gaps in Luxury, really where Regent and Six Sense have filled those too.

So really we now think we have a very robust brand portfolio. We need to continue to launch out Atwell Suites later on this year and begin selling that, continue to drive these. We will continue to look at white spaces where we think we could launch a brand where we can use our consumer insights that we can scale. However, we have addressed the key areas that we highlighted 18 months ago. We will always begin to look at other options out there but we are very focused on the cash-generative nature of the model, return on capital and strategic markets. So, we want to do what we have historically done. We want to grow quickly but intelligently and really leverage our scale and I think that we have a strong business model to do that today.

Paul Edgecliffe-Johnson: Then, just on the leverage, no change to what we have been talking about for a long time. After the $500 million special dividend we paid earlier this year and the $300 million acquisition of Six Senses, we are towards the top end of our 2.5–3 times net debt to EBITDA range under IFRS 16. I am happy to be at the top end of that in current economic conditions. Obviously, the business does generate significant free cash flow so we will delever down from that naturally and then, in due course, the board will look at whether it wants to make another return of capital and when to do that. I would not expect that that would be during the 2019 year, though, having already paid out $500 million this year.

Sophie Aldrich: Thank you very much.

Paul Edgecliffe-Johnson: Thanks Sophie.

Operator: Our next question comes from Jaafar Mestari from Exane BNP Paribas. Jaafar, your line is now open.

Jaafar Mestari (Exane BNP Paribas): Thank you. Just a quick clarification from me and then four questions, if I may? So, just to clarify on the phasing of cost savings, to be completely clear, for China specifically there was a positive in H1 but for the group overall cost phasing was actually a headwind and will be a positive in H2. Am I correct?

Paul Edgecliffe-Johnson: Yes, so we saw some benefit in China; when you are looking at relatively small numbers it just becomes quite pronounced but there is nothing significant and in the full year it will all work through. What we saw last year, if you will remember, is that we had $6 million of the savings that we generated from the efficiency programme that we had not then reinvested back into the business. Then we did that in the second half. At this point in the year, we are now tracking to spend pretty much in line with the savings that we are making. If you normalise for that, then you look at the margins and you look at the impact of the UK portfolio, that is what gives you the underlying margin growth that we talked about. There are a few factors that are moving around in the group as a whole year on year but there is nothing particularly significant when you look at it in the round for the half.

Jaafar Mestari: Super, thank you very much for clarifying. Then, two questions, one on US RevPAR. I appreciate the industry data is never perfect but even if I try looking at sub-categories, I am struggling to find a data set that would show –1% or –0.7% RevPAR in Q2. I think upper-midscale, for example, was almost flat. So what is it that is IHG specific? Is it regional exposure? Is it business versus leisure, particular events that you would like to point out?

Then, on Holiday Inn Express, could you take us through the Formula Blue rollout in just a bit more detail? Rolling it out to two-thirds of the estate by 2020 almost sounds like a scale relaunch. Obviously, you always have good evidence that it is good for guest satisfaction in the long term but what sort of investment is that for the average Express owner? What makes you confident that they are fully onboard and you are not going to end up getting slightly higher removals, like in some of the relaunches in the past?

Keith Barr: Sure, I will pick up the Holiday Inn Express. We started the Holiday Inn Express Formula Blue initiative three, four years ago. We developed the new renovation design and the new prototype design in collaboration with the owners, multiple iterations. It is the first truly end-to-end standardised design we have done for Express in decades, so it is completely specified, procurement-ready, turnkey, lower cost to build than the previous designs. All new hotels are being built to that design and then the renovation programmes, as they come out are to that design too, as well. So we have seen great adoption, great uplift both in terms of guest satisfaction and RevPAR and had no material pushback from the owners on it because they helped co-create it.

Additionally, if you remember, we started signing 20-year license agreements a number of years ago versus ten years and so many of these renovations are coming up during the natural course of renovations mid-license. So, they are not even eligible to exit the system and it is not something that they would choose to do. Candidly, Express is one of the most highly-valued, if not the most highly-valued, brand in the industry, given the scale that it has and the significant premium that it has. So, there is no concerns at all of this driving any increase in removals whatsoever.

Jaafar Mestari: Super, thanks.

Paul Edgecliffe-Johnson: Then, just on the RevPAR, if you look at the half and you weight it according to where our rooms are in the different segments then you will see that, basically, we are bang on the weighted segments. If you look at it by quarter, we are a little ahead in the first quarter and a little behind the weighted segments in the second quarter. There are a few different factors and again these are all really small. You are talking tens of basis points. One such factor is that the Holiday Inn hotels have more group business than the segment. They are full service but they are in a category that has many more limited service hotels there, which do not have group facilities and group was a little weaker there, so that is one aspect of it. The greater proportion of hotels that we have in hurricane markets against the industry, a few renovations of a few large Holiday Inns: these are each maybe 20 basis points of difference. However, it all averages out over the half, as I say.

Jaafar Mestari: Alright, thanks very much.

Paul Edgecliffe-Johnson: Thanks Jaafar.

Keith Barr: Great. Well, thank you Operator and on behalf of the team here Paul and I want to say thank you very much for attending today. I look forward to catching up with you all in the future and hope you have a wonderful remainder of the summer. Enjoy a bit of time away and a bit of a break.

So thank you very much, this concludes the call.

[END OF TRANSCRIPT]