IHG PLC
Q3 2020 Results

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Introduction

Stuart Ford

Head of Investor Relations, IHG PLC

Good morning everyone and welcome to IHG's 2020 Third Quarter Trading Update conference call. I am Stuart Ford, Head of Investor Relations at IHG and I am joined this morning by Paul Edgecliffe-Johnson, our Chief Financial Officer.

As in previous quarters we will not be holding a separate call for US investors but we will be making the replay of this call available on our website. I therefore need to remind you that in 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. With that I will now hand over to Paul

IHG PLC Q3 2020 Results

Paul Edgecliffe-Johnson

Chief Financial Officer, IHG PLC

Good morning everyone. I will begin with a review of our trading performance before providing you with an update on our cost actions, liquidity and financing.

Starting with our comparable RevPAR which as a reminder includes the adverse impact from hotels that have temporarily closed. Global RevPAR fell by 53%, a sequential improvement from the 75% decline we reported in quarter two. July and August continued the pattern of monthly improvement seen since the April low. The RevPAR decline in September was broadly the same as August as the benefit of the summer leisure demand dissipated and a number of markets saw the impact of the reintroduction of social distancing measures and travel restrictions.

Occupancy was down 30 percentage points but rate was held at around 80% of last year's level. Absolute occupancy levels at our hotels improved to 44%, up from 25% in the prior quarter. Our net system size grew 2.9% year-on-year with 11,000 rooms opened. As we continued to focus on the long-term health and quality of our estate we removed 5,000 rooms. Development activity continued with 43 ground breaks and 82 signings, 27% of which were conversions versus 20% last year.

Turning now to our regional performance RevPAR fell 50% in the Americas. In the US RevPAR fell by 47% with September improving to a 44% decline. There was sequential improvement in each month although pace slowed. We have continued to outperform the overall industry driven by our weighting and market-leading position in the mainstream segment, by our distribution predominantly in non-urban drive-to locations and by our skew towards transient business and leisure demand as opposed to group business. We continued to see a divergence in performance between our franchise and managed estates. Our franchise hotels which are largely in the mainstream segment and in non-urban locations saw RevPAR fall 43%. This contrasts with our managed estate which is weighted towards luxury and upper upscale hotels in urban markets where demand is weaker and a higher proportion of hotels still remain closed. RevPAR at managed hotels fell 71%.

Occupancy across the region improved 46% in the third quarter and reached nearly 70% on the Saturday of Labour Day weekend. We opened 6,000 rooms, over 80% of which were for our mainstream brands taking our net rooms growth to 1.7%. We signed a further 2,500 rooms taking our Americas pipeline to 109,000 or over 1,000 hotels. This included nine hotels signed across the Holiday Inn Brand Family. Momentum continues to build for voco since the brand launched in the region earlier this year with a third conversion signed in recent months and multiple other deals under discussion. Good progress continues with our other new brand. Avid is now open in Mexico and had the first ground break in Canada. There were two further signings for Atwell Suites.

Moving now to our Europe, Middle East, Asia & Africa region where RevPAR was down 70%. There was some good progress made in July and August, but the reintroduction of travel restrictions led to RevPAR weakening back to a 70% decline in September. In the UK RevPAR was down 68%. London saw RevPAR continue to be down by over 80% while the rest of the UK was down 58% as a result of some better leisure demand in the summer months. Germany saw RevPAR down 67% as the region continued to be impacted by trade fair cancellations and travel restrictions. As a reminder, the UK and Continental Europe business represents less than 15% of our global estate. The Middle East saw a decline of 65% whilst lower levels of both international and domestic travel across South East Asia and Australasia led to RevPAR declines in Japan and Australia of 70% and 66% respectively.

Performance in the managed estate continues to be challenging, as it was in our owned leased and managed leased properties where six hotels, or one third of this portfolio, remains closed. In total at the end of September 105 hotels or 9% of the region’s estate remained temporarily closed. We opened 2,700 rooms including two voco properties, an InterContinental and a Six Senses hotels, and removed 1,400 rooms. We signed a further 3,000 rooms into our pipeline including a Six Senses property in Amaala, Saudi Arabia. Conversions increased to represent a third of the signings in the period.

Turning to Greater China where the trend of improvement each month since February continued with RevPAR down 23% in the third quarter overall. The decline was 36% in July, 20% in August and just 11% in September. Across mainland China Tier 1 cities continued to see a great level of RevPAR decline, down 32% given their weighting to international inbound travel. By contrast RevPAR in Tiers 2-4 which are more weighted to domestic and leisure demand declined 12%. Over 20% of our China hotels achieved positive RevPAR growth through the third quarter which included the resort destinations benefitting from staycation demand and family travel over the summer months. This included locations such as Shanghai Wonderland and in particular beach resorts such as Sanya where occupancy was up versus last year and average daily rate up even more so.

Net system size in the region increased by 8.1% year-on-year with 2,200 rooms added including the opening of the first voco property in the region. We have signed over 8,000 rooms in the quarter which was an increase on the level of signings in 2019. This included 24 franchise hotels across the Holiday Inn Express, Holiday Inn and Crowne Plaza brands and 13 management contracts.

Moving now to a brief update on our cost actions, liquidity and financing. We remain on track to achieve our target of $150 million of fee business cost savings this year and as previously described we have plans in place which result in around €75 million of savings being sustainable into next year and beyond. As also mentioned previously we expect our gross capex to be around €100 million lower than last year with reductions across all of our main buckets of spend.

Turning now to cash flow. Improved occupancy levels for our owners have meant we are now collecting around 90% of our Americas' billings within 90 days of being due which is up from around 80% when I last updated you in August. Our continued focus on working capital, disciplined cost control and cash preservation resulted in positive free cash flow in the third quarter. This led to our total available liquidity position increasing to $2.1 billion having been broadly unchanged, just $2 billion between April and July. Taking into account the bonds that we have issued and repaid in October on a pro forma basis our total available liquidity increases further to $2.9 billion. The bond issuance we undertook was very well received and has enabled us to optimise our bond maturity profile. We issued a €500-million bond and a £400-million bond maturing in 2024 and 2028 respectively at a blended debt cost of 3.0%. This lowers the overall blended cost of our bonds to 3.13%.

At the same time, we undertook a tender offer which was also very successful, resulting in us being able to repay early £227 million of our £400 million November 2022 bonds. This means we now have only £173 million left to be repaid in November 2022 and then a staggered bond maturity profile each year from October 2024 onwards.

So, to conclude. First, and foremost, I want to recognise once again the efforts of our colleagues across the whole company who are working so hard to support one another, our guests, owners and our communities on so many different levels. In particular, the dedication and commitment being shown to ensure every single IHG hotel offers a clean and safe stay which is so incredibly important right now and is clearly key to building confidence in travel.

In terms of our third quarter performance it is clear that our weighting to domestic demand and mainstream distribution saw us continue our industry outperformance across the markets. We have seen monthly improvements in Group RevPAR since the trough in April though uncertainty remains regarding the potential for further improvements in the short-term.

While it will take time for our industry to fully recover, we remain confident that IHG will emerge strongly and we are focused on leveraging our brand, scale and market positioning in delivering on the relative resilience of our fee-based model. With that I think we can open up the call for questions. Thanks.

Q&A

Vicki Stern (Barclays): Morning, I have got three questions please. Firstly, on RevPAR, you talked about the regional performance. Could you set out a little bit what trends you are seeing within the headline RevPAR coming from business versus leisure? To what extent at this stage do you think it is fair to assume Q4 trends somewhat resemble Q3 to the extent that you can predict anything right now? Around pricing, are the price drops that you are seeing still mostly about that mix shift to leisure or are you actually seeing now any price discounting coming through in the market and any sense on where that is headed? Then finally on the drop-through if you can flesh out whether the $15 million guidance for a 1% change in RevPAR is still relevant in light of some softer UK performance given you have obviously got higher operating leverage in that market? Is that relevant for this year and then into next year as well? Thanks.

Paul Edgecliffe-Johnson: Thanks Vicki. In terms of the mix of business between business and leisure, we have actually seen that stay pretty constant through the year in terms of the balance between the two. It does in the summer months get a little bit more weighted towards leisure and then tends to revert back to our normal mix in the fourth quarter. We did see that, as you would expect. However, nothing really that is significant to pull out there. In terms of the Q4 versus Q3 I think the commentary that we have made is that uncertainty remains regarding the potential further improvement in the short-term. There are a few aspects to that that I would pull out. If we look at the sequential improvement there has been improvement by month really since the April low and if you look across each of the markets then that has been the case until September where we saw some quite significant improvements and then we saw some declines as well. I will just go through those.

If we think about China, China has been progressing very nicely and we saw August being -20% after July being -36% and June -49%, then September coming in at -11%. I would point out though that although it is difficult to be precise in our analytics when we look at September 2019 for the China industry as a whole in that month there was the 70th Anniversary of the founding of the PRC and that did depress hotel business in the month so it is a very weak comparable. I think if you look through that then the underlying performance in China for September is probably closer to August's performance. Then as you look out into the fourth quarter, I am not sure I would see a stimulus for a continued significant improvement from that.

If we look at the EMEAA business which improved through the summer months and in August was at -66%. September went to -70% and I think it is going to be quite tough in EMEAA with the restrictions that we are obviously all seeing. In the Americas, the August performance was negative, August was -48.6% and September at -46.4%. The US performance within that was a little stronger again. In September of course you do have Labor Day and that was a stimulus for demand. We may see some further strengthening as we go through the fourth quarter in the US but I do not think it is going to be at same level that we saw it strengthen in the period from April to September. Whilst we are not necessarily expecting a deterioration, I think the pace of any further increase for the next few months is likely to be a little bit more muted.

In terms of the second question around the mix versus price falls on the ADR. The ADR was at 80% of last year and most of the change that you are seeing there is mix. I think that it is pretty evident to hoteliers too, as a drop in price will not necessarily stimulate demand. I think that the revenue management discipline has been pretty good.

In terms of the sensitivity to a 1% fall in RevPAR, then pretty much what we talked about before was the normal RevPAR sensitivity, and then the addition is because of the discount rate that we offered to owners earlier in the year which is now in full term and were very well received. Then, the additional sensitivity was because of the operating leverage in the owned and leased hotels. It is very similar to what we saw before. We might see a slight notch up in the owned and leased in the fourth quarter depending on how the UK trades. We have a portfolio of leased hotels in the UK. I do not think you are going to see anything material, not per point of RevPAR but a few million dollars of additional loss there in aggregate.

Jamie Rollo (Morgan Stanley): Morning everyone. The first question was on the outlook for unit growth. The old target I guess of 5-6% has gone but in the new world if you could maybe update us on that because the signings were down quite sharply in Q3. You have got the SVC loss in Q4. I appreciate minimal revenue impact there. Maybe looking forwards where do you see the boundaries of net unit growth in the new world, please? Secondly, I think we are still expecting a little bit of cash burn for the full year which will sit in Q4. I am wondering what causes that. Is that System Fund, is that working capital? It seems a little bit conservative. Then finally a minor one on credit card fees. I know those go to your owners, not to IHG but could you maybe quantify that. Is that something you could push more to help the owners out? Thank you.

Paul Edgecliffe-Johnson: Thanks Jamie and good morning. In terms of unit growth, we are pleased with the continued signings that we are seeing. That has stepped up a little in the third quarter and we did ground breaks and new openings. We have a lot of our hotels that are already under construction and that does underpin the growth that we are going to see over the next few years. Obviously, it is a very large pipeline and those that are under construction they will get opened. Those that are financed, then owners are pushing ahead. The unknown is the availability of bank financing. For owners who have signed contracts or are on the verge of signing contracts and are not able to get bank financing then that may have some sort of an implication. It is very hard to assess that right now frankly. What we know is that our brands are preferred and lenders like to lend to the strongest brands and the brands with the strongest cash on cash returns. Certainly what we are seeing is continued strong outperformance from our brands in the mainstream which does tend then to garner the greatest proportion of the lending that is available in the market.

I think what we have said directly is that our aim is to have market-leading net system size growth. Yes, back in the days of 2018/2019 that was around the 5-6% level. If it does diminish somewhat in the coming years then we will be targeting an outperformance and if it goes back up again as I suspect it will in due course then we will be targeting that performance. It is not an absolute. It is more a relative measure that we want to be evaluated against and that we evaluate ourselves against.

In terms of SVC, yes SVC will go out in the fourth quarter which will have a one-time impact. We will manage through that and as you say very low profit impact.

In terms of cash burn, we are pleased with the cash performance year-to-date. I have put a lot of focus on that and in the third quarter we did generate a little more than $100 million of free cash flow. The full year as a whole I think what we will end up with is the operating business ending up broadly cash flow neutral and the System Fund are practically – get about $100 million into the System Fund which we will get back over time so that is only temporary. Effectively it is a loan from us to the System Fund but that would take the business overall to around $100 million cash flow negative. Some of that went out in the first quarter. Some of that will go out in the fourth quarter. Fourth quarter always sees a bit more fee money go out due to taxes, interest charges etc. So these sorts of factors, all combining, will take us to that year-end endpoint.

In terms of the credit card fees we have a very successful credit card programme in place and it is something we will continue to monitor and assess what the right approach is there.

Jamie Rollo: Could you please quantify the credit card revenues and quantify the percent of the pipeline that is both under construction and funded?

Paul Edgecliffe-Johnson: Yes, in terms of the credit card fees it is a complicated area in that we have a very large programme. We do not take at the moment any income from the credit card onto our P&L which is a different approach to Hilton and Marriott etc. In terms of revenues for us there are not any. In terms of the pipeline under construction there is 40% under construction which really has not changed since we last talked about that.

Jamie Rollo: I appreciate your company does not take the credit card revenues but just to quantify the revenues to the system fund that would be helpful if you are able to?

Paul Edgecliffe-Johnson: Okay. The System Fund you are probably talking around $100 million.

Jarrod Castle (UBS): Good morning Paul, three as well. Can you give a little bit more colour for some of the exits? Is this just normal course of business or are there any things which are specific to the crisis? I guess you have got pretty much most of your estate open. I think you said 3% at the moment is not open. Is that by choice by the owners or is it due to government restrictions? If you could give any colour on that. Then there has been some comments from OTAs and the like in terms of distribution and downsizing etc. Can you just give any colour in terms of how your distribution channels are working and where the customer is getting to you from? Thanks.

Paul Edgecliffe-Johnson: Yes. Hi Jarrod, morning, thanks for the questions. In terms of the exits there is actually nothing as we interrogate the numbers that is unusual compared to prior years. We took out 4,600 rooms in the third quarter which compares to 4,000 in the third quarter of 2019. The September year-to-date run rate is around 2% which is in line with what we have done for recent years. However, that obviously excludes SVC which will go out in the fourth quarter which we will not set out but that is a rather unusual situation and we have no other portfolios that are anywhere near that size. The next biggest owner has about ten hotels so there is nothing else that we would expect that could have that sort of an implication on us.

In terms of the estate, yes as you say, it is 97% open and where hotels have closed they tend to be the big urban hotels. Urban, possibly unionised hotels where at the moment the level of demand does not make it sensible for the owner to open it. We remain in close communication with all of our owners as to how we help them run their business most effectively. That would include looking at the business that is available in the market to helping them understand whether it makes sense for them to open or not. There are some where there are still restrictions in various markets or there are restrictions on the inbound business. In parts of EMEAA it may be that some hotels which are more reliant on international inbound will say it does not make sense to open the hotel right now. However, that is very much the minority.

Then in terms of OTAs, we saw OTA contribution fall earlier in the year but it has climbed back towards its normal level. However, we have seen a lot of people who will book directly with the hotel. The booking window is very short at the moment. You are seeing the vast majority of bookings coming in within two days of the stay. We have more walk-ins than we would normally, people on a road trip whether business or leisure just coming into the hotel expecting that they will be able to find a room. In busier times people would always want to pre-book. You do tend to see more OTA business coming through on the leisure side than the business side so I am sure that will continue. However, nothing that really changes on the underlying trends there.

Monique Pollard (Citi): Morning Paul, three questions from me as well if I can. The first one was specifically on the working capital benefit. Obviously, you saw over $100 million cash inflow in the third quarter. I am wondering specifically how much working capital benefit you saw given you went from 80% to 90% of Americas' owners paying within 90 days and what we should expect basically for the working capital for the fully year. The second question was on signings in particular in the Americas. If I look at the pace of the pipeline signings in the third quarter it is the lowest level we have seen in quite a few years. I am trying to understand what we should expect on the pace of Americas signings from here over the next two quarters. Then finally a question on Greater China performance. Obviously if you say September had a bit of a benefit from a weaker comp but when I think about October there probably was some benefit from the Golden Week. I am wondering if you can give us any update on the trading you saw there particularly given you mentioned in your comments that the resort locations have see a boost to RevPAR because of staycations over the summer.

Paul Edgecliffe-Johnson: Thanks Monique. Yes, absolutely. In terms of working capital, we saw a working capital outflow in the first half of the year. We have been managing the working capital very carefully and as you will remember earlier in the year we put in some discounts for owners and we tried to help them as much as possible with their cash flows. I think that the approach that we have taken has resonated with them. They have appreciated that we have treated them as well as we possible can and that I think is why we are being paid the vast majority of the fees pretty much on time. This has stepped up from us receiving 80% of fees that we billed within 90 days to now 90% which we are pleased with. If you think of the third quarter the amount that we billed to our owners and that we were paid by our owners was basically in line. We are pleased with the working capital. There will probably be still an outflow for the year but it is under tight control.

In terms of signings in the Americas I think that a lot of the owners who would normally perhaps have signed a deal with us so far this year have been working on their existing hotels, optimising the cash flow there and paying a little bit more attention on their existing business. There are others who are just waiting to see what the lending environment is going to be. There is a lot of interest so our hotel owners and members of that community want to build hotels but obviously building a hotel does require financing. They want to understand whether they are going to be able to get that financing. Once there is greater clarity on that then we will see more of the signings coming through.

In terms of Greater China as you say, it is a strong performance and if you look at the sequence of improvements that we have seen it has been really strong. Our China business is outperforming. September as we said we had the weak comp, October you have Golden Week which is a big stimulus for demand. I think if you look at the September business and strip out the weak comp although it is hard to be precise, my guess is the underlying there is closer to the August performance. As we look forward over the next few months my guess is it is probably somewhere in line with that August performance, which resonates back to the point I made earlier as to I think there is uncertainty as to how much short-term further improvement there is from the exit rate for the quarter result.

Jaafar Mestari (Exane BNP Paribas): Hi, good morning three very quick questions from me please. Firstly, on the regions you have talked in detail about what the September underlying trends could be for China and the Americas. EMEAA on the other hand has decelerated in September. Is there anything to call out there or is this the underlying trend? A second question on the cost savings, the $75 million per year becoming more permanent, how should we look at it? Is this going to improve or is this simply going to back the existing EBIT sensitivity? Lastly on cash burn, you have given some overall guidance. Could you maybe just break down what you call the operating business between operations themselves, are they generating cash? And then separately, have you quantified things like cash tax payment, interest payments that fall into Q4 and are going to take you back in cash burn territory in Q4 please?

Paul Edgecliffe-Johnson: Okay, thanks Jaafar. You are absolutely correct in pointing out that in September the EMEAA RevPAR was at -69.9% compared to the -66.3% that we saw in July. That July performance was quite a significant step up from that August performance versus the July performance which was -74.7%. I think you will appreciate there was a lot of leisure demand in August, so everyone wanted to get away, right? I think we all did after such a tough few months. That did stimulate the demand and you are then coming back onto more of a normal run rate in September. I think that's the explanation of that, rather than anything else that I can call out. EMEAA is a collection of quite a few markets so it is always harder to get into the precise underlying.

In terms of the cost savings, I guess there are a few things to point out. One is that a few years ago we did go through quite a big group reorganisation, so we took a lot of costs out of the business then. We restructured ourselves which is really paying dividends for us. We moved to a markets model. We put a lot more resources in the business close to market and that has really helped our teams be very responsive for our owners and we also put some investment behind new brand initiatives and ensuring that we have that market-leading system size growth that we have talked about. Having got the organisation fit for the future it is continuing to help. It helped before and it is helping now. Of the $150 million of savings we have made this year, we will keep $75 million of that next year. We are trying to get the balance between the cost savings and continuing to invest in the business. The investment that we have put behind the new brands will continue in 2021 because they are a big part of our future growth. We are not stripping the business back to the bone, but we have been able to take out that cost which is pleasing.

In terms of the cash, yes, in the fourth quarter we will have interest payments. We will have some tax payments. We will have some other payments. The operating business, when I refer to that, I think of that as opposed to our System Fund. So, the System Fund will consume something in the order of $100 million of cash which we will get back in due course. It is effectively a loan. By the time the pandemic hit there were quite a lot of commitments made in the System Fund. The US Open, for example, which we are a sponsor of. You had to buy media etc. It was not possible to pull back the cash deployment fast enough in 2020. In 2021, as I have mentioned before, I would expect the System Fund to be broadly cash flow neutral so strong control there.

Leo Carrington (Credit Suisse): Morning Paul, very quickly a follow-up on the cash flow question. I guess reading between the lines it looks like you broke even on a cash basis in July and then generated cash in August and September. Can you break out whether that was primarily due to the stronger RevPAR in August/September or more of the operational improvements like working capital that you have mentioned already?

Paul Edgecliffe-Johnson: Hi Leo. A combination actually. Yes, as you say some stronger trading which did help a little bit and we got a small tax refund in the quarter that came through. Then it is partly the timing of payments of interest on our bonds and tight working capital control. Plus, our owners continuing to pay up, as I have talked about. A number of factors all contributed to the strong cash flow performance that we saw in the quarter.

Leo Carrington: Okay, thank you. Then a last question from me, a follow-up question on the closures in your system. Do you have a sense of owners' health and ability to hold out until demand returns and whether this differs significantly by region? To what extent does that continuity of specific owners matter to you? In the worst case foreclosure situation do you have a preferred ability to be the franchise brand for a new owner?

Paul Edgecliffe-Johnson: Thanks Leo. The first thing on that is that we are in partnership with our owners and so it is hugely important to us that our owners succeed. Many of them we have been in partnership with for decades so we do everything we can to bring business into the hotels. That is the most important thing that we can do right now. We can help them think about their manning models and how they reduce costs. We can help them with any information they might need for refinancing etc. but the greatest benefit we can do is deploy our systems and our outperformance to drive the greatest possible level of revenue to their hotels.

That said, as you note, if very unfortunately an owner does run into financial difficulties then our contract will normally continue. The lender will want to keep the franchise contract on it while they find a new owner for the hotel. We are not seeing an elevated level of exits from the system. It is in line with what we have seen and you always see some hotels that leave the system. Generally, it is that we have asked the hotel to leave for quality reasons. They have come to the end of their contract and they just do not have the hotel that is right to move forward. Often we work with the owner on a new hotel. We do everything that we can with the owners to help them reduce their costs and also many of these owners are SMEs and we have been working with governments all around the world to get as much support as we can. In the US, in the last PPP programme a very large proportion of our owners in the US were able to take advantage of that. If there is a new stimulus package agreed then our owners will be able to take advantage of that. We lobby on their behalf to get as much support for an industry that it is critical for the world's economy. It provides huge employment and I think governments recognise the importance that there is and the number of jobs that are at stake. They are listening to the lobbying. There is still a way to go in some cases but some positive responses so far.

Tim Barrett (Numis): Hi Paul. I have two areas of more colour please that other people have already asked on. One is a very picture question. I think if I understood you right that currently you expect improvement gently in the US in the next couple of quarters. Just looking at how flat occupancy is through the weekly travel data I wondered what was backing that up and whether you think it will be transient demand on the business and leisure side? Then the second question looking at the pipeline about 5,000 rooms are still exiting quarterly which seems remarkably consistent. Does that tell us that the pipeline is still fresh or is there a period where you review it and look to take out some of the rooms that might not open in the fullness of time? Thanks very much.

Paul Edgecliffe-Johnson: Thanks Tim, good morning. The sentiment that I am trying to convey is that there is uncertainty. If you look at the exit rate from the third quarter there is a possibility that we will continue to see the same sequential improvement and the US has improved month by month. September was pretty strong but of course had that Memorial Day business. In the US people are continuing to travel so we are seeing good levels of transient leisure. You are seeing good levels of business transient. What you are not seeing is group business coming back. That is a small part of our business but many of the other guests are still there and are still travelling. There is just an element of uncertainty so I cannot be certain as to exactly how the fourth quarter is going to look. If I had to guess now I say probably a small sequential improvement to flat to what we saw at the end of that third quarter.

In terms of the pipeline we do, as you note, always try and keep it fresh. We take some hotel contracts out when we decide that it is just not going to get built because then that frees up that location for us to sign with another owner. It is not to our advantage to keep hotels in that are not actually going to get built. We are only six or seven months into this new situation. If owners turn around and say in due course that they are going to focus on their existing business, or they cannot get the financing then we will take appropriate action. However, it is definitely not something for now. It is something we would keep under review in the future.

Alex Brignall (Redburn): Morning, thanks for taking the questions. I have got a couple. On signings you have given some good commentary on how your own signings are progressing. In the STR data there has been a very material increase in deferrals and cancellations of hotel projects in August and September. I appreciate that is market data but it seems like owbers are sitting on their hands for a while. Some people are getting out of projects. Could you talk about obviously what you are seeing in those most recent months but also whether you are seeing that amongst competitors or some of the other participants? Then secondly, it sounds like for 2021 you are guiding to a materially lower profitability than what consensus currently expects, somewhat below $400m or something around that level which kind of implies 12% or so RevPAR less than consensus is expecting. It is broadly consistent with a flattening in the RevPAR trajectory. Could you help to explain what might get us to that level from a starting point of $200m in 2020? Thank you very much.

Paul Edgecliffe-Johnson: Thanks Alex. In terms of the STR data I think what you will see is owners want to have the most preferred brands. The most preferred brands are in the midscale, certainly our Holiday Inn Express is the number one brand in that segment. Obviously, Holiday Inn Express is the largest hotel brand in the world and it is performing very strongly. Some of our other brands, Candlewood Suites we have won the best performing brand in the industry this year with actually very low levels of RevPAR. A number of our brands are really performing very strongly, and owners are very anxious to build new versions of those when they can. However, it does come down to whether they are going to get financing. Lenders to want to lend to those higher quality brands so we are doing better than the industry there. I think you will see a bit of a shake out. The weaker brands will struggle. This is what we saw in each of the prior downturns. The strongest brands came through this and increasing their market share. I have very little doubt that that will be the same this time round. I think you will also see more conversions coming through so more of our growth will come through than has historically been the case from hotels converting from weaker brands into our brands when the quality is good enough.

In terms of outlook I think I have really only guided to fourth quarter and said that there is an element of uncertainty. I think that as we look forward, we said a full industry recovery will take time but we feel confident from the steps we have taken to protect and support our owners. It is very much dependent on the macro. It is not possible for me to precisely guide you on the fourth quarter so I certainly cannot do that for 2021. There is a very wide range of expectations out there. It will depend on the therapeutics. It will depend on availability of a vaccine and it will depend on when people decide to start travelling again irrespective. We continue to monitor all of those but if my comments have been taken by you as an indication of 2021's EBIT growth then they were not intended to be.

Richard Clarke (AB Bernstein): Good morning. Three questions if I may. The first one, I know you made a few comments about the System Fund. I wanted to dig into, are you getting closer to breakeven on the System Fund? Are you still happy to keep the losses you are making from the System Fund outside of the underlying earnings? You are still describing those as a timing difference. Second question, when I look in your pipeline the three vocos you have got in the US and the three Six Senses you have got in China are all very small. They are about 50 rooms. Normally you describe your minimum room size as around 75 so is there some sort of widening of the opportunity you are looking at there? Does that affect the contribution margin you get from those hotels and maybe you can put anything on that? Then third question, apologies if it is a bit boring but tax. Obviously, we have got the US election coming up next week. Biden wants to put the US corporation tax rate up. Is there anything you could do to offset that if that does happen? It has been put to me that there should be some advantage of you restructuring to not have other countries being consolidated into the US given the fact that he wants to put up foreign earnings income. Is there anything you would look at in terms of restructuring the Americas portfolio to maybe consolidate non-US income into the UK?

Paul Edgecliffe-Johnson: Thanks Richard. In terms of System Fund the balance there is always making sure that we are investing to make our owners' hotels absolutely as successful as they can to drive revenue for them versus also being mindful of cash cost. At a time when the owners are rightly being very focused on us driving revenues for them we want to do the right thing. We have allowed that to run to a cash deficit for 2020. For 2021 our expectation is that we will bring that back and manage that to neutral. Then over time the cash that we have deployed there will come back but realistically we would not be trying to do that until the industry was back in full swing so that we can continue to support our owners as well as possible.

In terms of pipeline and the vocos and Six Senses, the size of hotel really comes down to revenues. What you do not want is a very small hotel with a low room rate because then the cost to support it and the revenue out of there do not justify it. Six Senses the average room rates can be very, very high. These are very high luxury, very sort after properties which have room rates above $1,000. A 30-room Six Senses can work and certainly a 50 room Six Senses can work and generate very good fees. The vocos that we have signed to-date in the Americas have been in fantastic locations and they are first class assets with high ADRs and they will generate good fees for us. Where that is the case then yes, we can have them with a smaller key count than would normally be the case. There is no real difference to what the average voco would be though. We just happen to have managed to secure some real key locations to begin with.

In terms of tax it is always a complex area. The tax reform brought in a few years ago did reduce the corporate tax rate. It is quite complicated because there are some reductions to the headline rate but also some restrictions in what you can take in terms of interest deductions etc. We have to wait and see what might happen in the election, whether there is a new administration, what their fiscal policy is and how that manifests. I think it is probably too early to talk about any sort of restructuring that might occur but it is one that certainly we keep under review.

Ivor Jones (Peel Hunt): Good morning. I was thinking about the improved state of the balance sheet since the half. Could you talk about the factors that will feed into the Board's discussion about paying a final dividend? Along with the CCFF in the UK what else is there that is government support or quasi government support through Covid that you might choose to repay? Then the second thing was should we expect more material impairments at the year-end? More importantly, would they be enough such that depreciation charges and amortisation charges would fall in 2021 to optically improve the reported level of profit or will they be trivial in total? Thank you.

Paul Edgecliffe-Johnson: Thanks Ivor. In terms of the balance sheet yes, I guess you could say the balance sheet has improved given the cash generation. I think by the end of the year we will go back to the non-System Fund side of the business being about cash neutral and the System Fund having consumed about $120 million. I think that the Board would consider the net debt to EBITDA, that the business would continue the cash generation, etc. These would be the factors that as always are taken into account when considering such matters as the dividend.

In terms of government support we have not taken advantage of the furlough payments in our operating business. Some of our owners have rightly been able to access that in the UK but we did not take that money in the UK. We did access the CCFF as we have previously talked about and that will run through till next March and then we will make a decision as to whether we want to do that again.

In terms of the possible impairment, we looked very closely at all our assets at the half-year and we did have pretty good visibility on trading etc. so we marked them down appropriately. I would not necessarily expect any further impairments at the full-year. Never say never but

I think we were pretty conservative at the half-year in terms of the mark-downs we took then.

Paul Edgecliffe-Johnson: Very good, thank you everybody. Thank you for listening. Thank you for your continued support. It was very good to talk to everybody and for those of you that we do not speak to, in the meantime, full year results will be in February, so we look froward to talking with you all then. Thanks everybody. Have a great day. Bye for now.

[END OF TRANSCRIPT]