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HOTELS & RESORTS

# InterContinental Hotels Group Q1 2022 Results

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# Introduction

Stuart Ford

*Head of Investor Relations, IHG*

### Welcome

Good morning, everyone, and welcome to IHG's conference call for the first quarter of 2022. I am Stuart Ford, Head of Investor Relations at IHG. I am joined this morning by Paul Edgecliffe-Johnson, our Chief Financial Officer and Group Head of Strategy.

### Disclaimer

Just to remind listeners on the call 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.

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

I will now hand the call over to Paul.

# Financial Review

Paul Edgecliffe-Johnson

*CFO, IHG*

### Q1 2022 Highlights

Thanks, Stuart, and good morning, everyone. I will start, as usual, with a review of our trading performance.

You will have seen that we are still providing monthly RevPAR data in our release, as well as giving you both the year-on-year movement and the performance relative to 2019. RevPAR has continued to recover and gained momentum through the quarter. On a Group-wide basis, RevPAR was up 61% on last year. Relative to 2019, RevPAR was down 17.7% for the quarter as a whole, broadly similar to quarter four, which was down 17.1%. This was despite January experiencing particularly challenging trading conditions due to the impact of the Omicron variant, resulting in RevPAR that month being down 24%.

Trading improved to down 18% in February and to a deficit of just 12% in March. Average daily rate was up 27% on 2021. This meant it was almost flat against 2019 levels, while occupancy was down 11 percentage points. Global occupancy was 52% for the quarter as a whole. By March, it had risen to nearly 60%.

Clearly, it has been another period of differing trading conditions by region, but the strong demand we have seen in markets that are fully reopened means we remain confident of a full recovery. We have seen particularly strong leisure demand and the increasing return of business and Group travel. With the pace of demand, together with the strength of our brands, we have experienced strong pricing power.

**Regional Performance**

Looking now in more detail at our regional performance. For the Americas, RevPAR was down 8% versus 2019 and by just under 6% in the US. RevPAR sequentially improved in the US through the quarter from down 12% in January to down 6% in February and a deficit of only 1.5% in March.

ADR across the US business was up 4% in March with leisure rates up more than 10%. Events, conventions and conferences showed very encouraging improvement. Leisure performance was further boosted by a strong spring break vacation period. This contributed to leisure rooms revenue for the quarter being 10% higher than 2019.

With what is on the books, we can see in the coming quarters that both leisure room demand and rates are anticipated to exceed 2019 levels. This gives continued reassurance on pricing power, which we expect will only strengthen with further rebuilding in corporate and Group activity.

Demand in major urban markets has been recovering in recent months. In January, the top 25 US markets were 24 percentage points behind the rest of the country in RevPAR versus 2019. By March, that gap had narrowed to only 14 percentage points with the top 25 markets down 10% and the rest of the country up 4%.

There remains a wide disparity in the pace of recovery of these major urban markets. In March, San Francisco was still down approximately 50% versus 2019, whilst New York and Boston saw significant improvements to be only 20% lower than pre-COVID. A number of more leisure-orientated urban markets, such as Miami and San Diego, exceeded 2019 levels.

Moving on now to our Europe, Middle East, Asia and Africa region, where RevPAR was down 33% relative to 2019.

In the UK, RevPAR was down 15%. Similar to the US, non-urban and leisure properties were key performance drivers, though London has also seen strong recovery in recent months. Continental Europe was 45% down with the slower recovery owing to lockdown restrictions remaining in place for longer in several markets. RevPAR performance in Australia was 38% lower than 2019 for the quarter as a whole. However, the resumption of international flights at the end of February, shortly followed by the full reopening of Australia's internal borders, meant that recovery accelerated towards the end of the quarter.

Performance in the Middle East was strong with RevPAR for the quarter at only a 7% deficit to 2019. Within this, UAE was 2% up, driven by the final months of the expo event in Dubai. Recovery in Saudi Arabia continued as holy site capacities have further increased, resulting in March RevPAR being up by more than 12%.

Finally, moving to Greater China, where COVID restrictions have resulted in a challenging trading environment. RevPAR across the region was down 42% against 2019. Strict lockdowns affected demand across a number of Tier-1 and Tier-2 cities. And with these feeder markets effectively shut down, occupancy in Tier-3, Tier-4 and resort locations was also impacted.

Within Tier-1, Shenzhen was impacted most severely from COVID restrictions during the quarter with RevPAR down 77%. Guangzhou in close proximity was down 49%. Tightening of restrictions in Shanghai did not take full effect until March, however, RevPAR was still down 40% for the quarter.

These restrictions have been in higher RevPAR locations, and with around a third of the estate temporarily closed or repurposed for quarantining, there was a 17% ADR reduction.

We do not know the future extent or length of restrictions, but what we saw on each occasion in 2021 is whenever restrictions are relaxed, demand sharply returns thereafter.

**Net System Size**

Turning now to net system size. Over 6,500 rooms were opened in the quarter. 2,000 rooms were removed, equivalent to less than a quarter of a percent of our system, resulting in net system size growth of 0.5% year-to-date. Our net system size increased to 885,000 rooms and our hotel count to over 6,000.

Annualised net system growth for the first three quarters of the year will be impacted by the effect of the Holiday Inn and Crowne Plaza review, which was completed by the end of last year. When adjusting for the abnormally high number of removals this required, net growth was 3.4%. Before adjustment, year-on-year growth was 0.1%. The need for this adjustment will, of course, roll off by the end of this year.

We signed more than 16,500 rooms into our pipeline in the quarter, 15% higher than in the equivalent quarters in 2021 and 2020. The pipeline increased 2.4% from the start of the year to a total of 278,000 rooms.

The strategy we have been following with the stimulating growth is evident in the signings performance. Signings for our Luxury and Lifestyle brands represented 20% of total signings in the quarter compared to their 12% weighting in the systems today. And following the completion of last year's quality review, we have seen the level of signings across the Holiday Inn brand family and Crowne Plaza increased by 22% on the same quarter last year.

On a regional basis, in the Americas, we saw the strongest Q1 signings performance since 2018 with almost 8,000 rooms added to the pipeline. There was good breadth to the signings. For example, we signed three Kimptons in the quarter on top of the four signed across the whole of 2021 and a further 8 avids were signed in the quarter, taking its combined open and pipeline distribution to 213 hotels.

In EMEAA, there continued to be strong traction for our Premium and Luxury and Lifestyle brands. There were four InterContinental signings, including a resort destination in Cyprus and the debut voco signing in Japan. We continue to see strong owner interest and conversion opportunities with almost half of the rooms signed coming from conversions.

In Greater China, 32 new hotels were signed in the quarter despite the challenges of COVID restrictions. The momentum behind Holiday Inn Express saw 10 new signings in the quarter, while our Crowne Plaza brand continues to demonstrate its attractiveness with 12 signings across the region.

Finally, a note on the very recent financing of our revolving credit facility. In April, we refinanced our previous $1.35 billion bank facilities with a new five-year RCF at the same value and with pricing reset to pre-pandemic levels. As we were already back within our original covenant requirements, all the prior COVID-related amendments have been removed.

**Summary**

So to summarise the first quarter. We had a very positive start to the year, driven in particular by strong trading in the US, as well as improvements in EMEAA with forward booking data suggesting the momentum will continue.

Net system size growth was 3.4% year-on-year on an adjusted basis. The pace of signings, driven by the particularly strong performance in the Americas, led to an increase in our pipeline. We are making good progress on reversing to prior levels of net system size growth. And with a growing pipeline, we are well placed to sustainable industry's leading growth. Whilst trading volatility remains in certain COVID-impacted market, the strong demand and pricing power in the rest of the business gives us confidence of a full recovery.

Just before opening up the call for questions, I would like to say a few words about Ukraine and Russia. The devastating scenes of the war in Ukraine and the humanitarian crisis are deeply saddening, and all those impacted are in our thoughts. We continue to support our hotel teams and colleagues, as well as charities providing aid on the ground and working with owners in other countries to help accommodate Ukrainian refugees.

In March, we announced that we closed our Moscow office, and we are supporting colleagues working remotely. Future investments, development activity, new hotel openings in Russia have been suspended, and any profit will be donated to support relief efforts.

Last month, we made a further announcement that we continue to evaluate the complex, long-term management or franchise agreements that our IHG branded hotels operate in Russia with independent third-party companies. We are in discussions with owners, but this is a complicated process and will take some time.

With that, I will now pass back to Lydia to open up the call for questions.

## Q&A

**Bilal Aziz (UBS):** Three for me, please. Firstly, just on the pace of room openings for the remainder of the year. I appreciate that Q1 is seasonally quite low. But pre-pandemic, you have usually added somewhere between 8,000 to 12,000 rooms. So you are tracking just a bit behind that whilst clearly you are targeting a high net number at the end. So perhaps you could talk us through the acceleration or the risks around China in that. Number two, just on the US signings, please. Clearly, quite a good signing number now above 2019 level. Paul, I think you mentioned previously that franchise applications were picking up. I was just wondering if you have seen any change in that dynamic as financing and construction costs continue to rise? And then very finally, just in EMEAA. And I appreciate you do not give April figures, but if perhaps you could qualitatively just give us some insight into the pace of recovery so far, given some of the data has particularly encouraging on that side?

**Paul Edgecliffe-Johnson:** Thanks, Bilal. Yeah, so in terms of room openings and when they are going to materialise through the year, if you look back on pre-COVID, we always saw that the first quarter was the smallest proportion and back to 2018, then actually only 14% of our openings for the year occurred in the first quarter.

And I think we are going to see that shape through the year in China and you referenced that. I mean we opened five hotels. We have a further eight that are ready to open, but we have to get the licenses in place. And if the offices of the licensing agencies are close, we cannot get those. We cannot get the documents officially chopped and you cannot open the hotel without that. So there is some pent-up demand, which will come through in the balance of the year as China reopens. There is a lot of demand still there for our hotels, and we are very pleased with the signings performance that we saw there.

In terms of US signings, yes, we were pleased with the pickup there, five sequential quarters of improvement. And this is the best signings we have seen since 2018, and continue to see a lot of interest from our owners. They want to own our brands. They know that they make a lot of money from them. There are challenges, of course, as they have been for a while.

There are challenges in getting construction crews. There are challenges in getting materials. There are challenges in getting financing. But that is the benefit for us of working with a very large entrepreneurial owner base of owners who overcome those challenges. That is what they do. So a lot of interest, a lot of demand continues.

And yes, in terms of April data, really both in the US and in Europe, it strengthened a lot in Europe, you pick that one up, particularly, but also in the US. So building up to what I think will be a good second quarter, a very strong summer of demand with good pricing and then to the balance of the year and what we have got on the books, although you have relatively short booking window. So we don't have a lot on the books but what we have on the books is very encouraging.

**Jamie Rollo (Morgan Stanley):** Three questions, please. First, just on the first quarter US RevPAR. Performance was down 6%. The market was a bit better at down 3%. Was that just the chain scale mix with less luxury exposure? Or are your brands also underperforming their relative segments in the US? Secondly, on Russia. I think we know the room numbers. But maybe just remind us in terms of the percent of your fees in 2019, is it an overall under-indexing versus the 1% of Group rooms? And then just picking up on the US signings figures. The pipeline for avid is down again. I think you have more terminations than signings. So what is happening on the avid brand, in particular, please?

**Paul Edgecliffe-Johnson:** Thanks, Jamie. So yes, in terms of first quarter US, pleased with the performance that we have seen. And you have always got to, as you know, take out the geographical mix and also how far we had recovered before.

When I looked at the head-to-head for us against our major competitors, and actually the brands are doing very well against the relative brands that we compete against with Hilton and Marriott. And really, that is what I focus on most. So seeing very encouraging performance there.

In terms of Russia, it is a relatively small part of our business, as you said, Jamie. And the fees are relatively small there. So you are not going to see anything really coming through in the numbers. And we have said that any profit that we did make in the region would be donated to humanitarian causes. But I do not think you are ever really going to see that coming through as a drag on earnings, if you like.

And US signings. Yes, US signings are up pleasingly and across open and pipeline avids, I think were up to around 218 or so. So more than 50 open avids and a strong pipeline. You will remember that when we launched the brand, we launched with a very large pipeline and we gave owners of our existing product opportunities to take down various sites, so they had the opportunity of that first-mover advantage. And where they have not then started construction, so we are not confident that they will get a hotel opened on the site that they are taking down, then effectively we will take that back and we will resell it on somebody else because we do not want to end up with a pipeline that does not get opened, and there is a lot of demand out there. So we are just effectively refreshing those sites, and then we will sell it on to someone else. So we are very pleased with the progress we are seeing with avid.

**Jamie Rollo:** If I could just follow-up on one of the previous questions, just on the obviously very good Europe rebound in the last four to six weeks, trying to move the other way. Is it fair to say that April for the Group is running down in the high-single digits to several hundred basis points improvement and March is down 12. But you are not yet positive. Is that a fair estimate?

**Paul Edgecliffe-Johnson:** I think it is about right, Jamie. Yeah, absolutely. Obviously, if we did not have the China drag, you will be looking significantly better. I mean, Americas was almost at parity in March, and then it has strengthened quite considerably in April. But until we have China normalised, then you are not going to see the full strength of that come through in the reported numbers.

**Vicki Stern (Barclays):** Just firstly, piecing together some of the comments you have made on the openings, acknowledging the construction point in the US and some of those delays in China. Just if you could reflect on your overall level of confidence as you sit here today in achieving that 4% net system growth by the end of the year? Secondly, just on the balance sheet. I think back at the time of the full year results, you were suggesting you would feel quite comfortable in the upper part of that 2.5 to 3 times leverage range this year. Obviously, a lot has happened in the last few months. But as we all think about the next phase of that cash return process, if you could just reflect on where you are feeling your comfort level around that leverage today? Just finally on the business travel. Obviously, the recovery on business travel is lagging leisure. If you could just break out within that forward-looking piece, any sense on what you are seeing on the business travel recovery around the world?

**Paul Edgecliffe-Johnson:** Thanks, Vicki. So yeah, I mean we said, obviously, back at prelims that our ambition and our expectation was the 2022 and 2023 will feel a lot more like 2018 and 2019. And so we are targeting getting to a 4% net growth number for this year.

I did say at the time, it is not a walk in the park to do that. That does not just materialise. We have to push the business to get that. But that continues to be what we are pushing the business to achieve. And there are some things that help. So the US being strong, a lot of conversion signings in EMEAA, those all help. And there are some headwinds with China being particularly difficult at the moment, just the physical logistics of getting materials to our hotels so that they can stop at the hotels, so they can be opened and getting things like licenses.

So we have to see how the balance of those risks and opportunities materialise through the year. But it continues to be our objective and our target to get to that 4%.

In terms of the balance sheet, yes, no real change. I mean, I have said it for a long time, best part of 20 years, we have been talking about what was 2% to 2.5% and then with the change in accounting bringing on leases 2.5% to 3% and in a low interest rate environment, I am still happy to be at the top end of that.

We have seen the resilience of the business, the very strong cash generative nature of our model and there is nothing at the moment that would make me back away from that intention. And obviously, we declared the dividend at prelims, which I think demonstrates as well as our track record over the last couple of decades, how we feel about returning cash to shareholders. But nothing further to say on that today.

And in terms of business travel versus leisure. Business travel is definitely picking up. And what is encouraging is it is picking up at a good rate. It does differ a little by market around the world. So as I commented on some of the Eastern Seaboard cities seeing a lot stronger demand than some of the West Coast cities. London is strong. I am currently in the InterContinental Park Lane, and it has had its strongest April since pre-pandemic. 2019 April was very, very strong here for groups and meetings and we have exceeded that, and that is very encouraging to see.

So I am not saying that that is a bellwether for all of our hotels, but it is definitely recovering rapidly.

**Vicki Stern:** Just to follow on from that. Are you seeing the same trends on price when it is about that business travel recovery coming through as you have been seeing on leisure?

**Paul Edgecliffe-Johnson:** So we are still behind in terms of business on rate, but it is only marginally behind. And as that continues to build, then I think we will get back to parity on price. And similarly with Group; Group is recovering and the pricing has stayed within a few percentage points of where we were pre-pandemic. So you have not got that requirement to build back up the pricing because it is been held, which is actually very positive.

**Richard Clarke (Bernstein):** Three, if I may. Your US peers, Hilton and Marriott, have given some slightly cautious guidance beyond April that basically April is as good as it gets relative to the 2019 position. I know you are not going to give us any specific guidance, but in terms of direction of travel, do you still see drivers of momentum in the US business beyond this month? And then second question, just on China, just a sense of what you are seeing on the ground in China? Are things getting incrementally worse? Are you seeing more lockdowns, more hotels being closed? Or are things begin to ease? And any particular challenges of having your head office in Shanghai that is causing you operationally in China there? And then the third question, just on extended stay. Because it seems the biggest move in the US pipeline for me is Candlewood Suites. It looks like it is about 1,000 more rooms in Candlewood Suites. It is not a brand you talk about very much. It only exists in the US. Just maybe talk about the demand for that brand? Is it fitting into the zeitgeist of people wanting to work from anywhere? Or is it an infrastructure play, and maybe just what is driving this in what looks like a good performance there?

**Paul Edgecliffe-Johnson:** Thanks, Richard. Yeah, so is April as good as it gets in the US? I think we still have very short booking windows, so it is always hard to call. But my view is we are going to see a very strong summer demand for all the reasons I have talked about before, a strong rate across each of our segments. Demand still building, and there is more demand coming back for business and for Group on top of very strong leisure. Then that does all go well for continued very strong recovery. So I guess no certainty, but I do not think April is as good as it gets personally.

China has been challenging and we have seen that come through in the numbers. And I think what is important to note is that our experiences in the last 24 months shows us China demand does come back very rapidly as it has elsewhere in the world, once restrictions are lifted. It has been very difficult for the citizens of Shanghai. I think we have all seen that in the global news. And our colleagues in Shanghai are, of course, impacted similarly to all other Shanghai residents, but they are very resilient and very focused on continuing to drive our business.

And if you look at the very strong levels of signings that we saw in China in the first quarter, despite the challenges, I think that just shows us how committed they are. So a very strong team out there.

In terms of extended stay and Candlewood Suites. Candlewood Suites is a fabulous brand. It has got very high customer satisfaction scores. And owners, of course, like Extended Stay product because it has very high margins, relatively small personnel on site, and the return on capital employed is very good; so Extended Stay as a category has seen a lot of increased owner demand. So really pleased with that. And with Staybridge and indeed with Atwell Suites, our new launch, which we have got a number of really good signings for. And our first one opened in Miami and our next one is opening up in Denver. So really good locations for that new brand. So three good offerings in that segment, which will drive a lot of growth for us over the coming quarters and years.

**Jaafar Mestari (Exane BNP Paribas):** Three hopefully quick ones for me, please. Firstly, just on what is on the books for beyond summer? I appreciate it is going to be very, very small for everyone. But for example, Premier Inn was normally 15% booked for Q4 at this stage, and this year, they are only 10%. Did you have any numbers like that for us vis-à-vis that should be helpful even if small samples? And then on US segment. You have talked about the segments that may be holding you back a little bit. You are less exposed to leisure, less exposed to resorts, less exposed to luxury compared to the markets, etc. So these are quite obvious mix reasons. What about any positive mix factors that could kick in? And in particular, I am thinking about your exposure to oil-producing states, you overweight those. And historically, you have been able to outperform the market in periods where drilling extraction activity picks up, etc.? Are you seeing any advanced signs of that, given the energy situation worldwide? And then just lastly on net room openings. I think consensus for this year is 4.3%, Marriott says 3.5% to 4%, Hilton says 5%. So I guess you are going to be industry-leading this year. Without asking you to comment on competitors too precisely, what do you make of the momentum slowing in some of those very, very hot competitor brands that were routinely doing 6% or 7% pre-COVID? Is that lag from competitors because their categories are recovering more slowly? Or is there anything structural where you are winning with concepts that previously would not work and now in 2022, 2023 are finding success?

**Paul Edgecliffe-Johnson:** Great. Thanks, Jaafar. So I mean the nature of our business means that we do not have a lot, as you said, but it is on the books multiple months out. What we do see is encouraging in terms of the rate that we are able to get. So groups that are getting booked up at strong rates. So I would not call out any particular numbers.

And obviously, Premier Inn and the UK business, we are more predominantly a global business, more predominantly US, so just different factors at play there. But what we do have on the books and what visibility we have as we look forward gives us encouragement on rates and an increasing demand environment.

In terms of US segments, yes, as you say, leisure has been very strong, and we have seen recovery in the other segments of business and group. We are weighted into the Permian Basin, as you say, in an oil producing area, and that has stimulated demand. But there is a lot of factors at play there that mean that perhaps before, if you are looking back in 2017, 2018, you were looking at a few basis points of difference.

You might be able to isolate it to say, "Well, it is these hotels in the Permian Basin that is driving it." You have now got such large increases year-on-year. It is harder to go back and say, "Well, it is exactly these hotels because you have seen such volatility."

In terms of the net growth on the competitive basis, I mean, we are obviously focused on our own growth and pushing our own capabilities. If you think back to 2019 when we actually had the highest level of growth in the industry, we had more removals than our top competitors, but that still gave us that very competitive performance overall, which had we not had a higher level of removals, would have beaten our competitors. So that is what we aspire to, and that is where everything in the strategy over the last few years has been building to make sure that we can be industry-leading, and it remains a top priority for us.

**Jaafar Mestari**: And just to clarify on oil and gas. You did say it is a difficult job to determine if it has been stimulating demand a little bit?

**Paul Edgecliffe-Johnson:** Yes. I mean there have been strong markets. And as you are going back into the hotels in those areas, people coming back to restart rigs, etc., that has been an element of stimulus. But because you have seen too many other stimulus coming into those hotels as well, I mean, you have seen such big swings. It is very difficult to isolate exactly what the impact is.

**Alex Brignall (Redburn):** Just one, please. It is really just a sort of high-level question about what is driving demand and how permanent it is? I guess there is a lot of people in the debate saying is now as good as it gets. Are we seeing release of massive pent-up demand and that might then phase. To the extent that you have visibility on that or just an opinion would be interesting. What do you think is going on with that, because obviously things are very strong at the moment? But broader macro situation, it is a bit of pressure. So any thoughts there would be much appreciated.

**Paul Edgecliffe-Johnson:** Thanks, Alex. And without going back, I guess, overall to my previous comments on it, with the visibility that we do have and also backed and correlated by the data from the airlines on their forward bookings and rate and how much demand there is, we remain very positive about summer and believe that there is still a lot of consumer demand for our brands and there is still price to go for: significant amounts of pricing power. So we are expecting a good Q2, and a good Q3, and a good Q4. So it remains a very good industry and a very good environment for us to be operating in.

**Alex Brignall:** Great. Just to maybe understand that. Just beyond summer and the rest of the year, I guess if you talk to the businesses that you have as major clients or some of the group business, do you get a sense that 2022 is going to be a particularly good year and then it might be tougher afterwards? Or do you get a sense of what follow through?

**Paul Edgecliffe-Johnson:** Well, there is nothing that is coming through from any conversations with corporate clients that would suggest that. We are seeing meetings and events coming back strongly. We are having our Owner Conference in a few weeks, which is 6,000 owners getting together in Las Vegas and very significant delegate uptake for that. And there are a lot of things that have been postponed that are coming back, and the business does require people getting together.

That is what stimulates additional sales and things getting done. And everybody is on a growth trajectory, so they want to meet to stimulate that growth. So I think we returned to what we saw pre-pandemic.

Thanks, Lydia. And thanks, everybody, for joining us this morning. Good to talk to you all. And just to let you know that our second quarter update and the financial results for the first half of the year overall will be out on Tuesday, 9th August. So look forward to speaking to you all then, if not before. Have a great day, everyone. Bye for now.

[END OF TRANSCRIPT]